



NORWICH UNIVERSITY

Consolidated Financial Statements

May 31, 2011

(With Comparative Information as of May 31, 2010)

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The Board of Trustees
Norwich University:

We have audited the accompanying consolidated statement of financial position of Norwich University (the University) as of May 31, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2010 consolidated financial statements and, in our report dated October 20, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norwich University as of May 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 19, 2011

NORWICH UNIVERSITY

Consolidated Statements of Financial Position

May 31, 2011

(With Comparative Information as of May 31, 2010)

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 18,892	12,839
Accounts and notes receivable, net (note 2)	2,576	2,791
Contributions receivable, net (note 3)	10,140	10,052
Inventory, prepaid expenses, and other assets	7,488	6,533
Loans receivable, net (note 2)	8,907	9,006
Cash held as collateral by swap counterparty (note 6)	3,920	11,501
Investments (note 4)	174,258	148,415
Beneficial interest in perpetual trust	5,570	5,097
Deposits held by Trustees (notes 5)	1,222	2,859
Land, buildings, and equipment, net (notes 5 and 7)	106,089	104,495
Total assets	<u>\$ 339,062</u>	<u>313,588</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 18,722	20,233
Deferred revenue, advance payments, and annuity and life income obligations	6,516	6,603
Bonds payable (note 5)	74,400	77,200
Refundable U.S. government grants (note 8)	6,243	6,286
Total liabilities	<u>105,881</u>	<u>110,322</u>
Commitments and contingencies (note 9)		
Net assets:		
Unrestricted	76,914	64,753
Temporarily restricted (note 11)	116,165	99,727
Permanently restricted (note 11)	40,102	38,786
Total net assets	<u>233,181</u>	<u>203,266</u>
Total liabilities and net assets	<u>\$ 339,062</u>	<u>313,588</u>

See accompanying notes to consolidated financial statements.

NORWICH UNIVERSITY
Consolidated Statements of Activities
Year ended May 31, 2011
(With Comparative Summarized Information for the Year ended May 31, 2010)
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
Operating revenues and other support:					
Tuition and fees	\$ 85,191	—	—	85,191	79,584
Residence and dining	17,887	—	—	17,887	16,113
Uniform sales	2,352	—	—	2,352	2,100
Less scholarship, grants, and other aid	<u>(30,596)</u>	<u>—</u>	<u>—</u>	<u>(30,596)</u>	<u>(25,226)</u>
Net tuition and fees	74,834	—	—	74,834	72,571
Federal appropriations, grants, and contracts	2,161	—	—	2,161	2,324
Private contributions	610	523	—	1,133	1,352
Investment income used in operations (note 4)	6,965	800	—	7,765	8,160
Campaign net assets appropriated to operations	2,600	—	—	2,600	1,761
Other auxiliary services	1,600	—	—	1,600	1,589
Other income	<u>2,329</u>	<u>—</u>	<u>—</u>	<u>2,329</u>	<u>2,068</u>
Total revenues and other support	91,099	1,323	—	92,422	89,825
Net assets released from restrictions (note 12)	<u>896</u>	<u>(896)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues and other support and net assets released from restrictions	<u>91,995</u>	<u>427</u>	<u>—</u>	<u>92,422</u>	<u>89,825</u>
Operating expenses:					
Instruction	24,820	—	—	24,820	24,895
Academic support	8,297	—	—	8,297	8,371
Research	900	—	—	900	886
Student services	22,104	—	—	22,104	20,640
Institutional support	15,136	—	—	15,136	14,630
Auxiliary enterprises	<u>16,500</u>	<u>—</u>	<u>—</u>	<u>16,500</u>	<u>15,599</u>
Total expenditures	<u>87,757</u>	<u>—</u>	<u>—</u>	<u>87,757</u>	<u>85,021</u>
Change in net assets from operating activities	<u>4,238</u>	<u>427</u>	<u>—</u>	<u>4,665</u>	<u>4,804</u>
Nonoperating activities:					
Investment return in excess of spending plan (note 4)	7,008	17,972	—	24,980	13,308
Campaign gifts and pledges	18	4,523	790	5,331	3,560
Campaign net assets appropriated to operations	—	(2,600)	—	(2,600)	(1,761)
Change in split interest agreements	360	455	2	817	296
Change in perpetual trust	—	—	473	473	632
Related entity revenue (note 13)	6,671	—	—	6,671	5,796
Related entity expense (note 13)	(6,626)	—	—	(6,626)	(5,608)
Reclassifications	10	(61)	51	—	—
Other expenses	(3,796)	—	—	(3,796)	(3,236)
Net assets released from restrictions (note 12)	<u>4,278</u>	<u>(4,278)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets from nonoperating activities	<u>7,923</u>	<u>16,011</u>	<u>1,316</u>	<u>25,250</u>	<u>12,987</u>
Change in net assets	12,161	16,438	1,316	29,915	17,791
Net assets at beginning of year	<u>64,753</u>	<u>99,727</u>	<u>38,786</u>	<u>203,266</u>	<u>185,475</u>
Net assets at end of year	<u>\$ 76,914</u>	<u>116,165</u>	<u>40,102</u>	<u>233,181</u>	<u>203,266</u>

