

**NORWICH UNIVERSITY**

Consolidated Financial Statements

Year Ended May 31, 2019  
(With Comparative Information as of May 31, 2018)

(With Independent Auditors' Report Thereon)



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# NORWICH UNIVERSITY

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(With Comparative Information as of May 31, 2018)

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Norwich University  
Northfield, Vermont

We have audited the accompanying consolidated financial statements of Norwich University (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of May 31, 2019, and the related consolidated statements of activities, and cash flows for the year then 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norwich University and its subsidiary as of May 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Norwich University's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Effect of Adopting New Accounting Standard**

As described in Note 1, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. Our opinion is not modified with respect to that matter.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
October 16, 2019

# NORWICH UNIVERSITY

## Consolidated Statement of Financial Position

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,437	\$ 9,851
Short-Term Investments (note 4)	4,962	3,968
Accounts and Notes Receivable (note 2)	3,568	3,655
Contributions Receivable (note 3)	13,217	18,495
Inventory, Prepaid Expenses, and Other Assets	11,181	11,154
Loans Receivable, Net (note 2)	8,488	9,571
Investments (note 4)	214,229	217,770
Beneficial Interest in Perpetual Trust	7,067	7,069
Deposits Held by Trustees (note 5)	10	601
Land, Buildings, and Equipment, Net (note 7)	182,583	167,979
Total Assets	\$ 447,742	\$ 450,113
 <b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 9,440	\$ 11,436
Interest Rate Swap Liability (note 6)	13,940	12,291
Deferred Revenue, Advance Payments, and Annuity and Life Income Obligations	6,183	8,213
Notes and Leases Payable (note 5)	-	13
Bonds Payable (note 5)	80,313	82,654
Refundable U.S. Government Grants (note 2)	7,582	7,544
Total Liabilities	117,458	122,151
 <b>COMMITMENTS AND CONTINGENCIES</b> (note 8)		
 <b>MUSEUM COLLECTIONS</b> (note 1q)		
 <b>NET ASSETS</b>		
Net Assets without Donor Restrictions (note 9)	158,915	133,646
Net Assets with Donor Restrictions (note 9)	171,369	194,316
Total Net Assets	330,284	327,962
Total Liabilities and Net Assets	\$ 447,742	\$ 450,113

See accompanying Notes to Consolidated Financial statements.

# NORWICH UNIVERSITY

## Consolidated Statement of Activities

Year Ended May 31, 2019  
(With Comparative Information for the Year Ended May 31, 2018)

(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total May 31, 2019	Total May 31, 2018
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Tuition and Fees	\$ 117,142	\$ -	\$ 117,142	\$ 114,593
Residence and Dining	29,458	-	29,458	28,402
Uniform Sales	1,946	-	1,946	2,029
Less: Scholarships, Grants, and Other Aid	(62,196)	-	(62,196)	(59,086)
Net Tuition and Fees	86,350	-	86,350	85,938
Federal Appropriations, Grants, and Contracts	3,367	-	3,367	2,133
Private Contributions	900	1,022	1,922	1,770
Investment Income Used in Operations (note 4)	9,020	1,202	10,222	10,155
Campaign Net Assets Appropriated to Operations	3,293	-	3,293	3,088
Other Auxiliary Services	986	-	986	995
Other Income	3,543	48	3,591	3,718
Total Revenues and Other Support	107,459	2,272	109,731	107,797
Net Assets Released from Restrictions (note 10)	1,350	(1,350)	-	-
Total Revenue and Other Support and Net Assets Released from Restrictions	108,809	922	109,731	107,797
<b>OPERATING EXPENSES</b>				
Instruction	29,828	-	29,828	30,569
Academic Support	10,336	-	10,336	11,037
Research	1,237	-	1,237	1,131
Student Services	25,787	-	25,787	23,897
Institutional Support	17,385	-	17,385	16,538
Auxiliary Enterprises	20,166	-	20,166	19,734
Total Expenditures	104,739	-	104,739	102,906
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>				
	4,070	922	4,992	4,891
Nonoperating Activities:				
Investment Return in Excess of Spending Plan	(2,631)	(1,490)	(4,121)	8,468
Campaign Gifts and Pledges	74	12,146	12,220	8,027
Campaign Net Assets Appropriated to Operations	-	(3,293)	(3,293)	(3,088)
Change in Split Interest Agreements	766	106	872	373
Change in Perpetual Trust	-	(2)	(2)	384
Related Entity Revenue (note 11)	1,753	-	1,753	1,732
Related Entity Expense (note 11)	(2,159)	-	(2,159)	(2,282)
Fundraising Expenses	(3,868)	-	(3,868)	(3,593)
Change in Interest Rate Swap Liability	(1,648)	-	(1,648)	4,373
Strategic Initiative Expenses	(2,740)	-	(2,740)	(783)
Other Expenses and Reclassifications	1,445	(1,129)	316	(325)
Net Assets Released from Restrictions (note 10)	30,207	(30,207)	-	-
Change in Net Assets from Nonoperating Activities	21,199	(23,869)	(2,670)	13,286
<b>CHANGE IN NET ASSETS</b>				
	25,269	(22,947)	2,322	18,177
Net Assets - Beginning of Year	133,646	194,316	327,962	309,785
<b>NET ASSETS - END OF YEAR</b>				
	\$ 158,915	\$ 171,369	\$ 330,284	\$ 327,962

See accompanying Notes to Consolidated Financial statements.

