NORWICH UNIVERSITY

Consolidated Financial Statements

Year Ended May 31, 2017
(With Comparative Information as of May 31, 2016)

(With Independent Auditors' Report Thereon)

NORWICH UNIVERSITY

Table of Contents

Year Ended May 31, 2017
(With Comparative Information as of May 31, 2016)

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Norwich University
Northfield, Vermont

We have audited the accompanying consolidated financial statements of Norwich University (a non-profit organization) and its subsidiary, which comprise the consolidated statement of financial position as of May 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Trustees
Norwich University

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norwich University and its subsidiary as of May 31, 2017, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Norwich University's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
October 12, 2017

NORWICH UNIVERSITY

Consolidated Statement of Financial Position

May 31, 2017
(With Comparative Information as of May 31, 2016)

(In Thousands)

	2017	2016
ASSETS		
Cash and Cash Equivalents	$ 19,913	$ 30,751
Short-Term Investments	9,978	-
Accounts and Notes Receivable (note 2)	3,206	2,966
Contributions Receivable (note 3)	23,193	28,870
Inventory, Prepaid Expenses, and Other Assets	11,892	10,771
Loans Receivable, Net (note 2)	9,542	9,284
Investments (note 4)	209,015	195,101
Beneficial Interest in Perpetual Trust	6,685	6,247
Deposits Held by Trustees (note 5)	2,740	2,718
Land, Buildings, and Equipment, Net (note 7)	146,502	140,226
Total Assets	$ 442,666	$ 426,934
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 13,400	$ 9,593
Interest Rate Swap Liability (note 6)	16,664	20,606
Deferred Revenue, Advance Payments, and Annuity and Life Income Obligations	8,795	9,134
Notes and Leases Payable (note 5)	440	1,891
Bonds Payable (note 5)	85,996	88,610
Refundable U.S. Government Grants (note 2)	7,586	7,611
Total Liabilities	132,881	137,445
COMMITMENTS AND CONTINGENCIES (note 8)		
MUSEUM COLLECTIONS (note 1q)		
NET ASSETS		
Unrestricted	121,056	109,138
Temporarily Restricted (note 10)	139,271	132,848
Permanently Restricted (note 10)	49,458	47,503
Total Net Assets	309,785	289,489
Total Liabilities and Net Assets	$ 442,666	$ 426,934

See accompanying Notes to Consolidated Financial statements.

NORWICH UNIVERSITY

Consolidated Statement of Activities

Year Ended May 31, 2017
(With Comparative Summarized Information for the Year Ended May 31, 2016)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total May 31, 2017	Total May 31, 2016
OPERATING REVENUES AND OTHER SUPPORT					
Tuition and Fees	$ 111,554	$ -	$ -	$ 111,554	$ 102,423
Residence and Dining	26,733	-	-	26,733	23,935
Uniform Sales	2,120	-	-	2,120	1,678
Less: Scholarships, Grants, and Other Aid	(54,909)	-	-	(54,909)	(44,944)
Net Tuition and Fees	85,498	-	-	85,498	83,092
Federal Appropriations, Grants, and Contracts	2,790	-	-	2,790	2,271
Private Contributions	1,243	1,195	-	2,438	2,159
Investment Income Used in Operations (note 4)	9,078	958	-	10,036	9,455
Campaign Net Assets Appropriated to Operations	3,000	-	-	3,000	3,000
Other Auxiliary Services	953	-	-	953	971
Other Income	3,217	30	-	3,246	2,793
Total Revenues and Other Support	105,779	2,183	-	107,961	103,741
Net Assets Released from Restrictions (note 11)	1,154	(1,154)	-	-	-
Total Revenue and Other Support and Net Assets Released from Restrictions	106,933	1,029	-	107,961	103,741
OPERATING EXPENSES					
Instruction	30,335	-	-	30,335	29,661
Academic Support	10,747	-	-	10,747	10,516
Research	1,113	-	-	1,113	1,012
Student Services	24,361	-	-	24,361	23,200
Institutional Support	16,030	-	-	16,030	15,753
Auxilary Enterprises	20,335	-	-	20,335	18,695
Total Expenditures	102,921	-	-	102,921	98,837
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	4,012	1,029	-	5,040	4,904
Nonoperating Activities:					
Investment Return in Excess of Spending Plan	4,322	7,950	-	12,272	(15,778)
Campaign Gifts and Pledges	62	4,663	945	5,670	4,118
Campaign Net Assets Appropriated to Operations	-	(3,000)	-	(3,000)	(3,000)
Change in Split Interest Agreements	523	(16)	67	574	424
Change in Perpetual Trust	-	-	438	438	(151)
Related Entity Revenue (note 12)	3,081	-	-	3,081	3,755
Related Entity Expense (note 12)	(3,575)	-	-	(3,575)	(3,549)
Fundraising Expenses	(3,650)	-	-	(3,650)	(3,270)
Change in Interest Rate Swap Liability	3,942	-	-	3,942	(1,722)
Other Expenses and Reclassifications	(517)	(485)	505	(497)	(744)
Net Assets Released from Restrictions (note 11)	3,718	(3,718)	-	-	-
Change in Net Assets from Nonoperating Activities	7,906	5,394	1,955	15,255	(19,917)
CHANGE IN NET ASSETS	11,918	6,423	1,955	20,295	(15,013)
Net Assets - Beginning of Year	109,138	132,848	47,503	289,489	304,502
NET ASSETS - END OF YEAR	$ 121,056	$ 139,271	$ 49,458	$ 309,785	$ 289,489

