

NORWICH UNIVERSITY

Consolidated Financial Statements

Year Ended May 31, 2023
(With Comparative Information As Of May 31, 2022)

(With Independent Auditors' Report Thereon)



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NORWICH UNIVERSITY

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(With Comparative Information As Of May 31, 2022)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Norwich University
Northfield, Vermont

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Norwich University (a Vermont corporation), which comprise the balance sheet as of May 31, 2023, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Norwich University as of May 31, 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statement of the consolidated, Norwich University Applied Research Institutes (NUARI) corporation. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for NAURI, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Norwich University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Norwich University's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Norwich University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Norwich University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Norwich University

Report on Summarized Comparative Information

We have previously audited Norwich University's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
October 18, 2023

NORWICH UNIVERSITY

Consolidated Statement Of Financial Position

May 31, 2023

(With Comparative Information As Of May 31, 2022)

(In Thousands)

	2023	2022
ASSETS		
Cash and Cash Equivalents	\$ 20,544	\$ 20,182
Accounts and Notes Receivable (Note 2)	9,928	9,309
Contributions Receivable (Note 3)	5,645	6,286
Inventory, Prepaid Expenses, and Other Assets	10,322	11,603
Loans Receivable, Net (Note 2)	2,488	3,943
Investments (Note 4)	262,930	283,445
Beneficial Interest in Perpetual Trust	8,006	8,602
Land, Buildings, and Equipment, Net (Note 8)	167,946	169,495
 Total Assets	 \$ 487,809	 \$ 512,865
 LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 8,452	\$ 9,959
Deferred Revenue, Advance Payments, and Annuity and Life Income Obligations	7,911	5,720
Interest Rate Swap Liability (Note 6)	5,447	8,481
Bonds Payable (Note 5)	68,432	71,556
Operating and Financing Lease Liabilities (Note 7)	2,377	-
Refundable U.S. Government Grants (Note 2)	2,903	4,097
Total Liabilities	95,522	99,813
 COMMITMENTS AND CONTINGENCIES (Note 9)		
 MUSEUM COLLECTIONS (Note 1q)		
 NET ASSETS		
Net Assets without Donor Restrictions (Note 10)	176,284	187,565
Net Assets with Donor Restrictions (Note 10)	216,003	225,487
Total Net Assets	392,287	413,052
 Total Liabilities and Net Assets	 \$ 487,809	 \$ 512,865

See accompanying Notes to Consolidated Financial Statements.

NORWICH UNIVERSITY

Consolidated Statement Of Activities

Year Ended May 31, 2023
(With Comparative Information As Of May 31, 2022)

(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total May 31, 2023	Total May 31, 2022
OPERATING REVENUES AND OTHER SUPPORT				
Tuition and Fees	\$ 113,845	\$ -	\$ 113,845	\$ 118,399
Residence and Dining	29,642	-	29,642	29,705
Uniform Sales	1,349	-	1,349	1,516
Less: Scholarships, Grants, and Other Aid	(71,057)	-	(71,057)	(70,483)
Net Tuition and Fees	73,779	-	73,779	79,137
Federal Appropriations, Grants, and Contracts	16,192	201	16,393	19,467
Private Contributions	1,690	1,785	3,475	2,291
Investment Income Used in Operations (Note 4)	20,594	1,571	22,165	11,210
Campaign Net Assets Appropriated to Operations	3,107	-	3,107	3,268
Other Auxiliary Services	1,151	-	1,151	904
Other Income	2,815	118	2,933	2,529
Total Revenues and Other Support	119,328	3,675	123,003	118,806
Net Assets Released from Restrictions (Note 11)	1,839	(1,839)	-	-
Total Revenue and Other Support and Net Assets Released from Restrictions	121,167	1,836	123,003	118,806
OPERATING EXPENSES				
Instruction	31,667	-	31,667	30,404
Academic Support	10,779	-	10,779	11,514
Research	12,198	-	12,198	7,201
Student Services	25,636	-	25,636	26,813
Institutional Support	20,306	-	20,306	21,917
Auxiliary Enterprises	21,485	-	21,485	21,414
Total Expenditures	122,071	-	122,071	119,263
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(904)	1,836	932	(457)
Nonoperating Activities:				
Investment Loss in Excess of Spending Plan	(14,072)	(12,462)	(26,534)	(49,419)
Campaign Gifts and Pledges	323	7,372	7,695	6,358
Campaign Net Assets Appropriated to Operations	-	(3,107)	(3,107)	(3,268)
Change in Split Interest Agreements	92	6	98	56
Related Entity Revenue (Note 12)	5,033	-	5,033	7,210
Related Entity Expense (Note 12)	(6,209)	-	(6,209)	(6,805)
Fundraising Expenses	(3,308)	-	(3,308)	(3,149)
Change in Interest Rate Swap Liability	3,034	-	3,034	5,840
Strategic Initiative Expenses (Contributions)	-	-	-	(594)
Other Expenses and Reclassifications	909	692	1,601	442
Net Assets Released from Restrictions (Note 11)	3,821	(3,821)	-	-
Change in Net Assets from Nonoperating Activities	(10,377)	(11,320)	(21,697)	(43,329)
CHANGE IN NET ASSETS	(11,281)	(9,484)	(20,765)	(43,786)
Net Assets - Beginning of Year	187,565	225,487	413,052	456,838
NET ASSETS - END OF YEAR	<u>\$ 176,284</u>	<u>\$ 216,003</u>	<u>\$ 392,287</u>	<u>\$ 413,052</u>

See accompanying Notes to Consolidated Financial Statements.