# NORWICH UNIVERSITY

## Consolidated Statement of Cash Flows

Year Ended May 31, 2019

(With Comparative Summarized Information for the Year Ended May 31, 2018)

(In Thousands)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,322	\$ 18,177
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	8,886	8,363
Change in Estimated Value of Interest Rate Swap Agreements	1,648	(4,373)
Net Realized and Unrealized Gains on Investments	(5,554)	(17,698)
Loss (Gain) on Disposal of Assets	-	(90)
Contributions Restricted for Plant	(11,776)	(11,121)
Contributions Restricted for Endowment	(3,506)	(1,141)
Change in Accounts Receivable	88	(449)
Change in Contributions Receivable	5,278	4,698
Change in Inventory, Prepaid Expenses, and Other Assets	(27)	738
Change in Beneficial Interest in Perpetual Trust	2	(384)
Change in Accounts Payable and Accrued Liabilities	(163)	(2,071)
Change in Deferred Revenue, Advanced Payments, and Annuity Life Income Obligations	(2,030)	(582)
Net Cash Used by Operating Activities	(4,832)	(5,933)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(18,101)	(43,167)
Proceeds from Sale and Maturity of Investments	26,203	58,118
Change in Student Loans Receivable, Net	1,083	(29)
Acquisition of Land, Buildings and Equipment	(25,280)	(29,597)
Net Cash Used by Investing Activities	(16,095)	(14,675)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Refundable U.S. Government Advances	38	(42)
Contributions Restricted for Endowment	3,506	1,141
Contributions Restricted for Plant	11,776	11,121
Cash Released by and received from Bond Trustee	(4)	1,429
Debt Repayment	(1,803)	(3,103)
Net Cash Provided by Financing Activities	13,513	10,546
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(7,414)	(10,062)
Cash and Cash Equivalents - Beginning of Year	9,851	19,913
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,437	\$ 9,851
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	\$ 3,620	\$ 3,385

See accompanying Notes to Consolidated Financial statements.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies

#### (a) *Nature of Operations*

Norwich University (the University) is a private co-educational institute of post-secondary education. In addition to offering 38 undergraduate degree programs, the University offers an on-line masters degree in 12 programs, 7 on-line undergraduate degree completion programs, and a residential masters in architecture.

#### (b) *Basis of Presentation*

External financial reporting for nonprofit organizations includes three basic financial statements and the classification of resources into net assets based on the existence or absence of donor-imposed restrictions. The University records unconditional promises to give (pledges) as receivables and revenue and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. In the accompanying consolidated financial statements, net asset categories are as follows:

*Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations but may be designated for specific purposes by action of the board of trustees or management.

*With Donor Restrictions* – Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. This category includes realized and unrealized gains (losses) on donor restricted endowment funds that have not been appropriated for expenditure by the board of trustees in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This category also includes net assets whose corpus is restricted by the donor to be invested in perpetuity whose income may be made available for stipulated purposes.

Expenses are reported as decreases in net assets without donor restrictions. Donor restricted gifts that are received and spent within the same operating cycle are reported as revenues without donor restrictions. When a donor restriction expires because the time or purpose stipulation has been met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts of long-lived assets are reported as revenue without donor restrictions, only if there is no purpose or use restriction. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net 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 consolidated financial statements for the year ended May 31, 2018, from which the summarized information was derived.



# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### (c) *Principles of Consolidation*

The consolidated financial statements of Norwich University include the net assets and operations of Norwich University Applied Research Institutes (NUARI), a nonprofit, tax-exempt corporation whose purpose is to provide research and development of technologies targeting national defense preparedness and response. Certain members of NUARI's board of directors are employed by or affiliated with the University, which provides NUARI with telecommunication services and equipment rentals. All transactions with the University are within the ordinary course of business and are considered by management to have been conducted on an arms-length basis. The net amount due from (to) NUARI as of May 31, 2019 and 2018 is (\$26) and (\$15), respectively. For additional information about NUARI, refer to footnote 11.

#### (d) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. The current economic environment increases the inherent uncertainty of those estimates. Estimates recorded at May 31, 2019 and 2018 include nonreadily marketable investments, asset retirement obligations, the collectability of accounts, loans, and contributions receivable, split interest agreements and the valuation of the interest rate swap liability.

#### (e) *Nonoperating Activities*

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions to be invested by the University to generate a return that will support future operations, contributions to be received or appropriated in the future, contributions to be used for facilities and equipment and investment return net of the amount the University has appropriated for current operational support in accordance with the University's endowment spending guidelines. Nonoperating activities also include NUARI revenues and expenses, extraordinary events and changes in swap valuations.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### (f) *Cash and Cash Equivalents*

Cash and cash equivalents are recorded at fair value. These funds are available for current operating needs and include interest-bearing cash accounts, money market accounts, mutual funds, and certificates of deposit with original maturities of three months or less. As of May 31, 2019 and 2018, cash and cash equivalents include \$0 and \$52, respectively, earmarked for the capital campaign through either donor or internal designation.

#### (g) *Deposits Held by Trustee*

Deposits held by Trustee consist of amounts deposited to satisfy debt service requirements and undisbursed construction bond proceeds.

#### (h) *Investments*

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Investments in units of nonpublicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. Private equities and certain nonmarketable securities are valued using current estimates of fair value by management based on information provided by the general partner or investment manager for the respective funds. If valuations are provided by the general partner or investment manager on a quarterly basis, then management estimates year-end values based upon valuations provided as of March 31.

University management is responsible for the fair value measurement of investments reported in the consolidated financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided. Because of the inherent uncertainty of valuation for these investments, the estimate of the investment manager or general partner may differ from the values that would have been used had a ready market existed, and the differences could be significant. The agreements underlying participation in nonmarketable investment funds may limit the University's ability to liquidate its interest in such investments for a period of time. The University believes that the reported values of its nonmarketable securities at the consolidated statement of financial position date are reasonable.

