SOUTHERN NEW HAMPSHIRE UNIVERSITY

Consolidated Financial Statements

June 30, 2017
(with comparative information for June 30, 2016)

(With Independent Auditors' Report Thereon)

SOUTHERN NEW HAMPSHIRE UNIVERSITY

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Southern New Hampshire University:

We have audited the accompanying consolidated financial statements of Southern New Hampshire University (the University), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southern New Hampshire University as of June 30, 2017, the changes in their net assets and their cash flows for the year ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2016 consolidated financial statements, and expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it was derived.

KPMG LLP

October 6, 2017

SOUTHERN NEW HAMPSHIRE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2017
(with comparative information as of June 30, 2016)

Assets		**2017**	**2016**
Cash and cash equivalents	$	175,045,463	135,542,866
Short-term investments		34,963,848	39,986,400
Student accounts receivable, net		12,933,475	3,511,835
Other assets, net		17,035,450	74,030,520
Deposits with trustees		79,306,266	63,695,223
Long-term investments		107,860,213	77,005,338
Property and equipment, net		218,468,264	156,300,025
Total assets	$	645,612,979	550,072,207
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	56,851,488	56,587,771
Student deposits and advance payments		18,802,904	68,994,798
Bonds payable, net		211,599,902	159,944,234
Refundable advances – U.S. government grants		2,668,648	3,135,738
Total liabilities		289,922,942	288,662,541
Net assets:			
Unrestricted		326,098,707	236,179,195
Temporarily restricted		6,461,129	5,192,828
Permanently restricted		23,130,201	20,037,643
Total net assets		355,690,037	261,409,666
Total liabilities and net assets	$	645,612,979	550,072,207

See accompanying notes to consolidated financial statements.

SOUTHERN NEW HAMPSHIRE UNIVERSITY

Consolidated Statements of Activities

Year ended June 30, 2017
(with summarized information for 2016)

	Unrestricted	Temporarily restricted	Permanently restricted	2017	2016
Operating:					
Revenues and other support:					
Tuition and fees	$ 650,827,343	—	—	650,827,343	551,031,040
Residence and dining	24,721,633	—	—	24,721,633	21,674,712
Less student financial aid	(52,422,164)	—	—	(52,422,164)	(48,182,526)
Tuition and fees, net	623,126,812	—	—	623,126,812	524,523,226
Other auxiliary enterprises	2,277,529	—	—	2,277,529	1,890,804
Contributions	324,670	34,844	—	359,514	387,509
Grants and contracts	3,398,407	25,000	—	3,423,407	2,892,918
Other income	3,627,626	—	—	3,627,626	2,645,152
Total operating revenues	632,755,044	59,844	—	632,814,888	532,339,609
Net assets released from restrictions	1,543,491	(1,543,491)	—	—	—
Total operating revenues and other support	634,298,535	(1,483,647)	—	632,814,888	532,339,609
Expenses:					
Education and general:					
Instruction	111,326,022	—	—	111,326,022	89,588,069
Academic support	88,136,462	—	—	88,136,462	86,399,051
Student services	228,574,497	—	—	228,574,497	202,507,799
Institutional support	88,271,673	—	—	88,271,673	79,248,363
Auxiliary enterprises	34,416,446	—	—	34,416,446	24,105,802
Total operating expenses	550,725,100	—	—	550,725,100	481,849,084
Increase (decrease) in net assets from operations	83,573,435	(1,483,647)	—	82,089,788	50,490,525
Nonoperating:					
Contributions for long-term investment	—	—	2,838,596	2,838,596	4,536,741
Investment return, net	7,795,898	3,005,910	—	10,801,808	(3,125,967)
Transfer to permanently restricted net assets	—	(253,962)	253,962	—	—
Other	(1,449,821)	—	—	(1,449,821)	(2,868,270)
Increase (decrease) from nonoperating activity	6,346,077	2,751,948	3,092,558	12,190,583	(1,457,496)
Increase in net assets	89,919,512	1,268,301	3,092,558	94,280,371	49,033,029
Net assets at beginning of year	236,179,195	5,192,828	20,037,643	261,409,666	212,376,637
Net assets at end of year	$ 326,098,707	6,461,129	23,130,201	355,690,037	261,409,666

See accompanying notes to consolidated financial statements.