See accompanying notes to consolidated financial statements.

NORWICH UNIVERSITY
Consolidated Statements of Cash Flows
Year ended May 31, 2011
(With Comparative Information for the Year ended May 31, 2010)
(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 29,915	17,791
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,423	5,847
Change in estimated value of interest rate swap agreements	493	156
Net realized and unrealized (gains) losses on investments	(30,950)	(19,440)
Contributions restricted for plant	(1,835)	(3,035)
Contributions restricted for endowment	(764)	(931)
Change in accounts receivable	208	(479)
Change in contributions receivable	(88)	2,167
Change in inventory, prepaid expenses, and other assets	(181)	(700)
Change in beneficial interest in perpetual trust	(473)	(632)
Change in accounts payable and accrued liabilities	60	835
Change in deferred revenue, advanced payments, and annuity life income obligations	(87)	(197)
Net cash provided by operating activities	<u>2,721</u>	<u>1,382</u>
Cash flows from investing activities:		
Purchase of investments	(6,724)	(8,628)
Proceeds from sale and maturity of investments	11,033	14,300
Change in student loans receivable, net	99	(60)
Change in restricted endowment investments	—	1,319
Decrease in other loans/receivables	7	18
Acquisition of land, buildings and equipment	(10,057)	(12,575)
Net cash used in investing activities	<u>(5,642)</u>	<u>(5,626)</u>
Cash flows from financing activities:		
Change in refundable U.S. government advances	(43)	64
Contributions restricted for endowment	764	931
Contributions restricted for plant	1,835	3,035
Deposits held by bond trustee	1,637	7,542
Cash held as collateral by swap counterparty	7,581	(3,501)
Debt repayment	(2,800)	(1,000)
Net cash provided by financing activities	<u>8,974</u>	<u>7,071</u>
Net increase in cash and cash equivalents	6,053	2,827
Cash and cash equivalents at beginning of year	<u>12,839</u>	<u>10,012</u>
Cash and cash equivalents at end of year	<u>\$ 18,892</u>	<u>12,839</u>
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	\$ 2,779	3,220

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

May 31, 2011

(With Comparative Information as of May 31, 2010)

(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 30 undergraduate degree programs, the University offers an on-line masters degree in ten programs and a residential masters in architecture.

(b) *Basis of Presentation*

External financial reporting for not-for-profit 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 financial statements, net asset categories are as follows:

Unrestricted – 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.

Temporarily Restricted – 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 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).

Permanently Restricted – 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 unrestricted net assets. Donor restricted gifts that are received and spent within the same operating cycle are reported as unrestricted revenues. When a donor restriction expires because the time or purpose stipulation has been met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts of long-lived assets are reported as unrestricted revenue, only if there is no purpose or use restriction. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

(c) *Principles of Consolidation*

The 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

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are considered by management to have been conducted on an arms-length basis. The net amount due from (to) NUARI as of May 31, 2011 and 2010 is \$27 and \$82, respectively. For additional information about NUARI refer to footnote 13.

(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, 2011 and 2010 include nonreadily marketable investments, asset retirement obligations, the collectibility of accounts, loans and contributions receivable, and the valuation of split interest agreements.

(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 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 the revenues and expenses of NUARI.

(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, 2011 and 2010, cash and cash equivalents include \$1,933 and \$4,129, 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.

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University management is responsible for the fair value measurement of investments reported in the 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 balance sheet date are reasonable.

See footnote 4 for a summary of the inputs used as of May 31, 2011 in determining the fair value of the University's investments.