NORWICH UNIVERSITY

Consolidated Statement Of Cash Flows

Year Ended May 31, 2023
(With Comparative Information As Of May 31, 2022)

(In Thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (20,765)	\$ (43,786)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	9,305	9,807
Change in Estimated Value of Interest Rate Swap Agreements	(3,034)	(5,840)
Net Realized and Unrealized Losses on Investments	5,641	38,287
Contributions Restricted for Plant	(3,317)	(2,757)
Contributions Restricted for Endowment	(2,736)	(3,807)
Change in Accounts Receivable	(619)	499
Change in Contributions Receivable	641	3,037
Change in Inventory, Prepaid Expenses, and Other Assets	1,296	705
Change in Beneficial Interest in Perpetual Trust	596	679
Change in Accounts Payable and Accrued Liabilities	(835)	(1,197)
Change in Deferred Revenue, Advanced Payments, and Annuity Life Income Obligations	2,191	(585)
Net Cash Used by Operating Activities	(11,636)	(4,958)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(15,105)	(42,966)
Proceeds from Sale and Maturity of Investments	29,979	49,764
Change in Student Loans Receivable, Net	1,455	1,471
Acquisition of Land, Buildings, and Equipment	(5,362)	(5,252)
Net Cash Provided by Investing Activities	10,967	3,017
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Refundable U.S. Government Advances	(1,194)	(1,349)
Contributions Restricted for Endowment	2,736	3,807
Contributions Restricted for Plant	3,317	2,757
Principal Payment on Operating and Financing Lease	(663)	-
Principal Payment on Long-Term Debt	(3,165)	(3,045)
Net Cash Provided by Financing Activities	1,031	2,170
NET INCREASE IN CASH AND CASH EQUIVALENTS	362	229
Cash and Cash Equivalents - Beginning of Year	20,182	19,953
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 20,544	\$ 20,182
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Assets Purchase Financed from Financing and Operating Leases	\$ 3,039	\$ -
Cash Paid During the Year for Interest	\$ 3,014	\$ 3,180

See accompanying Notes to Consolidated Financial Statements.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(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 39 undergraduate degree programs, the University offers 19 online masters degree programs, 14 online undergraduate degree completion programs, two residential masters programs as well as several certificate and professional development programs.

(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, 2022, from which the summarized information was derived.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(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, 2023 and 2022 is \$512 and \$22, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation. For additional information about NUARI, refer to footnote 12.

(d) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, 2023 and 2022 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.

(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.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023

(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(g) *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.

(h) *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.

The board of trustees has adopted a spending policy whereby the University utilizes 5.0% for each of the years ended May 31, 2023 and 2022, 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, 2023 and 2022, \$13,165 and \$11,210, respectively, was distributed for use in operations. Additionally, the University withdrew \$9,000 and \$594 in addition to the spending plan from quasi-endowment funds to fund strategic initiatives during the years ended May 31, 2023 and 2022, respectively.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(i) *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, 2023 and 2022 were \$5,170 and \$6,176, 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 a discount rate of 5.0% as established upon receipt of the trust to determine the present value of the estimated future cash receipts. The trust was valued at \$577 and \$646 at May 31, 2023 and 2022, respectively.

(j) *Beneficial Interest in Perpetual Trust*

At May 31, 2023 and 2022, funds held in trust of \$8,006 and \$8,602, 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.

(k) *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 20 to 50 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 \$5,000 and a useful life greater than one year.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(l) *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.

(m) *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 \$463 and \$504 at May 31, 2023 and 2022, respectively.

(n) *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.

(o) *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.

(p) *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.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(q) **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.

(r) **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.

(s) **Revenue Recognition and Release of Restrictions**

Tuition and Fees

The University recognizes student tuition and fees revenue within the fiscal year in which educational services are provided. Scholarships and financial aid grants are reported as a reduction of tuition and fee revenues in the form of a scholarship allowance in the consolidated statements of activities. Scholarship allowances are provided from earnings on restricted funds, certain board-designated endowments, and through unfunded discounts. Tuition and fees are presented net of scholarship allowances on the consolidated statements of activities and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. The Scholarship allowance provided to students was \$71,057 in 2023, and \$70,483 in 2022. Cash payments to students in excess of published prices, excluding compensation, are reported as Scholarship Allowances in the consolidated statements of activities.

The University's tuition and fee revenue is derived from the undergraduate programs and online masters programs. The undergraduate programs have Fall (August-December), Spring (January-May) and Summer (May-August) terms. The online masters programs have Fall (September-November), Winter (December-February), Spring (March-May), and Summer (June-August) terms. The undergraduate program summer term begins early May and ends mid-August. Revenue for the undergraduate Summer term is recognized ratably over the period for which educational services are provided. At May 31, 2023, the College had recognized approximately 22% of the revenue for Summer term in the current year's consolidated financial statements with the remaining 78% being recorded as deferred revenue at May 31, 2023.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(s) *Revenue Recognition and Release of Restrictions (Continued)*

Tuition and Fees (Continued)

Deferred revenue amounts for the Summer term tuition and fees and room and board are shown in the table below.