SOUTHERN NEW HAMPSHIRE UNIVERSITY

Consolidated Statements of Cash Flows

Year ended June 30, 2017
(with comparative information as of June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 94,280,371	49,033,029
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	13,965,418	13,135,224
Realized and unrealized gain/loss on investments, net	(10,693,693)	3,052,262
Loss on disposal of property and equipment	546,014	1,972,130
Contributions for long-term investments	(3,037,353)	(3,743,000)
Change in other receivables	55,329,710	(59,471,321)
Change in student deposits and advance payments	(50,191,894)	52,877,429
Change in operating assets	(8,514,657)	262,949
Change in operating liabilities	(1,369)	12,001,931
Net cash provided by operating activities	91,682,547	69,120,633
Cash flows from investing activities:		
Purchase of property and equipment	(76,703,998)	(19,227,600)
Proceeds from sales of property and equipment	24,327	13,275
Purchase of investments	(187,779,324)	(101,750,267)
Proceeds from sale of investments	172,640,694	56,539,079
Change in deposits with trustees	(15,611,043)	(30,354,599)
Repayment of Perkins loans	758,377	845,657
Net cash used in investing activities	(106,670,967)	(93,934,455)
Cash flows from financing activities:		
Payments on bonds payable	(3,217,000)	(2,858,000)
Proceeds from issuance of bonds payable	55,568,307	35,429,241
Payments on bond issuance costs	(430,553)	(399,774)
Change in refundable advances – U.S. government grants	(467,090)	(350,687)
Contributions for long-term investments	3,037,353	3,743,000
Net cash provided by financing activities	54,491,017	35,563,780
Net increase in cash and cash equivalents	39,502,597	10,749,958
Cash and cash equivalents at beginning of year	135,542,866	124,792,908
Cash and cash equivalents at end of year	$ 175,045,463	135,542,866
Supplemental disclosure:		
Increase in accounts payable from capital acquisitions	$ 10,811,212	4,907,820

See accompanying notes to consolidated financial statements.

(1) Background

Southern New Hampshire University (the Institution) is a private, nonprofit coeducational institution of higher education, established in 1932. The Institution provides associate, baccalaureate, master, and doctoral programs for both liberal arts and professional disciplines in resident and online formats. The Institution's programs seek to educate intellectually and culturally enriched individuals to be successful in their careers and contribute to their community. The Institution is accredited by the New England Association of Schools and Colleges. The affairs of the Institution are governed by the Board of Trustees.

These consolidated financial statements include Southern New Hampshire University and Motivis Learning Systems, Inc., (collectively, the University) a wholly owned software development and consulting firm formed in June 2014 that focuses on the development and implementation of competency based learning environments. All significant intercompany balances have been eliminated in preparing these consolidated financial statements (financial statements).

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. The University classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanently restricted net assets, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations as to the timing of their availability or use for a particular purpose. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs in accordance with the University's endowment spending policy and any restrictions on use imposed by donors.

Unrestricted Net Assets – Net assets not subject to donor imposed stipulations and available for the general operations of the University. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions as follows:

- Student fees are recorded at established rates, net of financial aid and scholarships provided directly to students.

- Contributions, including unconditional promises to give reported as contributions receivable, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statement of activities. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.
- Contributions of land, buildings, or equipment are reported as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in temporarily restricted net assets until the assets are acquired and placed into service.
- Dividends, interest, and net gains on investments of endowments are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains; and as increases in unrestricted net assets in all other cases.

Expenses are reported as decreases in unrestricted net assets. Expenses associated with the operation and maintenance of the University's plant assets, including interest and depreciation expense are allocated on the basis of square footage utilized by the functional categories.

The financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

(b) Operations

The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of those items attributable to the University's academic programs, related auxiliary activities, contributions to support current activities and activity related to grants and contracts. Nonoperating revenues include net investment returns, nonrecurring gains and losses pertaining to physical plant assets, and permanently restricted contributions received.

Expenses associated with fundraising activities of the University were $1,469,304 and $1,309,438 in 2017 and 2016, respectively, and are included in the general institutional category on the statement of activities.

(c) Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited or other arrangements under trust agreements or by donors. The University maintains cash balances at financial institutions which, at times, may exceed federally insured limits. The University has purchased a $10,000,000 private depositor bond that provides for additional coverage above the FDIC limits, renewed annually. Available balances above $10,000,000 in the University's investment bank account are invested via a tri-party repurchase agreement in obligations that are fully guaranteed as to principal and interest by the United States government or any agency thereof. The University has not experienced any loss in such accounts.

(d) Short-Term Investments

Short-term investments consist of treasury securities with an original maturity date of three months or more, and less than twelve months at the time of purchase by the University.

(e) Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts based on the history of uncollected accounts. Recoveries of accounts receivable previously written off are recorded as revenue when received. Accounts receivable are considered past due if any portion of the receivable balance is outstanding beyond the agreed-upon payment date or the student no longer attends the institution.

(f) Contributions Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by considering actual expected payments and by discounting the pledge to its present value by a risk adjusted rate to account for the inherent risk associated with the expected future cash flows. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by a review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

(g) Deposits with Trustees

Deposits with trustees represent funds held in trust that are associated with the University's bond agreements. The use of these funds is limited to construction and debt service requirements.

(h) Property and Equipment

Constructed and purchased property and equipment are carried at cost. Long-lived fixed assets, with the exception of land and art collections, are depreciated using the straight-line method over their estimated useful lives, which range from three to fifty years. Interest incurred on tax-exempt debt used to finance building construction is added to the costs of the asset, net of any income earned on temporarily invested proceeds during construction.

(Continued)

(i) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated discounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairments were recognized for the years ended June 30, 2017 and 2016.

(j) Student Deposits and Advance Payments

Students' reservation deposits along with advance payments for tuition, room and board, and certain other revenues are deferred and will be reported as unrestricted revenue in the year in which the revenue is earned.

(k) Perkins Loans Receivable and Refundable Advances

The University has made uncollateralized loans to students based on financial need. Student loans have been funded through Federal Government loan programs or institutional resources. The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program (the Program). In the event that the University no longer participates in the Program or has excess Program cash on-hand, the amounts are generally refunded to the U.S. government.

(l) Fair Value

The University reports required types of assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for that particular item. Recurring fair value measures include deposits with trustees and investments. Nonrecurring measures include pledges. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. The University reports certain investments using the net asset value per share as determined by investment managers as a practical expedient for fair value. Fair value standards require the University to classify these financial instruments into a three level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuations based on unobservable inputs are used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The University utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

(m) Use of Estimates

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, 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 those estimates. A difficult economic environment increases the uncertainty of those estimates.

(n) Tax Status

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from federal and state income taxes under Section 501(a) of the IRC and applicable state laws. The University believes it has no significant uncertain tax positions.

(o) Advertising

Advertising and marketing costs are expensed as incurred and amounted to $131,857,106 and $118,789,381 for the years ended June 30, 2017 and 2016, respectively.

(p) Reclassification

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

(3) Student Accounts Receivable

Student accounts receivable are presented net of the following allowance for doubtful accounts:

		2017	2016
Student accounts receivable	$	28,933,475	14,411,835
Less allowance for doubtful accounts		(16,000,000)	(10,900,000)
Student accounts receivable, net	$	12,933,475	3,511,835

(4) Other Assets

Other assets consist of the following at June 30:

		2017	2016
Perkins loans receivable:	$	2,994,118	4,138,153
Less allowance for doubtful accounts		(400,979)	(717,707)
Perkins loans receivable, net		2,593,139	3,420,446
Grants and contributions receivable:			
Unconditional promises expected to be collected in:			
Less than one year		110,000	361,137
One year to five years		612,500	923,750
		722,500	1,284,887
Less discount to present value		(9,575)	(7,001)
Grants and contributions receivable, net		712,925	1,277,886
Other receivables:			
U.S. Department of education		4,545,948	60,069,117
Other receivables		744,311	550,852
Other receivables		5,290,259	60,619,969
Other assets		8,439,127	8,712,219
Other assets, net	$	17,035,450	74,030,520

(5) Deposits with Trustees

Deposits with trustees at June 30 are comprised of the following:

		2017	2016
Construction funds	$	70,630,017	56,039,692
Debt service reserves		5,749,602	5,715,037
Debt service payments		2,926,647	1,940,494
	$	79,306,266	63,695,223

(Continued)

(6) Investments and Fair Value of Financial Instruments

The valuation of the University's financial assets and liabilities by the fair value hierarchy consisted of the following at June 30, 2017:

Investment strategy		Investments valued at net asset value	Level 1	Level 3	Total	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Short-term investments:								
U.S. Treasury bills	$	—	34,963,848	—	34,963,848	—	Daily	N/A
Deposits with trustees:								
U.S. Treasury obligations	$	—	79,306,266	—	79,306,266	—	Daily	N/A
Long-term investments:								
Cash and cash equivalents	$	—	12,086,977	—	12,086,977	—	Daily	1 day
Domestic equities		2,003,273	19,099,213	—	21,102,486	—	Various (1)	1–31 days
Global equities		5,759,046	34,007,158	—	39,766,204	—	Various (2)	1–60 days
Absolute return and hedged equity		16,019,022	6,806,714	—	22,825,736	—	Various (3)	1–95 days
Private equity and venture capital		6,767,208	—	—	6,767,208	9,329,545	Illiquid	N/A
Real estate funds		2,454,441	—	—	2,454,441	1,033,755	Illiquid	N/A
Other		1,857,161	—	1,000,000	2,857,161	9,000,000	Illiquid	N/A
	$	34,860,151	72,000,062	1,000,000	107,860,213	19,363,300		

(1) Daily redemptions = $12,669,535; monthly redemptions = $6,429,678; quarterly redemptions = $2,003,273
(2) Daily redemptions = $8,253,686; weekly redemptions = $3,970,164; semi-monthly redemptions = $4,058,283; monthly redemptions = 17,725,025 quarterly redemptions = $5,759,046
(3) Daily redemptions = $5,195,490; weekly redemptions = $1,611,224; quarterly redemptions = $11,705,180; annual redemptions = $3,245,267; every three years = $1,068,575

For the year-ended, June 30, 2017, the University purchased an investment of $1,000,000 in June 2017 which was considered a level 3 investment in the fair value hierarchy.

The valuation of the University's financial assets and liabilities by the fair value hierarchy consisted of the following at June 30, 2016:

Investment strategy		Investments valued at net asset value	Level 1	Total	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Short-term investments:							
U.S. Treasury bills	$	—	39,986,400	39,986,400	—	Daily	N/A
Deposits with trustees:							
U.S. Treasury obligations	$	—	63,695,223	63,695,223	—	Daily	N/A
Long-term investments:							
Cash and cash equivalents	$	—	10,066,785	10,066,785	—	Daily	1 day
Domestic equities		1,674,584	12,228,618	13,903,202	—	Various (1)	1–31 days
Global equities		2,351,313	20,593,003	22,944,316	—	Various (2)	1–45 days
Absolute return and hedged equity		20,024,920	1,903,231	21,928,151	—	Various (3)	1–95 days
Private equity and venture capital		4,928,813	—	4,928,813	4,576,421	Illiquid	N/A
Real estate funds		1,681,725	—	1,681,725	1,762,238	Illiquid	N/A
Other		1,552,346	—	1,552,346	—	Illiquid	N/A
	$	32,213,701	44,791,637	77,005,338	6,338,659		

(1) Daily redemptions = $6,963,017; monthly redemptions = $5,265,601; quarterly redemptions = $1,674,584