#### (i) *Endowment*

Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized. While board-designated funds have been established by the governing board for the same purposes as endowment funds, any portion of board-designated funds may be expended.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### (i) *Endowment (Continued)*

The board of trustees has adopted a spending policy whereby the University utilizes 5.0% for each of the years ended May 31, 2019 and 2018, of the product of the average pooled unit value for the 12 prior quarters ending December 31 and the number of pooled units on hand at December 31. During the years ended May 31, 2019 and 2018, \$10,222 and \$10,155, respectively, was distributed for use in operations. Additionally, the University withdrew \$3,312 and \$783 in addition to the spending plan from quasi-endowment funds to fund strategic initiatives during the years ended May 31, 2019 and 2018, respectively.

#### (j) *Split-Interest Agreements*

The University's split-interest agreements with donors consist of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts held and administered by others. For annuity contracts, the contributed assets are included as part of prepaid and other assets at fair value. Charitable gift annuity assets as of May 31, 2019 and 2018 were \$7,160 and \$6,983, respectively. Contribution revenues are recognized as of the date the donated assets are transferred to the University and liabilities are recorded for the present value of the estimated future payments to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the annuities consistent with changes in assumptions and are included as part of deferred revenue, advance payments and annuity and life income obligations.

For charitable remainder trusts held and administered by others, the present values of the estimated future cash receipts from the trusts are recognized as contributions receivable and contribution revenues as of the dates the trusts are established. Distributions from these trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in the estimates of future receipts. The University uses discount rates ranging from 4.125% to 7.0% as established upon receipt of the trust to determine the present value of the estimated future cash receipts. The trusts were valued at \$498 and \$1,550 at May 31, 2019 and 2018, respectively.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### **(k) Beneficial Interest in Perpetual Trust**

At May 31, 2019 and 2018, funds held in trust of \$7,067 and \$7,069, respectively, consist of resources neither in the possession nor under the control of the University and administered by outside trustees, with the University deriving income from the assets of such trust. This amount is recognized at the fair value of the University's portion of the underlying investments.

#### **(l) Property and Equipment**

Land, land improvements, buildings, computers, instructional equipment, and certain transportation vehicles are stated at cost at date of acquisition or fair value at date of donation in the case of gifts, less accumulated depreciation. Personal equipment, including instructional equipment, furniture, and transportation vehicles are being depreciated on the straight-line method over a five-year useful life. Buildings and improvements are being depreciated on the straight-line method over the remaining estimated useful lives of the buildings which range from twenty to fifty years. The cost and related accumulated depreciation of all plant and equipment retired or otherwise disposed of are removed from the accounts. Any gain or loss is included in income. Maintenance and repair costs are charged to expense as incurred, and significant leasehold improvements are capitalized. The University considers for capitalization all property with a cost in excess of five thousand dollars and a useful life greater than one year.

#### **(m) Inventory**

Inventories are valued on the first-in, first-out (lower of cost or net realizable value) basis but not in excess of net realizable value.

#### **(n) Bond Issuance Costs**

Bonds payable balances include bonds payable net of debt issuance costs that are being amortized using the effective interest rate method over the life of the bonds, which is 30 years. Unamortized debt issuance costs were \$632 and \$676 at May 31, 2019 and 2018, respectively.

#### **(o) Contributions**

Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. The discount rate utilized is the U.S. Treasury note rate commensurate with the life and date of the pledge. Conditional promises are recorded when donor stipulations are met.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### (p) *Income Taxes*

The University and NUARI are both nonprofit corporations as described in Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is generally exempt from federal income tax under Section 501(a) of the IRC. The University, including NUARI, the consolidated exempt entity, believes it has taken no significant uncertain tax positions.

#### (q) *Museum Collections*

The University's collections are made up of artifacts of historical significance, scientific specimens and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the consolidated statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions, if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the consolidated financial statements.

The University records items of collections, which are received for educational purposes and generally displayed throughout the University, as a gift at nominal value. These gifts are not disposed of for financial gain or otherwise encumbered in any manner.

#### (r) *Functional Expenses*

Depreciation, operations and maintenance costs and interest are allocated to the functional expense categories reported with the operating section of the statement of activities. They are allocated based upon the use of facilities. The University has one major program – education. All functional expense categories, with the exception of institutional support, can be classified as expenses supporting the major program. Institutional support expenses are considered administrative expenses and capital campaign expenses, included in nonoperating activities are considered fundraising expenses.

#### (s) *Self-Insurance*

The University participates in a self-insured plan for employee health and dental benefits under a retrospective-rate policy where the ultimate premium is based on actual claims made. These costs are accounted for on an accrual basis. Due to the nature of the estimated health and dental expense, it is at least reasonably possible that a change in estimate will occur in the short term.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (1) Nature of Operations and Significant Accounting Policies (Continued)

#### (t) **Change in Accounting Principle**

The University has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. Adoption of the new standard had no effect on the previously reported total change in net assets or net assets balance.

#### (u) **New Accounting Pronouncements Effective in Future Accounting Period**

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the University for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of the amended revenue recognition guidance on the University's financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Management is evaluating the impact of the amended lease guidance on the University's financial statements.