See accompanying Notes to Consolidated Financial statements.

NORWICH UNIVERSITY

Consolidated Statement of Cash Flows

Year Ended May 31, 2017
(With Comparative Summarized Information for the Year Ended May 31, 2016)

(In Thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 20,295	$ (15,013)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	9,754	8,564
Change in Estimated Value of Interest Rate Swap Agreements	(3,942)	1,722
Net Realized and Unrealized Gains on Investments	(20,930)	7,490
Loss (Gain) on Disposal of Assets	(5)	-
Contributions Restricted for Plant	(9,836)	(8,614)
Contributions Restricted for Endowment	(1,006)	(1,326)
Change in Accounts Receivable	(239)	233
Change in Contributions Receivable	5,678	5,905
Change in Inventory, Prepaid Expenses, and Other Assets	(1,123)	(1,684)
Change in Beneficial Interest in Perpetual Trust	(438)	151
Change in Accounts Payable and Accrued Liabilities	511	392
Change in Deferred Revenue, Advanced Payments, and Annuity Life Income Obligations	(339)	50
Net Cash Used by Operating Activities	(1,620)	(2,130)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(15,183)	(15,947)
Proceeds from Sale and Maturity of Investments	12,222	22,151
Change in Student Loans Receivable, Net	(258)	(54)
Acquisition of Land, Buildings and Equipment	(12,684)	(11,158)
Net Cash Used by Investing Activities	(15,903)	(5,008)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Refundable U.S. Government Advances	(24)	418
Contributions Restricted for Endowment	1,006	1,326
Contributions Restricted for Plant	9,836	8,614
Cash Released by Bond Trustee	(22)	(161)
Debt Repayment	(4,111)	(8,498)
Net Cash Provided by Financing Activities	6,685	1,699
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,838)	(5,439)
Cash and Cash Equivalents - Beginning of Year	30,751	36,190
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 19,913	$ 30,751
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 3,472	$ 3,550

See accompanying Notes to Consolidated Financial statements.

(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 33 undergraduate degree programs, the University offers an on-line masters degree in 10 programs, 5 on-line undergraduate degree completion programs, and a residential masters in architecture.

(b) Basis of Presentation

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

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.

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, 2016, from which the summarized information was derived.

(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, 2017 and 2016 is ($4) and $15, respectively. For additional information about NUARI, refer to footnote 11.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment increases the inherent uncertainty of those estimates. Estimates recorded at May 31, 2017 and 2016 include nonreadily marketable investments, asset retirement obligations, the collectability 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 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.

