

# **Johnson & Wales University**

Consolidated Financial Report  
June 30, 2018

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## Independent Auditor's Report

RSM US LLP

To the Board of Directors  
Johnson & Wales University

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Johnson & Wales University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Boston, Massachusetts  
October 30, 2018

**Johnson & Wales University**

**Consolidated Statements of Financial Position**

**June 30, 2018 and 2017**

**(In Thousands)**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 24,878	\$ 16,157
Short term investments	7,749	7,275
Student accounts receivable, net	10,390	11,021
Inventories, deferred charges and prepaid expenses	8,412	9,827
Contributions receivable, net	6,897	5,495
Student loans, notes and other receivables, net	15,681	19,893
Investments	276,840	268,048
Property and equipment, net	623,068	650,079
	<u>973,915</u>	<u>987,795</u>
<b>Total assets</b>	<b>\$ 973,915</b>	<b>\$ 987,795</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 33,375	\$ 44,003
Deferred revenue and student deposits	12,682	14,591
Pension plan and annuity obligations	2,581	2,464
Refundable U.S. Government grants	3,455	3,660
Bonds and notes payable, line of credit and capital lease	161,915	176,618
	<u>214,008</u>	<u>241,336</u>
<b>Total liabilities</b>	<b>214,008</b>	<b>241,336</b>
Net assets:		
Unrestricted:		
Available for operations and designated for long-term investment	244,336	221,916
Net investment in property and equipment	461,153	473,461
Loan program	13,002	13,031
	<u>718,491</u>	<u>708,408</u>
<b>Total unrestricted</b>	<b>718,491</b>	<b>708,408</b>
Temporarily restricted	17,065	13,878
Permanently restricted	24,351	24,173
	<u>41,416</u>	<u>38,051</u>
<b>Total net assets</b>	<b>41,416</b>	<b>38,051</b>
	<u>973,915</u>	<u>987,795</u>
<b>Total liabilities and net assets</b>	<b>\$ 973,915</b>	<b>\$ 987,795</b>

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statement of Activities

Year Ended June 30, 2018

(with Summarized Financial Information for the Year Ended June 30, 2017)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Operating revenue, gains and other support:					
Tuition and fees	\$ 371,725	\$ -	\$ -	\$ 371,725	\$ 395,837
Residence and dining	74,453	-	-	74,453	80,479
Less financial aid and scholarships	(162,537)	-	-	(162,537)	(168,364)
<b>Net tuition and fees</b>	<b>283,641</b>	<b>-</b>	<b>-</b>	<b>283,641</b>	<b>307,952</b>
Hotels	10,696	-	-	10,696	12,219
Contributions, grants and federal aid to students	2,812	-	-	2,812	2,900
Investment return appropriated for operations	22,120	-	-	22,120	12,939
Other student generated	2,436	-	-	2,436	2,810
Other sources	4,176	-	-	4,176	4,400
Net assets released from restrictions	1,888	-	-	1,888	1,764
Gain (loss) on disposal of property and equipment	2,583	-	-	2,583	(556)
<b>Total operating revenue, gains and other support</b>	<b>330,352</b>	<b>-</b>	<b>-</b>	<b>330,352</b>	<b>344,428</b>
Operating expenses:					
Instructional	96,374	-	-	96,374	99,848
Academic support	24,554	-	-	24,554	26,911
Student services	70,055	-	-	70,055	74,372
Auxiliary enterprises	73,339	-	-	73,339	77,941
Institutional support	50,550	-	-	50,550	64,433
Public service	85	-	-	85	436
<b>Total operating expenses</b>	<b>314,957</b>	<b>-</b>	<b>-</b>	<b>314,957</b>	<b>343,941</b>
<b>Increase in net assets from operations</b>	<b>15,395</b>	<b>-</b>	<b>-</b>	<b>15,395</b>	<b>487</b>
Non-operating activities:					
Actuarial changes in defined benefit liability	341	-	-	341	1,362
Return on long-term investments, net	15,372	2,074	21	17,467	29,947
Investment return appropriated for operations	(21,025)	(1,095)	-	(22,120)	(12,939)
Restricted contributions	-	4,091	162	4,253	6,978
Reclassifications	-	5	(5)	-	-
Net assets released from restrictions	-	(1,888)	-	(1,888)	(1,764)
<b>(Decrease) increase in net assets from non-operating activities</b>	<b>(5,312)</b>	<b>3,187</b>	<b>178</b>	<b>(1,947)</b>	<b>23,584</b>
<b>Increase in net assets</b>	<b>10,083</b>	<b>3,187</b>	<b>178</b>	<b>13,448</b>	<b>24,071</b>
Net assets at beginning of year	708,408	13,878	24,173	746,459	722,388
Net assets at end of year	\$ 718,491	\$ 17,065	\$ 24,351	\$ 759,907	\$ 746,459

