More than 950 members of the Class of 2010 received their diplomas from Keene State College at commencement in May, heading for careers and adventures from dietetics to dance.

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September 2010

Dear Stakeholder:

A recent report from the Georgetown University Center on Education and the Workforce noted that by 2018, retirement and job growth will create 2.3 million job vacancies across the New England region. Of those job vacancies, two-thirds will require a college degree, with New Hampshire projected to have the seventh highest proportion nationally. The four University System of New Hampshire institutions currently award more than 50 percent of the four-year degrees earned each year in the state and will play a large role in addressing the demand for college educated workers in the future. However, when those graduates exit our institutions in 2018, more and more of them will have followed a less traditional educational path than their predecessors. That path will include more online learning, a return to college for additional study, accelerated attainment of a bachelor's degree, more individualized learning and training, or a less traditional educational pathway that included studies at a community college.

Public higher education is an ever-changing environment. These shifts may be subtle and occur over many years. Yet, the current economic downturn and changes in learning styles and expectations are driving additional efforts to reduce costs and increase access for more and more students who will require additional education after high school in order to meet the needs of this future workforce. The 2010 Annual Report provides a financial overview of the University System of New Hampshire. The theme cites this "new chapter" for the University System – one that will help us prepare the class of 2018 for the opportunities and challenges those students will face. It also provides a snapshot of some of the activities and notable events that have occurred during fiscal year 2010 at the four institutions that comprise the University System of New Hampshire.

It is my hope that you find this information meaningful and that it provides a greater understanding of the many key roles public higher education plays in society today. Please take the time to give us your comments. Ours is a shared responsibility.

Edward R. MacKay

Edward R. MacKay
Chancellor

Report From The University System Of New Hampshire

Background

The University System of New Hampshire (USNH) includes the University of New Hampshire (UNH) at Durham and Manchester, Plymouth State University (PSU), Keene State College (KSC), Granite State College (GSC), and New Hampshire Public Television (NHPTV). UNH-Durham, PSU, and KSC are the three residential campuses of USNH.

The University System is directed by a 27-member Board of Trustees. Administration of the University System is the responsibility of the chancellor. The chancellor is the chief executive and academic officer of the University System and is responsible for developing, recommending, and implementing the Board of Trustees' policies and decisions.

The University of New Hampshire

UNH is a land-, sea-, space-grant and community-engaged public research university, enrolling 12,200 undergraduate and 2,200 graduate students. Recognized as a rising star among research universities, UNH retains the atmosphere of a New England liberal arts college with a faculty dedicated to undergraduate teaching and research. Its commitment to public service and engagement serves not only the Granite State, through its many outreach offices such as Cooperative Extension, but nationally and internationally through its public policy expertise in areas as diverse as crimes against children, ocean fisheries management, and rural poverty.

Plymouth State University

PSU is a regional comprehensive university with an established reputation for high academic standards. PSU offers bachelor's degrees in more than forty-five majors and sixty minors, and master's degrees in more than seventy concentrations in a rich, student-focused learning environment for its 7,000 undergraduate and graduate students. PSU also offers a Certificate of Advanced Graduate Studies and a Doctor of Education in Learning, Leadership, and Community.

The PSU motto is *Ut Prosim* (That I may serve) and students, faculty, and staff engage communities on a local, regional, national, and international scale in ways that are relevant and practical, as well as mutually beneficial. In each of these roles, PSU has a special commitment of service to the North Country and Lakes Region of New Hampshire.

Keene State College

Keene State College is New Hampshire's public liberal arts college, offering forty majors in the arts and sciences, professional programs, and selected graduate degrees. For its 5,500 students, the college provides rigorous academic programs and a tradition of small classes, faculty-student collaborative research, and service learning. Chief among the college's priorities are preparing students for global citizenship and meaningful work, and catalyzing economic development through institutional partnerships across the region and state.

A leader in applying the principles of a liberal arts education to today's challenges, Keene State's innovative curriculum and focus on high-impact practices have won national praise, with *The Princeton Review* naming it a Green College and *U.S. News & World Report* ranking it as one of the top schools in the North (listed 25th in the Top Public Schools Masters University-North) and one of the thirty colleges that offer small classes on an affordable budget. Keene State has consistently been listed as one of the 218 best colleges in the northeast by *The Princeton Review*.

Granite State College

GSC is New Hampshire's public college for adult learners of all ages. Since 1972, GSC has provided statewide access to higher education to more than 50,000 students—online and at nine community-based academic centers. Flexible bachelor's and associate's degrees, as well as post-baccalaureate teacher certification programs, meet the needs of both employers and working adults. Known for its small classes, affordable tuition, and supportive faculty, GSC has taken a leading role in offering innovative online degree programs.

The new Keene State College Alumni Center, dedicated on Reunion Weekend in June, provides space for alumni meetings and social gatherings, career mentoring, intergenerational programs, and community-building activities. It houses the Advancement division offices, including Alumni and Parent Relations, Development, Marketing & Communications, and Advancement Services.

A new chapter

Higher education is not a static environment. The traditional academic calendar of two primary semesters of learning that feature a late August or September return to campuses and a May ending date celebrated by a commencement ceremony is still the norm across the country and world. Students flow in and out of the campuses during this annual cycle, bringing with them new ideas, goals, and dreams. The institutions of higher learning are constantly making adjustments to their curriculum and campus environments to address the changing needs and expectations of the many varying constituencies they serve.

In some years, these changes are subtle and small. In other years, they are more noticeable. Fiscal year 2010 (the year ending June 30, 2010) brought many changes to the USNH that, when looked at holistically, demonstrate a larger shift in operations outside of the two-semester model, and the way USNH interacts with other organizations in the communities and regions the institutions serve. These changes represent a new chapter for the University System.

The fiscal challenges that have existed from 2008-2010 have been one force that has driven change in higher education. USNH received level funding from the State of New Hampshire for FY10 and for FY11, which put greater pressure on reducing costs and increasing efficiencies in more permanent ways, since enrollments continue to grow. For example, there are many efforts now in place that expand the traditional two semester learning cycle into a year-round effort. Winter and summer programs are gaining in popularity, year-round online enrollments are growing—especially at Granite State College—and partnerships to create a smooth transition among institutions regarding credit transfer toward earning a four-year degree have increased in acceptance and usage through NHTransfer.

Many new partnerships among the institutions, businesses and organizations focus on workforce and economic development and the benefits that direct connections with higher education can reap in terms of training and education, as well as spurring innovation and invention. Several partnerships are highlighted in this annual report, including: UNH's Green Launching Pad and the New Hampshire Innovation Commercialization Center; the Regional Center for Advanced Manufacturing and the Monadnock Biodiesel Collaborative at Keene State College; several new and expanding partnerships Granite State College has made with the Mount Washington Valley Economic Council, Entergy Corporation, and the New Hampshire Community Loan Fund; and Plymouth State University's planned White Mountains Institute and county partnerships related to its North Country Economic Index.

USNH is highly aware of the challenges and opportunities that exist today and into the future, and the unique role each of the four institutions can play in this new chapter. In FY10, all four campuses re-examined their budgets to align future expenditures with expectations for enrollments and fiscal challenges over the next few fiscal years. The USNH System Office reduced permanent staffing by 10 percent during FY10. At the same time, the budget approved by the USNH Board of Trustees included a $75 million investment in institutional financial aid. The approved budget also included selected strategic investments that over time will lead to enhanced revenues and additional cost reductions. Examples include start-up funds for much needed nursing programs at Keene State and Plymouth State; fundraising support at all three residential campuses; and expanded national and international student recruitment efforts at UNH.

As the fiscal year concluded, Network New Hampshire Now, a partnership composed of several organizations and led by the University of New Hampshire, was notified that it will receive a $44.5 million federal stimulus grant to expand high-speed Internet service all over the state. The three-year project will feature three major infrastructure improvements and lead to new jobs and faster Internet service.

This new chapter does not represent a radical shift in mission or focus. Instead, it recognizes that USNH is on a path toward greater efficiencies through the use of technology and physical space, and is focused on strategic investments and partnerships that will benefit the students, its constituencies, the economy, and the State of New Hampshire. As this new chapter unfolds and is read about on an iPad, Kindle, or in a printed annual report, the USNH Board and management team remain committed to advancing the USNH vision.

In May 2010, Granite State College hosted the third annual Mount Washington Valley Science & Technology Fair in Conway. More than 170 students from local middle and high schools entered projects in the fair.

Supporting the USNH Fourfold Vision

Beyond economic issues, this annual report cites several other actions and accomplishments that support our fourfold vision, which is to be:

1. Truly student oriented
2. Committed to excellence in selected programs and services
3. Efficient and effective in the use of resources
4. Recognized as the partner of choice

This Annual Report looks back over the 2009-10 fiscal year (FY10) to review how these accomplishments have impacted the state and provides a detailed overview of key financial data from FY10. These accomplishments are described in the next section of the report under each component of this vision.

1. New Hampshire's University System is Student Oriented

While the four USNH institutions have unique missions, they focus on a core commitment to students and student learning. USNH serves the higher educational needs of the people of New Hampshire and recognizes its responsibility to regularly evaluate those needs, institutional offerings, and how and where programming is delivered.

NHTransfer – The collaborative effort between USNH and the Community College System of New Hampshire (CCSNH) on a transfer credit database continues to advance and grow. The NHTransfer database at **www.NHTransfer.com** helps give students a clear understanding of which courses transfer among participating institutions. The free service provides an accurate and current profile of the transfer credit practices among the state's seven community colleges as well as the six participating baccalaureate institutions which include the four USNH institutions and two private institutions—Southern New Hampshire University and Franklin Pierce University.

The NHTransfer Connections Program (NHTCP) has also seen growth since it began in the fall of 2008. This program is designed for high school seniors who eventually wish to enroll in a bachelor's program at one of the USNH institutions. NHTCP students begin their college study at GSC or one of the campuses across the Community College System. Participation grew from 78 participants in the fall of 2008 to 113 in the fall of 2009, a 45 percent increase. As of the fall of 2009, 77 percent of the first year participants were deemed "academically successful" and able to transfer to their USNH institution of choice. Participating students receive academic support, advice on courses to take that will transfer, and are automatically accepted to the USNH institution if they meet certain academic standards.

USNH Long Range Technology Plan to enhance Academic Technology – As technology continues to evolve, rich media offers options for enhancing teaching and learning. Media production capability once reserved for highly trained specialists is now available to faculty and students. However, media resources for instruction must meet standards of pedagogical effectiveness.

University of New Hampshire President Mark W. Huddleston presents the university's 10-year strategic plan at a campus-wide event in February 2010.

As part of its Long Range Technology Plan (LRTP), USNH has dedicated resources to encourage and support faculty in the creation and maintenance of rich media course materials, including integrating video and audio into courses. The USNH Academic Affairs and Information Technology offices began collaborating on a project in FY10 to support the infusion of technology into academic programs. A recent USNH-wide faculty survey showed that faculty members are ready to expand technology use with such support.

Increased use of rich media in USNH courses will enhance access to higher education by providing flexible learning options for non-traditional students. Rich media will benefit all students by providing more effective teaching and learning experiences that utilize multiple learning modes. As rich media increasingly permeates world culture, it will become important for students to understand, not only how to use it critically to gain knowledge, but also to create rich media themselves as citizens and professionals.

While critical to academic support, technology also continues to play a key role in providing assistance to business operations. As technology permeates all areas of USNH operations, a full-scale review of the infrastructure began in FY10 with a clear charge from the USNH Information Technology Policy Advisory Committee to "develop a strategic vision for the role of shared information services within USNH for at least the next five years." That vision will be applied to achieve greater efficiency in business operations while redirecting resources to support the academic missions of USNH institutions.

University of New Hampshire Unveils 10-Year Strategic Plan – UNH President Mark W. Huddleston presented the university's 10-year strategic plan, "Breaking Silos, Transforming Lives, Reimagining UNH: The University of New Hampshire in 2020," to hundreds of members of the campus community in February 2010, citing a need for the institution to reinvent itself and become a model for higher education in America. The plan calls for fundamental changes in how faculty work together, with a focus on interdisciplinary collaboration and a true integration of teaching, research and engagement; a critical need to expand current sources of incomes and identify new revenue streams; and reevaluation of the traditional academic calendar.

In addition, the plan outlines ten broad initiatives including: a new ventures fund to seed innovative, enterprising and interdisciplinary teaching, research and engagement projects; expanding programs and funding that will transform UNH into a more global and diverse institution, bringing New Hampshire to the world and vice versa; strengthening the university's role as a "partner for life" with New Hampshire citizens; and turning the university's intellectual capital into commercial opportunities as a way not only to expand revenue streams but to enhance economic development and job creation in the state.

Granite State College Expands in Manchester – Following two years of historic growth, Granite State College in December 2009 announced its relocation into downtown Manchester's MillWest, a bustling mill yard complex on the city's west side. The new location is now home to GSC's Manchester students, advisors and staff and accommodates a 42 percent increase in enrollment over the 2008 winter term.

Relocating from the Ammon Center near the Manchester-Boston Regional Airport, GSC leased 4,000 square-feet of newly-renovated space in MillWest. The space features classrooms, a student lounge, an academic resource center, computer work stations, Wi-Fi and spacious offices for student advisors—all with a classic mill yard feel. GSC prides itself on providing real-world experiences and expertise, drawing adjunct faculty from the state's business and professional communities—a key advantage presented at the ideally-located MillWest. Strong relationships with the business community translate to graduates who are well positioned to grow or re-position their careers.

Keene State College Students Win Recognition and Internships – Students at Keene State College prosper through active mentorship and guidance from faculty who direct and support student academic efforts. For example, sophomore honors student Nicole Mihalko is spending the fall 2010 semester at the Goddard Space Center in Maryland, researching the optical properties of silicates as part of the NASA Undergraduate Student Research Program. Nine Health Science 2010 graduates received dietetic internships this year, a significant accomplishment in a highly competitive field. Five of the nine graduated *magna cum laude* and will complete their requirements for a registered dietician's license at institutions including Johns Hopkins, Cornell, Cleveland Clinic, and Yale-New Haven Hospital.

Also in 2009-10, several teams of geography and environmental science students completed community-based projects, including a feasibility study on establishing a historic district on Main Street in Keene, an inventory of natural resources in Keene's Robin Hood Park, and a study of resources and usage of Ashuelot River Park, also in Keene. Findings from each project were presented to the Keene City Council and other interested civic groups, garnering press coverage and contributing to the city's planning process.

Plymouth State University Excels at Student Access and Affordability – PSU is emphasizing access and affordability, investing in additional financial aid this past year to discount students' cost of attendance – a 26 percent increase in the last two years. It has also moved to the federal direct lending program, which offers advantages to students and their families in terms of cost, repayment, and security. Crystal Finefrock, PSU senior associate director of financial aid, received the Champion of Educational Opportunity award in recognition of her work with first generation and low-income students. Plymouth State has taken an active role in counseling students about personal finances.

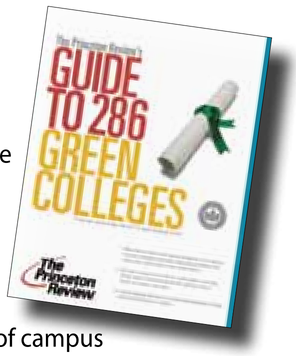
In 2007, PSU's financial aid team created the $tudents Monetary Awareness and Responsibility Today ($MART) program, in response to the escalating debt being incurred by many college students. Approximately 10 percent of new, first-year PSU students who borrowed money for their education were invited to participate in these personalized, $MART counseling sessions. This program helps students understand and fund their education in the most cost-effective way by providing individual, ongoing confidential counseling. $MART participants receive a personalized portfolio containing their financial aid information as well as financial literacy tools.

In March 2010 Granite State College celebrated its grand re-opening in Manchester, where the school relocated to the city's bustling west side and leased space in the newly-renovated MillWest facility.

2. The University System Delivers Excellence in Selected Programs

USNH institutions are distinct, yet complementary in their missions, purposes, and offerings. Each institution brings a unique set of talents and expertise to its students, the state, and beyond. Together, they meet a full spectrum of higher educational needs while being recognized individually for excellence in select areas.