Contributions, Federal Appropriations, Grants, and Contracts

Contributions, which include unconditional promises to give, are reported as increases in net assets without donor restrictions unless use of the related assets is limited by explicit donor stipulation or by the passage of time. Contributions are recognized as revenues in the period an unconditional promise is made, or a gift is received, net of a reserve for uncollectible amounts. Contributions to be received after one year are discounted using the appropriate risk-free rate and amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

Federal appropriations, grants, and contracts are generally cost type agreements. The University recognizes revenues over time on such contracts as the performance obligations are satisfied. Performance obligations are generally based on the progress of completion on the services measured by cost to total cost or based on progress towards the contract goals. In addition, government contracts have to be utilized on costs that are considered allowable under such contracts. Agreements that are not considered exchange transactions are recognized based as if there were contributions.

The University is the irrevocable remainder beneficiary of several forms of split-interest agreements, including charitable remainder trusts and charitable gift annuities. Contributions to these trusts are reported as increases in donor restricted net assets. The amount of contribution revenue recognized is reduced by an actuarial estimate of the trust's liability for payments to an intermediate income beneficiary (or beneficiaries) over the term of the trust.

Investment Income or Loss

Investment income or loss includes (a) interest, dividends, and realized and unrealized gains and losses on investments controlled by the College, (b) income received from, and changes in the fair value of, investments held in trusts by others, and (c) changes in valuation of alternative investments based on net asset value. In the absence of explicit donor stipulations for its use, investment income is reported as an increase in net assets without donor restriction. Change in the fair value of investments held in trust by others is reported as donor-restricted investment income or loss, consistent with the classification of underlying assets.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

May 31, 2023
(With Comparative Information as of May 31, 2022)

(In Thousands)

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

(s) Revenue Recognition and Release of Restrictions (Continued)

Auxiliary Enterprises

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public. A fee is charged for the goods or services, which may or may not equal the costs of the goods or services. Residence halls and food services make up the majority of auxiliary revenues. The distinguishing characteristic of auxiliary enterprises is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions. Payments for housing and dining services are due approximately 30 days prior to the start of the academic term. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, associated revenues are earned and recognized over the course of each term as the services are delivered.

Commercial Property

The University owns some residential properties or close by to the University's main campus. The properties are rented to individuals. These revenues are recorded as earned.

Release from Restrictions

Net assets are released from donor restrictions when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed. Donor restrictions on contributions made for the acquisition of long-lived assets are released when the stipulated assets are placed in service. Donor restrictions also expire upon termination of a split-interest gift agreement, which does not contain restrictions on the use of the remainder assets. These events are reported as net assets released from restrictions on the consolidated statements of activities.

Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition, fees, and auxiliary services:

	Summer Tuition and Fees Net of Discounting	Summer Room and Board	Total
Balance at May 31, 2021	\$ 2,220	\$ -	\$ 2,220
Applied/Forfeited	(2,220)	-	(2,220)
Performance Obligations	1,586	40	1,626
Balance at May 31, 2022	1,586	40	1,626
Applied/Forfeited	(1,586)	(40)	(1,626)
Performance Obligations	1,722	40	1,762
Balance at May 31, 2023	<u>\$ 1,722</u>	<u>\$ 40</u>	<u>\$ 1,762</u>

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

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(In Thousands)

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

(s) *Revenue Recognition and Release of Restrictions (Continued)*

Deferred Revenue (Continued)

The balance of deferred revenue at May 31, 2023 less any refunds will be recognized as revenue as services are rendered. The College applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The College anticipates that students enrolled for the Fall semester will continue their studies in the Spring semester, and that students who receive their baccalaureate degree in December or May will be replaced by an equivalent number of new enrollees.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The University adopted the requirements of the guidance effective June 1, 2021 and has elected to apply the provisions of this standard to the beginning of the period of adoption, with certain practical expedients available. Lease disclosures for the year ended May 31, 2022 are made under prior lease guidance in FASB Accounting Standards Codification (ASC) 840.

The University has elected to adopt the package of practical expedients available in the year of adoption. The University has not elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the University's ROU assets.

The University has elected to separate nonlease components from lease components.

The standard did have a material impact on the statements of financial position, the statements of activities and statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases entered into during the year ended May 31, 2023, while the University's accounting for finance leases remained substantially unchanged. Lease liabilities and right-of-use assets represent the present value of the remaining operating lease payments discounted by the incremental borrowing rate of each lease.

At June 1, 2021, the date of lease implementation, the University did not have any leases for lease implementation.

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(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, 2023 and 2022, student loans represented less than 2% of total assets.

Student loans receivable consist of the following:

	2023	2022
Federal Government Programs, Gross	\$ 2,261	\$ 3,598
Income Share Agreements, Gross	466	516
Less: Allowance for Doubtful Accounts:		
Beginning of Year	(171)	(112)
Increases	(68)	(59)
End of Year	(239)	(171)
Student Loans Receivable, Net	\$ 2,488	\$ 3,943

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 \$9,928 and \$9,309 as of May 31, 2023 and 2022, respectively. Allowances for these receivables total \$650 and \$810 as of May 31, 2023 and 2022, respectively.