At May 31, 2011 and 2010, the carrying values of the University's cash and cash equivalents, receivables, accounts payable and debt approximated their fair values. An approximate estimate of the fair values of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the U.S. government or its designees.

(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.

The Board of Trustees has adopted a spending policy whereby the University utilizes 5.0% for each of the years ended May 31, 2011 and 2010, 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, 2011 and 2010, \$7,765 and \$8,160, respectively, was distributed for use in operations.

Temporarily restricted term endowment funds consist of a single gift which, based on the donor's stated intent, becomes unrestricted in fiscal year 2014. Until such time, the principal may not be spent, and the income earned is restricted to fund scholarships.

(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, 2011 and 2010 were \$3,155 and \$2,406, 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.

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Pooled income funds are contributions of many donors' life income gifts and are pooled and invested as a group. The value of pooled income funds was \$351 and \$318 at May 31, 2011 and 2010, respectively. Donors receive periodic income distributions based on their proportion of the total pooled fund as determined by units assigned at the date of the donor's entry into the pooled fund. Upon the beneficiary's death, the title of their beneficial interest in the investment pool is transferred in its entirety to the University.

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 \$1,991 and \$1,719 at May 31, 2011 and 2010, respectively.

(k) Beneficial Interest in Perpetual Trust

At May 31, 2011 and 2010, funds held in trust of \$5,570 and \$5,097, 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.

(m) Inventory

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

(n) Other Assets

Other assets consist 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 \$462 and \$485 at May 31, 2011 and 2010, respectively.

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(In thousands)

(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.

(p) Fundraising Expense

Fundraising expense was \$2,291 and \$2,011 for the years ended May 31, 2011 and 2010, respectively, and is classified as nonoperating and other expenses in the accompanying statement of activities.

(q) Income Taxes

The University is a not-for-profit corporation as described in Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and is generally exempt from federal income tax under Section 501(a) of the Code. The University believes it has taken no significant uncertain tax positions.

(r) 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 statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets, if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the 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.

(2) Allowances for Uncollectible Accounts and Loans Receivable

Accounts receivable are net of an allowance for uncollectible accounts of \$590 and \$600 at May 31, 2011 and 2010, respectively.

Loans receivable are net of an allowance for uncollectible loans of \$408 and \$446 at May 31, 2011 and 2010, respectively.

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(In thousands)

(3) Contributions Receivable

The following represents contributions receivable at May 31:

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 4,019	3,649
Between one year and five years	5,817	6,191
More than five years	<u>2,666</u>	<u>2,799</u>
Contributions receivable, gross	12,502	12,639
Less discount for present value	731	958
Less allowance for uncollectible contributions	<u>1,631</u>	<u>1,629</u>
Contributions receivable, net	<u>\$ 10,140</u>	<u>10,052</u>

The University uses discount rates ranging from 3.05% to 7.01% as established upon receipt of the contributions to determine the present value of contributions receivable.

The University has six charitable remainder trust agreements 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 \$1,991 and \$1,719 at May 31, 2011 and 2010, respectively.

(4) Investments and Fair Value Measurements

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.

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

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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.

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, 2011 and 2010, the University had no specific plans or intentions to sell investments at amounts different than NAV.

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.

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The following tables summarize the University's investments and other assets by major category in the fair value hierarchy as of May 31, 2011 and 2010, as well as related strategy, liquidity and funding commitments:

Description	May 31, 2011				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments by strategy:						
U.S. Equities:						
Large cap	\$ 21,207	4,846	9,481	35,534	Daily/Quarterly	1 – 60
Small cap	9,203	—	—	9,203	Daily	1
Total	30,410	4,846	9,481	44,737		
Global equities ex U.S.:						
Developed markets	4,997	23,272	—	28,269	Daily/Monthly	1 – 15
Emerging markets	6,927	5,107	—	12,034	Daily/Monthly	1 – 30
Total	11,924	28,379	—	40,303		
Fixed income:						
U.S. gov't fixed income	5,461	—	—	5,461	Daily	1
Int'l gov't fixed income	2,150	—	—	2,150	Daily	1
Multi-sector fixed income	13,811	—	—	13,811	Daily	1
Total	21,422	—	—	21,422		
Hedge funds:						
Long/short	—	4,036	12,088	16,124	Quarterly/Annually	30 – 90
Absolute return ¹	—	—	18,667	18,667	Quarterly/Illiquid	45 – 90
Total	—	4,036	30,755	34,791		
Private equity investments ²	—	—	622	622	Illiquid	N/A
Venture capital investments	—	—	16,552	16,552	Illiquid	N/A
Real assets:						
Real estate	4,041	—	1,058	5,099	Daily/Illiquid	1 – N/A
Oil and gas	1,472	—	560	2,032	Daily/Illiquid	1 – N/A
Natural Resources	—	—	2,870	2,870	Annual	30
Commodities	4,051	—	—	4,051	Daily	1
Total	9,564	—	4,488	14,052		
Other equity	351	—	570	921	Illiquid	N/A
Cash and equivalents	858	—	—	858	Daily	1
Total investments	\$ 74,529	37,261	62,468	174,258		
Funds held by bond trustee ³	1,222	—	—	1,222	N/A	N/A
Funds held by swap counterparty ³	—	3,920	—	3,920	N/A	N/A
Funds held in trust by others ³	—	—	5,570	5,570	N/A	N/A
Total other assets	\$ 1,222	3,920	5,570	10,712		

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May 31, 2011						
Description	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Liabilities						
Interest rate swap agreement	\$ —	(10,661)	—	(10,661)	N/A	N/A
Total liabilities	<u>\$ —</u>	<u>(10,661)</u>	<u>—</u>	<u>(10,661)</u>		
¹ \$5.6 million is subject to a 2 year rolling lockup						
² Private equity and venture capital funds have average initial terms 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 others are cash and cash equivalents.						
May 31, 2010						
Description	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments by strategy:						
U.S. Equities:						
Large cap	\$ 18,543	5,120	7,458	31,121	Daily/Quarterly	1 – 60
Small cap	8,895	—	—	8,895	Daily	1
Total	<u>27,438</u>	<u>5,120</u>	<u>7,458</u>	<u>40,016</u>		
Global equities ex U.S.:						
Developed markets	3,594	20,490	—	24,084	Daily/Monthly	1 – 15
Emerging markets	5,276	4,024	—	9,300	Daily/Monthly	1 – 30
Total	<u>8,870</u>	<u>24,514</u>	<u>—</u>	<u>33,384</u>		
Fixed income:						
U.S. gov't fixed income	5,138	—	—	5,138	Daily	1
Int'l gov't fixed income	1,936	—	—	1,936	Daily	1
Multi-sector fixed income	13,134	—	—	13,134	Daily	1
Total	<u>20,208</u>	<u>—</u>	<u>—</u>	<u>20,208</u>		
Hedge funds:						
Long/short	—	3,202	9,937	13,139	Quarterly/Annually	30 – 90
Absolute return ¹	—	—	16,962	16,962	Quarterly/Illiquid	45 – 90
Total	<u>—</u>	<u>3,202</u>	<u>26,899</u>	<u>30,101</u>		
Private equity investments ²	—	—	723	723	Illiquid	N/A
Venture capital investments	—	—	12,806	12,806	Illiquid	N/A
Real assets:						
Real estate	3,085	—	1,137	4,222	Daily/Illiquid	1 – N/A
Oil and gas	1,048	—	540	1,588	Daily/Illiquid	1 – N/A
Commodities	2,943	—	—	2,943	Daily	1
Total	<u>7,076</u>	<u>—</u>	<u>1,677</u>	<u>8,753</u>		

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Description	May 31, 2010				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Other equity	\$ 318	—	757	1,075	Illiquid Daily	N/A 1
Cash and equivalents	1,349	—	—	1,349		
Total investments	<u>\$ 65,259</u>	<u>32,836</u>	<u>50,320</u>	<u>148,415</u>		
Funds held by bond trustee ³	\$ 2,859	—	—	2,859	N/A	N/A
Funds held by swap counterparty ³	—	11,501	—	11,501	N/A	N/A
Funds held in trust by others ³	—	—	5,097	5,097	N/A	N/A
Total other assets	<u>\$ 2,859</u>	<u>11,501</u>	<u>5,097</u>	<u>19,457</u>		
Liabilities:						
Interest rate swap agreement	\$ —	(10,168)	—	(10,168)	N/A	N/A
Total liabilities	<u>\$ —</u>	<u>(10,168)</u>	<u>—</u>	<u>(10,168)</u>		

¹ \$4.7 million is subject to a 2 year rolling lockup

² Private equity and Venture capital funds have average initial terms 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 others are cash and cash equivalents.