(2) Daily redemptions = $6,581,745; weekly redemptions = $3,088,745; monthly redemptions = $10,922,513; quarterly redemptions = $2,351,313

(3) Daily redemptions = $1,903,231; monthly redemptions = $1,369,060; quarterly redemptions = $5,856,645; annual redemptions = $6,857,043; every three years = $5,942,172

The University's return/(loss) on investments for the years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Dividends and interest	$	861,770	630,492
Investment management fees		(753,655)	(704,197)
Net gain (loss) on sale of investments		3,255,911	(1,987,911)
Unrealized gain (loss) on investments		7,437,782	(1,064,351)
Total gain (loss) on investments	$	10,801,808	(3,125,967)

Certain investment managers net their fees against returns, and accordingly, such amounts are not included in the above mentioned fees.

The investment objective of the long term portfolio of the University is to grow its real purchasing power while supporting current and future operations of the University. The University's investment strategy incorporates diversified investment managers and a diversified asset allocation approach that maintains, within defined limits, exposure to diversified growth, derivatives, global equity, global fixed income, inflation hedging, deflation hedging, hedged equity/flexible capital, and private equity funds.

(7) Property and Equipment

Property and equipment at June 30, 2017 and 2016 are comprised of the following:

	Estimated useful lives		2017	2016
Land	—	$	10,185,581	10,185,581
Land improvements	10–15 years		13,394,223	12,717,469
Buildings, building improvements and leasehold improvements	10–50 years or term of lease		172,996,322	148,179,927
Furniture and equipment	3–20 years		39,230,328	33,633,828
Motor vehicles	3–7 years		1,519,452	1,229,530
Art collections	—		216,151	216,151
Construction in process	—		60,241,965	19,506,084
Total			297,784,022	225,668,570
Less accumulated depreciation			(79,315,758)	(69,368,545)
Property and equipment, net		$	218,468,264	156,300,025

The University recorded depreciation expense of $13,965,418 and $13,095,652 for the years ended June 30, 2017 and 2016, respectively. Art collections are reflected at historical cost and are not amortized.

(8) Bonds Payable

Bonds payable consist of the following at June 30:

		2017	2016
Bonds payable:			
Fixed Rate Revenue Bonds issued June 2012 to the New Hampshire Health and Education Facilities Authority with semi-annual installments of principal and/or interest from 2013 to 2042; coupon rate ranging from 3.55% to 5.0%	$	60,595,000	61,445,000

	2017	2016
Fixed Rate Revenue Bonds issued August 2014 to the New Hampshire Health and Education Facilities Authority with monthly installments of principal and interest from 2014 to 2039; coupon rate ranging from 2.59% to 3.66%	$ 60,367,000	62,464,000
Fixed Rate Revenue Bonds issued June 2016 to the New Hampshire Health and Education Facilities Authority with monthly installments of principal and interest from 2016 to 2046; coupon rate of 5.0%	29,960,000	30,230,000
Fixed Rate Revenue Bonds issued June 2017 to the New Hampshire Health and Education Facilities Authority with monthly installments of principal and interest from 2017 to 2047; coupon rate of 5.0%	50,000,000	—
Total bonds payable	200,922,000	154,139,000
Deferred issuance costs on bonds:	(1,787,835)	(1,357,282)
Premiums received on bonds:	12,465,737	7,162,516
Bonds payable, net	$ 211,599,902	159,944,234

The amount of cash paid for interest was $5,734,767 and $4,934,491 for the years ended June 30, 2017 and 2016, respectively. Total interest expense is recorded net of capitalized interest of approximately $2,287,748 and $1,084,056 for the respective years.

The bonds are collateralized by a mortgage on the campus, gross receipts, and equipment.

In June 2017, the University issued tax-exempt bonds with a par amount of $50,000,000 through the New Hampshire Health and Educational Facilities Authority. The bonds have principal payments beginning January 1, 2018 and terminating January 1, 2047. The bonds were sold at a premium of $5,568,307 and will be mainly used to finance a new residence hall, a new academic building, as well as costs of issuance.