All USNH Residential Institutions Make National List of Top Green Colleges – Keene State College, Plymouth State University, and the University of New Hampshire were among select institutions to make *The Princeton Review's Guide to 286 Green Colleges*. Released in April 2010, the goal of the guide is to recognize the impressive environmental and sustainability programs at universities and colleges across the country. *The Princeton Review*, in partnership with the U.S. Green Building Council (USGBC), created this free comprehensive guidebook solely focused on institutions of higher education that have demonstrated an above-average commitment to sustainability in terms of campus infrastructure, activities and initiatives.



Based on a survey of hundreds of colleges nationwide, the guide profiles the nation's most environmentally-responsible campuses. From solar panel study rooms to the percentage of budget spent on local/organic food, the guide looks at an institution's commitment to building certification using USGBC's LEED green building certification program; environmental literacy programs; formal sustainability committees; use of renewable energy resources; recycling and conservation programs, and much more.

Academics Rank High at Keene State College – Keene State College's new Academic Plan, implemented during 2009-10, lays out a comprehensive vision for achieving excellence in academic programs and improvements in student achievement throughout the college. The Academic Plan, which builds on the recent success of the transition to a four credit course model and the introduction of the Integrative Studies Program, sets new goals for integrating technology into the curriculum, engaging with the community, strengthening key campus partnerships, and supporting college advancement efforts. Integrative Studies at Keene State has been designated an "exemplar" program by the Association of American Colleges & Universities LEAP Initiative. In addition, new data released by the National Survey of Student Engagement documented significant gains during the last three years in the effort students put into their studies and improvement in how the college uses its resources and curriculum to engage students in activities proven to enhance learning.

New Sports Management Major at Plymouth State University – The new Sports Management major at Plymouth State is a collaborative effort between the Department of Health and Human Performance and the College of Business Administration (CoBA). Offered out of CoBA, the interdisciplinary degree combines the Business Administration program, courses from the coaching minor, and new courses specific to the various venues involved in sports management. The program prepares students for a variety of work within the sport management industry. The degree requires each student to complete a practical experience where theories and skills learned in the classroom are applied in practical settings. Students gain hands-on experience in sports law, event management, health/fitness/recreation organization, athletic administration, and sports marketing. Once the student completes the program, many job opportunities await. The multiplicity of this educational experience enhances students' exposure to, and prepares them for diverse potential job markets as well as the people with whom they may work.

University of New Hampshire Researchers Provide Support and Expertise with Gulf Coast Oil Spill – Since the April 2010 oil spill in the Gulf of Mexico, the largest ever, researchers at UNH have been highly involved by providing support and expertise. Nancy Kinner, co-director of the Coastal Response Research Center, a partnership with the National Oceanic and Atmospheric Administration (NOAA), has been sought after as an expert since day one of the Deepwater Horizon BP spill, testifying on Capitol Hill three times and leading a two-day meeting on the use of dispersants in Louisiana.

The expertise of Larry Mayer, director of the UNH's Center for Coastal and Ocean Mapping, has also been in demand, helping NOAA uncover ways to more efficiently target water samplings in future missions. In addition, the university's Research Computing Center, in partnership with UNH's Coastal Response

Keene State College Professor Karen Jennings's psychology honors students use a wide-ranging approach to study the effects of mercury pollution.

Dr. Nancy Kinner, co-director of UNH's Coastal Response Research Center, testifies before the U.S. House of Respresentatives Committee on Science and Technology on the BP oil spill, June 9, 2010.

Research Center and NOAA, developed the web-based tool now recognized as the one-stop shop for detailed near-real-time information about the response to the spill. Originally designed for responders to the oil spill disaster, the site integrates the latest data on the oil spill's trajectory, fishery closure areas, wildlife and place-based Gulf Coast resources—such as pinpointed locations of oiled shoreline and daily positioning of research and response vessels— into one customizable interactive map.

Granite State College and the Mt. Washington Valley Economic Council Power Business – In an effort to support area businesses and non-profit organizations in the Mount Washington Valley, GSC and the Mt. Washington Valley Economic Council have collaboratively developed Business Boot Camps. Entering their third year this fall, these turn-key training sessions have reached close to 5,000 individuals from the valley area. In the fall of 2010, the topical sessions will address technology skills for the workplace and developing leadership skills in the healthcare industry.

3. The University System Directs Its Operations Efficiently and Effectively

Like nearly all states in the country, New Hampshire is facing ongoing budget challenges. Federal funds directed at education helped provide some short-term support, and a portion of these funds were directed at higher education, enabling USNH to receive flat funding from the State Legislature for FY10.

Operating Budget – In June 2010, the USNH Board of Trustees voted to approve a $748.4 million operating budget for FY11. The total direct cost of attendance for full-time New Hampshire undergraduate students will increase 4.9 percent to 5.8 percent across the campuses for the 2010-11 academic year. The FY11 budget includes a 40 percent increase in financial aid grants for New Hampshire students over what was spent in FY09, but overall spending, excluding financial aid, will increase less than one percent over the current year. The budget includes level funding of $100 million in state appropriations.

The financial aid increases are in response to a dramatic increase in the number of students who have become eligible for financial aid because of current economic factors. For example, the number of students eligible for federal Pell Grants jumped by 35 percent between the 2008-09 and the 2009-10 academic years. The increase for institutionally-funded student financial aid will ensure there will be little or no net increase in costs for New Hampshire's most needy students.

Keene State College Works Toward a Sustainable Future – Keene State has a culture of environmental awareness, documented this spring in T*he Princeton Review's Guide to 286 Green College*s, which cites the LEED-Silver-certified Pondside III residence hall, the cogeneration steam-heat plant, energy-efficient lighting, campus-wide recycling, and the efforts of the President's Council for a Sustainable Future. The newly formalized Environmental Studies Department (the major was first established in 1979) is an interdisciplinary program that recognizes the college's commitment to addressing environmental challenges and training students to evaluate, analyze, and apply complex information on environmental issues.

The college is also gaining efficiency by upgrading lighting technology. With funding from the American Recovery and Reinvestment Act, the college has outfitted all light fixtures in its Spaulding Gymnasium and Redfern Arts Center with LED bulbs. The college has reinvested savings from previous efficiency projects to convert all exterior lamps on campus to LED. Lighting controls have been added to most classrooms and student residential rooms. The college will recover its investment in LED lighting in three to four years. Keene State also anticipates significant savings in utility costs, due to innovatively structured new electric power and fuel oil supply agreements. Similar initiatives to reduce the campus' energy usage resulted in a total savings of $1.1 million in FY 2010.

Granite State College Davis Foundation Assessment Project – Granite State College has been awarded a two-year $117,630 assessment grant by the Davis Educational Foundation—the third such grant for GSC. In making the grant, Davis Educational Foundation Trustees complimented project administrators for accomplishments to date and described the award as a "triumph for clarity, rationality and hard work well done". The latest project will build the infrastructure for sustainable assessment at GSC, whereby staff will automate, as much as possible, assessment procedures using a holistic data management system. GSC will measure student learning in its five core competencies: critical thinking, writing, quantitative reasoning, communication, and information technology literacy. Faculty colloquiums will address specific issues that have been raised by GSC faculty as they considered implications of assessment findings: broadening faculty discussions about expectations of student performance; addressing the extent to which GSC's core competencies are integrated in degree programs; and modifying GSC teaching to improve student learning.

Plymouth State University Opens State-of-the-Art Ice Arena – Plymouth State University unveiled its new $16 million welcome center and ice arena in July. This 850-seat facility, built to meet LEED Silver standards, uses a sophisticated geothermal heating/cooling design to maximize energy conservation. It is estimated that the facility's energy consumption will be at least 28 percent less than that of a typical arena. The combination of geothermal technology and the capture of waste heat generated by ice-making equipment will provide the heat for the facility, thereby removing reliance on a traditional fuel-based heating system. The Hanaway Rink serves as a learning laboratory for instruction and research in ice activities and wellness, a home for PSU men's and women's ice hockey teams, and a site for student and public recreation. PSU also utilized funding from the American Recovery and Reinvestment Act and retrofitted light fixtures across campus in faculty offices, classrooms, hallways and other shared spaces with LED bulbs. The new fixtures actually produce more light than the ones they replace, despite consuming less electricity. These changes are estimated to lower overall electricity consumption by 300,000 KWH, and electricity costs are expected to be reduced by $45,000 annually.

Todd Leach Chosen to Lead Granite State College and Succeed Carol LaCroix as President – The USNH Board of Trustees named Dr. Todd Leach as the next president of Granite State College effective July 1, 2010. Dr. Leach brings nearly 25 years of experience in higher education as a faculty member and senior administrator to GSC. He will assume the presidency from Dr. Karol LaCroix, who is retiring after a distinguished career in higher education administration and teaching during which she served as president of the college for the past six years.

Dr. Leach has served as the senior associate dean and chief academic officer in Northeastern University's College of Professional Studies since 2007, where he also oversaw Northeastern Online and the School of Education, and was the associate dean of academic and faculty affairs from 2003-2007. From 2000-2003, he was the associate dean of business and IT programs at Northeastern's University College and assistant dean and director of University College Business Programs from 1996 to 2000. From 1986-1996, Dr. Leach served as a member of the faculty at Lasell College.

At a ceremony after being selected as the next president of Granite State College, Dr. Todd Leach is congratulated by out-going GSC President Dr. Karol A. LaCroix.

A UNH student walks past Thompson Hall to class during the University's first January term.

New J-Term at the University of New Hampshire – During the winter of 2010 more than 400 students enrolled in twenty-seven undergraduate and eight graduate courses offered as part of UNH's first January (J-) term. The new term was approved for trial run by the Faculty Senate as an exploration of ways the academic calendar might be better adapted to the needs of today's students.

Keene State College Strives for Operational Excellence – KSC's new Center for Engagement, Learning and Teaching (CELT) helps professors adopt the most promising educational practices, especially the use of technology to conserve resources and collaborate with others. Through workshops, one-on-one sessions with faculty members, and campus-wide educational programs, CELT models and adapts web-enabled tools that support deeper student learning, effective teaching, and community and professional engagement. The center is staffed by a professional cross-disciplinary team with expertise in instructional design, experiential education, and academic technology.

USNH Board Chair Ed Dupont, UNH President Mark Huddleston, and Franklin Pierce Law Center President and Dean John Hutson watch as Governor John Lynch signs an affiliation agreement between UNH and the law center in April 2010.

UNH and Franklin Pierce Law in Affiliation Agreement – The University of New Hampshire and Franklin Pierce Law Center entered into an affiliation agreement in FY10, which called for Pierce Law to be named the University of New Hampshire School of Law as of August 30, 2010. Two integration committees—academic and administrative—are responsible for identifying and analyzing potential integration and collaboration opportunities and issues.

4. The University System Is Recognized as a Partner of Choice by Others

USNH recognizes that in order to fulfill its mission, the institutions and the system as a whole must be engaged in its communities and with its many constituencies to provide the best service possible.

Each institution can cite numerous collaborative efforts on the local, statewide, and even national levels where these partnerships create significant benefits to those who are served. From relatively new uses of technology and innovations in sustainability, to health care, lifelong learning, and economic development, these collaborations truly demonstrate why USNH and its institutions are partners of choice. All four USNH institutions are regularly sought out by businesses for collaborations. Some recent examples include the following:

University of New Hampshire Successful in FY10 Sponsored Research Funding – For fiscal year 2010 UNH received $118 million in sponsored research funding, and ended the fiscal year by receiving notice that fiscal year 2011 will include an award of $44.5 million in federal economic stimulus money to fund critically needed broadband expansion across the state. UNH is leading Network New Hampshire Now (NNHN), a collaboration of public and private partners from across the state committed to this long-term economic development initiative. The grant will create nearly 700 new jobs and provide affordable Internet access to 12,000 businesses and 700 community institutions.

Plymouth State University Leads By Example – PSU serves its region through collaborations that make New Hampshire a better place to live and work while providing additional opportunities for students to participate in active, hands-on learning. Some examples follow:

- In the spring of 2010, Academy Award-winning writer Ernest Thompson (On Golden Pond) held a workshop at PSU about one of his earliest and most controversial plays, Human Beings. Ten music, theatre and dance students participated in the workshop, working closely with Thompson in honing their acting and character-development skills as well as learning more about directing and playwriting.
- Plymouth State University launched an innovative online MBA degree program last fall in conjunction with Babe-Bolyai University (BBU) in Cluj-Napoca, Romania, that offers students a unique international educational experience. The online MBA with a certificate in international business provides students worldwide the opportunity to participate in a rich, multicultural online learning community while developing a substantial foundation for a career in a local or multinational enterprise.
- Plymouth State business professors Daniel Lee and Vedran Lelas created a new informational tool to help bolster the economy in northern New Hampshire. The North Country Economic Index (NCEI) is a periodic index containing detailed information about the economic climate in Coos County. The Index will be extended to Carroll and Grafton counties in the future. The NCEI was developed through a partnership with the Neil and Louise Tillotson Trust and PSU's Center for Rural Partnerships' Coos County Outreach Initiative. It is the first economic index of its kind for a small rural county.
- PSU's Center for the Environment and the Hubbard Brook Research Foundation (HBRF) are helping students from across the nation learn about ecology in New Hampshire's Hubbard Brook Experimental Forest. The Research Experience for Undergraduates (REU) at Hubbard Brook Experimental Forest in Woodstock, NH, is run in cooperation with the scientists of the Hubbard Brook Ecosystem Study and the U.S. Forest Service's Northern Research Station and is funded by the National Science Foundation. Students work with a research mentor, participating in projects in animal ecology, biogeochemistry, hydrology and soils, and forest vegetation.

Plymouth State University students conduct research at Hubbard Brook Experimental Forest.

University of New Hampshire Plays Leadership Role in Developing and Incubating New Innovations – UNH is a major economic engine for the state, contributing $1.3 billion to the gross state product—2.5 percent of the state's total GSP of $51 billion. UNH alumni contribute an estimated $562 million annually as part of a skilled New Hampshire workforce. The future success of the university and the state depends on innovative partnerships and collaborations. New efforts include the Green Launching Pad, which brings new green technologies to the marketplace

USNH Student Costs

Tuition, room, board, and mandatory fees	2007	2008	2009	2010	2011	Average Annual Change
NH Resident						
UNH	$ 17,985	19,238	20,352	21,617	22,724	6.2%
PSU	14,436	15,574	16,574	17,374	18,566	6.2%
KSC	14,838	15,748	16,574	17,508	18,530	6.0%
Nonresident						
UNH	30,435	32,198	33,832	35,587	36,694	5.2%
PSU	21,706	23,124	24,424	25,544	26,736	5.4%
KSC	22,108	23,298	24,424	25,678	26,700	5.3%
					Average Increase	**5.7%**

Costs reflect tuition, mandatory fees, double room, and typical meal plan.

and supports creation of green economy jobs in New Hampshire; and the New Hampshire Innovation Commercialization Center (NH-ICC), a nonprofit incubator for start-up businesses and an accelerator for the commercialization of research and innovation.

In May 2010, the first five businesses were selected to participate in the Green Launching Pad, a partnership between the state and the university that will provide intensive support to New Hampshire companies working to bring clean new energy products to market.

The goal of NH-ICC is to create new jobs in the region and help regain traction for the New Hampshire high technology community by selecting high potential, early stage companies and providing them with a combination of business resources, seed capital and "hands-on involvement" by seasoned start-up executives. UNH will direct new innovations to the NH-ICC and provide resident companies with student research assistants and mentors from its colleges.

Granite State College Signs MOU with the New Hampshire Community Loan Fund – In June 2010, Granite State College joined forces with an already highly successful program geared toward the training and empowerment of residents and leaders in New Hampshire's manufactured housing communities. The resident owned communities (ROC-NH) Community Leadership Program, created and coordinated by the Community Loan Fund, is a six-month course designed to bring out the best in manufactured housing co-op leaders by helping them develop the leadership and management skills that are essential to co-op success. Sixty-four leaders have graduated from the program during its five years. Each is making an impact in her or his community in small and large ways. The Community Loan Fund and GSC formed a partnership designed to make the ROC-NH program even more impactful. As a result, Community Leadership Program participants will have the opportunity to earn post-secondary college credits for completing the ROC-NH program. Credits will be earned upon matriculation into a full- or part-time degree program at Granite State College and will help inspire potential students to earn their degrees.