At May 31, 2023 and 2022, respectively, the balance of contract assets shown as student accounts receivable, net on the statement of financial position was \$2,488 and \$3,943. At the beginning of 2022, the balance of contract assets was \$5,414.

Government advances and related interest earned on Perkins Loans and Faculty Nurse Loans of \$2,903 and \$4,097 as of May 31, 2023 and 2022, respectively, are ultimately refundable to the United States Government and thus are reported as a liability.

At May 31 the following amounts were past due under student loan programs:

	2023	2022
1 - 240 Days Past Due	\$ 181	\$ 359
240 Days - 2 Years Past Due	-	16
2 Years - 5 Years Past Due	10	28
Over 5 Years Past Due	2	10
Total Past Due	\$ 193	\$ 413

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(3) Contributions Receivable

The following represents contributions receivable at May 31:

	2023	2022
In One Year or Less	\$ 3,815	\$ 3,728
Between One Year and Five Years	3,558	3,973
More than Five Years	557	646
Contributions Receivable, Gross	<u>7,930</u>	<u>8,347</u>
Less: Discount for Present Value	(157)	(111)
Less: Allowance for Uncollectible Contributions	<u>(2,128)</u>	<u>(1,950)</u>
Contributions Receivable, Net	<u>\$ 5,645</u>	<u>\$ 6,286</u>

The University uses discount rates ranging from 0.66% to 3.64% 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 \$557 and \$646 at May 31, 2023 and 2022, 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.

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(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, 2023 and 2022, the University had no specific plans or intentions to sell investments at amounts different than NAV.

NORWICH UNIVERSITY

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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, 2023 and 2022, as well as related strategy, liquidity and funding commitments:

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(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (Continued)

May 31, 2023

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
Short-Term Investments:							
Fixed Income	\$ -	\$ -	\$ -	\$ -	\$ -	Daily	1
Total Short-Term Investments	-	-	-	-	-		
Long-Term Investments:							
U.S. Equities:							
Large Cap	30,405	-	-	30,635	61,040	Daily	1
Small Cap	7,647	-	-	-	7,647	Daily	1
Total	38,052	-	-	30,635	68,687		
Global Equities Ex U.S.:							
Developed Markets	-	-	-	39,476	39,476	Daily/Monthly	1 - 15
Emerging Markets	-	-	-	14,053	14,053	Daily/Monthly	1 - 30
Total	-	-	-	53,529	53,529		
Fixed Income:							
U.S. Gov't Fixed Income	20,540	-	-	-	20,540	Daily	1
Multi-Sector Fixed Income	19,126	-	-	-	19,126	Daily	1
Total	39,666	-	-	-	39,666		
Hedge Funds:							
Long/Short	-	-	-	4,680	4,680	Quarterly/Annually	30 - 90
Absolute Return	-	-	-	25,897	25,897	Quarterly/Illiquid	45 - 90
Total	-	-	-	30,577	30,577		
Private Equity Investments ¹	-	-	-	3	3	Illiquid	N/A
Venture Capital Investments	-	-	-	59,090	59,090	Illiquid	N/A
Real Assets:							
Real Estate	-	-	-	34	34	Illiquid	N/A
Oil and Gas	-	-	70	-	70	Illiquid	N/A
Total	-	-	70	34	104		
Other Equity	-	-	929	-	929	Illiquid	N/A
Cash and Equivalents	10,345	-	-	-	10,345	Daily	1
Total Long-Term Investments	88,063	-	999	173,868	262,930		
Funds Held in Trust by Others ²	-	-	8,006	-	8,006	Illiquid	N/A
Total Assets	\$ 88,063	\$ -	\$ 9,005	\$ 173,868	\$ 270,936		
Liabilities:							
Interest Rate Swap Agreement	\$ -	\$ (5,447)	\$ -	\$ -	\$ (5,447)	Illiquid	N/A
Total Liabilities	\$ -	\$ (5,447)	\$ -	\$ -	\$ (5,447)		

¹ 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

² The underlying investments of all funds held by bond trustee are cash and cash equivalents

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(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (Continued)