Other expenses and reclassifications included in nonoperating activities for the year ended May 31, 2017 included bond administration fees $(502) and gain on disposal of asset $5. For the year ended May 31, 2016, other expenses and reclassifications included bond administration fees $(536) and litigation expenses $(208). All of these expenses could be functionally classified as administrative expenses.

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

(f) Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value. These funds are available for current operating needs and include interest-bearing cash accounts, money market accounts, mutual funds, and certificates of deposit with original maturities of three months or less. As of May 31, 2017 and 2016, cash and cash equivalents include $16,195 and $12,163, respectively, earmarked for the capital campaign through either donor or internal designation.

(g) Deposits Held by Trustee

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

(h) Investments

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

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

(i) Endowment

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

The board of trustees has adopted a spending policy whereby the University utilizes 5.0% for each of the years ended May 31, 2017 and 2016, 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, 2017 and 2016, $10,036 and $9,455, respectively, was distributed for use in operations.

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

(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, 2017 and 2016 were $6,640 and $5,838, 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.

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 $341 and $320 at May 31, 2017 and 2016, 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 $1,618 and $1,736 at May 31, 2017 and 2016, respectively.

(k) Beneficial Interest in Perpetual Trust

At May 31, 2017 and 2016, funds held in trust of $6,685 and $6,247, 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.

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

(l) Property and Equipment

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

(m) Inventory

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

(n) Bond Issuance Costs

Bonds payable balances include bonds payable net of debt issuance costs that are being amortized using the effective interest rate method over the life of the bonds, which is 30 years. Unamortized debt issuance costs were $720 and $765 at May 31, 2017 and 2016, respectively.

(o) Contributions

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

(p) Income Taxes

The University is a nonprofit 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, including NUARI, the consolidated exempt entity, believes it has taken no significant uncertain tax positions.

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

(q) Museum Collections

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

The University's collections, which were acquired through purchases and contributions since the University's inception, are not recognized as assets on the consolidated statement of financial position. Purchases of collection items are recorded as decreases in 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 consolidated financial statements.

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

(r) Functional Expenses

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

(s) Self-Insurance

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

(In Thousands)

(2) Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs. Allowances for doubtful accounts are established based upon prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2017 and 2016, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

	2017	2016
Federal Government Programs, Gross	$ 9,547	$ 9,294
Less: Allowance for Doubtful Accounts:		
Beginning of Year	(10)	(7)
Decreases	5	(3)
End of Year	(5)	(10)
Student Loans Receivable, Net	$ 9,542	$ 9,284

Student loans receivable are included in loans receivable, net on the consolidated statement of financial position. Accounts and notes receivable on the consolidated statement of financial position include receivables from students' accounts, ROTC receivables, federal student aid, and grants. These other receivables total $3,206 and $2,966 as of May 31, 2017 and 2016, respectively. Allowances for these receivables total $475 and $475 as of May 31, 2017 and 2016, respectively.

Government advances and related interest earned on Perkins Loans and Faculty Nurse Loans of $7,586 and $7,611 as of May 31, 2017 and 2016, respectively, are ultimately refundable to the United States Government and thus are reported as a liability.

At May 31, 2017 and 2016, the following amounts were past due under student loan programs:

	2017	2016
1 - 240 Days Past Due	$ 572	$ 610
240 Days - 2 Years Past Due	278	323
2 Years - 5 Years Past Due	159	161
Over 5 Years Past Due	15	26
Total Past Due	$ 1,024	$ 1,120

(In Thousands)

(3) Contributions Receivable

The following represents contributions receivable at May 31:

	2017	2016
In One Year or Less	$ 8,190	$ 8,457
Between One Year and Five Years	16,040	21,789
More than Five Years	1,618	1,889
Contributions Receivable, Gross	25,848	32,135
Less Discount for Present Value	575	935
Less Allowance for Uncollectible Contributions	2,080	2,330
Contributions Receivable, Net	$ 23,193	$ 28,870

The University uses discount rates ranging from 1.56% to 6.76% 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 $1,618 and $1,736 at May 31, 2017 and 2016, 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.

(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, 2017 and 2016, the University had no specific plans or intentions to sell investments at amounts different than NAV.