Two Keene State College students involved in the Monadnock Biodiesel Collaborative participate in the 10th annual Academic Excellence Conference in March 2010.

Keene State College Launches Two Essential Regional Partnerships – Given the harsh realities of today's economy, Keene State is actively forging and nurturing partnerships across a variety of sectors to advance its mission and serve the community. By working with businesses, educational institutions, lawmakers and other government officials on the local, state and federal levels, Keene State is launching two essential regional partnerships, the Regional Center for Advanced Manufacturing (RCAM) and the Monadnock Biodiesel Collaborative (MBC).

RCAM is a partnership of KSC, the Keene School District, River Valley Community College, and the Greater Keene Chamber of Commerce. It is designed to mesh college curriculum with the needs of the business community and provide skilled employees for more than seventy high-tech manufacturing firms in the region. MBC is a cooperative effort of KSC, the city of Keene, and a biodiesel refiner to convert yellow and brown waste grease collected in the region into high-quality biodiesel to power engines and heat homes. MBC will lower fuel costs for the college and the city, reduce fine particulate emissions, and create research opportunities for KSC students and faculty. President Helen Giles-Gee noted that Keene State is "driving the kind of community-based innovation that will make energy independence and environmentally conscious economic development a reality".

Granite State College Signs MOU with Entergy Corporation to Deliver Degree Programs at Work – GSC has entered into a partnership with the Entergy Corporation to offer undergraduate credit courses onsite at Entergy Corporation's Training Center in Brattleboro, VT. *The Granite State College/Entergy Bachelor's Degree Completion Program* is designed to provide access to the GSC bachelor of science, applied studies (BSAS) with the option in management to the employees of Entergy Corporation.

Entergy Corporation is a Fortune 500 company headquartered in New Orleans, LA, and is an integrated energy company that owns and operates power plants with approximately 30,000 megawatts of electric generating capacity and is the second-largest nuclear generator in the United States.

GSC will offer four undergraduate credit courses per year at Entergy. GSC Academic Advisors Carol Lyall and Kate O'Neill and Faculty Coordinator Cathy Driesch will meet with Entergy employees to process their degree application to the BSAS and to schedule the required courses to align with the workplace schedules of Entergy staff. GSC has also partnered with the Keene State College Department of Management Chair Dr. John Pappalardo who will serve as the liaison to the program.

Management's Responsibility for Financial Reporting and Internal Controls

The accompanying financial statements, footnotes, management's discussion and analysis, and all information in this Annual Report are the responsibility of management. Management has prepared the financial statements and accompanying notes 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 operating funds and electronic access and approvals. Managers of all USNH funds have continual on-line access to the status of their accounts in order to measure operating results against the 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, in periodic interim reports to the Board of Trustees' Financial Affairs Committee, and in the annual audited financial statements, approved by the full Board.

The internal control systems include an organizational structure that provides for careful recruitment and training of qualified personnel, proper segregation of financial duties, and a program of regular internal audits. These controls are designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with management's authorization, and such transactions are recorded properly, resulting in financial statements that are free from material misstatement. Management seeks to continually improve internal controls, given costs thereof and management's assessment of the probability and potential consequences of future events. According to the "Internal Control – Integrated Framework" report published by the National Commission on Fraudulent Financial Reporting (the Treadway Commission), internal controls can be judged effective if management has "reasonable assurance that (1) they understand the extent to which the entity's operating objectives are being achieved, (2) published financial statements are being prepared reliably, and (3) applicable laws and regulations are being complied with." Based on these requirements it is management's opinion that the internal control systems employed by USNH are effective.

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

PricewaterhouseCoopers LLP, certified public accountants, have issued their unqualified opinion as to the fair presentation of the financial statements that follow. Thus, for all 47 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 Auditors, which expresses the auditor's opinion on the 2010 financial statements, is reproduced on the following page.

Kenneth B. Cody
Vice Chancellor for Financial Affairs and Treasurer/CFO

Carol A. Mitchell
Controller

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

Report of Independent Auditors

To the 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 consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets and cash flows, present fairly, in all material respects, the financial position of the University System of New Hampshire (USNH) at June 30, 2010 and 2009, and its consolidated revenues, expenses and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the USNH's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards 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 audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages15 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

September 8, 2010

Management's Discussion and Analysis

I. Introduction

The following unaudited Management's Discussion and Analysis includes an analysis of the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal year ended June 30, 2010. This analysis provides a comparison of significant amounts and measures to prior periods and, where appropriate, presents management's outlook for the future.

The University System of New Hampshire is a Section 501(c)(3) corporation organized under the laws of the State of New Hampshire to serve the people of the state as the premier public provider of higher education, research and public service. USNH accomplishes its mission by operating four institutions that collectively offer a full array of higher education options for the state. These institutions include the University of New Hampshire, with campuses in Durham (UNH) and Manchester (UNHM); Plymouth State University (PSU); Keene State College (KSC); and Granite State College (GSC). While USNH performs public service and conducts scholarly research across the globe, most of USNH's activities take place at the three residential campuses (UNH, PSU and KSC), the urban campus (UNHM), the nine regional sites of GSC, and the multiple Cooperative Extension and Small Business Development Centers located throughout New Hampshire. The accompanying financial statements include the activities and balances of the state's only public television station, New Hampshire Public Broadcasting (NHPB); the University of New Hampshire Foundation, Inc. (UNHF); and the Keene Endowment Association (KEA) - three legally separate but affiliated entities.

The macro-economic environment has been a major concern for USNH over the past year. Because of its continuing market appeal to nonresidents and residents of New Hampshire alike, its conservative financial management and budgeting, risk management, and decision-making agility, USNH has to date successfully managed through the credit crisis, economic downturn and decline in the financial markets. While 2010 yielded many successes, USNH will continue to manage diligently to preserve its financial strength for future years. The actions and results of 2010, and the challenges for 2011 and beyond, are detailed below.

II. Financial Highlights and Economic Outlook

A. Revenues

Chart 1 below shows revenue diversification in 2010, while Chart 2 shows these same revenues broken down by institution.

As shown on Chart 3, USNH general appropriations have not decreased in any of the past 25 years. With the addition of $3 million in federal stimulus funding in 2010, state general appropriations were level-funded in 2010 and will remain at the $100 million level for 2011. While the 2010 state operating appropriation was only 11.6% of total revenues, it is a dependable revenue source, enabling USNH to perform effective long-term strategic planning and manage resources efficiently.

Enrollments at USNH institutions continued to grow in 2010. In the past four years, credit enrollments at USNH have increased 7.7%, or 1,911 FTE students, including increases of 1,243 resident students and 668 nonresident students (see Table 1).

As seen in Table 2, there has been a 26% growth in annual applications to the flagship campus, UNH at Durham, over the past four years. During this period of growth USNH institutions have maintained or improved the quality of their incoming students. Approximately 51% of new UNH students in the fall of 2009 ranked in the top 20% of their high school class, up from 47% in 2005. The combined SAT scores for new UNH students averaged 1,115 in the fall of 2009, nearly identical to the 1,118 average in the fall of 2005.

The growth in enrollments combined with the economic downturn has resulted in significant increases in need-based student financial aid, particularly in 2010. Need-based awards were up $18.9 million (37.8%) from 2009 to 2010 while other types of aid remained fairly constant. This compares to an increase of $4.2 million (9.2%) from 2008 to 2009.

Beginning in 2010, a portion of the tuition and fees revenue was earmarked to support deferred maintenance of academic facilities and infrastructure. This continuing commitment to improve the condition

2010 Revenues = $857 Million

(not including capital additions/deductions)
(shown here at gross amounts, not netted for student financial aid)
($ in millions)

Chart 1: 2010 Revenues by Source

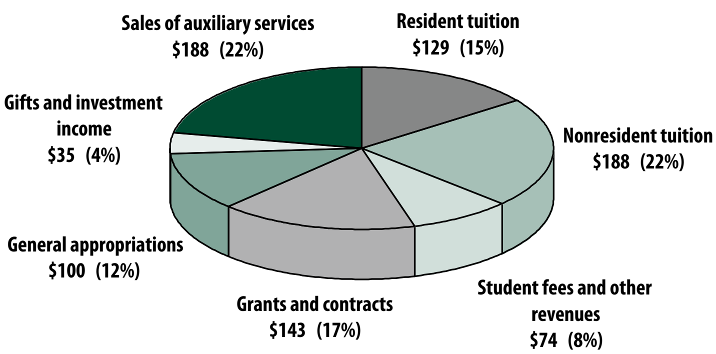


Chart 2: 2010 Revenues by Institution

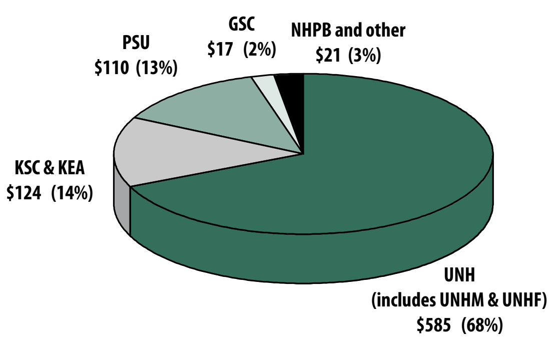


Chart 3: Twenty-Five Year Revenue Comparison
(not including capital additions/deductions)
($ in millions)

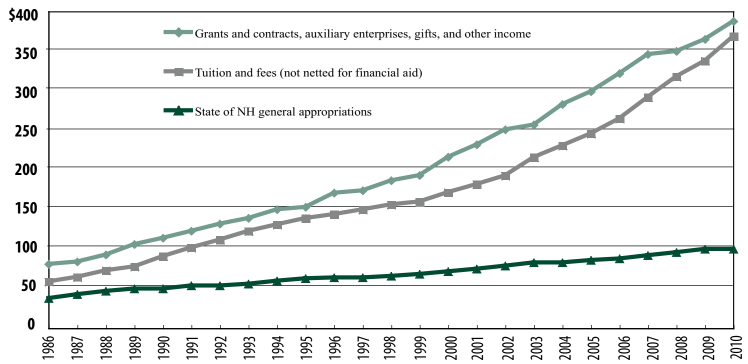


Table 1: Full-Time Equivalent (FTE) Credit Enrollment in the Fall of Each Year

	2005	2006	2007	2008	2009
UNH	13,333	13,741	13,856	13,925	14,250
PSU	5,266	5,322	5,554	5,677	5,400
KSC	4,478	4,550	4,815	4,979	5,084
UNHM	839	848	861	840	889
GSC	1,016	1,038	1,031	1,064	1,220
Total USNH FTEs	24,932	25,499	26,117	26,485	26,843
NH Resident	15,504	16,059	16,374	16,374	16,747
Nonresident	9,428	9,440	9,743	10,111	10,096
Total USNH FTEs	24,932	25,499	26,117	26,485	26,843

Table 2: Freshman Applications, Acceptances and Enrollees at UNH at Durham in the Fall of Each Year*

	2005	2006	2007	2008	2009
Freshman applications received	12,809	13,991	15,122	16,246	16,132
Freshman acceptances as % of applications (selectivity ratio)	72%	67%	59%	65%	72%
Freshman enrolled as % of acceptances (matriculation yield)	30%	33%	30%	26%	26%

*excludes transfers and readmits

of facilities at all campuses was approved by USNH Trustees in the spring of 2009 as part of a six-year plan to match revenues sought from the State of NH under the "KEEP UP" capital appropriation request. (See Section D for more information on State Capital Support.) The deferred maintenance assessment for 2010 totaled $3.0 million and is expected to total $5.3 million in 2011. When combined with other repair and renovation amounts budgeted, the total set aside for the prevention and handling of deferred maintenance was $18.6 million in 2009, and $21.9 million in 2010. The amount budgeted is $20.6 million for 2011 and, per the six-year plan, will be approximately $35 million in 2015.

All campuses are working to generate revenues from facilities usage over the full year rather than just during the traditional semesters. In 2010 UNH added a highly successful short semester during the winter break, and all campuses are expanding summer session and online courses to increase capacity for additional enrollments without adding significant costs.

Auxiliary revenues grew $11.1 million and $9.5 million in 2010 and 2009, respectively. The primary components of this revenue stream are enrollment-driven including student housing, dining, health, and transportation fees. In 2010 auxiliary revenue also included $0.9 million of renewable energy credit and electricity sales generated by UNH's recently completed ECOLine renewable methane gas pipeline (see the Capital Debt Activities section for more information on energy infrastructure initiatives).

Grant revenues in 2010 are up $7.9 million or 5.9% over 2009, as compared to an increase of $1.1 million or 0.8% in 2009 over 2008. Sponsors of UNH awards include the US government, the state, non-profits and the commercial sector. The ten-year record of UNH competitively-won research and other sponsored programs is shown in Chart 4. The 2010 increase is primarily due to $17.1 million in research and related awards received under the American Recovery and Reinvestment Act (ARRA). Several new research proposals are in process as well.

An additional $48.6 million of ARRA awards were received by UNH and USNH for infrastructure and transportation initiatives. This includes a July 2010 $44.5 million, three-year award to UNH for the Network New Hampshire Now project to implement broadband technology in underserved regions of the state. Including cost sharing commitments from public and private partner organizations, this complex project is expected to cost $65.9 million and includes 450 miles of fiber in all ten counties of the state. Upon completion in 2013, the benefits will include high-speed internet access for nearly all major institutions in New Hampshire.

Facilities and administrative cost recoveries on grants and contracts totaled approximately $18.4 million and $18.5 million USNH-wide for both fiscal years 2010 and 2009, respectively, and $19.8 million for 2008. This important unrestricted revenue stream is used to support infrastructure at each campus. During 2010, UNH successfully negotiated new facilities and administrative cost rates for the next four years. The recovery rate for UNH on-campus research awards, currently at 45% in 2010, will be 46% for 2011 and will increase by one-half percent each year until reaching 47.5% for 2014 awards.

While the impact of the economy is being felt primarily in the leveling of general appropriation revenue and increased student financial aid, it is impacting gift revenue as well. Gift revenues from all sources (noncapital, endowment and plant) totaled $21.6 million in 2010, compared to $29.4 million and $29.5 million in 2009 and 2008, respectively. This decrease is being echoed by institutions across the country. USNH has targeted gift revenues as an area of improvement for future years, and has recently allocated $5.3 million to bolster infrastructure and other resources to enable improved fundraising results.

The combined impact of level appropriations, one-time stimulus funding for grants, and reduced gift streams has resulted in a short term greater reliance on student-sourced revenues. USNH is exploring partnering opportunities throughout the state to mitigate this trend over the long term. A primary example of this is UNH's work to help create a new independent business 'incubator', the New Hampshire Innovation Commercialization Center, Inc., to provide technologies developed by UNH and others with marketing expertise, administrative support and access to private capital.

B. Investing Activities

Macro-economic factors impacted USNH operations during both 2010 and 2009 as described below. The USNH endowment pool generated a return of 9.7% in 2010 compared to a loss of 23.2% and 4.6% in 2009 and 2008, respectively. The large loss of 2009 was unprecedented and effectively offset all previous gains at that time. The 2010 results represent USNH's first year working with investment consultants, Prime Buchholz, and included a complete restructuring of the endowment portfolio and adoption of a new investment policy.

Chart 5 shows the change in USNH endowment and similar asset balances over the past ten years. The State of New Hampshire adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2009. As a result of this new legislation, both USNH and UNHF updated their endowment spending policies to allow payout from underwater true endowment funds beginning in 2010. Management capped the USNH endowment payout-per-unit for designated purposes in 2010 at 85% of the 2009 payout amount per unit, and will maintain the 2010 distribution level into 2011.