In June 2018, FASB issued an ASU 2018-08 *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance on distinguishing between contributions and exchange transactions. If a contribution is unconditional, the entity must determine whether it is donor restricted for limited purpose or timing. These contributions should be recognized immediately and classified as net assets with or without donor restrictions. If a contribution is conditional and net assets are received in advance, the entity should record a liability and not recognize revenue until conditions are met. Guidance is further provided regarding reciprocal and nonreciprocal transactions. If both parties receive similar value, the transaction is considered reciprocal. The standard will be effective for the University for annual reporting periods beginning after December 15, 2018.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (2) Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs. Allowances for doubtful accounts are established based upon prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2019 and 2018, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2019	2018
Federal Government Programs, Gross	\$ 8,310	\$ 9,573
Income share agreements, gross	221	-
Less: Allowance for Doubtful Accounts:		
Beginning of year	(2)	(5)
Increases	(41)	3
End of year	(43)	(2)
Student Loans Receivable, Net	\$ 8,488	\$ 9,571

Student loans receivable are included in loans receivable, net on the consolidated statement of financial position. Accounts and notes receivable on the consolidated statement of financial position include receivables from students' accounts, ROTC receivables, federal student aid, and grants. These other receivables total \$3,568 and \$3,655 as of May 31, 2019 and 2018, respectively. Allowances for these receivables total \$740 and \$525 as of May 31, 2019 and 2018, respectively.

Government advances and related interest earned on Perkins Loans and Faculty Nurse Loans of \$7,582 and \$7,544 as of May 31, 2019 and 2018, respectively, are ultimately refundable to the United States Government and thus are reported as a liability.

At May 31, 2019 and 2018, the following amounts were past due under student loan programs:

	2019	2018
1 - 240 Days Past Due	\$ 1,237	\$ 557
240 Days - 2 Years Past Due	156	321
2 Years - 5 Years Past Due	112	184
Over 5 Years Past Due	-	10
Total Past Due	\$ 1,505	\$ 1,072

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (3) Contributions Receivable

The following represents contributions receivable at May 31:

	2019	2018
In One Year or Less	\$ 8,868	\$ 8,062
Between One Year and Five Years	6,370	11,358
More than Five Years	498	1,550
Contributions Receivable, Gross	<u>15,736</u>	<u>20,970</u>
Less: Discount for Present Value	298	410
Less: Allowance for Uncollectible Contributions	2,221	2,065
Contributions Receivable, Net	<u>\$ 13,217</u>	<u>\$ 18,495</u>

The University uses discount rates ranging from 1.83% to 5.00% as established upon receipt of the contributions to determine the present value of contributions receivable.

The University has one charitable remainder trust agreement with donors (the University is not the trustee). The donors are beneficiaries of the trust and will receive annual payments until their deaths. At such time the University will receive the trust corpus. The donors have not placed any restrictions on the use of the corpus. The University has recorded these trusts, included in the table above, at the net present value of the estimated future payments due to the University, which is \$498 and \$1,550 at May 31, 2019 and 2018, respectively.

### (4) Investments and Fair Value Measurements

#### (a) Overall Investment Objective

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the board's investment committee, which oversees the University's investment program in accordance with established guidelines.



# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### **(4) Investments and Fair Value Measurements (Continued)**

#### **(b) *Allocation of Investment Strategies***

In addition to traditional stocks and fixed-income securities, the University may also hold shares or units in institutional funds as well as in alternative investment funds involving hedged strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies or focus on investments in turn-around situations. Real asset funds generally hold interests in real estate, energy, and/or agriculture (through publicly traded securities or private partnership), and/or commodities (through publicly traded future contracts). Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the University's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

#### **(c) *Basis of Reporting***

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2019 and 2018, the University had no specific plans or intentions to sell investments at amounts different than NAV.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

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### **(4) Investments and Fair Value Measurements (Continued)**

#### **(c) *Basis of Reporting (Continued)***

The three levels of the fair value hierarchy are:

- *Level 1* – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- *Level 2* – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- *Level 3* – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment in determining the fair value assigned to such assets or liabilities. The University's ability to redeem its interest in the investment is also a factor in determining the classification of those investments.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following tables summarize the University's investments and other assets by major category in the fair value hierarchy as of May 31, 2019 and 2018, as well as related strategy, liquidity and funding commitments:

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

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### (4) Investments and Fair Value Measurements (Continued)

#### (c) Basis of Reporting (Continued)

May 31, 2019

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
Short-Term Investments:							
Fixed Income	\$ -	\$ 4,962	\$ -	\$ -	\$ 4,962	Daily	1
Total Short-Term Investments	-	4,962	-	-	4,962		
Long-Term Investments:							
U.S. Equities:							
Large Cap	15,749	-	-	17,268	33,017	Daily	1
Small Cap	3,977	-	-	-	3,977	Daily	1
Total	19,726	-	-	17,268	36,994		
Global Equities ex U.S.:							
Developed Markets	-	-	-	25,850	25,850	Daily/Monthly	1 - 15
Emerging Markets	6,000	-	-	11,007	17,007	Daily/Monthly	1 - 30
Total	6,000	-	-	36,857	42,857		
Fixed Income:							
U.S. Gov't Fixed Income	11,069	-	-	-	11,069	Daily	1
Multi-Sector Fixed Income	8,270	-	-	-	8,270	Daily	1
Total	19,339	-	-	-	19,339		
Hedge Funds:							
Long/Short	-	-	-	17,363	17,363	Quarterly/Annually	30 - 90
Absolute Return <sup>1</sup>	-	-	-	34,300	34,300	Quarterly/Illiquid	45 - 90
Total	-	-	-	51,663	51,663		
Private Equity Investments <sup>2</sup>	-	-	-	87	87	Illiquid	N/A
Venture Capital Investments	-	-	-	38,337	38,337	Illiquid	N/A
Real Assets:							
Real Estate	-	-	-	5,196	5,196	Daily/Illiquid	1 - N/A
Oil and Gas	-	-	54	-	54	Daily/Illiquid	1 - N/A
Natural Resources	7,985	-	-	-	7,985	Annual	30
Total	7,985	-	54	5,196	13,235		
Other Equity	-	-	654	-	654	Illiquid	N/A
Cash and Equivalents	11,063	-	-	-	11,063	Daily	1
Total Long-Term Investments	64,113	-	708	149,408	214,229		
Funds Held by Bond Trustee <sup>3</sup>	10	-	-	-	10	Illiquid	N/A
Funds Held in Trust by Others	-	-	7,067	-	7,067	Illiquid	N/A
Total Assets	\$ 64,123	\$ 4,962	\$ 7,775	\$ 149,408	\$ 226,268		
Liabilities:							
Interest Rate Swap Agreement	\$ -	\$ (13,940)	\$ -	\$ -	\$ (13,940)	Illiquid	N/A
Total Liabilities	\$ -	\$ (13,940)	\$ -	\$ -	\$ (13,940)		