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 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.

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The following tables are a reconciliation of Level 3 investments for the years ending May 31, 2011 and 2010:

	<u>Equities</u>	<u>Hedge funds</u>	<u>Private equities/ venture capital</u>	<u>Real assets and other assets</u>	<u>Total</u>
May 31, 2010	\$ 7,458	26,899	13,529	7,531	55,417
Cap calls/purchases	—	1,000	2,176	3,090	6,266
Liquidations/distributions	—	(22)	(2,621)	(298)	(2,941)
Expenses	(66)	(74)	(16)	—	(156)
Income	47	748	(241)	30	584
Realized gain (loss)	—	—	1,604	15	1,619
Unrealized gain (loss)	2,042	2,204	2,743	260	7,249
May 31, 2011	<u>\$ 9,481</u>	<u>30,755</u>	<u>17,174</u>	<u>10,628</u>	<u>68,038</u>

	<u>Equities</u>	<u>Hedge funds</u>	<u>Private equities/ venture capital</u>	<u>Real assets and other assets</u>	<u>Total</u>
May 31, 2009	\$ 32,024	23,780	9,838	6,920	72,562
Reclassify to level 2	(26,025)	(3,148)	—	—	(29,173)
Cap calls/purchases	—	3,000	2,358	97	5,455
Liquidations/distributions	—	(32)	(1,824)	(37)	(1,893)
Expenses	—	(61)	(88)	—	(149)
Income	—	682	(209)	(38)	435
Realized gain (loss)	—	—	974	92	1,066
Unrealized gain (loss)	1,459	2,678	2,480	497	7,114
May 31, 2010	<u>\$ 7,458</u>	<u>26,899</u>	<u>13,529</u>	<u>7,531</u>	<u>55,417</u>

Amounts reclassified to Level 2 include the expiration of investment lockup periods and management's assessment of the liquidity of the underlying investments.

At May 31, 2011, the University's outstanding commitments to certain limited partnerships totaled \$4,696. The capital is called on an as-needed basis by the limited partnerships. University management estimates that \$1,900 will be called annually. The following is a summary of capital commitments by class:

<u>Class</u>	<u>Outstanding commitment</u>
Real estate	\$ 24
Oil and gas	138
Private equity	217
Venture capital	4,317
Total	<u>\$ 4,696</u>

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The return on investments for the years ended May 31, 2011 and 2010 was as follows:

	2011	2010
Dividends and interest	\$ 3,290	2,863
Net realized and unrealized gains	30,424	19,440
Less management investment fees	(969)	(835)
Total return on endowment investments	32,745	21,468
Less investment return designated for current operations	(7,765)	(8,160)
Excess of investment return less than amounts distributed for current operations	\$ 24,980	13,308

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

	2011	2010
Investment return:		
Operating:		
Investment income used in operations	\$ 7,765	8,160
Nonoperating activities:		
Investment return in excess of investment income used in operations	7,008	—
Changes in temporarily restricted net assets:		
Investment return in excess of investment income used in operations	17,972	13,308
Investment return	\$ 32,745	21,468

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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Investment liquidity as of May 31, 2011 is aggregated below based on redemption or sale period:

	Investment fair values
Investment redemption or sale period:	
Daily	\$ 74,178
Monthly	33,225
Quarterly	30,683
Annually	10,800
Subject to rolling lockups	5,576
Illiquid	19,796
Total as of May 31, 2011	\$ 174,258

The University uses the unit share method of accounting for income distribution for pooled investments. The individual pooled unit value as of May 31, 2011 and 2010 is \$4.394 and \$3.755, respectively. Gains or losses on investments are recognized as increases or decreases in temporarily restricted net assets unless their use is permanently restricted by explicit donor stipulations or by law.

(5) Bonds Payable

At May 31, 2011 and 2010, bonds payable consisted of:

	2011	2010
Bonds payable to Vermont Educational and Health Building Financing agency 2008 – variable rate bonds 0.22% average rate 2011 (0.15% and 0.26% at May 31, 2011 and 2010, respectively), due in installments to 2038	\$ 74,400	77,200
Total bonds payable	\$ 74,400	77,200

The aggregate amounts of bonds payable are due annually as follows:

	Bonds payable
2012	\$ 1,600
2013	1,800
2014	1,800
2015	1,900
2016	1,900
Thereafter	65,400
	\$ 74,400

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The bonds bear interest at the weekly interest rate, as determined by the remarketing agent (based on the examination of comparable tax-exempt obligations). Interest on the bonds is payable monthly in arrears on the first Wednesday of each month.