USNH's operating investments generated positive returns in 2010 as well. The 2010 earnings of $14.7 million compare to a loss of $0.3 million in 2009 and earnings of $11.1 million in 2008. Other investment income received in 2009 related to proceeds from a settlement compensating USNH for previous losses on commercial paper purchases in 2008 (see Note 14). USNH revised its operating investment guidelines and further diversified its operating investments in 2010 to mitigate various portfolio risks and to insure adequate liquidity to meet future needs (see Note 2 for additional information in this regard).

C. Cost Containment

USNH has a long tradition of efficient operations, tight spending controls, and balanced budgets. The hiring and salary freezes put in place in 2009 were extended through 2010. All campuses successfully reduced spending on travel, business meals, subscriptions, memberships, supplies, printing and mailing costs. In June 2010, after gaining assurance of positive operating results derived from prudent management, USNH Trustees approved increases of 2% retroactive to January 1, 2010 for the majority of USNH employees.

Medical and dental costs net of employee cost sharing increased a total of 6.7% in 2010 and have increased an average of 9.4% per year over the past ten years. Increases for 2011 are expected to continue in the 10%

Chart 4: Awards for Competitive Sponsored Programs, UNH Only

($ in millions)

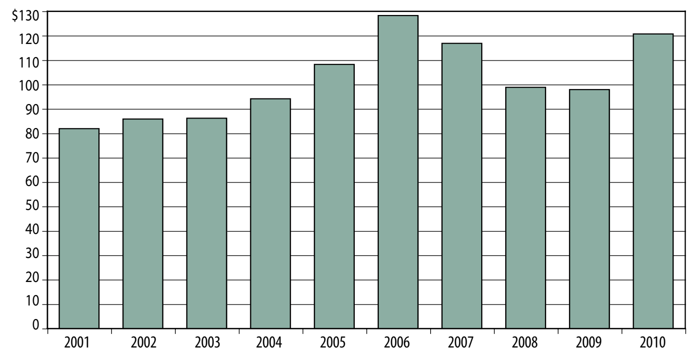


Chart 5: Total USNH Endowment & Similar Funds

(includes UNHF & KEA)

Ten-Year Growth

($ in millions)

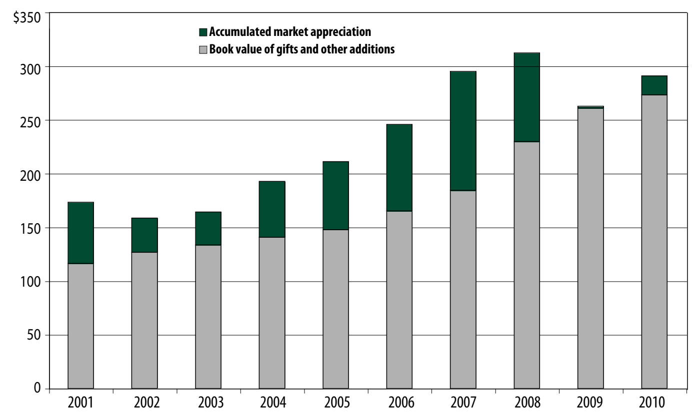
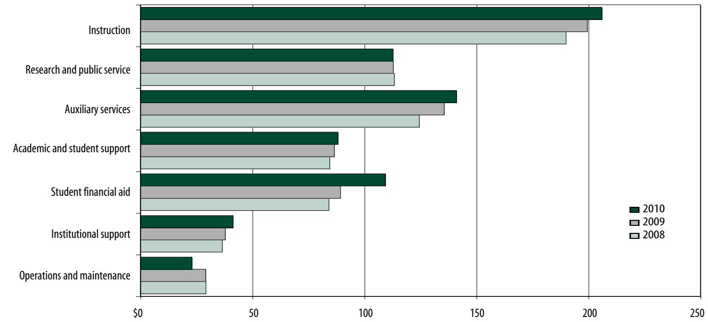


Chart 6: Current Fund Expenses by Functional Classification

($ in millions)



range despite continuing cost containment initiatives and increased employee cost sharing. Management and trustees remain focused on this area and engaged consultants during 2010 to benchmark employee benefit packages against competing employers. The review included comparison with peers within the higher education industry and throughout the state, and will be used as the basis for changes over the next one to three years.

The residential campuses are engaged in alternative energy initiatives to mitigate the continued escalation of petroleum-based fuel costs and reduce carbon footprints. The UNH ECOLine pipeline is the largest of these initiatives. The pipeline transports processed landfill gas to the cogeneration plant on the Durham campus. Now that it has been in place for a full year, renewable methane gas is the primary source of energy for heating, cooling and electricity on the Durham campus. The reduced utility costs are offset, in part, by additional debt service and depreciation related to the project (see Note 8 for additional information).

Programmatic expenses associated with direct services to students and customers have outpaced increases in general overhead expenses. General administrative overhead, reflected in Chart 6 as institutional support, is one of the smallest components of USNH expenses and has been well-controlled.

USNH made a voluntary contribution of $25 million to the State of New Hampshire during 2010. The contribution was made to help mitigate fiscal difficulties at the state level and is not a reduction of the general appropriation revenue base. This nonoperating expense is not included in Chart 6 as it is a non-recurring cost.

D. State Capital Support

In 2001 the state demonstrated its commitment to USNH as an engine of economic development by authorizing the first phase ($100 million) of a two-phase capital program to expand and renovate teaching and research facilities, primarily for science and engineering. This program, known as the Knowledge Economy Education Plan for New Hampshire (KEEP-NH), is expected to bolster the state's high tech job market for years to come. Funding for phase two of KEEP-NH, an additional $109.5 million, was approved in June 2005. Spending and commitments against the combined KEEP-NH appropriation through June 30, 2010 totaled $182.1 million. The remaining $27.4 million will be expended over the next two years to renovate and expand Parsons Hall at UNH and complete the conversion to digital transmission by NHPB. (See Note 5 for additional information on KEEP-NH spending to date.)

USNH was authorized $25 million of additional capital appropriations in 2010 for deferred maintenance and other capital projects. These funds will be spent over the next two years and will support projects smaller than the ground-up renovations primarily funded by the original KEEP-NH legislation. (See Table 4 for detail on recent major capital projects.)

Based on a 2009 engineering assessment of buildings on the residential campuses, USNH instituted new student charges to help sustain the condition of USNH facilities and prevent deferred maintenance. The charges were assessed beginning in the fall of 2009 and totaled $3.0 million in 2010. These charges are expected to total $5.3 million in 2011. The associated revenue is earmarked for renewal and adaptation projects related to educational and general buildings and infrastructure needs. USNH has requested funds from the state to match this investment, known as the "KEEP-UP" initiative, for all future years.

E. Financial Indicators

USNH has adopted 18 key performance indicators, including financial measures, for each campus and the University System as a whole. Two

Chart 7: USNH Annual Operating Margin

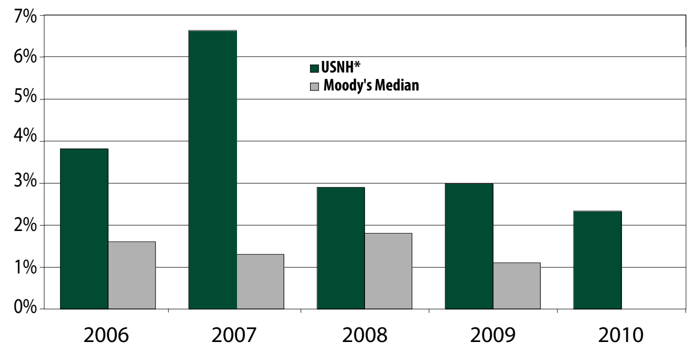
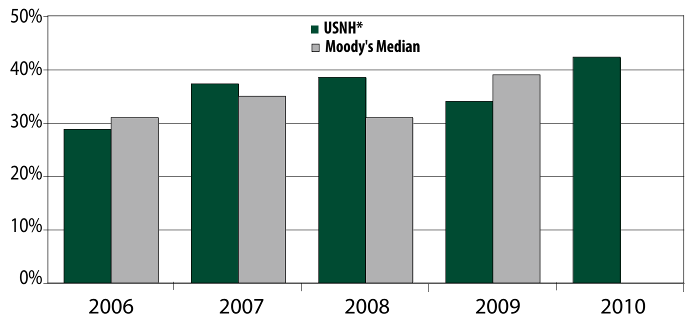
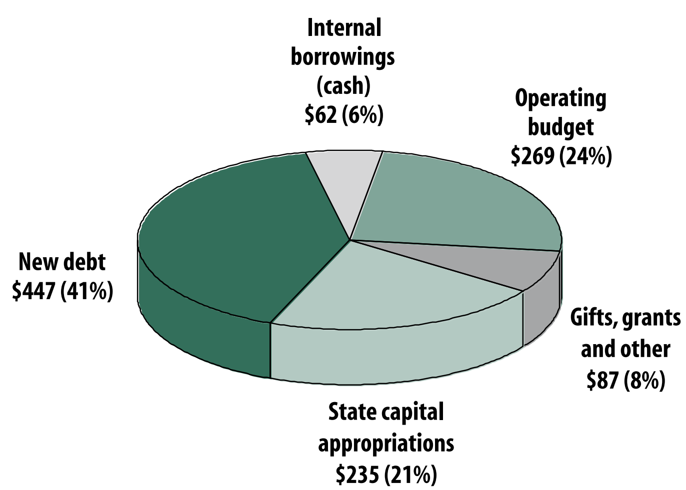


Chart 8: Unrestricted Financial Resources (Net Assets) to Total Debt



*Adjusted for postretirement medical liabilities (see Note 7 for additional information).

Chart 9: Capital Funding Sources, 2001-2013
Total = $1.1 Billion
($ in millions)



of the most important financial measures are the operating margin and the unrestricted financial resources (net assets) to total debt ratios. In April 2010, Moody's recalibrated its long term US municipal ratings to its global rating scale and many public universities received higher ratings. This process resulted in a new rating for USNH of Aa3 whereas previously USNH had been rated A1. Charts 7 & 8 reflect the A1 median from 2001 - 2008 and the Aa3 median beginning in 2009. (The 2010 medians are not yet available.)

The USNH annual operating margin has exceeded the applicable median for each of the past five years. USNH's targeted annual ratio for this indicator is 3 to 5%. The 2008 and 2009 ratios for USNH were 2.9% and 3.0%, respectively. These compare to median ratios of 1.8% and 1.1%, respectively. The 2010 ratio of 2.3% is impacted by USNH's $25 million voluntary contribution to the State of New Hampshire, and had this payment not been made, USNH would have had an operating margin of 5.7% (see Note 16 for additional information).

Management monitors the unrestricted net assets to total debt ratio carefully and considers it a primary indicator of financial health for USNH. This is particularly important as USNH nears completion of a 12-year $1 billion capital facility improvement plan, financed primarily through debt, operating surpluses and state KEEP-NH appropriations as detailed in Chart 9 (see the Capital and Debt Activities section for additional information).

III. Using the Financial Statements

A. Statement of Net Assets

The Statement of Net Assets depicts the financial position of USNH at one point in time – June 30 – and includes all assets and liabilities of USNH and its component units. The Statement of Net Assets is the primary statement used to report financial condition. Assets are measured at fair value, except for property and equipment, which are shown at historical cost less accumulated depreciation. Net assets represent the residual interest in the University System's assets after liabilities are deducted. Over time, an increase in net assets is one indicator of an institution's improving financial health. Factors contributing to future financial health include the size and quality of student enrollments; quality and distinction of the faculty; growth and diversification of revenue streams; and prudent management of costs, financial assets and facilities. Table 3 below shows summary information derived from the Statement of Net Assets at June 30 for the past five years.

Table 3: Summary Information Derived from the Statement of Net Assets as of June 30

($ in millions)

	2006	2007	2008	2009	2010
Cash and operating investments	$ 202	$ 226	$ 226	$ 218	$ 262
Endowment and similar investments	245	295	312	263	291
Property and equipment, net	694	780	852	915	935
Other assets*	166	105	87	107	97
Total assets	$1,307	$1,406	$1,477	$1,503	$1,585
Postretirement medical benefits	$ 49	$ 52	$ 51	$ 47	$ 47
Deferred obligations - interest swaps*				19	28
Long-term debt	418	419	458	475	464
Other liabilities	137	138	135	138	149
Total liabilities	$ 604	$ 609	$ 644	$ 679	$ 688
Invested in capital assets, net	$ 386	$ 409	$ 430	$ 476	$ 488
Restricted	246	283	278	234	260
Unrestricted	71	105	125	114	149
Total net assets	$ 703	$ 797	$ 833	$ 824	$ 897

* USNH adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2008. This statement requires that derivative assets and liabilities be reported at their fair value. Under GASB definitions, USNH's derivative instruments qualified as effective hedges for both 2009 and 2010. Accordingly, the fair value of USNH's interest rate swaps outstanding is presented in the Statement of Net Assets as a deferred obligation rather than flowing through the Statement of Revenues, Expenses and Changes in Net Assets. An offsetting deferred receivable is included in Other Assets. USNH entered into the swap agreements to reduce effective interest and synthetically fix rates over the term of the respective debt issues. Thus, USNH intends to hold the swap contracts to maturity. USNH has recorded deferred obligations and offsetting deferred receivables of $28 million and $19 million at June 30, 2010 and 2009, respectively (see Note 9 for additional information).

Total assets increased by $278 million or 21% over the past five years. The major components of assets are cash and operating investments, endowment and similar investments, and property and equipment. Other assets include accounts and notes receivable, prepaid expenses, debt proceeds held by others for construction purposes, and deferred receivables related to interest rate swaps.

Endowment investments were valued at $291 million as of June 30, 2010, an increase of $28 million from 2009 and a decrease of $21 million since 2008. These values are reflective of current economic conditions (see the Endowment and Similar Investments discussion for additional information). The net increase in property and equipment was $241 million over the past five years. These increases are primarily a result of the KEEP-NH projects and utilization of bond proceeds for construction as described below.

Liabilities are primarily comprised of accrued postretirement medical benefits and long-term debt. The long-term debt of USNH primarily consists of bonds and capital leases payable. Between 2006 and 2009, USNH issued $282 million of revenue bonds to finance new construction, as described more fully beginning on the following page. Other liabilities include accounts payable, deferred revenue, accrued employee benefits, government advances refundable (amounts provided by the US Government under the Perkins Loan Program that would be refundable should USNH cease operating its revolving loan programs), and deferred obligations related to interest rate swaps.

Total USNH net assets have grown from $703 million at June 30, 2006 to $897 million at June 30, 2010, an increase of 28% in the past four years. Net assets are reported in three net asset categories. The invested in capital assets amount is the historical cost of property and equipment reduced by total accumulated depreciation and the balance of related debt outstanding. Restricted net assets include funds already expended or committed, such as loan funds and endowments and similar funds, where assets are restricted as to purpose or assets are required to be invested in perpetuity.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted net assets on the Statement of Net Assets. Unrestricted net assets include unrestricted current fund balances, balances in unrestricted loan funds, unrestricted funds functioning as endowment, unexpended plant funds, and unrestricted funds held by affiliated entities.