<sup>1</sup> 7.7 million is subject to a 2 year rolling lockup

<sup>2</sup> Private equity and venture capital funds have an initial term of 11 years with extensions of 2 to 3 years, and have an average remaining life of 4 years

<sup>3</sup> The underlying investments of all funds held by bond trustee are cash and cash equivalents

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (4) Investments and Fair Value Measurements (Continued)

#### (c) Basis of Reporting (Continued)

May 31, 2018

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
Short-Term Investments:							
Fixed Income	\$ -	\$ 3,968	\$ -	\$ -	\$ 3,968	Daily	1
Total Short-Term Investments	-	3,968	-	-	3,968		
Long-Term Investments:							
U.S. Equities:							
Large Cap	17,199	-	-	17,692	34,891	Daily	1
Small Cap	5,793	-	-	-	5,793	Daily	1
Total	22,992	-	-	17,692	40,684		
Global Equities ex U.S.:							
Developed Markets	-	-	-	31,148	31,148	Daily/Monthly	1 - 15
Emerging Markets	7,788	-	-	16,118	23,906	Daily/Monthly	1 - 30
Total	7,788	-	-	47,266	55,054		
Fixed Income:							
U.S. Gov't Fixed Income	10,415	-	-	-	10,415	Daily	1
Multi-Sector Fixed Income	6,032	-	-	-	6,032	Daily	1
Total	16,447	-	-	-	16,447		
Hedge Funds:							
Long/Short Absolute Return <sup>1</sup>	-	-	-	23,002	23,002	Quarterly/Annually	30 - 90
	-	-	-	29,567	29,567	Quarterly/Illiquid	45 - 90
Total	-	-	-	52,569	52,569		
Private Equity Investments <sup>2</sup>	-	-	-	129	129	Illiquid	N/A
Venture Capital Investments	-	-	-	30,800	30,800	Illiquid	N/A
Real Assets:							
Real Estate	4,440	-	-	447	4,887	Daily/Illiquid	1 - N/A
Oil and Gas	-	-	50	46	96	Daily/Illiquid	1 - N/A
Natural Resources	12,138	-	-	-	12,138	Annual	30
Total	16,578	-	50	493	17,121		
Other Equity	360	-	591	-	951	Illiquid	N/A
Cash and Equivalents	-	-	-	-	4,015	Daily	1
Total Long-Term Investments	64,165	-	641	148,949	217,770		
Funds Held by Bond Trustee <sup>3</sup>	-	-	-	-	601	Illiquid	N/A
Funds Held in Trust by Others	-	-	7,069	-	7,069	Illiquid	N/A
Total Assets	\$ 64,165	\$ 3,968	\$ 7,710	\$ 148,949	\$ 229,408		
Liabilities:							
Interest Rate Swap Agreement	\$ -	\$ (12,291)	\$ -	\$ -	\$ (12,291)	Illiquid	N/A
Total Liabilities	\$ -	\$ (12,291)	\$ -	\$ -	\$ (12,291)		

<sup>1</sup> \$7.9 million is subject to a 2 year rolling lockup.

<sup>2</sup> Private equity and venture capital funds have an initial term of 11 years with extensions of 2 to 3 years, and have an average remaining life of 4 years.

<sup>3</sup> The underlying investments of all funds held by bond trustees are cash and cash equivalents.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (4) Investments and Fair Value Measurements (Continued)

U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 1(h) because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of the University's interest therein, the level in which a fund's fair value measurement is classified is based on the University's ability to redeem its interest at or near the date of the consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

The following tables are a reconciliation of Level 3 investments for the years ending May 31, 2019 and 2018:

	Real Assets and Other Assets	Total
May 31, 2018	\$ 7,710	\$ 7,710
Income	63	63
Unrealized Gain	2	2
May 31, 2019	\$ 7,775	\$ 7,775

	Real Assets and Other Assets	Total
May 31, 2017	\$ 7,274	\$ 7,274
Income	40	40
Unrealized Gain	396	396
May 31, 2018	\$ 7,710	\$ 7,710

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
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### (4) Investments and Fair Value Measurements (Continued)

At May 31, 2019, the University's outstanding commitments to certain limited partnerships totaled \$5,153. The capital is called on an as-needed basis by the limited partnerships. University management estimates that \$3,050 will be called annually. The following is a summary of capital commitments by class:

Class:	Outstanding Commitment
Oil and Gas	\$ 1,000
Private Equity	44
Venture Capital	4,109
Total	\$ 5,153

The return on investments for the years ended May 31, 2019 and 2018 was as follows:

	2019	2018
Dividends and Interest	\$ 1,730	\$ 2,084
Net Realized and Unrealized Gains	5,556	17,698
Less: Management Investment Fees	(1,185)	(1,159)
Total Return on Endowment Investments	6,101	18,623
Less: Investment Return Designated for Current Operations	(10,222)	(10,155)
Excess of Investment Returns Less than Amounts Distributed to Current Operations	\$ (4,121)	\$ 8,468