(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, 2017 and 2016, as well as related strategy, liquidity and funding commitments:

(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (Continued)

May 31, 2017

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
Short-Term Investments:							
Fixed Income	$ -	$ 9,978	$ -	$ -	$ 9,978	Daily	1
Total	-	9,978	-	-	9,978		
Long-Term Investments:							
U.S. Equities:							
Large Cap	16,055	-	-	18,191	34,246	Daily	1
Small Cap	5,861	-	-	-	5,861	Daily	1
Total	21,916	-	-	18,191	40,107		
Global Equities ex U.S.:							
Developed Markets	-	-	-	29,305	29,305	Daily/Monthly	1 - 15
Emerging Markets	8,717	-	-	11,715	20,432	Daily/Monthly	1 - 30
Total	8,717	-	-	41,020	49,737		
Fixed Income:							
U.S. Gov't Fixed Income	3,235	-	-	-	3,235	Daily	1
Int'l Gov't Fixed Income	-	-	-	-	-	Daily	1
Multi-Sector Fixed Income	9,976	-	-	7,008	16,984	Daily	1
Total	13,211	-	-	7,008	20,219		
Hedge Funds:							
Long/Short	-	-	-	22,408	22,408	Quarterly/Annually	30 - 90
Absolute Return [1]	-	-	-	30,931	30,931	Quarterly/Illiquid	45 - 90
Total	-	-	-	53,339	53,339		
Private Equity Investments [2]	-	-	-	183	183	Illiquid	N/A
Venture Capital Investments	-	-	-	26,440	26,440	Illiquid	N/A
Real Assets:							
Real Estate	4,220	-	-	492	4,712	Daily/Illiquid	1 - N/A
Oil and Gas	3,123	-	38	71	3,232	Daily/Illiquid	1 - N/A
Natural Resources	5,264	-	-	-	5,264	Annual	30
Commodities	2,580	-	-	-	2,580	Daily	1
Total	15,187	-	38	563	15,788		
Other Equity	341	-	551	-	892	Illiquid	N/A
Cash and Equivalents	2,310	-	-	-	2,310	Daily	1
Total Investments	61,682	-	589	146,744	209,015		
Funds Held by Bond Trustee [3]	2,740	-	-	-	2,740	Illiquid	N/A
Funds Held in Trust by Others [3]	-	-	6,685	-	6,685	Illiquid	N/A
Total Assets	$ 64,422	$ -	$ 7,274	$ 146,744	$ 218,440		
Liabilities:							
Interest Rate Swap Agreement	$ -	$ (16,664)	$ -	$ -	$ (16,664)	Illiquid	N/A
Total Liabilities	$ -	$ (16,664)	$ -	$ -	$ (16,664)		

[1] $8.1 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 others are cash and cash equivalents.

(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

(c) Basis of Reporting (Continued)

May 31, 2016

Description	Level 1	Level 2	Level 3	Measured at NAV	Total	Redemption or Liquidation	Days' Notice
Investments by Strategy							
U.S. Equities:							
Large Cap	$ 16,728	$ -	$ -	$ 15,335	$ 32,062	Daily	1
Small Cap	5,377	-	-	-	5,377	Daily	1
Total	22,105	-	-	15,335	37,439		
Global Equities ex U.S.:							
Developed Markets	-	-	-	26,471	26,471	Daily/Monthly	1 - 15
Emerging Markets	6,813	-	-	9,281	16,094	Daily/Monthly	1 - 30
Total	6,813	-	-	35,752	42,565		
Fixed Income:							
U.S. Gov't Fixed Income	3,301	-	-	-	3,301	Daily	1
Int'l Gov't Fixed Income	1,672	-	-	-	1,672	Daily	1
Multi-Sector Fixed Income	10,700	-	-	5,621	16,321	Daily	1
Total	15,673	-	-	5,621	21,294		
Hedge Funds:							
Long/Short	-	-	-	20,170	20,170	Quarterly/Annually	30 - 90
Absolute Return [1]	-	-	-	28,505	28,505	Quarterly/Illiquid	45 - 90
Total	-	-	-	28,505	48,675		
Private Equity Investments [2]	-	-	-	229	229	Illiquid	N/A
Venture Capital Investments	-	-	-	25,901	25,901	Illiquid	N/A
Real Assets:							
Real Estate	5,424	-	-	632	6,055	Daily/Illiquid	1 - N/A
Oil & Gas	3,000	-	33	90	3,123	Daily/Illiquid	1 - N/A
Natural Resources	5,002	-	-	-	5,002	Annual	30
Commodities	2,401	-	-	-	2,401	Daily	1
Total	15,827	-	33	721	16,581		
Other Equity	320	-	499	-	819	Illiquid	N/A
Cash and Equivalents	1,599	-	-	-	1,599	Daily	1
Total Investments	62,336	-	532	132,233	195,101		
Funds Held by Bond Trustee [3]	2,718				2,718	Illiquid	N/A
Funds Held in Trust by Others [3]	-	-	6,247	-	6,247	Illiquid	N/A
Total Assets	$ 65,054	$ -	$ 6,779	$ 132,233	$ 204,066		
Liabilities:							
Interest Rate Swap Agreement	$ -	(20,606)	$ -	$ -	$ (20,606)	Illiquid	N/A
Total Liabilities	$ -	$ (20,606)	$ -	$ -	$ (20,606)		