Table 4: Major Construction Projects

	Campus	Name of Project	Primary Purpose	Total Project Cost ($ in millions)	Primary Sources of Funds
Fiscal year completed:					
2007	UNH	Gables Apartments expansion	Student residential	$ 37	NHHEFA bonds
	UNH	Central Heating/Cogeneration facility	Energy infrastructure	30	Capital lease & cash
	UNH	Thompson Hall renovation	Administrative	4	Cash
	PSU	Langdon Woods facility	Student residential	29	NHHEFA bonds
	KSC	Butler Court facility	Student residential	18	NHHEFA bonds
	KSC	Media Arts Center	Academic	5	Cash
2008	UNH	Kingsbury Hall renovation and expansion	Academic & research	56	State appropriations, gifts & cash
	UNH	Southern Underpass	Infrastructure	8	State approps, grants & cash
	PSU	Mary Lyon Hall renovation	Student residential	16	NHHEFA bonds & cash
2009	UNH	Southeast Residential Community	Student residential	51	NHHEFA bonds
	UNH	DeMeritt Hall renovation	Academic & research	19	State appropriations & gifts
	UNH	Fairchild Hall renovation	Student residential	9	NHHEFA bonds
	UNH	Stillings Hall renovation	Student dining	2	Cash
	UNH	Chase Hall addition	Academic & research	2	Grants
	UNH	Main Street reconstruction project	Infrastructure	2	State and local grants & cash
	UNH	Philbrook Hall expansion	Student dining	6	NHHEFA bonds & cash
	PSU	Central Campus Infrastructure improvements	Energy & other infrastructure	7	State appropriations & cash
	KSC	Pondside III Apartments	Student residential	17	NHHEFA bonds
	KSC	Fiske Hall renovation	Student residential & administrative	9	NHHEFA bonds & cash
2010	UNH	ECOLine Landfill Gas project	Energy infrastructure	50	NHHEFA bonds & cash
	UNH	Marine Pier	Infrastructure	14	Grants
	UNH	James Hall renovation	Academic & research	33	State appropriations & gifts
	UNH	NH Hall renovation	Academic & research	5	Cash
	UNH	Residential safety improvements	Student residential	1	NHHEFA bonds & cash
	KSC	Central Heating/Cogeneration facility	Energy infrastructure	9	State appropriations & cash
	KSC	KSC Huntress Hall renovation	Student residential	6	NHHEFA bonds & cash
In progress at June 30, 2010, at budgeted amounts:					
	UNH	Parsons Hall renovation	Academic & research	59	State appropriations, gifts & cash
	UNH	Wind Turbulence facility	Academic & research	3	Grants, state appropriations & cash
	UNH	Recreation facilities renovation	Student recreation	1	NHHEFA bonds
	UNH	Whittemore Arena renovation	Student recreation	2	NHHEFA bonds
	UNH	Main Street West reconstruction	Infrastructure	1	Grants & cash
	UNH	Smith Hall renovation	Administrative	1	Cash & state appropriations
	UNH	New England Center West Tower conversion	Student residential	2	Cash
	PSU	ALLWell Ice Arena	Infrastructure	16	NHHEFA bonds, grants & cash
	KSC	KSC Alumni Center renovation	Administrative	7	Cash & state appropriations
	NHPB	Digital Transmission conversion	Other infrastructure	3	State appropriations

Substantially all unrestricted net assets are committed for goods and services not yet received, capital projects in various stages of planning and completion, normal working capital for departmental activities, or designated for specific future purposes. (See Note 12 for further details on net asset balances.)

Capital and Debt Activities

Expenditures for property and equipment are recorded as asset additions on the Statement of Net Assets with the related depreciation recorded on the Statement of Revenues, Expenses and Changes in Net Assets. Major capital projects for the past four years and construction in progress as of June 30, 2010 are listed in Table 4 above.

Interest on the related debt service (net of amounts capitalized during construction and interest income earned on bond proceed accounts) is recorded as nonoperating expense in the Statement of Revenues, Expenses and Changes in Net Assets, whereas required principal payments are recorded as a reduction of the corresponding liability. (See Notes 5 and 8 for further information on capital and debt activities, respectively.)

Academic Facilities

The KEEP-NH legislation signed into law in July 2001 resulted in an initial $100 million appropriation from the state to fund the renovation and expansion of teaching and research facilities at all campuses. The first KEEP-NH initiative was successfully completed in the summer of 2007. All the projects using the first phase of funding were completed on-time and on-budget.

The state approved a second appropriation of $110 million to complete the KEEP-NH plan by 2013. Infrastructure projects on the residential campuses have been completed along with ground-up renovations of the Demeritt and James Hall buildings at UNH. The remaining funds will provide similar renovations for UNH's Parsons Hall. All three buildings house science instruction and research facilities.

Residential Life Facilities

In 2005, each of the three residential campuses housed approximately 55% of their traditional age undergraduate populations. The long-term strategic goal of each campus is to house approximately 60% of its undergraduates. To meet this goal USNH issued an additional $210 million in revenue bonds during 2005 and 2006. All projects have been completed including Zorn Dining Hall and the Butler Court, Fiske and Pondside III Residence Halls at KSC; the Grafton, Langdon Woods and Mary Lyon Residence Halls at PSU; and the Philbrook Dining Hall, Fairchild Residence Hall, Gables Apartments and Southeast Residential Community at UNH.

In 2009 USNH issued $24 million of additional bonds to finance the construction of the ALLWell Arena and Welcome Center at PSU, renovate the Huntress Residence Hall at KSC, upgrade fire safety systems in UNH dormitories, and make certain improvements to student recreation facilities at UNH. The Huntress Hall renovations were completed in the spring of 2010. The ALLWell center opened in July, 2010 and has been commended as a state-of-the-art facility. The remaining projects will be completed in the fall of 2010.

UNH Energy Infrastructure Facilities

During 2004, USNH entered into a construction contract for replacement of the central heating plant at UNH, including an electricity cogeneration facility. The project cost totaled $30 million of which $19 million was financed by a 20-year capital lease, with the balance coming from USNH funds. The facility went online in early fiscal 2008. This facility is able to burn multiple fuels and has significantly reduced the risks of volatile utility prices. Building on the success of the cogeneration facility, the Trustees approved ECOLine, a $50 million project in August 2007 designed to pipe purified methane gas from a landfill in Rochester, NH to the Durham campus. The work included construction of a methane gas processing plant at the landfill and a 12 mile underground pipeline to transport the processed gas to the cogeneration facility, as well as acquisition of an additional turbine to generate electricity. NHHEFA bonds were issued in 2008 to fund the majority of the project. The resultant renewable, carbon-neutral, landfill gas has replaced commercial natural gas as the primary fuel in UNH's cogeneration plant. The ECOLine project was successfully completed allowing UNH to derive the majority of its heating, cooling, and electricity from a renewable resource.

Table 5: Endowment Activity for the Years Ended June 30

($ in millions)

	USNH Campuses		Affiliated Entities: UNH Foundation		Affiliated Entities: KEA	
	Pooled	Other	Pooled	Other	Other	Total
Fair value, June 30, 2007	$143	$17	$125	$6	$4	$295
New gifts	9		8			17
Quasi endowment additions & other changes	27					27
Total return (loss)	(7)	(1)	(6)	(1)		(15)
Total distribution	(5)	(1)	(6)			(12)
Fair value, June 30, 2008	167	15	121	5	4	312
New gifts	12		4			16
Quasi endowment additions & other changes	16					16
Total return (loss)	(45)	(2)	(20)	(1)		(68)
Total distribution	(6)	(1)	(6)			(13)
Fair value, June 30, 2009	144	12	99	4	4	263
New gifts	5		3			8
Quasi endowment additions & other changes	4					4
Total return (loss)	14	1	13			28
Total distribution	(5)	(1)	(6)			(12)
Fair value, June 30, 2010	$162	$12	$109	$4	$4	$291

Endowment and Similar Investments

Endowment gifts are invested in various assets depending on whether the donor contributed to one of the campuses, the UNH Foundation (UNHF), or the Keene Endowment Association (KEA). Most endowments are invested in one of two internally-managed investment pools: the USNH Consolidated Endowment Pool (CEP) for the benefit of several campuses or the UNHF endowment pool for the benefit of UNH only. The investment pools are managed to provide the highest rate of return over the long term given an acceptable level of risk as determined by the responsible fiduciaries. The USNH Board of Trustees has fiduciary responsibility for the CEP, whereas the separate boards of UNHF and KEA have their own investment policies and are separately responsible for those investments. Table 5 shows summarized endowment investments activity for the years ended June 30, 2010, 2009 and 2008.

USNH is continuing to build the endowment through three strategies: investing endowment assets to generate improved total returns while managing risk; reducing dependence on endowment returns used in operations; and working to foster philanthropic interest to support the endowment with new giving. (See Notes 4 and 13 for further information on endowment and similar investments.)

B. Statement of Revenues, Expenses and Changes in Net Assets

The total change in USNH net assets for the year is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement reports total operating revenues, operating expenses, other revenues and expenses, and other changes in net assets, as prescribed and defined by the Governmental Accounting Standards Board (GASB). Table 6 shows summary information derived from the Statement of Revenues, Expenses and Changes in Net Assets for the five years ended June 30, 2010.

There are three major components which management considers separately when analyzing the change in total net assets: net income from recurring activities (also referred to as operating margin); capital appropriations and other plant changes; and endowment gifts and unutilized total returns. The net income from recurring activities is further broken down into operating revenues, operating expenses, and other revenues (expenses).

Generally, operating revenues are earned by USNH in exchange for providing goods and services. Operating expenses are defined as expenses incurred in the normal operation of the University System, including a provision for estimated depreciation on property and equipment assets. GASB reporting standards require certain significant recurring revenues to be shown as

Table 6: Summary Information Derived from the Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30
($ in millions)

	2006	2007	2008	2009	2010
Operating revenue	$495	$524	$558	$582	$612
Operating expenses	(579)	(602)	(644)	(670)	(685)
Other revenues (expenses), net	106	119	106	113	90
Net income from recurring activities	22	41	20	25	17
Capital appropriations and other plant changes, net	24	14	29	37	31
Endowment gifts and unutilized total returns, net	28	40	(11)	(64)	25
Other changes in net assets	(3)		(2)	(7)	
Net increase (decrease) in net assets	$ 71	$ 95	$ 36	$ (9)	$ 73

nonoperating, including state general appropriations, noncapital gifts, operating investment income, and endowment return used in operations. These diversified revenue streams are a particular strength of USNH and are critically important sources of funds used to supplement tuition and fees revenue in the delivery of USNH programs and services. In other words, the regular operating expenses of USNH are funded in part by revenues not shown as operating revenues under GASB formats. Operating revenues for 2010 were $117 million greater than four years prior whereas operating expenses increased $106 million during the same period.

Other revenues (expenses) for 2010 decreased by $16 million over 2006 and include state appropriations, gifts, operating investment income, other investment income, endowment returns used in operations, other nonoperating revenue (expense), net of interest expense. Other nonoperating expense for 2010 includes a voluntary contribution to the State of New Hampshire to help mitigate fiscal issues at the state level. This was a one-time payment, and is not a reduction of the general appropriation revenue base (see Note 16 for additional information in this regard). The result was a decline in the operating margin from $20 million and $25 million in 2008 and 2009, respectively, to $17 million in 2010.

Capital appropriations and other plant changes resulted in an increase in net assets of $30 million in 2010, primarily due to KEEP-NH as shown in Table 4. The endowment gifts and unutilized return total of $25 million in 2010 includes new gifts of $8 million, investment gains of $28 million, and distributions totaling $12 million as detailed in Table 5.

Table 7: Summary Information Derived from the Statement of Cash Flows for the Years Ended June 30
($ in millions)

	2006	2007	2008	2009	2010
Cash flows provided by (used in):					
Operating activities	$(47)	$(39)	$(52)	$(43)	$(26)
Noncapital financing activities	100	104	108	109	84
Capital financing activities	20	(118)	(46)	(78)	(54)
Investing activities	(71)	73	24	28	44
Increase in cash and cash equivalents	2	20	34	16	48
Increase (decrease) in current and long-term operating investments	12	4	(35)	(22)	(5)
Change in cash, cash equivalents and operating investments	$ 14	$ 24	$ (1)	$ (6)	$ 43

C. Statement of Cash Flows

The Statement of Cash Flows summarizes transactions affecting cash and cash equivalents during the fiscal period. Table 7 shows summary information derived from the Statement of Cash Flows for the five years ended June 30, 2010.

Cash flows from operating activities will always be different from the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets because of noncash items, such as depreciation expense, and because the latter statement is prepared on the accrual basis of accounting, meaning that it shows revenues when earned and expenses as incurred. The direct method of the Statement of Cash Flows, on the other hand, shows cash inflows and outflows. The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of USNH during the year. In addition, it should help readers assess the ability of USNH to generate the future cash flows necessary to meet its obligations and evaluate its potential for additional financing.

GASB requires that receipts for state general appropriations and noncapital gifts be shown as cash flows from noncapital financing activities. The reduction in cash provided by noncapital financing activities in 2010 is due to a $25 million voluntary contribution to the State of New Hampshire to assist with fiscal difficulties at the state level. This is a one-time payment and not a reduction of the general appropriation revenue base (see Note 16 for additional information in this regard). Included in cash flows from capital financing activities are all plant funds and related long-term debt activities, as well as gifts to the endowment. This includes KEEP-NH and NHHEFA bond construction amounts expended. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all cash and cash equivalents provided by the sale of investments and income generated from cash and investments owned. The net cash provided by investing activities is made up of bond investments sold to finance associated construction expenditures and the conversion of short-term investments into cash equivalents during the year.

University System of New Hampshire
Statement of Net Assets
($ in thousands)

	Balance at June 30, 2010	Balance at June 30, 2009
ASSETS		
Current Assets		
Cash, cash equivalents, and operating investments	$ 256,293	$ 213,326
Accounts receivable	26,632	18,443
Accounts receivable - State of NH appropriations	5,947	16,802
Pledges receivable - current portion	583	538
Notes receivable - current portion	3,378	3,259
Prepaid expenses and other current assets	6,315	6,033
Total Current Assets	**299,148**	**258,401**
Noncurrent Assets		
Debt proceeds held by others for construction purposes	2,735	22,034
Long-term operating investments	5,539	5,042
Endowment and similar investments - campuses	173,481	155,246
Endowment and similar investments - affiliated entities	117,488	107,413
Pledges receivable	1,169	473
Notes receivable	19,838	18,646
Property and equipment, net	935,493	914,524
Other assets	30,334	21,146
Total Noncurrent Assets	**1,286,077**	**1,244,524**
TOTAL ASSETS	**$1,585,225**	**$1,502,925**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 46,806	$ 35,644
Construction services payable	6,047	9,302
Deposits and deferred revenues	37,489	35,508
Accrued employee benefits - current portion	6,012	7,612
Postretirement medical benefits - current portion	4,706	5,170
Long-term debt - current portion	70,046	71,090
Total Current Liabilities	**171,106**	**164,326**
Noncurrent Liabilities		
Obligations under life income agreements	2,593	2,620
Government advances refundable	16,339	16,418
Accrued employee benefits	33,430	30,900
Postretirement medical benefits	42,608	42,030
Deferred obligations - interest swaps (see Note 9)	27,966	18,601
Long-term debt	394,257	403,788
Total Noncurrent Liabilities	**517,193**	**514,357**
TOTAL LIABILITIES	**$ 688,299**	**$ 678,683**
NET ASSETS (see Note 12)		
Invested in capital assets, net of related debt	$ 487,512	$ 476,041
Restricted		
Nonexpendable	187,059	178,976
Expendable	73,189	54,903
Unrestricted	149,166	114,322
TOTAL NET ASSETS	**$ 896,926**	**$ 824,242**

The accompanying notes are an integral part of these financial statements.

University System of New Hampshire
Statement of Revenues, Expenses and Changes in Net Assets
($ in thousands)

	For the year ended June 30, 2010	2009
OPERATING REVENUES		
Tuition and fees	$ 368,656	$ 338,390
Less: student financial aid	(109,272)	(89,257)
Net tuition and fees	259,384	249,133
Grants and contracts	142,683	134,780
Sales of auxiliary services	187,588	176,444
Other operating revenues	22,708	21,351
Total Operating Revenues	**612,363**	**581,708**
OPERATING EXPENSES		
Employee compensation and benefits	443,708	427,956
Employee separation incentives	750	3,949
Supplies and services	174,144	168,458
Utilities	18,338	26,023
Depreciation	47,776	43,873
Total Operating Expenses	**684,716**	**670,259**
Operating loss	(72,353)	(88,551)
NONOPERATING REVENUES (EXPENSES)		
State of New Hampshire general appropriations	100,000	100,000
Gifts	8,444	9,419
Operating investment income (expense), net	14,707	(332)
Other investment income (see Note 14)		9,021
Endowment return used for operations	11,811	13,301
Interest expense, net	(20,856)	(17,919)
Other nonoperating revenue (expense) (see Note 16)	(24,462)	546
NET INCOME BEFORE OTHER CHANGES IN NET ASSETS	**17,291**	**25,485**
OTHER CHANGES IN NET ASSETS		
State of New Hampshire capital appropriations	22,135	28,929
Plant gifts, grants, and other changes, net	8,330	7,799
Endowment and similar gifts	8,223	16,531
Endowment return, net of amount used for operations	16,705	(80,977)
Other changes in net assets		(7,000)
Total Other Changes in Net Assets	**55,393**	**(34,718)**
INCREASE (DECREASE) IN NET ASSETS	**72,684**	**(9,233)**
Net assets at beginning of year	824,242	833,475
NET ASSETS AT END OF YEAR	**$896,926**	**$824,242**

The accompanying notes are an integral part of these financial statements.