The University has entered into a letter of credit agreement with RBS Citizens, National Association to guarantee full and complete principal and interest payments to the trustee. On December 1, 2009, TD Bank, N.A. replaced RBS Citizens as the letter of credit provider. The letter of credit is secured by the pledge and assignment of a security interest in the University's gross receipts.

Under the letter of credit agreement the University is required to maintain compliance with certain financial covenants including:

1. The University covenants to maintain a ratio of Income Available for Debt Service to Annual Debt Service of at least 1.15 to 1.0, calculated annually.
2. The University covenants to maintain a ratio of Adjusted Expendable Net Assets to Long Term Indebtedness of at least 1.0 to 1.0, calculated semi-annually.
3. The University agrees not to create nor permit to create any lien on the Property other than the Permitted Liens. Further, the University agrees not to create further long-term indebtedness, unless certain ratios are met.

The University was in compliance with these covenants through May 31, 2011.

Under the trust agreement the University is required to make equal monthly payments into the "Principal Account" totaling the principal due on September 1 of each year. The balance in the "Principal Account" at May 31, 2011 was \$1,201, held by Chittenden Bank as trustee.

Under the trust agreement, the proceeds from the bonds, after payments and other required deposits, are required to be held in the "Project Fund" account for payment of the costs of the project as they come due. The balance in the "Project Fund" at May 31, 2011 was \$0, held by Chittenden Bank as trustee.

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 275bp and expires January 31, 2012. As of May 31, 2011 and 2010, the line of credit had no outstanding balance.
2. TD Bank – up to \$2,000 at the One Month LIBOR plus 200bp. and expires October 1, 2011. As of May 31, 2011, the line of credit had no outstanding balance.

Interest incurred on bonds payable and swap agreements for the years ended May 31, 2011 and 2010 was \$2,781 and \$3,265, respectively. The interest amount capitalized for the years ended May 31, 2011 and 2010 was \$0 and \$248, respectively.

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(6) Interest Rate Swap Agreement

On June 11, 2008 the University entered into an amended swap agreement, to reflect a change in notional value of from \$50,750 to \$78,200, and a change in termination date from August 2037 to August 2038. The rate paid by the University decreased from 3.6795% to 3.6220%. The rate paid by the counterparty remains at 67% of the one-month United States Dollar-LIBOR rate.

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, 2011 and 2010 was \$(10,661) and \$(10,168), 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 statement of activities. In 2011 and 2010, the changes in value were losses of \$493 and \$156, respectively. If held to maturity, the change in the value of the swap will net to zero.

Under the terms of the amended swap agreement, the University is required to post collateral up to the amount of the fair value of the swap agreement liability. The University is obligated to post the collateral one business day after the counter-party calls for it. As of May 31, 2011 and 2010, the University had a collateral balance held by the counter-party in the amount of \$3,920 and \$11,501, respectively, which is included in cash held as collateral by swap counterparty.

(7) Land, Buildings, and Equipment

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

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 9,350	8,336
Buildings	138,189	126,901
Personal property	15,007	13,633
	<u>162,546</u>	<u>148,870</u>
Less accumulated depreciation	57,563	51,195
	<u>104,983</u>	<u>97,675</u>
Construction in progress	1,106	6,820
	<u>\$ 106,089</u>	<u>104,495</u>

Depreciation expense charged to operations was \$6,358 and \$5,794 in 2011 and 2010, respectively.

(8) Refundable U.S. Government Grants

Government advances and related interest earned on Perkins Loans are ultimately refundable to the United States Government and thus are reported as a liability.

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(9) 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.

(10) U.S. Department of Education Program Review

In March 2007, the U.S. Department of Education commenced a program review of the University's administration of the Title IV programs. The Department of Education issued a Program Review Report dated January 17, 2008. The report contains a finding that the University improperly considered students who did not qualify as an independent student under one of the six categories under Section 480(d)(7) of the Higher Education Act of 1965, as amended, (HEA) and Dear Colleague Letter GEN-03-07.