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statement of Activities  
Year Ended June 30, 2017  
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Operating revenue, gains and other support:				
Tuition and fees	\$ 395,837	\$ -	\$ -	\$ 395,837
Residence and dining	80,479	-	-	80,479
Less financial aid and scholarships	(168,364)	-	-	(168,364)
<b>Net tuition and fees</b>	<b>307,952</b>	<b>-</b>	<b>-</b>	<b>307,952</b>
Hotels	12,219	-	-	12,219
Contributions, grants and federal aid to students	2,900	-	-	2,900
Investment return appropriated for operations	12,939	-	-	12,939
Other student generated	2,810	-	-	2,810
Other sources	4,400	-	-	4,400
Net assets released from restrictions	1,764	-	-	1,764
Loss on disposal of property and equipment	(556)	-	-	(556)
<b>Total operating revenue, gains and other support</b>	<b>344,428</b>	<b>-</b>	<b>-</b>	<b>344,428</b>
Operating expenses:				
Instructional	99,848	-	-	99,848
Academic support	26,911	-	-	26,911
Student services	74,372	-	-	74,372
Auxiliary enterprises	77,941	-	-	77,941
Institutional support	64,433	-	-	64,433
Public service	436	-	-	436
<b>Total operating expenses</b>	<b>343,941</b>	<b>-</b>	<b>-</b>	<b>343,941</b>
<b>Increase in net assets from operations</b>	<b>487</b>	<b>-</b>	<b>-</b>	<b>487</b>
Non-operating activities:				
Actuarial changes in defined benefit liability	1,362	-	-	1,362
Return on long-term investments, net	26,697	3,227	23	29,947
Investment return appropriated for operations	(12,289)	(650)	-	(12,939)
Restricted contributions	-	4,848	2,130	6,978
Net assets released from restrictions	-	(1,764)	-	(1,764)
<b>Increase in net assets from non-operating activities</b>	<b>15,770</b>	<b>5,661</b>	<b>2,153</b>	<b>23,584</b>
<b>Increase in net assets</b>	<b>16,257</b>	<b>5,661</b>	<b>2,153</b>	<b>24,071</b>
Net assets at beginning of year	692,151	8,217	22,020	722,388
Net assets at end of year	\$ 708,408	\$ 13,878	\$ 24,173	\$ 746,459

See notes to consolidated financial statements.

**Johnson & Wales University**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**  
**(In Thousands)**

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 13,448	\$ 24,071
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	36,173	36,241
Net realized and unrealized gain on investments	(16,136)	(27,827)
Change in allowance for uncollectible accounts	(375)	3,310
Contributions restricted for long-term investment	(283)	(497)
Gain (loss) on sale of property and equipment	(2,583)	556
Changes in assets and liabilities:		
(Increase) decrease in:		
Students accounts receivable	810	(163)
Inventories, deferred charges and prepaid expenses	1,415	567
Contributions receivable	(1,402)	(4,094)
Notes and other receivables	706	(453)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,877)	(2,085)
Deferred revenue	(1,909)	(833)
Pension plan and annuity obligations	117	(1,580)
<b>Net cash provided by operating activities</b>	<b>23,104</b>	<b>27,213</b>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(18,421)	(22,408)
Proceeds from sale of property, plant and equipment	7,420	256
Purchase of investments	(122,073)	(65,444)
Purchase of short term investments	(474)	1,320
Proceeds from maturity and sale of investments	129,417	73,756
Student loans, notes and other receivables advanced	(4,863)	(5,693)
Student loans, notes and other receivables collected	8,564	10,352
<b>Net cash used in investing activities</b>	<b>(430)</b>	<b>(7,861)</b>
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(14,031)	(13,609)
Contributions restricted for long term investment	283	497
Repayment of refundable grants	(205)	(761)
<b>Net cash used in financing activities</b>	<b>(13,953)</b>	<b>(13,873)</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,721</b>	<b>5,479</b>
Cash and cash equivalents, beginning of year	16,157	10,678
Cash and cash equivalents, end of year	\$ 24,878	16,157
Supplementary information:		
Cash paid for interest	\$ 6,657	6,968
Land, buildings and equipment included in accounts payable	\$ 331	4,082
Student loans cancelled or assigned to the Federal government	\$ 2,127	4,388