[1] $7.4 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 others are cash and cash equivalents.

(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

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

The following tables are a reconciliation of Level 3 investments for the years ending May 31, 2017 and 2016:

	Real Assets and Other Assets
May 31, 2016	$ 6,779
Unrealized Gain (Loss)	495
May 31, 2017	$ 7,274

	Real Assets and Other Assets
May 31, 2015	$ 6,956
Unrealized Gain (Loss)	(177)
May 31, 2016	$ 6,779

(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

At May 31, 2017, the University's outstanding commitments to certain limited partnerships totaled $4,434. The capital is called on an as-needed basis by the limited partnerships. University management estimates that $2,200 will be called annually. The following is a summary of capital commitments by class:

	Outstanding Commitment
Class:	
Oil and Gas	$ 138
Private Equity	27
Venture Capital	4,269
Total	$ 4,434

The return on investments for the years ended May 31, 2017 and 2016 was as follows:

	2017	2016
Dividends and Interest	$ 2,399	$ 2,169
Net Realized and Unrealized Gains	20,931	(7,490)
Less Management Investment Fees	(1,022)	(1,002)
Total Return on Endowment Investments	22,308	(6,323)
Less Investment Return Designated for Current Operations	(10,036)	(9,455)
Excess of Investment Returns Less than Amounts Distributed to Current Operations	$ 12,272	$ (15,778)

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

	2017	2016
Investment Return:		
Operating:		
Investment Income Used in Operations	$ 10,036	$ 9,455
Nonoperating Activities:		
Investment Return in Excess of Investment Income Used in Operations	4,322	(5,587)
Changes in Temporarily Restricted Net Assets:		
Investment Return in Excess of Investment Income Used in Operations	7,950	(10,191)
Investment Return	$ 22,308	$ (6,323)

(In Thousands)

(4) Investments and Fair Value Measurements (Continued)

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

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

Investment liquidity as of May 31, 2017 is aggregated below based on redemption or sale period:

	Investment Fair Values
Investment Redemption or Sale Period:	
Daily	$ 83,010
Monthly	36,338
Quarterly	47,313
Annually	16,135
Subject to Rolling Lockups	8,078
Illiquid	28,119
Total as of May 31, 2016	$ 218,993

The University uses the unit share method of accounting for income distribution for pooled investments. The individual pooled unit value as of May 31, 2017 and 2016 is $5,037 and $4,739, 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.