Scheduled aggregate principal repayments of bonds payable outstanding at June 30, 2017 are as follows:

Fiscal year ending June 30:	
2018	$ 3,980,000
2019	4,464,000
2020	4,646,000
2021	4,833,000
2022	5,017,000
Thereafter	177,982,000
Total	$ 200,922,000

The University has a $20,000,000 revolving line of credit secured by accounts, inventory and gross receipts expiring April 30, 2018. No borrowings were outstanding at any time during the year ended June 30, 2017. Advances on the line of credit bear interest at the prime interest rate plus 1% (effectively 5.25% at June 30, 2017).

The University is required to maintain certain financial ratios associated with its bonds and line of credit agreements and is in compliance with these requirements at June 30, 2017 and 2016.

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

		2017	2016
Purpose restrictions:			
Financial aid	$	4,808,329	2,755,148
Instructional		939,875	1,059,794
Building		—	100,000
		5,748,204	3,914,942
Time restrictions		712,925	1,277,886
	$	6,461,129	5,192,828

Unspent endowment gains and income are classified as temporarily restricted until the University appropriates and spends such sums in accordance with the terms of the underlying endowment and relevant State law, at which time they will be reclassified to unrestricted revenues.

(10) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at June 30:

		2017	2016
Endowment funds for:			
Financial aid	$	22,577,294	19,494,736
Academic support		552,907	542,907
	$	23,130,201	20,037,643

(11) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions were as follows for the years ended June 30:

	2017	2016
Purpose restrictions:		
Financial aid	$ 783,022	669,124
Instructional	660,469	306,836
Building	100,000	—
	$ 1,543,491	975,960

(12) Retirement Plan and Trust

The University has a defined contribution retirement plan (the Plan) covering substantially all full-time employees. The Master Agreement between the University and its professional employees provides for a Plan contribution by the University equal to 9% of base salary. Total pension expense attributable to the Plan was $10,164,953 and $8,861,675 for June 30, 2017 and 2016, respectively.

Contributions are fully vested after attainment of three years of a minimum of 1,000 or more hours of service per year by the participant before reaching normal retirement age. Normal retirement age is 55 years old. After age 55, contributions are fully vested after one year of a minimum of 1,000 hours of service by the participant.

(13) Operating Leases

The University leases certain classrooms and office space under various lease agreements which expire at various dates through September 2021. The leases generally require that the University pay for insurance, maintenance, real estate taxes and certain other operating expenses. Rent expense under operating leases was $8,035,908 and $6,358,337 in 2017 and 2016, respectively.

Scheduled future minimum rental payments under operating leases as of June 30, 2017 are as follows:

Fiscal year ending June 30:	
2018	$ 5,078,934
2019	4,730,768
2020	4,316,882
2021	2,828,473
2022	1,050,010

(14) Commitments and Contingencies

The University is engaged in routine civil litigation, including employment, personal injury, and other claims. Management does not expect any of these matters to have a materially adverse effect on the University.

The University has a collective bargaining agreement for certain faculty and staff that was renewed on September 30, 2015 and is set to expire on June 30, 2020.

The University has a deferred compensation plan under which eligible employees may elect to defer a portion of their annual compensation for payment in future periods. Assets of the plan are recorded at fair value and were $1,353,454 and $1,063,149 at June 30, 2017 and 2016, respectively, consisting primarily of investments in mutual fund securities. This balance is recorded as long-term investments in the statement of financial position. The deferred compensation liability, recorded as accounts payable and accrued expenses within the Consolidated Statement of financial position, was $1,353,454 and $1,063,149 at June 30, 2017 and 2016, respectively.

The University is under an agreement with Sodexo to operate the University's food service operations which expires on August 31, 2022. As part of the contract, the University received $4,000,000 to assist the University in financing improvements at the discretion of the University in the food service operation which is being amortized over the remaining life of the contract as a reduction of the liability. The unamortized balance under this agreement was $1,362,831 and $1,626,604 at June 30, 2017 and 2016, respectively.