Investment returns are included in the consolidated statements of activities as follows for the years ended May 31:

	2019	2018
Investment Return:		
Operating:		
Investment Income Used in Operations	\$ 10,222	\$ 10,155
Nonoperating Activities:		
Investment Return in Excess of Investment Income Used in Operations	(2,631)	2,598
Changes in Net Assets with Donor Restrictions:		
Investment Return in Excess of Investment Income Used in Operations	(1,490)	5,870
Investment Return	\$ 6,101	\$ 18,623

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (4) Investments and Fair Value Measurements (Continued)

Private equity and venture capital investments are generally made through limited partnerships. Under the terms of such agreements, the University may be required to provide additional funding when capital or liquidity calls are made by fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The University cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain.

Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption at calendar year-end once every two or three years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement.

Investment liquidity as of May 31, 2019 is aggregated below based on redemption or sale period:

	Investment Fair Values
Investment Redemption or Sale Period:	
Daily	\$ 73,777
Monthly	37,103
Quarterly	44,745
Annually	16,459
Subject to Rolling Lockups	7,726
Illiquid	39,381
Total as of May 31, 2019	<u>\$ 219,191</u>

The University uses the unit share method of accounting for income distribution for pooled investments. The individual pooled unit value as of May 31, 2019 and 2018 is \$5,131 and \$5,230, respectively. Gains or losses on investments are recognized as increases or decreases in net assets with donor restrictions.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

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### (5) Bonds and Notes Payable

At May 31, 2019 and 2018, bonds and notes payable consisted of:

	2019	2018
Bonds payable to Vermont Educational and Health Building Financing agency 2008 – variable rate bonds 1.39% average rate 2019 (2.47% and 2.17% at May 31, 2019 and 2018, respectively), due in installments to 2037	\$ 58,700	\$ 60,490
Bonds payable to Vermont Educational and Health Building Financing Agency 2013 - fixed rate 3.00%, due in installments to 2043	22,245	22,840
Capital Leases: Average rate 3.92%, due in installments to 2019	-	13
Unamortized Bond Issuance Costs	(632)	(676)
Total Bonds and Notes Payable	\$ 80,313	\$ 82,667

Annual debt commitments (principal) are as follows:

Fiscal Year	Bonds and Notes Payable
2020	\$ 2,810
2021	3,030
2022	3,045
2023	3,165
2024	3,385
Thereafter	65,510
Total	\$ 80,945

The 2008 Bonds are collateralized by a security interest in all gross receipts of the University. The 2008 Bonds bear interest at the monthly interest rate, as determined under the index rate mode as 69.25% of LIBOR plus 0.748% on the first day of each monthly interest period. At the "Index Rate Mode Expiration Date," December 27, 2027, the 2008 Bonds are subject to mandatory tender for purchase in connection with a conversion to a new interest rate mode.

Interest on the 2008 Bonds is payable monthly. Principal payments occur annually on September 1 of each year.



# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (5) Bonds and Notes Payable (Continued)

On December 27, 2017 the 2008 Bond Loan and Trust Agreements were amended and restated. Under the amended and restated terms, the Bonds include an interest rate mode conversion feature. While the bonds are in an index rate period, the University may satisfy its repayment obligations under the Loan Agreement by paying such amounts directly to TD Bank (the purchaser) instead of equal monthly payments to the Trustee, into the "Principal Account."

On December 27, 2017 the Bonds were resold to TD Bank, N.A. who became the sole bondholder. The University's irrevocable letter of credit was used to advance payment to the previous bondholders in the amount of \$61,242. Repayment of the letter of credit advance was made with the proceeds from the bond funds of \$60,490, and excess funds in the "Principal Account" of \$710 and the "Interest Account" of \$42.

The University has the following lines of credit that provide for unsecured short-term borrowing:

1. Peoples United Bank – up to \$5,000 at the 30-day LIBOR rate plus 200bp and expires January 31, 2020. As of May 31, 2019 and 2018, the line of credit had no outstanding balance.
2. TD Bank – up to \$2,000 at the One Month LIBOR plus 200bp. and expires December 2, 2021. As of May 31, 2019 and 2018, the line of credit had no outstanding balance.

On December 23, 2013, the University issued tax-exempt bonds (2013 Bonds) through the Vermont Educational Health Buildings Financing Agency (VEHBFA) in the amount of \$24,515. The bonds amortize over thirty years and carry a 3.00% fixed interest rate. At the time of issuance, the bonds were placed entirely with a single investor. The bonds were issued to finance the construction of a new dorm.

Interest on the 2013 Bonds will be payable on March 1 and September 1 of each year commencing on March 1, 2014. Principal payments occur annually on September 1 of each year, beginning on September 1, 2015. Under the terms of the trust agreement, the annual amount of debt service will be deposited at once on September 1 of each year.

Under the 2013 Bonds loan agreement the University is required to maintain compliance with the same financial covenants abiding in the letter of credit agreement with TD Bank, N.A. The University was in compliance with these covenants through May 31, 2019. The bondholder shares *pari passu* with the lien on gross receipts granted to TD Bank, N.A. and has been granted a negative pledge on the Core Campus generally defined as the principle academic and operating buildings of the University.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
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(In Thousands)

### (5) Bonds and Notes Payable (Continued)

On October 29<sup>th</sup>, 2018, the University entered into an agreement with TD Bank for a revolving credit loan in the maximum aggregate principal amount of \$15,000,000. The entire unpaid principal sum outstanding, together with any accrued interest thereon remaining unpaid and any other sums due the Bank in connection with the Loan, shall be due and payable in full on October 29, 2021. As of May 31, 2019, the loan had no outstanding balance.