May 31, 2022

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
Short-Term Investments:							
Fixed Income	\$ -	\$ -	\$ -	\$ -	\$ -	Daily	1
Total Short-Term Investments	-	-	-	-	-		
Long-Term Investments:							
U.S. Equities:							
Large Cap	24,515	-	-	29,322	53,837	Daily	1
Small Cap	6,492	-	-	-	6,492	Daily	1
Total	31,007	-	-	29,322	60,329		
Global Equities Ex U.S.:							
Developed Markets	-	-	-	38,742	38,742	Daily/Monthly	1 - 15
Emerging Markets	5,718	-	-	7,957	13,675	Daily/Monthly	1 - 30
Total	5,718	-	-	46,699	52,417		
Fixed Income:							
U.S. Gov't Fixed Income	21,025	-	-	-	21,025	Daily	1
Multi-Sector Fixed Income	20,602	-	-	-	20,602	Daily	1
Total	41,627	-	-	-	41,627		
Hedge Funds:							
Long/Short	-	-	-	5,599	5,599	Quarterly/Annually	30 - 90
Absolute Return ¹	-	-	-	25,880	25,880	Quarterly/Illiquid	45 - 90
Total	-	-	-	31,479	31,479		
Private Equity Investments ²	-	-	-	9	9	Illiquid	N/A
Venture Capital Investments	-	-	-	71,143	71,143	Illiquid	N/A
Real Assets:							
Real Estate	-	-	-	45	45	Illiquid	N/A
Oil and Gas	-	-	57	-	57	Illiquid	N/A
Total	-	-	57	45	102		
Other Equity	-	-	826	-	826	Illiquid	N/A
Cash and Equivalents	25,513	-	-	-	25,513	Daily	1
Total Long-Term Investments	103,865	-	883	178,697	283,445		
Funds Held in Trust by Others ³	-	-	8,602	-	8,602	Illiquid	N/A
Total Assets	\$ 103,865	\$ -	\$ 9,485	\$ 178,697	\$ 292,047		
Liabilities:							
Interest Rate Swap Agreement	\$ -	\$ (8,481)	\$ -	\$ -	\$ (8,481)	Illiquid	N/A
Total Liabilities	\$ -	\$ (8,481)	\$ -	\$ -	\$ (8,481)		

¹ 0.0 million is subject to a 2 year rolling lockup

² 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

³ The underlying investments of all funds held by bond trustee are cash and cash equivalents

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(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (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.

At May 31, 2023, the University's outstanding commitments to certain limited partnerships totaled \$1,148. The capital is called on an as-needed basis by the limited partnerships. University management estimates that \$500 will be called annually. The following is a summary of capital commitments by class:

	Outstanding Commitment
Class:	
Private Equity	\$ 33
Venture Capital	1,115
Total	\$ 1,148

The return on investments for the years ended May 31 was as follows:

	2023	2022
Dividends and Interest	\$ 2,910	\$ 1,547
Net Realized and Unrealized Losses	(6,256)	(37,846)
Less: Management Investment Fees	(1,023)	(1,011)
Total Return on Endowment Investments	(4,369)	(37,310)
Less: Investment Return Designated for Current Operations	(22,165)	(11,210)
Excess of Investment Returns Less than Amounts Distributed to Current Operations	\$ (26,534)	\$ (48,520)

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(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

(c) *Basis of Reporting (Continued)*

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

	2023	2022
Investment Return:		
Operating:		
Investment Income Used in Operations	\$ 22,165	\$ 11,210
Nonoperating Activities:		
Investment Return in Excess of Investment Income Used in Operations	(14,072)	(14,564)
Changes in Net Assets with Donor Restrictions:		
Investment Return in Excess of Investment Income Used in Operations	(12,462)	(34,855)
Investment Return	\$ (4,369)	\$ (38,209)

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.

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(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (Continued)

Investment liquidity as of May 31, 2023 is aggregated below based on redemption or sale period:

	Investment Fair Values
Investment Redemption or Sale Period:	
Daily	\$ 96,262
Monthly	45,329
Quarterly	61,213
Illiquid	60,126
Total as of May 31, 2023	\$ 262,930

The University uses the unit share method of accounting for income distribution for pooled investments. The individual pooled unit value as of May 31, 2023 and 2022 is \$6,288 and \$6,689, respectively. Gains or losses on investments are recognized as increases or decreases in net assets with donor restrictions.

(5) Bonds and Notes Payable

At May 31 bonds and notes payable consisted of:

	2023	2022
Bonds payable to Vermont Educational and Health Building Financing Agency 2008 – variable rate bonds 3.18% average rate 2023 (4.23% and 1.30% at May 31, 2023 and 2022, respectively), due in installments to 2037	\$ 49,200	\$ 51,700
Bonds payable to Vermont Educational and Health Building Financing Agency 2013 - fixed rate 3.00%, due in installments to 2043	19,695	20,360
Unamortized Bond Issuance Costs	(463)	(504)
Total Bonds and Notes Payable	\$ 68,432	\$ 71,556

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Notes to Consolidated Financial Statements

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(In Thousands)

(5) Bonds and Notes Payable (Continued)

Annual debt commitments (principal) are as follows:

Fiscal Year	Bonds and Notes Payable
2024	\$ 3,385
2025	3,405
2026	3,530
2027	3,750
2028	3,875
Thereafter	50,950
Less: Imputed Interest on Capital Leases	-
Total	<u>\$ 68,895</u>

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.

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. Northfield Savings Bank – up to \$7,000 at the Prime Rate less 75bp and expires March 11, 2024. As of May 31, 2023 and 2022, the line of credit had no outstanding balance.

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Notes to Consolidated Financial Statements

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(In Thousands)

(5) Bonds and Notes Payable (Continued)

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 30 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. Management believes they were in compliance with these covenants through May 31, 2021. 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.

Interest incurred on debt and swap agreements for the years ended May 31, 2023 and 2022 was \$3,097 and \$3,170, respectively. The interest amount capitalized was \$-0- 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. Unless both parties agree to renew the agreement will terminate on September 1, 2038.