The University has commitments for certain future payments under construction and similar agreements of approximately $27,758,311 at June 30, 2017.

(15) Endowment Funding

The University's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law and Spending Policy

The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original gift value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets as defined by donor restrictions or until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the University and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the University

(7) The investment policies of the University

Distributions from long-term investments are generally made using the total return method. Under the total return method, distributions consist of interest, dividends, and realized and unrealized gains. The Board of Trustees has approved spending of up to 4% of the three-year rolling average balance of the endowment in 2017 and 2016. The University has adopted this spending policy in order to protect the original corpus of gifts as well as to preserve the purchasing power of these funds into the future.

(b) Return Objectives and Risk Parameters

The University's long-term investment portfolio is managed to provide for the long-term support of the University. To meet this financial objective, the primary long-term investment objective of the Fund is to earn an annual total return, net of all fees and expenses, greater than the spending rate plus inflation over a full-market cycle (generally considered to be at least five years). It is recognized that this investment objective may be difficult to attain over every five year period and is contingent upon market conditions during the period. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. It is the goal of the aggregate long-term investments to generate a long-term target rate of return of at least equal to the spending policy, calculated by multiplying the average valuation of the Fund assets over the preceding 12 quarters by 4%, plus inflation.

(c) Strategies for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets an asset allocation strategy wherein assets are diversified among several asset classes. The long term investment portfolio is invested in a manner that is expected to maximize the long-term total return, net of fees and expenses, with reasonable and acceptable levels of investment risk. Investment risk is defined in two ways: (1) the probability of total assets of the fund declining in value and (2) the expected return volatility of total assets of the Fund. Similar to the investment objective, it is recognized that these risk objectives may be difficult to attain over every five year period.

Changes in endowment funds for the fiscal years ended June 30, 2017 and 2016 were as follows:

	Unrestricted (Board-designated)	Temporarily restricted	Permanently restricted	Total
Endowment at June 30, 2015	$ 200,000	5,317,072	16,294,643	21,811,715
Gifts and additions	200,000	17,405	3,743,000	3,960,405
Investment returns:				
Interest and dividends, net	(49)	52,517	—	52,468
Net realized and unrealized losses	(16,041)	(1,177,593)	—	(1,193,634)
Total investment returns	(16,090)	(1,125,076)	—	(1,141,166)
Expenditures (utilized for operations)	—	(655,732)	—	(655,732)
Change in investments	183,910	(1,763,403)	3,743,000	2,163,507
Endowment at June 30, 2016	383,910	3,553,669	20,037,643	23,975,222
Gifts and additions	402,067	2,823	3,092,558	3,497,448
Investment returns:				
Interest and dividends, net	(2,143)	(60,878)	—	(63,021)
Net realized and unrealized losses	82,953	3,066,788	—	3,149,741
Total investment returns	80,810	3,005,910	—	3,086,720
Expenditures (utilized for operations)	—	(1,226,192)	—	(1,226,192)
Change in investments	80,810	1,779,718	—	1,860,528
Endowment at June 30, 2017	$ 866,787	5,336,210	23,130,201	29,333,198

(16) Related Parties

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. The University's conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. For members of the Board of Trustees and senior management, the University requires an annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. When such relationships exist, measures are taken to address the actual or perceived conflict to protect the best interests of the University and ensure compliance with relevant conflict of interest laws or policy.

An executive for the health insurance company who provides benefits to University employees joined the University's Board of Trustees in October 2013. The University paid $33,672,419 to this company for these services for the year ended June 30, 2017.

A principal owner for one of the properties the University leases and occupies joined the University's Board of Trustees in May 2016. The University paid $1,877,081 to this company for these services for the year ended June 30, 2017.

The University has a close affiliation with the Southern New Hampshire University Student Government Association (SGA) which is a separate not for profit legal entity. The University and the SGA have been co-participants in several student-related endeavors and transactions, including contributions for Student Center improvements, insurance coverage, space occupancy and shared employee resources.

(17) Subsequent Events

The University evaluated subsequent events through October 6, 2017, the date financial statements were issued.