The University has entered into various capital lease arrangements to finance operating and networking equipment. The following is an analysis of leased property under capital leases:

	<u>2019</u>	<u>2018</u>
Class of Property:		
Equipment	\$ -	\$ 442
Less: Accumulated Amortization	-	(442)
Net Property Under Capital Leases	<u>\$ -</u>	<u>\$ -</u>

Interest incurred on debt and swap agreements for the years ended May 31, 2019 and 2018 was \$3,576 and \$3,406, respectively. The interest amount capitalized was \$37 and \$0 respectively.

### (6) Interest Rate Swap Agreement

On June 4, 2012, the University entered into a swap agreement with TD Bank, N.A, with a notional value of \$78,200. The rate paid by the University is 4.022%. The rate paid by the counterparty remains at 67% of the one-month United States Dollar–London Interbank Offered Rate (LIBOR) rate. The agreement will terminate on June 4, 2022 unless both parties agree to renew for another 10 years.

The purpose of the amended swap agreement is to manage the interest rate risk associated with the VEHBFA Series 2008 variable rate debt.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

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### (6) Interest Rate Swap Agreement (Continued)

The fair value of the interest rate swap agreement at May 31, 2019 and 2018 was (\$13,940) and (\$12,291), respectively. The fair value of the swap, as determined by a third party, is recorded as either an asset or liability at the end of each fiscal year. The change in value of the swap is reflected in other expenses on the consolidated statement of activities. In 2019 and 2018, the changes in value were gains (losses) of \$(1,648) and \$4,373, respectively. If held to maturity, the change in the value of the swap will net to zero.

### (7) Land, Buildings, and Equipment

Land, buildings, and equipment balances of the University consisted of the following at May 31:

	2019	2018
Land and Land Improvements	\$ 21,918	\$ 21,714
Buildings	228,043	195,325
Personal Property	39,883	36,144
	<u>289,844</u>	<u>253,183</u>
Less: Accumulated Depreciation	122,727	113,899
	<u>167,117</u>	<u>139,284</u>
Construction in Progress	15,466	28,695
Total	<u>\$ 182,583</u>	<u>\$ 167,979</u>

Depreciation expense charged to operations was \$8,842 and \$8,334 in 2019 and 2018, respectively.

### (8) Commitments and Contingencies

From time to time Norwich University 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, the University's management is of the opinion that the eventual liability, if any, will not have a material effect on the University's financial position.

As of May 31, 2019, the University had \$2,100 of open commitments to contractors for construction work being performed.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

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### (9) Net Assets

Net assets with donor restrictions consisted of the following at May 31:

	2019		2018	
	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity
Scholarship	\$ 946	\$ 30,819	\$ 1,332	\$ 29,395
Instruction, Academic and Institutional Support	3,970	16,631	22,318	14,487
Split-Interest Agreements and Perpetual Trusts	2,410	7,415	3,379	7,348
Unappropriated Endowment Gains	96,459	-	99,113	-
	103,785	54,865	126,142	51,230
Contributions Receivable, Net	12,719	-	16,944	-
Total	<u>\$ 116,504</u>	<u>\$ 54,865</u>	<u>\$ 143,086</u>	<u>\$ 51,230</u>

Net assets without donor restrictions consisted of the following at May 31:

	2019	2018
Board-Designated Endowment Funds	\$ 70,224	\$ 74,920
Board-Designated Reserves	5,000	5,000
Undesignated	83,691	53,726
Total	<u>\$ 158,915</u>	<u>\$ 133,646</u>

### (10) Net Assets Released from Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donor were as follows at May 31:

	2019	2018
Purpose Restrictions:		
Scholarship	\$ 532	\$ 490
Instruction, Academic, and Institutional Support	5,047	3,881
Research	15	22
Buildings	29,256	5,740
Total	<u>\$ 34,850</u>	<u>\$ 10,133</u>

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

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(In Thousands)

### (11) Related Entity

The operating revenues and expenses of the related entity for the years ended May 31 were as follows:

	2019	2018
Revenues:		
Contract Revenue	\$ 459	\$ 575
Grant Revenue	1,293	1,155
Other Income	1	2
Total Revenues	<u>\$ 1,753</u>	<u>\$ 1,732</u>
Expenses:		
Program Services	\$ 1,176	\$ 1,069
Management and General	983	1,213
Total Expenses	<u>\$ 2,159</u>	<u>\$ 2,282</u>

### (12) Retirement Plans

The University participates in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) for full-time employees. The University's policy is to accrue and pay the costs of these defined contribution plans currently. The total amount charged to operations was \$2,640 and \$2,534, in fiscal 2019 and 2018, respectively.

### (13) Endowment

The University's endowment consists of approximately 412 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. 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) *Relevant Law*

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in Vermont on May 5, 2009. This replaces a previous law, UMIFA, the Uniform Management of Institutional Funds Act. Under UMIFA, spending below the historic dollar value of an endowment was not permitted; the accounting definition of funds invested in perpetuity was the historic-dollar-value of a donor-restricted gift to endowment.

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
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(In Thousands)

### (13) Endowment (Continued)

#### (a) *Relevant Law (Continued)*

Under UPMIFA, the historic-dollar-value threshold is eliminated, and the governing board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the University in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the University and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the University; and, 7) the investment policy of the University.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the amount of the investment held in perpetuity will remain intact. This perspective is aligned with the accounting standards definition that these funds must be held in perpetuity even though the historic-dollar-value may be dipped into on a temporary basis.