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

The fair value of the interest rate swap agreement at May 31, 2023 and 2022 was (\$5,447) and (\$8,481), 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 2023 and 2022, the changes in value were gains (losses) of \$3,034 and \$5,480, respectively. If held to maturity, the change in the value of the swap will net to zero.

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(7) Leases - ASC 842 and 840

The University has one finance lease for equipment and two operating leases for vehicles. The monthly operating lease payments are less than \$1 and annual payments of \$661 for the financing lease with agreements with various dates through August 2026. The following table provides quantitative information for the University's leases at May 31:

Lease Cost:

Operating Lease Cost	\$	2
Finance Lease Cost:		
Amortization of Right to Use Asset		451
Variable Lease Cost		88
Finance Lease Cost		539
Total Lease Cost	\$	540

Other Information:

Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$	34
Right-of-Use Assets Obtained in Exchange for New Finance Lease Liabilities	\$	3,007
Weighted-Average Remaining Lease Term - Operating Leases		2.8 Years
Weighted-Average Remaining Lease Term - Finance Leases		4.2 Years
Weighted-Average Discount Rate - Operating and Finance Leases		5.00%

A maturity analysis of annual undiscounted cash flows for lease liabilities (principal and interest) are as follows as of May 31:

Fiscal Year	Amount
2024	\$ 673
2025	673
2026	672
2027	662
Total Lease Payments	2,680
Less: Interest	(303)
Present Value of Lease Liability	\$ 2,377
Short-Term Lease Liabilities	\$ 555
Long-Term Lease Liabilities	1,822
Total	\$ 2,377

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(7) Leases - ASC 842 and 840 (Continued)

Annual Lease Commitments (Principal) are as Follows:

<u>Fiscal Year</u>	<u>Lease Principal</u>
2024	\$ 555
2025	582
2026	610
2027	630
Total	<u>\$ 2,377</u>

(8) Land, Buildings, and Equipment

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

	<u>2023</u>	<u>2022</u>
Land and Land Improvements	\$ 34,473	\$ 34,461
Buildings	247,454	242,644
Personal Property	46,941	42,505
Total	<u>328,868</u>	<u>319,610</u>
Less: Accumulated Depreciation	161,344	152,066
Total	<u>167,524</u>	<u>167,544</u>
Construction in Progress	422	1,951
Total	<u>\$ 167,946</u>	<u>\$ 169,495</u>

Depreciation expense charged to operations was \$(9,280) and (\$9,765) in 2023 and 2022, respectively.

(9) 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, 2023, the University had \$325 of open commitments to contractors for construction work being performed.

NORWICH UNIVERSITY

Notes to Consolidated Financial Statements

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(10) Net Assets

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

	2023		2022	
	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity	Net Assets Not Invested in Perpetuity	Net Assets Invested in Perpetuity
Scholarship	\$ 892	\$ 44,090	\$ 1,223	\$ 41,688
Instruction, Academic, and Institutional Support	9,458	18,485	8,387	17,874
Split-Interest Agreements and Perpetual Trusts	1,817	8,234	2,149	8,783
Term Endowments	57	-	35	-
Unappropriated Endowment Gains	127,882	-	139,708	-
Total	140,106	70,809	151,502	68,345
Contributions Receivable, Net	5,088	-	5,640	-
Total	<u>\$ 145,194</u>	<u>\$ 70,809</u>	<u>\$ 157,142</u>	<u>\$ 68,345</u>

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

	2023	2022
Board-Designated Endowment Funds	\$ 73,074	\$ 84,869
Board-Designated Reserves	5,000	5,000
Undesignated	98,210	97,696
Total	<u>\$ 176,284</u>	<u>\$ 187,565</u>

(11) 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:

	2023	2022
Purpose Restrictions:		
Scholarship	\$ 659	\$ 677
Instruction, Academic, and Institutional Support	4,311	4,527
Research	6	10
Buildings	3,791	3,142
Total	<u>\$ 8,767</u>	<u>\$ 8,356</u>

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(12) Related Entity

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

	2023	2022
Revenues:		
Contract Revenue	\$ 2,823	\$ 1,961
Grant Revenue	2,182	5,247
Other Income	28	2
Total Revenues	<u>\$ 5,033</u>	<u>\$ 7,210</u>
Expenses:		
Program Services	\$ 4,806	\$ 4,067
Management and General	1,403	2,738
Total Expenses	<u>\$ 6,209</u>	<u>\$ 6,805</u>

(13) 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 \$2,827 and \$2,815, in fiscal 2023 and 2022, respectively.

(14) Endowment

The University's endowment consists of approximately 428 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

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(In Thousands)

(14) 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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 198,749	\$ 198,749
Board-Designated Endowment Funds	73,074	-	73,074
Total Endowed Net Assets	\$ 73,074	\$ 198,749	\$ 271,823

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(14) Endowment (Continued)

(a) *Relevant Law (Continued)*

Changes in endowment net assets for the year ended May 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 1, 2022	\$ 84,869	\$ 208,088	\$ 292,957
Investment Return:			
Investment Income	865	1,021	1,886
Net Appreciation (Realized and Unrealized)	(2,579)	(3,676)	(6,255)
Total Investment Loss	(1,714)	(2,655)	(4,369)
Contributions	278	2,736	3,014
Endowment Assets for Expenditure	(12,359)	(9,806)	(22,165)
Other Transfers	2,000	386	2,386
Endowment Net Assets, May 31, 2023	\$ 73,074	\$ 198,749	\$ 271,823