(In Thousands)

(5) Bonds and Notes Payable

At May 31, 2017 and 2016, bonds and notes payable consisted of:

	2017	2016
Bonds payable to Vermont Educational and Health Building Financing Agency 2008 – variable rate bonds 0.62% average rate 2017 (0.74% and 0.37% at May 31, 2017 and 2016, respectively), due in installments to 2038	$ 63,300	$ 65,400
Bonds payable to Vermont Educational and Health Building Financing Agency 2013 - fixed rate 3.00%, due in installments to 2043	23,416	23,975
Capital Leases: Average rate 3.92%, due in installments to 2018	440	1,891
Unamortized Bond Issuance Costs	(720)	(765)
Total Bonds and Notes Payable	$ 86,436	$ 90,501

Annual debt commitments (principal) are as follows:

Fiscal Year	Bonds and Notes Payable	Minimum Lease Payments	Total Debt Commitments
2018	$ 2,675	$ 432	$ 3,107
2019	2,695	14	2,709
2020	2,810	-	2,810
2021	3,030	-	3,030
2022	3,045	-	3,045
Thereafter	72,460	-	72,460
Less: Imputed Interest on Capital Leases	-	(6)	(6)
Total	$ 86,715	$ 440	$ 87,155

The 2008 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 2008 Bonds is payable monthly in arrears on the first Wednesday of each month. At the end of each weekly bond interest term the 2008 Bonds are subject to mandatory tender through the remarketing agent.

(5) Bonds and Notes Payable (Continued)

The University has entered into a letter of credit agreement with TD Bank, N.A. to guarantee full and complete principal and interest payments of the 2008 Bonds to the trustee. The letter of credit is secured by the pledge and assignment of a security interest in the University's gross receipts and is set to expire December 2, 2021. If at any time a remarketing effort is not successful, then the letter of credit provider would advance the funds to satisfy the mandatory tender and the debt would revert to the letter of credit provider.

Advances on the letter of credit are due on demand and as such, the 2008 Bonds are considered a current liability for financial statement purposes.

Under the letter of credit agreement for the 2008 Bonds 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, 2017.

Under the 2008 Bonds 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, 2017 and 2016 was $1,579 and $1,576, respectively, held by Peoples United 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 200bp and expires January 31, 2018. As of May 31, 2017 and 2016, the line of credit had no outstanding balance.

2. TD Bank – up to $2,000 at the One Month LIBOR plus 200bp. and expires December 2, 2021. As of May 31, 2017 and 2016, the line of credit had no outstanding balance.

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

(In Thousands)

(5) Bonds and Notes Payable (Continued)

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

Under the 2013 Bonds loan agreement the University is required to maintain compliance with the same financial covenants abiding in the letter of credit agreement with TD Bank, N.A. The University was in compliance with these covenants through May 31, 2017. 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.

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

	2017	2016
Class of Property:		
Equipment	$ 6,864	$ 6,864
Less: Accumulated Amortization	(6,775)	(4,499)
Net Property Under Capital Leases	$ 89	$ 2,365

Interest incurred on debt and swap agreements for the years ended May 31, 2017 and 2016 was $3,513 and $3,566, respectively. The interest amount capitalized was $-0- for both of the years ended May 31, 2017 and 2016.

(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 remained at 67% of the one-month United States Dollar-LIBOR rate.

On June 4, 2012, the University novated the swap agreement with Bank of America/Merrill Lynch and entered into a swap agreement with TD Bank, N.A. The terms and conditions are generally the same except the University is not required to post collateral. 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–LIBOR rate. The agreement will terminate on June 4, 2022 unless both parties agree to renew for another ten years. The swap will terminate if TD Bank is no longer providing a Letter of Credit on the outstanding bonds.

(In Thousands)

(6) Interest Rate Swap Agreement (Continued)

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, 2017 and 2016 was ($16,664) and ($20,606), 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 2017 and 2016, the changes in value were gains (losses) of $3,942 and ($1,722), respectively. If held to maturity, the change in the value of the swap will net to zero.

(7) Land, Buildings and Equipment

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

	2017	2016
Land and Land Improvements	$ 20,930	$ 20,295
Buildings	188,163	183,299
Personal Property	29,829	28,758
	238,922	232,352
Less Accumulated Depreciation	105,597	95,869
	133,325	136,483
Construction in Progress	13,177	3,743
Total	$ 146,502	$ 140,226

Depreciation expense charged to operations was $9,751 and $8,463 in 2017 and 2016, respectively.