The Department of Education requested that the University review the student files of students considered to have had their dependency status improperly classified. In addition, the University must revise its procedures to ensure compliance with Section 480(d)(7) of the HEA and Dear Colleague Letter GEN-03-07.

The University has provided the information requested by the Department of Education. A Final Program Review Determination letter has not been issued. An accrual has been made as of May 31, 2011 to estimate the potential liability.

(11) Restricted Net Assets

Restricted net assets consisted of the following at May 31:

	2011		2010	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Scholarship	\$ 228	20,837	309	20,127
Instruction, academic and institutional support	5,526	13,562	7,245	13,436
Split-interest agreements and perpetual trusts	2,177	5,703	1,719	5,223
Term endowment	6,924	—	6,924	—
Unappropriated endowment gains	93,162	—	75,197	—
	<u>108,017</u>	<u>40,102</u>	<u>91,394</u>	<u>38,786</u>
Contributions receivable – net	8,148	—	8,333	—
	<u>\$ 116,165</u>	<u>40,102</u>	<u>99,727</u>	<u>38,786</u>

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(12) Net Assets Released from Restrictions

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

	<u>2011</u>	<u>2010</u>
Purpose restrictions:		
Scholarship	\$ 146	98
Instruction, academic and institutional support	3,334	6,232
Research	16	11
Buildings	4,278	2,051
	<u>\$ 7,774</u>	<u>8,392</u>

(13) Related Entity

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

	<u>2011</u>	<u>2010</u>
Revenues:		
Contract revenue	\$ 241	346
Grant revenue	6,425	5,441
Other income	5	9
Total revenues	<u>\$ 6,671</u>	<u>5,796</u>
Expenses:		
Program services	\$ 5,705	4,842
Management and general	921	766
Total expenses	<u>\$ 6,626</u>	<u>5,608</u>

(14) Retirement Plans

The University participates in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) 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 \$1,890 and \$1,754 in fiscal 2011 and 2010, respectively.

(15) Endowment

The University's endowment consists of approximately 315 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

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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 permanently restricted funds was the historic-dollar-value of a donor-restricted gift to endowment.

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 permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets, is classified as temporarily restricted net assets, until appropriated for spending by the Board of Trustees.

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Endowment net asset composition, not including pledges, by type of fund consists of the following at May 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (11)	93,382	40,101	133,472
Board-designated endowment funds	46,599	—	—	46,599
Total endowed net assets	<u>\$ 46,588</u>	<u>93,382</u>	<u>40,101</u>	<u>180,071</u>

Changes in endowment net assets for the year ended May 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2010	\$ 39,558	75,173	38,786	153,517
Investment return:				
Investment income	607	1,714	—	2,321
Net appreciation (realized and unrealized)	8,017	22,621	475	31,113
Total investment return	8,624	24,335	475	33,434
Contributions	19	—	789	808
Endowment assets for expenditure	(1,615)	(6,150)	—	(7,765)
Other transfers	2	24	51	77
Endowment net assets, May 31, 2011	<u>\$ 46,588</u>	<u>93,382</u>	<u>40,101</u>	<u>180,071</u>

Endowment net asset composition, not including pledges, by type of fund consists of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (370)	75,173	38,786	113,589
Board-designated endowment funds	39,928	—	—	39,928
Total endowed net assets	<u>\$ 39,558</u>	<u>75,173</u>	<u>38,786</u>	<u>153,517</u>

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Changes in endowment net assets for the year ended May 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2009	\$ 36,545	66,789	37,099	140,433
Investment return:				
Investment income	699	1,329	—	2,028
Net appreciation (realized and unrealized)	<u>4,347</u>	<u>13,202</u>	<u>634</u>	<u>18,183</u>
Total investment return	5,046	14,531	634	20,211
Contributions	50	—	931	981
Endowment assets for expenditure	(2,028)	(6,132)	—	(8,160)
Other transfers	<u>(55)</u>	<u>(15)</u>	<u>122</u>	<u>52</u>
Endowment net assets, May 31, 2010	<u>\$ 39,558</u>	<u>75,173</u>	<u>38,786</u>	<u>153,517</u>

(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 or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$11 and \$370 as of May 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions 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 unrestricted net assets.

(16) Subsequent Events

We consider events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on September 19, 2011 and subsequent events have been evaluated through that date.