In accordance with appropriate accounting standards, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment to be invested in perpetuity, (b) the original value of subsequent gifts to the endowment to be invested in perpetuity, (c) accumulations to the endowment to be invested in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) appreciation on these funds until appropriated for spending by the board of trustees.

Endowment net asset composition, not including pledges, by type of fund consists of the following at May 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 151,323	\$ 151,323
Board-Designated Endowment Funds	70,224	-	70,224
Total Endowed Net Assets	\$ 70,224	\$ 151,323	\$ 221,547

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (13) Endowment (Continued)

#### (a) *Relevant Law (Continued)*

Changes in endowment net assets for the year ended May 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 1, 2018	\$ 74,920	\$ 150,342	\$ 225,262
Investment Return:			
Investment Income	79	466	545
Net Appreciation (Realized and Unrealized)	805	4,748	5,553
Total Investment Return	884	5,214	6,098
Contributions	73	3,432	3,505
Endowment Assets for Expenditure	(3,514)	(6,708)	(10,222)
Other Transfers	(2,139)	(958)	(3,097)
Endowment Net Assets, May 31, 2019	\$ 70,224	\$ 151,322	\$ 221,546

The endowment net assets for the year ended May 31, 2019 include \$7,067 related to a perpetual trust that is not subject to UPMIFA.

Endowment net asset composition, not including pledges, by type of fund consists of the following at May 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 150,342	\$ 150,342
Board-Designated Endowment Funds	74,920	-	74,920
Total Endowed Net Assets	\$ 74,920	\$ 150,342	\$ 225,262

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (13) Endowment (Continued)

#### (a) *Relevant Law (Continued)*

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 1, 2017	\$ 72,360	\$ 143,461	\$ 215,821
Investment Return:			
Investment Income	303	622	925
Net Appreciation (Realized and Unrealized)	5,810	12,319	18,129
Total Investment Return	6,113	12,941	19,054
Contributions	88	1,052	1,140
Endowment Assets for Expenditure	(3,515)	(6,640)	(10,155)
Other Transfers	(126)	(472)	(598)
Endowment Net Assets, May 31, 2018	\$ 74,920	\$ 150,342	\$ 225,262

The endowment net assets for the year ended May 31, 2018 include \$7,069 related to a perpetual trust that is not subject to UPMIFA.

#### (b) *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets with donor restrictions were \$5 and \$0 as of May 31, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions with donor restrictions to be invested in perpetuity and continued appropriation for certain programs that was deemed prudent by the board of trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets without donor restrictions.



# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (14) Available Resources and Liquidity

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, equities, fixed income, real assets, a bridge loan, and multiple lines of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the University's cash and shows negative cash generated by operations for fiscal years 2019 and 2018.

As of May 31, 2019 and 2018, the following tables show the total financial assets held by the University and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	2019	2018
Financial Assets:		
Cash and Cash Equivalents	\$ 2,437	\$ 9,851
Short-Term Investments	4,962	3,968
Accounts and Notes Receivable	3,568	3,655
Contributions Receivable - Current	8,868	8,062
Investments Convertible to Cash in the Next 12 Months	167,122	177,430
Total	186,957	202,966
Less: Restrictions		
Less: Endowment Investments not Appropriated for Policy Draw	(156,680)	(167,209)
Add: Endowment Investments Appropriated for Strategic Initiatives	5,511	3,273
Less: Board-Designated Reserves	(5,000)	(5,000)
Total	(156,169)	(168,936)
Financial Assets Available to Meet General Expenditures	\$ 30,788	\$ 34,030

# NORWICH UNIVERSITY

## Notes to Consolidated Financial Statements

May 31, 2019  
(With Comparative Information as of May 31, 2018)

(In Thousands)

### (15) Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The University reports expenditures in categories reflecting core operational objectives for higher education as defined by Integrated Postsecondary Education Data System (IPEDS).

	2019					
	Salaries and Benefits	Professional Services	Supplies and Other	Depreciation and Interest	Operation and Maintenance	Total Expenses
Instruction	\$ 19,691	\$ 1,682	\$ 3,466	\$ 3,193	\$ 1,795	\$ 29,827
Academic Support	3,605	1,847	3,575	838	471	10,336
Research	772	31	337	62	35	1,237
Student Services	11,964	4,541	4,177	3,268	1,837	25,787
Institutional Support	10,089	3,154	3,156	631	355	17,385
Auxiliary Enterprises	1,776	7,142	1,151	4,470	5,627	20,166
Operation and Maintenance	4,094	1,660	4,366		(10,120)	-
Total Operating Expenditures	51,991	20,057	20,228	12,462	-	104,738
Related Entity (Research) Expenses	1,148	661	350	-	-	2,159
Fundraising Expenses	2,525	780	469	-	-	3,774
Strategic Initiative Expenses	1,482	1,011	247	-	-	2,740
Total Nonoperating Expenditures	5,155	2,452	1,066	-	-	8,673
Total Expenditures	\$ 57,146	\$ 22,509	\$ 21,294	\$ 12,462	\$ -	\$ 113,411

  

	2018 (Summarized)					
	Salaries and Benefits	Professional Services	Supplies and Other	Depreciation and Interest	Operation and Maintenance	Total Expenses
Total Operating Expenditures	\$ 51,863	\$ 19,417	\$ 19,842	\$ 11,785	\$ -	\$ 102,906
Total Nonoperating Expenditures	4,602	1,636	744	-	-	6,983
	\$ 56,465	\$ 21,053	\$ 20,586	\$ 11,785	\$ -	\$ 109,889

### (16) Subsequent Events

We consider events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on October 16, 2019 and subsequent events have been evaluated through that date.