(8) Commitments and Contingencies

From time to time Norwich University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot presently be determined, the University's management is of the opinion that the eventual liability, if any, will not have a material effect on the University's financial position.

As of May 31, 2017, the University had $28,860 of open commitments to contractors for construction work being performed.

(In Thousands)

(9) Restricted Net Assets

Restricted net assets consisted of the following at May 31:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarship	$ 1,194	$ 28,196	$ 781	$ 26,781
Instruction, Academic and Institutional Support	19,101	14,179	15,478	14,143
Split-Interest Agreements and Perpetual Trusts	3,389	7,083	3,227	6,578
Term Endowment	334	-	315	-
Unappropriated Endowment Gains	93,679	-	85,913	-
	117,697	49,458	105,714	47,502
Contributions Receivable, Net	21,574	-	27,135	-
Total	$ 139,271	$ 49,458	$ 132,849	$ 47,502

(10) 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:

	2017	2016
Purpose Restrictions:		
Scholarship	$ 185	$ 206
Instruction, Academic, and Institutional Support	3,957	4,247
Research	5	45
Buildings	3,725	7,553
Total	$ 7,872	$ 12,051

(In Thousands)

(11) Related Entity

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

	2017	2016
Revenues:		
Contract Revenue	$ 267	$ 648
Grant Revenue	2,812	3,102
Other Income	2	5
Total Revenues	$ 3,081	$ 3,755
Expenses:		
Program Services	$ 1,871	$ 2,063
Management and General	1,704	1,486
Total Expenses	$ 3,575	$ 3,549

(12) 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 $2,413 and $2,283, in fiscal 2017 and 2016, respectively.

(13) Endowment

The University's endowment consists of approximately 398 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 permanently restricted funds was the historic-dollar-value of a donor-restricted gift to endowment.

(In Thousands)

(13) Endowment (Continued)

(a) Relevant Law (Continued)

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

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the 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.

Endowment net asset composition, not including pledges, by type of fund consists of the following at May 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (3)	$ 94,004	$ 49,458	$ 143,459
Board-Designated Endowment Funds	72,362	-	-	72,362
Total Endowed Net Assets	$ 72,359	$ 94,004	$ 49,458	$ 215,821

(In Thousands)

(13) Endowment (Continued)

(a) Relevant Law (Continued)

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 1, 2016	$ 67,965	$ 86,034	$ 47,503	$ 201,502
Investment Return:				
Investment Income	483	895	-	1,378
Net Appreciation (Realized and Unrealized)	7,336	13,594	440	21,370
Total Investment Return	7,819	14,489	440	22,748
Contributions	62	-	1,010	1,072
Endowment Assets for Expenditure	(3,497)	(6,539)	-	(10,036)
Other Transfers	11	19	505	535
Endowment Net Assets, May 31, 2017	$ 72,360	$ 94,003	$ 49,458	$ 215,821

The endowment net assets for the year ended May 31, 2017 include $6,685 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (46)	$ 86,034	$ 47,503	$ 133,491
Board-Designated Endowment Funds	68,011	-	-	68,011
Total Endowed Net Assets	$ 67,965	$ 86,034	$ 47,503	$ 201,502

(In Thousands)

(13) Endowment (Continued)

(a) Relevant Law (Continued)

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 1, 2015	$ 73,430	$ 96,224	$ 45,900	$ 215,554
Investment Return:				
Investment Income	419	748	-	1,167
Net Appreciation (Realized and Unrealized)	(2,688)	(4,803)	(140)	(7,631)
Total Investment Return	(2,269)	(4,055)	(140)	(6,464)
Contributions	113	-	1,340	1,453
Endowment Assets for Expenditure	(3,318)	(6,136)	-	(9,454)
Other Transfers	9	1	403	413
Endowment Net Assets, May 31, 2016	$ 67,965	$ 86,034	$ 47,503	$ 201,502

The endowment net assets for the year ended May 31, 2016 include $6,247 related to a perpetual trust that is not subject to UPMIFA.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $3 and $46 as of May 31, 2017 and 2016, 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.

(14) Subsequent Events

We consider events or transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on October 12, 2017 and subsequent events have been evaluated through that date.