University System of New Hampshire
Statement of Cash Flows
($ in thousands)

	For the year ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees, net	$ 260,473	$ 249,736
Grants and contracts - operating	136,444	132,278
Sales of auxiliary services	187,010	177,076
Other operating revenues	21,833	22,540
Payments to employees	(324,927)	(321,177)
Payments for employee benefits	(115,263)	(110,372)
Payments to suppliers and services	(191,186)	(193,185)
NET CASH USED IN OPERATING ACTIVITIES	**(25,616)**	**(43,104)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State general appropriations	100,000	100,000
Gifts (noncapital)	8,401	9,414
Grants and contracts - nonoperating	538	546
Other noncapital activity (see Note 16)	(25,000)	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**83,939**	**109,960**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State appropriations for plant projects	32,989	16,645
Plant gifts, grants, and other changes	8,233	7,799
Endowment gifts	8,052	16,424
Purchases of property, equipment, and construction services	(71,935)	(110,022)
Proceeds from sale of property and equipment	233	
Proceeds from issuance of debt	171	108,652
Retirement of debt through defeasance		(83,106)
Debt principal payments	(10,752)	(8,938)
Interest expense	(20,722)	(18,946)
Other expenses		(7,000)
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	**(53,731)**	**(78,492)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	265,184	262,228
Purchase of investments	(239,945)	(238,447)
Endowment investment yield	3,441	3,939
Operating investment income (expense)	14,731	(225)
Investment income on bond proceeds	53	59
NET CASH PROVIDED BY INVESTING ACTIVITIES	**43,464**	**27,554**
Increase in cash and cash equivalents	**48,056**	**15,918**
Beginning cash and cash equivalents	168,440	152,522
ENDING CASH AND CASH EQUIVALENTS	**$216,496**	**$168,440**
Ending cash and cash equivalents, as above	$ 216,496	$ 168,440
Operating investments	39,797	44,886
TOTAL CASH, CASH EQUIVALENTS, AND OPERATING INVESTMENTS	**$256,293**	**$213,326**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (72,353)	$ (88,551)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	47,776	43,873
Changes in current assets and liabilities:		
Accounts receivable	(8,457)	(109)
Pledges receivable		942
Notes receivable	(119)	133
Prepaid expenses and other current assets	(281)	(878)
Accounts payable and accrued expenses	6,910	5,007
Deposits and deferred revenues	1,973	(102)
Accrued employee benefits	(1,065)	(3,419)
NET CASH USED IN OPERATING ACTIVITIES	**$ (25,616)**	**$ (43,104)**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements June 30, 2010

1. Summary of significant accounting policies and presentation

The University System of New Hampshire (USNH) is a not-for-profit institution of higher education 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, the University of New Hampshire at Manchester, Keene State College, Plymouth State University, Granite State College, and all wholly-owned and operated auxiliary activities. These organizations are collectively referred to in the accompanying financial statements as "campuses."

Affiliated entities

Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, requires that all controlled organizations be presented as component units of the reporting entity. Accordingly, the financial statements also include the accounts of New Hampshire Public Broadcasting (NHPB), the University of New Hampshire Foundation, Inc. (UNHF) and the Keene Endowment Association (KEA). NHPB, UNHF and KEA are collectively referred to in the accompanying financial statements as "affiliated entities." In accordance with the requirements of the authoritative pronouncements noted above, the associated revenues, expenses, assets, liabilities and net assets have been blended with those of the campuses, and all associated inter-entity activity has been eliminated. The affiliated entities are further described below.

The state's only public television station, New Hampshire Public Broadcasting, was formerly a component unit of the University of New Hampshire at Durham and known as New Hampshire Public Television. NHPB underwent a reorganization in 2009 and became a separate, wholly-owned 501(c)(3) affiliated corporation of USNH. NHPB is governed by its own Board of Directors, the membership of which includes the Chancellor of USNH and four USNH Trustees. The activities and balances of NHPB are presented herein as an affiliated entity.

The University of New Hampshire Foundation, Inc. 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 three other members of the USNH Board of Trustees. The University of New Hampshire funds a portion of the operating expenses of UNHF.

The Keene Endowment Association was organized in 1957 as a separate charitable entity to provide financial assistance to deserving students at Keene State College. Income is distributed at the discretion of the Trustees of KEA.

Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB using the "economic resources measurement focus" and the accrual basis of accounting. In addition to following all GASB pronouncements, USNH applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. USNH has elected not to apply FASB pronouncements issued after November 30, 1989.

USNH follows the requirements of the "business-type activities" (BTA) model as defined by GASB Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services. GASB requires that general purpose external financial statements be reported on a consolidated basis and that resources be classified into the following net asset categories, as more fully detailed in Note 12:

- **Invested in capital assets, net of related debt:** Property and equipment at historical cost or fair value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition or construction of those assets.
- **Restricted Nonexpendable:** Net assets subject to externally imposed stipulations that they be maintained permanently by USNH. Such net assets include the historical gift value of restricted true endowment funds.
- **Restricted Expendable:** Net assets whose use by USNH is subject to externally imposed stipulations. Such net assets include the accumulated net gains on true endowment funds as well as the fair value of restricted funds functioning as endowment, restricted funds loaned to students, restricted gifts and endowment income, and other similarly restricted funds.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Substantially all unrestricted net assets are designated to support academic, research, or auxiliary enterprises; invested to function as endowment; or committed to capital construction projects.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The most significant areas that require management estimates relate to valuation of certain investments, useful life and related depreciation of capital assets, and accruals for postretirement medical and other employee-related benefits.

Operating revenues include tuition and fees, grants and contracts, sales of auxiliary services, and other operating revenues. Tuition and fee revenues are reported net of student financial aid discounts and allowances. Operating expenses include employee compensation and benefits, supplies and services, utilities, and depreciation. Operating expenses also include early retirement and other separation incentive stipends and benefits promised to certain employees in exchange for termination of employment. All such termination benefits are accrued as of the date the termination agreement is signed, and are presented at net present value at year end. Nonoperating revenues (expenses) include all other revenues and expenses except certain changes in long-term plant, endowment and other net assets, which are reported as other changes in net assets. Operating revenues are recognized when earned and expenses are recorded when incurred. Restricted grant revenue is recognized only to the extent of applicable expenses incurred or, in the case of fixed-price contracts, when the contract terms are met or completed.

Investments are maintained with established financial institutions whose credit is evaluated by management and the respective governing boards of USNH and its affiliated entities. Highly liquid investments with a maturity of 90 days or less when purchased are recorded as cash and cash equivalents. Current operating investments have a maturity of more than 90 days when purchased, are highly liquid and are invested for purposes of satisfying current liabilities and generating investment income to support operating expenses. Long-term operating investments are unrestricted amounts invested alongside the endowment pool that are not expected to be liquidated in the next year, but are available for operating purposes if needed. Purchases and sales of investment securities are recorded as of the trade date. Net realized and unrealized gains and losses on endowment investments, as well as interest and dividend yield, are reported as endowment return. Endowment return used for operations per application of the endowment spending policy is reported as nonoperating revenue whereas the excess (deficiency) of endowment return over that used for operations is reported as other changes in net assets.

In addition to the amounts reported as accounts receivable, USNH had unearned grants and contracts for services not yet performed of $128,207,000 and $116,124,000 at June 30, 2010 and 2009, respectively. This revenue will be reported in subsequent financial statements when earned. Government grants and contracts also generally provide for reimbursement of facilities and administrative costs. Recovery of facilities and administrative costs for the years ended June 30, 2010 and 2009 was $18,421,000 and $18,480,000, respectively, and is a component of grants and contracts revenue.

Unconditional pledges of nonendowment gifts are presented net of estimated amounts deemed uncollectible after discounting to the present value of expected future cash flows. Because of uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. In accordance with GASB requirements, endowment pledges totaling $2,397,000 and $2,826,000 at June 30, 2010 and 2009, respectively, which are expected to be received over the next eight years, have not been reported in the accompanying financial statements. USNH determines on a case-by-case basis whether to first apply restricted resources when an expense is incurred where both restricted and unrestricted net assets are available.

Property and equipment are recorded at original cost for purchased assets or at fair value on the date of donation in the case of a gift. Equipment with a unit cost of $5,000 or more is capitalized. Building improvements with a cost of $25,000 or greater are also capitalized. Net interest costs incurred during the construction period for capital projects are added to the cost of the underlying asset. The value of equipment acquired under capital leases is recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets. The cost of certain research buildings is componentized for the purpose of calculating depreciation. Buildings and improvements are depreciated over useful lives ranging from 10 to 50 years. Depreciable lives for equipment range from 3 to 30 years. (See Note 5 for additional information on depreciation.) USNH does not record donated works of art and historical treasures that are held for exhibition, education, research and public service. Library collections are recorded as an expense in the period purchased.

Deferred revenue consists of amounts billed or received in advance of USNH providing goods or services. Advances from the US Government for Federal Perkins Loans to students are reported as government advances refundable. Future loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon.

In order to ensure observance of limitations and restrictions placed on the use of resources available, the accounts of USNH 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 activities or objectives specified.

Certain amounts previously reported in the 2009 financial statements have been reclassified to be comparable to the 2010 presentation.

New Accounting Standards

The USNH financial statements and notes for 2010 and 2009 as presented herein include the provisions of the following GASB pronouncements:

USNH adopted GASB Statement No. 50, Pension Disclosures, as of July 1, 2008. This statement requires enhanced disclosures for defined benefit plans such as actuarial valuation methods and significant assumptions used. There was no significant impact on the financial statements as a result of this adoption.

USNH adopted GASB Statement No. 51, Accounting and Reporting for Intangible Assets, as of July 1, 2008. This statement requires that intangible items be capitalized and amortized over their useful lives. There was no significant impact on the financial statements as a result of this adoption.

USNH adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, as of July 1, 2008. This statement requires that derivative assets and liabilities be reported at their fair value. USNH's derivative instruments qualified as effective hedges during both 2009 and 2010 (see Note 9 for additional information). Following is a summary of amounts previously reported, as restated to the values reported herein (*$ in thousands*):

	2009
Other assets, as previously reported	$ 2,545
Fair value of interest rate swap derivatives	18,601
Other assets, as restated	$21,146
Deferred obligations, as originally reported	$ -
Fair value of interest rate swap derivatives	18,601
Deferred obligations - interest swaps, as restated	$18,601

2. Cash, cash equivalents, and operating investments

Cash, cash equivalents and operating investments are recorded at cost, which approximates fair value, except where there is a permanent impairment of value as detailed in Note 14. USNH's investment policy and guidelines specify permitted instruments, durations, required ratings and insurance of USNH cash, cash equivalents and operating investments. The investment policy and guidelines are intended to mitigate credit risk on investments individually and in the aggregate through restrictions on investment type, liquidity issuer, custodian, dollar level, maturity, and rating category. Specific provisions require that banks in which USNH holds investments must have FDIC or FSLIC insurance and be rated at least A1/P1 by Standard & Poors and Moody's. Repurchase agreements must be fully collateralized at 102% of the face value by US Treasuries, or 103% of the face value by US Government-backed or guaranteed agencies or government sponsored enterprises. Money market funds must be rated AAA/Aaa by Standard & Poors and Moody's, and comply with Securities and Exchange Commission (SEC) Rule 2A-7. Other mutual funds must be affiliated with the largest national fund managers. In addition, USNH investments may not exceed 5% of any institution's total deposits or 20% of any institution's net equity.

Cash and cash equivalents:

Highly liquid investments with a maturity of 90 days or less when purchased are recorded as cash and cash equivalents. Cash and cash equivalents at June 30 consisted of the following (*$ in thousands*):

	2010	2009
Cash and repurchase agreements	$ 13,741	$ 9,366
Money market funds	92,260	92,665
Other mutual funds	110,495	66,409
Total	$216,496	$168,440

Included in the cash and repurchase agreements balances at June 30, 2010 were $6,026,000 in repurchase agreements, $12,997,000 in cash and a net cash overdraft of $5,282,000. This compares to $10,339,000 in repurchase agreements, $4,600,000 in cash and a net cash overdraft of $5,573,000 at June 30, 2009. Repurchase agreements are limited to overnight investments only.

Operating investments:

Unlike the long-term operating investments discussed in Note 4 below, operating investments included in current assets are amounts invested to meet regular operations of USNH and may include obligations of the US Government, commercial paper, money market and other mutual funds, and the current portion of debt proceeds held by others for construction purposes.

Operating investments generally have an original maturity of more than 90 days when purchased, are highly liquid and are invested for purposes of satisfying current liabilities and generating investment income to support operating expenses. The components of operating investments at June 30 are summarized below (*$ in thousands*):

	2010		2009	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
US Government obligations	$11,761	6 years	$15,944	4 years
Corporate bonds and notes	7,255	4 years	7,400	4 years
Cash and cash equivalents	20,054	Not Applicable	19,481	Not Applicable
Money market and other mutual funds	527	Not Applicable	410	Not Applicable
Current portion of debt proceeds held by others		Not Applicable	1,523	Not Applicable
Other accounts	200	Not Applicable	128	Not Applicable
Total	$39,797		$44,886	

Operating investments in mutual funds and commercial paper are uninsured and uncollateralized against custodial credit risk. The investments associated with debt proceeds held by others for construction purposes are described in detail in Note 4 below.

3. Accounts, pledges, and notes receivable

Accounts receivable at June 30 consisted of the following *($ in thousands)*:

	2010	2009
Grants and contracts	$20,534	$ 14,519
Student and general	8,038	5,660
State of NH capital projects	5,947	16,802
Allowance for doubtful accounts	(1,940)	(1,736)
Total accounts receivable, net	$32,579	$ 35,245

Pledges receivable at June 30 consisted entirely of unconditional nonendowment promises to pay as follows *($ in thousands)*:

	2010	2009
Pledges receivable	$1,902	$1,061
Allowance for doubtful pledges	(150)	(50)
Total pledges receivable, net	1,752	1,011
Less: noncurrent portion	(1,169)	(473)
Current portion	$ 583	$ 538

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

	2010	2009
Perkins loans	$23,913	$22,638
Other loans, restricted and unrestricted	1,080	951
Allowance for doubtful loans	(1,777)	(1,684)
Total notes receivable, net	23,216	21,905
Less: noncurrent portion	(19,838)	(18,646)
Current portion	$ 3,378	$ 3,259

4. Investments

Investments include debt proceeds held by others for construction purposes, long-term operating investments, and endowment and similar investments of the campuses and affiliated entities. Investments are monitored by management and the respective governing boards of USNH and its affiliated entities. The carrying amount of these financial instruments approximates fair value.

Debt proceeds held by others:

At June 30, 2010 and 2009, respectively, total debt proceeds held by others included $2,735,000 and $22,034,000 of construction proceeds held by the bond trustee (see Note 8 for information on the debt related to these projects).

Debt proceeds held by others for construction purposes consisted of the following investments at June 30 (*$ in thousands*):

	2010		2009	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
Money market funds	$2,735	Not Applicable	$23,557	Not Applicable
Total debt proceeds held by others	2,735		23,557	
Less: current portion included in Note 2			(1,523)	
Long-term portion	$2,735		$22,034	

Long-term operating investments:

Long-term operating investments represent unrestricted amounts invested alongside the campuses' endowment pool which are not expected to be liquidated in the next year, but which are available for operations if needed. The balance of long-term operating investments at June 30, 2010 and 2009 was $5,539,000 and $5,042,000, respectively. These amounts consisted of ownership shares of the campuses' endowment pool and, therefore, the components, credit risk, and all other investment characteristics are identical to those described below.