The endowment net assets for the year ended May 31, 2023 include \$8,006 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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 208,088	\$ 208,088
Board-Designated Endowment Funds	84,869	-	84,869
Total Endowed Net Assets	\$ 84,869	\$ 208,088	\$ 292,957

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(14) Endowment (Continued)

(a) *Relevant Law (Continued)*

Changes in endowment net assets for the year ended May 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 1, 2021	\$ 99,889	\$ 238,352	\$ 338,241
Investment Return:			
Investment Income	174	362	536
Net Appreciation (Realized and Unrealized)	(12,316)	(26,429)	(38,745)
Total Investment Loss	(12,142)	(26,067)	(38,209)
Contributions	136	3,716	3,852
Endowment Assets for Expenditure	(2,422)	(8,788)	(11,210)
Other Transfers	(592)	875	283
Endowment Net Assets, May 31, 2022	\$ 84,869	\$ 208,088	\$ 292,957

The endowment net assets for the year ended May 31, 2022 include \$8,602 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 are reported in net assets with donor restrictions. As of May 31, 2023, the original value of the funds totaled \$6,776 and the market value was \$5,924 resulting in a deficiency of approximately \$852. As of May 31, 2022, the original value of the funds totaled \$5,521 and the market value was \$4,961 resulting in a deficiency of approximately \$560. 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.

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(15) 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 revenue, supplemented by a draw on endowment resources sufficient 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 2023 and 2022.

As of May 31, 2023 and 2022, the following table shows 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:

	<u>2023</u>	<u>2022</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 20,544	\$ 20,182
Accounts and Notes Receivable	9,928	9,309
Contributions Receivable - Current	3,815	3,728
Investments Convertible to Cash in the Next 12 Months	<u>202,804</u>	<u>181,365</u>
Total	237,091	214,584
Less: Restrictions		
Less: Endowment Investments not Appropriated for Policy Draw	(177,479)	(168,201)
Add: Endowment Investments Appropriated for Strategic Initiative	-	-
Less: Board-Designated Reserves	<u>(5,000)</u>	<u>(5,000)</u>
Total	<u>(182,479)</u>	<u>(173,201)</u>
Financial Assets Available to Meet General Expenditures	<u>\$ 54,612</u>	<u>\$ 41,383</u>

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(In Thousands)

(16) 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).

	2023					
	Salaries and Benefits	Professional Services	Supplies and Other	Depreciation Amortization and Interest	Operation and Maintenance	Total Expenses
Instruction	\$ 22,521	\$ 1,793	\$ 2,730	\$ 3,173	\$ 1,450	\$ 31,667
Academic Support	4,607	2,087	2,868	837	380	10,779
Research	2,456	9,079	572	62	29	12,198
Student Services	13,215	4,219	3,416	3,286	1,500	25,636
Institutional Support	11,047	4,186	4,189	607	277	20,306
Auxiliary Enterprises	1,841	6,357	1,173	4,456	7,658	21,485
Operation and Maintenance	4,729	1,768	4,797	-	(11,294)	-
Total Operating Expenditures	60,416	29,489	19,745	12,421	-	122,071
Related Entity (Research) Expenses	4,355	1,199	655	-	-	6,209
Fundraising Expenses and Other	2,404	441	463	-	-	3,308
Strategic Initiative Expenses	(46)	(1,555)	-	-	-	(1,601)
Total Nonoperating Expenditures	6,713	85	1,118	-	-	7,916
Total Expenditures	\$ 67,129	\$ 29,574	\$ 20,863	\$ 12,421	\$ -	\$ 129,987
	2022					
	Salaries and Benefits	Professional Services	Supplies and Other	Depreciation Amortization and Interest	Operation and Maintenance	Total Expenses
Instruction	\$ 22,155	\$ 1,434	\$ 2,331	\$ 3,325	\$ 1,159	\$ 30,404
Academic Support	5,935	2,318	2,080	877	304	11,514
Research	1,944	4,741	428	65	23	7,201
Student Services	12,100	6,861	3,263	3,403	1,186	26,813
Institutional Support	11,777	4,935	4,319	657	229	21,917
Auxiliary Enterprises	1,682	6,521	1,366	4,654	7,191	21,414
Operation and Maintenance	4,216	1,783	4,093	-	(10,092)	-
Total Operating Expenditures	59,809	28,593	17,880	12,981	-	119,263
Related Entity (Research) Expenses	4,653	1,589	563	-	-	6,805
Fundraising Expenses and Other	1,912	504	291	-	-	2,707
Strategic Initiative Expenses	133	434	27	-	-	594
Total Nonoperating Expenditures	6,698	2,527	881	-	-	10,106
Total Expenditures	\$ 66,507	\$ 31,120	\$ 18,761	\$ 12,981	\$ -	\$ 129,369

(17) Subsequent Events

The University has evaluated subsequent events through October 18, 2023, which is the date that the consolidated financial statements were approved and issued.

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(18) Composite Score

Supplemental Disclosures - U.S. Department of Education Fiscal Year Ended June 30, 2023

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.