Endowment and similar investments:

Endowment and similar investments are amounts invested primarily for long-term appreciation and consisted of the following as of June 30 *($ in thousands)*:

	Campuses		Affiliated Entities	
	2010	2009	2010	2009
Money market funds	$ 1,325	$ 6,658	$ 3,082	$ 16,505
Mutual funds – bonds	18,168	20,326	11,743	15,406
Mutual funds – stocks	42,975	29,577	38,931	30,131
Mutual funds – real estate		1,749		8
US Government obligations			5,906	521
Corporate bonds and notes			372	664
Common/preferred stocks	17,495	33,236	7,090	9,743
Alternative investments	86,929	57,337	46,167	30,580
Investments held by others	12,128	11,405	4,197	3,855
Subtotal	179,020	160,288	117,488	107,413
Operating amounts invested alongside endowment pool	(5,539)	(5,042)		
Total endowment and similar investments	$173,481	$155,246	$117,488	$107,413

Alternative investments include private equity, hedge, natural resource and certain real estate funds, and are used to improve market returns while managing other portfolio investment risks such as inflation and deflation. The estimated fair value of investments is based on quoted market prices except for certain alternative investments, for which quoted market prices are not readily available. The estimated fair value of certain alternative investments is based on valuations provided by external investment managers and reviewed by management. Because these alternative investments may not be readily marketable, their estimated fair values may differ from the values that would have been assigned had a ready market for such investments existed, and such differences could be material.

Mutual funds, common stocks, and alternative investments are uninsured and uncollateralized against custodial credit risk. The USNH investment policy and guidelines, and the UNHF investment policy, mitigate the risk associated with uninsured and uncollateralized investments collectively through diversification, target asset allocations, and ongoing investment advisor and investment committee review.

The endowment and similar investment components as of June 30 are summarized below (*$ in thousands*):

	Campuses		Affiliated Entities	
	2010	2009	2010	2009
Pooled endowments:				
Campuses	$161,176	$143,666		
UNHF			$108,757	$99,347
KEA			3,775	3,522
NHPB			749	632
Life income and annuity funds	177	175	4,166	3,873
Funds held in trust	12,128	11,405	41	39
Total	$173,481	$155,246	$117,488	$107,413

As of June 30, 2010, USNH has four outstanding liquidation requests of investments which have been limited by the respective fund managers, three of which were requested during 2009 and one during 2010. The fair value of these investments at June 30, 2010 is $6,354,000. At June 30, 2009, the fair market value of these investments was $14,765,000, of which $9,173,000 in partial redemptions were received during 2010 along with $762,000 in unrealized gains. The remaining funds are expected to be collected in 2011.

Commitments with various private equity and similar alternative investment funds which have not yet been called totaled $16,344,000 for the campuses and $4,374,000 for UNHF at June 30, 2010. This compares to $16,255,000 and $4,643,000, respectively, at June 30, 2009. (See Note 13 for discussion of endowment returns used for operations.)

5. Property and equipment

Property and equipment activity for the years ended June 30, 2010 and 2009 is summarized as follows *($ in thousands)*:

	Balance June 30, 2008	2009 Additions and other changes	2009 Retirements	Balance June 30, 2009	2010 Additions and other changes	2010 Retirements	Balance June 30, 2010
Land	$ 11,767	$ 169	$ -	$ 11,936	$ 276	$ -	$ 12,212
Buildings and improvements	1,092,337	118,642		1,210,979	118,772	(5,655)	1,324,096
Equipment	121,451	9,403	(4,281)	126,573	8,644	(11,448)	123,769
Construction in progress, net	135,107	(21,978)		113,129	(57,052)		56,077
Total property and equipment	1,360,662	106,236	(4,281)	1,462,617	70,640	(17,103)	1,516,154
Less: accumulated depreciation	(508,313)	(43,873)	4,093	(548,093)	(47,744)	15,176	(580,661)
Property and equipment, net	$ 852,349	$ 62,363	$ (188)	$ 914,524	$ 22,896	$ (1,927)	$ 935,493

As of June 30, 2010, USNH has three construction projects in progress utilizing funds received from proceeds of recent bond issues. Outstanding contractual obligations for these projects totaled $1,611,000 at June 30, 2010. This compares to $18,291,000 of obligations for the five construction projects in process at June 30, 2009. (See Note 8 for information on the related debt.)

In addition, the state is providing funding for academic and research facility renovation and expansion projects under the Knowledge Economy Education Plan for New Hampshire (KEEP-NH). Contractual obligations for construction related to KEEP-NH projects totaled $9,402,000 and $12,466,000 at June 30, 2010 and 2009, respectively. The state provides funding to USNH for all such amounts expended under the KEEP-NH program, up to the authorized total of $209,500,000. KEEP-NH funds remaining after expenditures and obligations totaled $27,429,000 and $41,477,000 at June 30, 2010 and 2009, respectively. (See Note 8 for further discussion on state-funded plant facilities.)

USNH also received an additional $25,000,000 KEEP-NH capital appropriation in fiscal year 2010. This one-time appropriation is for deferred maintenance and other capital projects not completed under the original legislation. As of June 30, 2010, USNH has incurred $5,086,000 of costs eligible for reimbursement under this new appropriation.

6. Accrued employee benefits

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

	Balance June 30, 2008	2009 Payments to/ on behalf of participants	2009 Accrued expenses & other changes	Balance June 30, 2009	2010 Payments to/ on behalf of participants	2010 Accrued expenses & other changes	Balance June 30, 2010	Current portion
Operating staff retirement plan	$ 6,986	$ (705)	$ 269	$ 6,550	$ (714)	$ 577	$ 6,413	$ 714
Additional retirement contribution	2,511	(55)	121	2,577	(58)	398	2,917	292
Employee separation incentives	3,403	(3,949)	5,265	4,719	(2,254)	751	3,216	1,302
Long-term disability	2,940	(633)	1,128	3,435	(647)	522	3,310	647
Workers' compensation	2,502	(744)	(270)	1,488	(1,305)	3,319	3,502	1,305
Compensated absences	16,449	(943)	2,590	18,096	(834)	1,774	19,036	870
Other	1,744	(150)	53	1,647	(1,000)	401	1,048	882
Total accrued employee benefits	$36,535	$(7,179)	$9,156	$38,512	$(6,812)	$7,742	$39,442	$6,012

The operating staff retirement plan is a defined benefit plan closed to new participants since 1987. At June 30, 2010 there were approximately 221 current annuitants and 104 participants with deferred benefits, all fully vested. This compares to 231 current annuitants and 110 participants as of June 30, 2009 with deferred benefits, all fully vested. USNH has cash and unrestricted funds functioning as endowment assets of $6,553,000 and $6,739,000 at June 30, 2010 and 2009, respectively, designated to fund the third-party actuarially determined obligations of the plan.

The calculations for the operating staff retirement plan are based on the benefits provided by the plan at the time of the last biennial plan valuation, June 30, 2009. As this plan is frozen, every participant is fully accrued in his or her benefit therefore no actuarial costing method is used for the valuation. The investment return assumption (discount rate) used in determining the accrued pension benefit obligation was 8.5% for both years.

The accumulated operating staff retirement plan benefit obligation and funded status at June 30 consisted of the following *($ in thousands)*:

	2010	2009
Retired participants and beneficiaries	$4,361	$4,343
Active participants	1,144	1,319
Other participants	908	888
Accrued pension benefit obligation	6,413	6,550
Less: funds functioning as endowment assets available for benefits	(6,551)	(6,739)
(Over) funded plan balance	$ (138)	$ (189)

USNH's additional retirement contribution program 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 prior to July 1, 1994 are eligible for a guaranteed minimum retirement contribution. There were 762 and 782 employees meeting these requirements as of June 30, 2010 and 2009, respectively. Based on third-party actuarial calculations, USNH has accrued $2,917,000 and $2,577,000 at June 30, 2010 and 2009, respectively, for the related obligations. USNH has designated cash assets of $2,917,000 and $2,745,000 for these obligations as of June 30, 2010 and 2009, respectively, which fully funds the plan.

The calculations for the additional retirement contribution program are based on the benefits provided by the plan at the time of the last biennial plan valuation, June 30, 2009, and were developed using the Projected Unit Credit Cost Method. The discount rate used in determining the accrued additional retirement contribution was 8.5% for both 2010 and 2009.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2010 and 2009. Incentives include stipends, as well as medical, educational and other termination benefits. The net present value of future costs associated with these incentive options is accrued as of the date of acceptance into the program. The balances at June 30, 2010 and 2009 represent accruals for 117 and 136 participants, respectively.

USNH sponsors other benefit programs for its employees, including long-term disability, workers' compensation, and compensated absences. 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 takes over, if applicable. Workers' compensation accruals include 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 claims is provided through an independent insurer. 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 2010 and 2009 amounted to $21,947,000 and $22,362,000, respectively.

7. Postretirement medical benefits

The primary defined benefit postretirement medical plan, the University System of New Hampshire Medicare Complementary Plan, was optional for all full-time status employees hired before July 1, 1994 and their dependents. At June 30, 2010 and 2009, there were approximately 452 and 497 active employees who may eventually be eligible to receive benefits under this program. 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.

For measurement purposes, annual rates of increase of 9.25-9.50% in the per capita cost of covered healthcare services, and 12% for prescriptions are assumed for 2010 for the primary plan. These rates are assumed to decrease gradually to 5.5% by 2017 and remain at that level thereafter. The healthcare cost trend and discount rate assumption have a significant effect on the amounts reported. The discount rate used in determining the accumulated postretirement obligation was 8.5% for both 2010 and 2009.

Third party actuaries are used to determine the postretirement benefit obligation and annual expense amounts. The actuarially determined postretirement benefit expense for the primary plan was $5,113,000 for 2010 and $5,161,000 for 2009. The plan is funded on a pay-as-you-go basis with benefits paid when due. Actuarial calculations reflect a long-term perspective. By definition such calculations involve estimates and, accordingly, are subject to revision. These calculations are based on the benefits provided by the plan at the time of the last biennial plan valuation, June 30, 2009, and were developed using the Projected Unit Credit Cost Method.

The postretirement medical plans are single-employer plans administered by USNH. Total annual other postemployment benefit (OPEB) cost for the years ended June 30, 2010 and 2009, and the liability as of June 30, 2010 and 2009 included the following components (*$ in thousands*).

	2010	2009
Annual required contribution	$ 6,810	$ 6,810
Interest on net OPEB obligation	4,012	(4,381)
Adjustment to annual required contribution	(5,709)	2,732
Annual OPEB cost	5,113	5,161
Contributions made	(4,999)	(9,383)
(Decrease) increase in net OPEB obligation	114	(4,222)
Net OPEB obligation at beginning of year	47,200	51,422
Net OPEB obligation at end of year	$47,314	$47,200
Current portion	$ 4,706	$ 5,170

8. Long-term debt

Long-term debt activity for the years ended June 30, 2010 and 2009 was as follows *($ in thousands)*:

	Balance June 30, 2008	2009 Additions and other changes	2009 Retirements	Balance June 30, 2009	2010 Additions and other changes	2010 Retirements	Balance June 30, 2010	Current portion
Auxiliary bonds	$ 655	$ -	$ (655)	$ -	$ -	$ -	$ -	$ -
NHHEFA bonds								
Series 2001[1]	56,856		(1,321)	55,535	34	(3,855)	51,714	3,860
Series 2002	36,066		(2,016)	34,050		(2,116)	31,934	2,195
Series 2005A[2]	63,354	10	(1,350)	62,014	9	(1,451)	60,572	60,572
Series 2005B	87,514	409	(865)	87,058	410	(950)	86,518	980
Series 2006A	24,268		(24,268)	-			-	
Series 2006B-1	59,663		(59,663)	-			-	
Series 2006B-2	63,192		(939)	62,253		(1,240)	61,013	1,150
Series 2007	46,418	16		46,434	16		46,450	
Series 2009A	-	108,493		108,493		(207)	108,286	
Capital leases	20,209		(1,168)	19,041		(1,225)	17,816	1,289
Total	$458,195	$108,928	$(92,245)	$474,878	$469	$(11,044)	$464,303	$70,046

[1] includes interest swaption described in Note 9
[2] see discussion of self-liquidity provisions for Series 2005A bonds below

State of NH Auxiliary bonds

Bonds issued by the state to finance auxiliary enterprise buildings and improvements require remittance of semi-annual principal and interest payments from revenues associated with the specific auxiliary activities. State statute requires these bonds to be repaid entirely by USNH and accordingly, these bonds are recorded as USNH debt. The final payment for State of NH Auxiliary bonds was made in June 2009.

New Hampshire Health and Education Facilities Authority (NHHEFA) Bonds

NHHEFA is a public body corporate and an agency of the State of New Hampshire whose primary purpose is to assist New Hampshire not-for-profit educational and health care institutions in the construction and financing (or refinancing) of related facilities. NHHEFA achieves this purpose primarily through the issuance of bonds. Since 1989 all USNH bonds have been issued through NHHEFA. None of USNH's NHHEFA bonds provide for a lien or mortgage on any property. USNH is obligated under the terms of the NHHEFA bonds to make payments from revenues received from certain housing, dining, union, recreational, and other related revenue generating facilities. The state is not liable for the payment of principal or interest on the NHHEFA 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. USNH is in compliance with all covenants specified in the NHHEFA bonds, the most restrictive of which is maintenance of a debt-service coverage ratio, as defined, of at least 1.1 to 1. A description of each NHHEFA bond issuance follows:

Series 2001 Bonds

On March 1, 2001 NHHEFA issued $151,210,000 of Revenue Bonds, University System of New Hampshire Issue, Series 2001 (2001 Bonds). A portion of the 2001 Bonds was refunded by the Series 2005B Bonds described below. The remaining face value of the 2001 Bonds is $49,285,000, and is shown above net of unamortized original issue discount. Interest is due semi-annually at fixed effective rates of 3.6% to 5.1%. Principal is due annually through July 2033.

Series 2002 Bonds

On April 2, 2002 NHHEFA issued $42,715,000 of Refunding Revenue Bonds, University System of New Hampshire Issue, Series 2002 (2002 Bonds), shown above net of unamortized original issue premium. Proceeds from the 2002 Bonds were used to complete an advance refunding in the form of an "in-substance defeasance" of bonds originally issued in 1992. Interest is due semi-annually at fixed effective rates of 5.1% to 5.3%. Principal is due annually through July 1, 2020. The bonds are callable on July 1, 2012.

Series 2005A Bonds

On January 20, 2005 NHHEFA issued $65,000,000 of Revenue Bonds, University System of New Hampshire Issue, Series 2005A (2005A Bonds), shown above net of unamortized original issue discount. Proceeds from the 2005A Bonds were used to partially finance construction of student fee-supported facilities on USNH campuses at Durham, Keene and Plymouth. The 2005A Bonds are multi-modal, were initially issued in 35 day variable auction rate mode, were converted to seven day variable auction rate mode in January 2006, and were subsequently converted to daily variable rate demand bonds in March 2008. In conjunction with the 2008 conversion, USNH terminated its bond insurance contract and entered into a one-year standby bond purchase agreement. In March 2009 USNH began providing daily self-liquidity coverage for the Series 2005A Bonds, replacing the standby bond purchase agreement. USNH maintains 1.5 times the outstanding bond balance in SEC Rule 2A-7 compliant money market funds on a daily basis, and provides monthly reports detailing the liquid investment balances to Moody's and Standard & Poors in this regard. Because USNH is providing self-liquidity for the Series 2005A Bonds, the total outstanding liability for this issue is classified as a current liability in accordance with GASB interpretation No. 1, Demand Bonds Issued by *State and Local Governmental Entities*. However, the actual repayment terms provide for principal payments to be made annually through July 1, 2035. The associated variable interest rates at June 30, 2010 and 2009 were 0.2% and 0.3%, respectively.

Series 2005B Bonds

On August 1, 2005 NHHEFA issued $97,360,000 of Refunding Revenue Bonds, University System of New Hampshire Issue, Series 2005B (2005B Bonds), shown above net of unamortized original issue discount. Proceeds from the 2005B Bonds were used to complete an advance refunding in the form of an "in-substance defeasance" of $87,480,000 of the 2001 Bonds. The proceeds of the 2005B Bonds were placed in an escrow fund and invested in government obligations with scheduled maturities which, when combined with interest thereon, will be used to make required interest and principal payments until the redemption date of the refinanced bonds on July 1, 2011. The 2005B Bonds are multi-modal, were initially issued as seven day variable rate demand bonds, and were subsequently converted to daily variable rate demand bonds in April 2008. In conjunction with the conversion, USNH terminated its bond insurance contract and entered into a one-year standby bond purchase agreement. In March 2009 and March 2010, USNH negotiated extensions of the standby bond purchase agreement for one year and two years, respectively. The associated variable interest rates at June 30, 2010 and 2009 were 0.2% and 0.3%, respectively. Principal is due annually through July 1, 2033.

Series 2006A Bonds

On March 2, 2006 NHHEFA issued $24,350,000 of Revenue Bonds, University System of New Hampshire Issue, Series 2006A (2006A Bonds), shown above net of unamortized original issue discount. Proceeds from the 2006A Bonds were used to finance the completion of construction of student fee-supported facilities on USNH campuses at Durham, Keene and Plymouth begun with the 2005A Bonds. The 2006A Bonds were initially issued in seven day variable auction rate mode, and were converted in March, 2008 to a term rate mode at a fixed rate of 3.0% for a period of one year. At the expiration of that term, the 2006A Bonds were fully refunded through the proceeds of the Series 2009A Bonds as noted below.

Series 2006B-1 Bonds

On March 2, 2006 NHHEFA issued $120,650,000 of Revenue Bonds, University System of New Hampshire Issue, Series 2006B (2006B Bonds). Proceeds from the 2006B Bonds were used to finance the completion of construction of student fee-supported facilities on USNH campuses at Durham, Keene and Plymouth begun with the 2005A Bonds. Part of the 2006B Bonds were remarketed as fixed rate bonds in 2007, and are now known as the Series 2006B-2 Bonds as noted below. The remaining face value of the 2006B Bonds, $60,050,000, became known as the Series 2006B-1 Bonds and is shown above net of unamortized original issue discount. The 2006B-1 Bonds were initially issued in seven day variable auction rate mode, and were converted in March 2008 to a term rate mode at a fixed rate of 3.0% for a period of one year. At the expiration of that term, the 2006B-1 Bonds were fully refunded through the proceeds of the Series 2009A Bonds as noted below.

Series 2006B-2 Bonds

On January 26, 2007 NHHEFA remarketed $60,000,000 of University System of New Hampshire Issue, Series 2006B Bonds as the University System of New Hampshire Issue, Series 2006B-2 Bonds (2006B-2 Bonds), changing the variable rate to an all-in fixed rate of 4.1%. The remarketing generated a premium of $4,046,000, which will be amortized to interest income over the remaining term of the bonds. Principal is due annually through July 1, 2036, with a call date of July 1, 2016.

Series 2007 Bonds

On February 6, 2008 NHHEFA issued $46,570,000 of Taxable Revenue Bonds, University System of New Hampshire, Series 2007 (2007 Bonds), shown above net of original issue discount. Proceeds from the 2007 Bonds are being used to finance ECOLine, the landfill gas pipeline project designed to provide up to 85% of the UNH Durham campus' heating, cooling and electricity needs with renewable energy. Interest is due semi-annually at a fixed rate of approximately 5.0%. All principal is due upon expiration of the bonds on July 1, 2018.

Series 2009A Bonds

On March 25, 2009, NHHEFA issued $105,650,000 of Revenue Bonds, University System of New Hampshire Series 2009A (2009A Bonds), net of premium. The majority of the proceeds of the 2009A Bonds were used to fully refund the 2006A and 2006B-1 Bonds. The remaining funds, $24,444,000, are being used to finance the construction and renovation of student-related, revenue-producing projects at the three residential campuses. The 2009A Bonds were issued in four "bullet" maturities at fixed coupon rates ranging from 4.0% to 5.5%. A portion of the coupons mature in 2014, 2016, and 2020, with the remainder maturing on July 1, 2023. Interest is due semi-annually, and principal is due at the maturity date of each bullet.

Capital leases

On April 30, 2004, USNH entered into a capital lease agreement to finance $18,387,000 of equipment for UNH's utility cogeneration facility. The related lease principal and interest payments are due quarterly through June 2025 at a fixed interest rate of 4.5%. Other leases relate to various property and capital equipment acquisitions. Terms range from monthly to annual payments over 3 to 20 years, with fixed interest rates between 4.0% and 7.0%.

Mary Lyon residence hall at Plymouth State University

Long-term debt obligations are scheduled to mature as follows using the associated fixed, estimated synthetic fixed, and expected variable rates in effect as of June 30, 2010 over the remaining term of individual issuances *($ in thousands)*:

Fiscal Year	Principal	Interest	Total
2011*	$ 70,046	$ 20,656	$ 90,702
2012	9,938	20,386	30,324
2013	10,503	19,657	30,160
2014	10,113	19,326	29,439
2015	32,182	18,626	50,808
2016-2020	131,818	73,996	205,814
2021-2025	117,024	39,725	156,749
2026-2030	37,170	20,283	57,453
2031-2035	38,850	8,980	47,830
2036-2040	6,900	667	7,567
	464,544	242,302	706,846
Less: unamortized deferred loss, discount/premium, net	(241)		(241)
Total	$464,303	$242,302	$706,605

* 2005A Bond discount and related amortization included with current portion.

State of NH general obligation bonds

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. 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 by USNH on state-funded educational and general facilities, amounts are billed to the state and recorded as State of New Hampshire capital appropriations.

9. Deferred obligations - interest swaps

USNH has entered into interest rate swap and swaption transactions in conjunction with selected debt issues previously discussed.

The related activity for the years ended June 30, 2010 and 2009 was as follows *($ in thousands)*:

	Balance June 30, 2008	2009 Additions (Retirements)	2009 Change in Fair Value	Balance June 30, 2009	2010 Additions (Retirements)	2010 Change in Fair Value	Balance June 30, 2010
Series 2001 swaption	$(3,561)	$ -	$ (1,884)	$ (5,445)	$ -	$ (2,741)	$ (8,186)
Series 2005A swap	(3,672)		(4,024)	(7,696)		(2,750)	(10,446)
Series 2005B swap	(31)		(5,429)	(5,460)		(3,874)	(9,334)
Total deferred obligations	$(7,264)	$ -	$(11,337)	$(18,601)	$ -	$(9,365)	$(27,966)

All of the above derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2010 and 2009. Accordingly, the related obligations are carried as deferrals in the statement of net assets. Offsetting deferred receivable balances related to the swaps are included in other assets. The balances above represent the amount USNH would be required to pay to terminate the swaps using the associated debt balances and closing interest rates as of June 30, 2010 and 2009. The specific objectives and terms of each derivative are described above.

Series 2001 swaption

USNH entered into a swaption agreement on December 15, 2006 that gives the counterparty, Morgan Stanley, the option to require USNH to enter into a swap agreement 60 days before the call date of the 2001 Bonds, July 1, 2011. If executed, the notional amount of the swap would be tied to the then-outstanding balance of the 2001 Bonds (expected to be $42,570,000), USNH will be required to pay the counterparty a fixed rate of 4.5% while receiving a floating rate of 67% of one month LIBOR from the counterparty, and USNH would plan to issue variable rate debt to replace the 2001 fixed rate bonds to create an effective hedge. The objective of the swaption is to reduce USNH's effective interest rate on the related Series 2001 debt. The remaining swaption liability ($2,311,000) is a component of long-term debt and is being amortized to interest income over the remaining term of the underlying bonds.

Series 2005A swap

In conjunction with the issuance of the Series 2005A bonds, USNH entered into a floating-to-fixed interest rate swap agreement. The notional amount of the swap is tied to the outstanding balance of the 2005A Bonds. The purpose of the swap agreement is to convert the floating variable rate on the 2005A Bonds to a synthetic fixed rate. Under the terms of the swap, USNH makes fixed rate interest payments to the swap counterparty and receives a variable rate payment based of 67% of one month LIBOR. The inception-to-date average all-in fixed rate was 3.9% and 4.0% as of June 30, 2010 and 2009, respectively. USNH intends to hold the swap contract to maturity. When combined with the self-liquidity commitment for the bonds described above, the all-in synthetic fixed rate is expected to be approximately 3.9% over the life of the debt.

The original counterparty to this swap agreement, Lehman Brothers, filed for bankruptcy in September 2008. USNH terminated the swap agreement with Lehman Brothers and contracted with a new counterparty, Bank of New York Mellon, under identical terms in October 2008.

Series 2005B swap

Along with the issuance of the Series 2005B Bonds, USNH entered into a floating-to-fixed interest rate swap agreement. The notional amount of the swap is tied to the outstanding balance of the bonds. The purpose of the swap agreement is to synthetically fix the all-in interest rate on the underlying debt. Under the terms of the swap USNH makes fixed rate interest payments to the swap counterparty and receives a variable rate payment based on 63% of one month LIBOR plus 29 basis points. The inception-to-date average all-in rate was 3.9% and 4.0% as of June 30, 2010 and 2009, respectively. USNH intends to hold the swap contract to maturity. The all-in synthetic fixed rate is expected to be approximately 3.9% over the life of the debt.

10. Commitments and contingencies

USNH is self-insured for a portion of certain risks, including workers' compensation, employee long-term disability, and certain student health insurance claims. The related liabilities recorded in the financial statements are developed by management based upon historical claim data, and in the opinion of management are expected to be sufficient to cover the actual claims incurred. General liability insurance, property insurance, and other insurance coverages provide for large claims incurred. Settlements below the relevant deductible amounts are funded from unrestricted net assets.

USNH makes expenditures in connection with restricted government grants and contracts, which are subject to final audit by government agencies. Management is of the opinion that the amount of disallowances, if any, sustained through such audits would not materially affect the financial position, results of operations, or cash flows 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 the eventual liability, if any, will not have a material effect on USNH's financial position, results of operations or cash flows.

USNH is providing self-liquidity for the 2005A Bonds as discussed in Note 8 above. USNH maintains 1.5 times coverage of the bonds outstanding in same-day liquid investments ($91,200,000 at June 30, 2010) to insure payment to bondholders in the event the bonds are not successfully remarketed.

11. Subsequent event - affiliation with Franklin Pierce Law Center

On August 31, 2010 UNH and Franklin Pierce Law Center Corporation (FPLC) officially affiliated and the FPLC became known as the UNH School of Law. The affiliation is expected to enhance the academic diversity and missions of the respective institutions. UNH is now the sole member of the UNH School of Law and holds limited reserved powers as the primary institution. However, the majority of financial and administrative control resides with the UNH School of Law Board of Trustees and will remain there until that Board votes to approve a merger, change the terms of the affiliation, or dissolve the affiliation. Accordingly, the accounts of FPLC are not consolidated with USNH.

12. Net Assets

The table below details USNH net assets as of June 30, 2010 and 2009 *($ in thousands)*:

	2010	2009
Invested in capital assets, net of related debt	$487,512	$476,041
Restricted		
Nonexpendable		
Historic gift value of endowment-campuses	80,653	75,544
Historic gift value of endowment-affiliated entities	106,406	103,432
Total restricted nonexpendable net assets	187,059	178,976
Expendable		
Held by campuses:		
Accumulated net gains on endowment	19,936	15,219
Fair value of funds functioning as endowment	10,752	10,092
Gifts, grants and contracts	21,100	18,693
Life income and annuity funds	73	63
Loan funds	6,452	6,331
Held by affiliated entities:		
Accumulated net gains (losses) on endowment	3,942	(2,614)
Other	10,934	7,119
Total restricted expendable net assets	73,189	54,903
Unrestricted		
Held by campuses:		
Current funds		
Educational and general reserves	32,365	33,029
Auxiliary enterprises	27,552	24,981
Internally designated	50,323	19,157
	110,240	77,167
Unrestricted loan funds	1,327	1,318
Unexpended plant funds	47,003	55,859
Fair value of unrestricted funds functioning as endowment	33,591	23,001
Unrestricted net assets held by campuses, before postretirement medical liability	192,161	157,345
Unfunded postretirement medical liability	(46,758)	(46,645)
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment	928	801
Other	2,835	2,821
Total unrestricted net assets	149,166	114,322
Total net assets	$896,926	$824,242

13. Endowment return used for operations

The majority of endowment funds are invested in one of two investment pools using the unit share method. The 2010 endowment distribution rate per unit as a percentage of the average market value per unit for the twelve quarters from which it was derived was 3.8% for the USNH endowment pool and 4.8% for the UNHF endowment pool. This compares to 4.9% for the USNH endowment pool and 5.3% for the UNHF endowment pool in 2009.

The annual spending formula for endowment return used for operations is designed to provide sustainable continued future support for ongoing programs at current levels assuming moderate inflation. To the extent that endowment yield is insufficient in any one year to meet the required spending distribution, accumulated net gains are utilized to fund the distribution.

The components of endowment return used for operations for 2010 and 2009 are summarized below *($ in thousands)*:

	2010	2009
Pooled endowment yield - campuses	$ 1,252	$ 1,661
Pooled endowment yield - affiliates	1,902	1,495
Trusts, life income and annuities yield	288	348
Gains utilized to fund distribution	8,369	9,797
Endowment return used for operations	$11,811	$13,301

14. Other investment income

As part of its ongoing cash management practices, USNH purchased commercial paper investments with the highest possible ratings from Moody's and S&P with a total par value of $16,605,000 during fiscal year 2008. The investments were purchased for $16,544,000 with 30 to 40 days to maturity. Both investments were downgraded subsequent to purchase by USNH and were ultimately placed in receivership. USNH filed a formal complaint against the securities broker with the State of New Hampshire's Bureau of Security Regulation and reduced the assets to the fair value at that time, approximately $6,644,000. The complaint was settled and resulted in a recovery by USNH of $9,021,000 during 2009.

15. Pass-through grants

USNH began participating in the U.S. Department of Education Federal Direct Lending program during fiscal year 2010. USNH distributed $39,691,000 of student loans through this program during the year. These distributions and related funding sources are not included as expenses and revenues, or as cash disbursements and cash receipts, in the accompanying financial statements.

16. Other nonoperating revenue (expense)

On June 24, 2010 the USNH Board of Trustees approved a $25,000,000 voluntary contribution to the State of New Hampshire. This payment was made on June 28, 2010 to help mitigate fiscal difficulties at the state level. This is a one-time payment to the state and is not a reduction of general appropriation funds received. General appropriation revenue (including $3,000,000 of federal stabilization funding in 2010) received from the state totaled $100,000,000 in both 2010 and 2009.

17. Operating expenses by function

The following table details USNH operating expenses by functional classification *($ in thousands)*:

	Compensation	Supplies and services	Utilities	Internal allocations	Depreciation	2010 Total	2009 Total
Campuses – current funds							
Instruction	$183,548	$ 21,104	$ 68	$ 1,346	$ -	$206,066	$199,517
Research & sponsored programs	67,112	35,960	87			103,159	102,530
Public service	6,782	1,254	6	1,559		9,601	10,327
Academic support	40,151	14,575	8	(4,800)		49,934	48,333
Student services	22,032	10,091	8	6,188		38,319	38,293
Institutional support	40,389	13,372	22	(12,430)		41,353	37,933
Operations & maintenance	25,827	15,656	15,771	(34,251)		23,003	29,149
Auxiliary student services	49,999	46,499	2,215	42,370		141,083	135,646
Subtotal-current funds	435,840	158,511	18,185	(18)	-	612,518	601,728
Campuses – other funds	854	10,209	42		46,678	57,783	52,758
Affiliated entities	7,764	5,424	111	18	1,098	14,415	15,773
Total	$444,458	$174,144	$18,338	$ -	$47,776	$684,716	$670,259