Net Assets

1	Net assets with donor restrictions: restricted in perpetuity	\$	70,809
2	Other net assets with donor restrictions (not restricted in perpetuity):		
	a. Annuities with donor restrictions	\$	1,210
	b. Term endowments		-
	c. Life income funds (trusts)		557
	d. Total annuities, term endowments, and life income funds with donor restrictions	<u>\$</u>	<u>1,767</u>

Property, Plant, and Equipment, net

3	Pre-implementation property, plant, and equipment, net		
	a. Ending balance of last financial statements submitted to and accepted by the Department of Education (June 30, 2022, financial statement)	\$	157,245
	b. Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard		-
	c. Less subsequent depreciation and disposals (net of accumulated depreciation)		<u>(6,841)</u>
	d. Balance pre-implementation property, plant, and equipment, net		150,404
4	Debt financed post-implementation property, plant, and equipment, net		
	Long-lived assets acquired with debt subsequent to June 30, 2019:		
	a. Equipment		-
	b. Land improvements		-
	c. Building		-
	d. Total property, plant, and equipment, net acquired with debt exceeding 12 months		<u>-</u>
5	Construction in progress - acquired with debt subsequent to June 30, 2019		-
6	Post-implementation property, plant, and equipment, net, acquired without debt:		
	a. Long-lived assets acquired without use of debt subsequent to June 30, 2019		14,986
7	Total Property, Plant, and Equipment, net - June 30, 2023	<u>\$</u>	<u>165,390</u>

Debt to be excluded from expendable net assets

8	Pre-implementation debt:		
	a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019):	\$	80,313
	b. Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standard.		-
	c. Less subsequent debt repayments		<u>(11,881)</u>
	d. Balance Pre-implementation Debt		68,432
9	Allowable post-implementation debt used for capitalized long-lived assets:		
	a. Equipment - all capitalized		-
	b. Land improvements		-
	c. Buildings		-
	d. Balance Post-implementation Debt		<u>-</u>
10	Construction in progress (CIP) financed with debt or line of credit		-
11	Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value		-
		<u>\$</u>	<u>68,432</u>

Unsecured related-party receivables

19	Secured related-party receivables	\$	-
20	Unsecured related party receivables		12
21	Total secured and unsecured related-party receivables	<u>\$</u>	<u>12</u>

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(18) Composite Score (Continued)

Supplemental Schedule - Financial Responsibility Calculation Supplemental Components

Primary Reserve Ratio:		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 176,284
2	SFP	Net assets with donor restrictions	216,003
3	Supplemental Disclosure (SD) Line 1	Net assets restricted in perpetuity	70,809
4	SD Line 20	Unsecured related-party receivable	12
5	SD Line 2d	Donor restricted annuities, term endowments, life income funds	1,767
6	SD Line 3d	Property, plant, and equipment pre-implementation	150,404
7	SD Line 4d	Property, plant, and equipment post-implementation with outstanding debt for original purchase	-
8	SD Line 5	Construction in progress purchased with long-term debt	-
9	SD Line 14	Lease right-of-use asset, pre-implementation (grandfather of leases option not chosen)	-
10	SD Line 15	Lease right-of-use asset, post-implementation	2,555
11	SFP	Intangible assets	-
12	SFP	Post-employment and pension liabilities	-
13	SD Line 8d	Long-term debt - for long-term purposes pre-implementation	68,432
14	SD Line 9d	Long-term debt - for long-term purposes post-implementation	-
15	SD Line 10	Line of credit for construction in progress	-
16	SD Line 17	Pre-implementation right-of-use asset liability	-
17	SD Line 18	Post-implementation right-of-use asset liability	2,377
		Total Expenses and Losses:	
18	Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	124,733
19	SOA	Nonservice component of pension/postemployment (nonoperating) cost, (if loss)	-
20	SD Line 22	Sale of fixed assets (if loss)	-
21	SOA	Change in value of interest-rate swap agreements (if loss)	(3,034)
<hr/>			
Equity Ratio:		Modified Net Assets:	
22	SFP	Net assets without donor restrictions	\$ 176,284
23	SFP	Net assets with donor restrictions	216,003
24	SFP	Intangible assets	-
25	SD Line 20	Unsecured related-party receivables	12
		Modified Assets:	
26	SFP	Total assets	487,809
27	SD Line 14	Lease right-of-use asset pre-implementation	-
28	SFP	Intangible assets	-
29	SD Line 20	Unsecured related-party receivables	12
<hr/>			
Net Income Ratio:		Change in Net Assets Without Donor Restrictions	
30	SOA		\$ (11,281)
		Total Revenues and Gains:	
31	SOA	Total operating revenue (including net assets released from restrictions)	132,620
32	SOA	Investments gain, net (aggregate operating and nonoperating interest, dividends, realized and unrealized gains)	(26,534)
33	SOA	Nonservice component of pension/postemployment (nonoperating) cost (if gain)	-
34	SOA	Pension-related changes other than net periodic pension costs (if gain)	-
35	SOA	Change in value of annuity agreement (typically in nonoperating)	(133)
36	SOA	Change in value of interest-rate swap agreements (if gain)	3,034
37	SD Line 25	Sale of fixed assets (if gain)	-
38	SOA	Other gains	230