See notes to consolidated financial statements.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies

Founded in 1914, Johnson & Wales University (the "University") is a private, nonprofit, accredited institution with more than 14,000 graduate, undergraduate and online students at its four campuses in Providence, Rhode Island; North Miami, Florida; Denver, Colorado; and Charlotte, North Carolina. An innovative educational leader, the University offers degree programs in arts and sciences, business, culinary arts, engineering and design, health and wellness, and hospitality. Its unique model integrates arts and sciences and industry-focused education with work experience and leadership opportunities, inspiring students to achieve professional success and lifelong personal and intellectual growth. The University's impact is global, with alumni from 124 countries pursuing careers worldwide.

The University consists of the following entities which have been consolidated in the accompanying financial statements: Johnson & Wales University; Johnson & Wales University Club; Wildcat Realty Holdings LLP, Johnson & Wales University-Denver Inc., and Multicultural Foodservice & Hospitality Alliance ("MFHA"). The University's affiliation with MFHA ended in September 2016. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

**Basis of statement presentation:** The consolidated financial statements of the University have been prepared on the accrual basis of accounting and in accordance with accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB defines generally accepted accounting principles ("GAAP") to ensure financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("FASB ASC").

The University reports three classes of net assets and the changes in those net assets in the consolidated statements of financial position and consolidated statements of activities, respectively. The three classes of net assets – unrestricted, temporarily restricted and permanently restricted – are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The three classifications are defined as follows:

- Unrestricted net assets represent the portion of net assets of the University that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the University as well as funds invested in plant, including campus buildings, and loan programs. In addition, unrestricted net assets of the University include funds which represent unrestricted resources designated by the Board of Trustees (the "Board") for specific purposes.
- Temporarily restricted net assets represent net assets subject to donor-imposed restrictions that permit the University to use or expend the donated assets as specified and are satisfied by either the passage of time or by actions of the University. Temporarily restricted net assets also include, under Rhode Island law, amounts, representing cumulative unexpended gains on permanently restricted endowment funds, which are subject to prudent appropriation by the Board in accordance with donor use restrictions but which have not yet been appropriated by the Board. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the University pursuant to those stipulations.



## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

**Operating activities:** The consolidated statements of activities report the changes in unrestricted net assets from operating and non-operating activities. Unrestricted operating revenues and expenses consist of those items attributable to the University's primary mission of providing education. Investment return included in operations reflects the amounts appropriated from the endowment computed using the spending policy for the period as approved by the Board. All other investment income or losses are reported as non-operating activities commensurate with any restrictions. The University also considers gains and losses resulting from actuarial changes in the defined benefit pension liability and restricted contributions as non-operating until released into operations.

**Investments:** Investments are carried at fair value. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined on the basis of average cost of securities sold.

Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

The University invests in alternative investments, consisting of absolute return funds, marketable asset partnerships, non-marketable asset partnerships, and real estate funds. Alternative investments utilize a variety of instrument strategies incorporating marketable and non-marketable securities and, in some cases, derivative instruments, all of which are reported at fair value by the fund managers. Non-marketable asset partnerships (investments for which there may not be a value established by major security markets) are valued on a quarterly basis and are carried at fair values based upon the most recent financial information provided by the general partners. Management believes this method provides a reasonable estimate of fair value. These investments provide broad diversification, offering sources of return that are not generally correlated with traditional equity and fixed income markets. Hedging strategies may include securities denominated in foreign currencies, options, futures, forward contracts, short sales or other financial instruments whose value and performance are derived, at least in part, from the performance of an underlying asset or index and the creditworthiness of the counterparty of the transactions.

**Fair value measurements:** The University reports certain types of financial instruments at fair value depending on the underlying accounting policy for the particular instrument. Recurring fair value measurements include the University's investment accounts. Nonrecurring measurements include contributions receivable and annuity obligations. Fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the University reports certain investments using net asset value ("NAV") per share as determined by investment managers under the so called "practical expedient." The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the University to classify recurring fair values of financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with NAV practical expedient rules.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

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

**Level 1:** Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

**Level 2:** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

**Level 3:** Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The University has various processes and controls in place to ensure that fair value is reasonably estimated. In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the inputs are based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

The following is a description of the valuation methodologies used for instruments measured at fair value:

**Equity and fixed income securities and other investments:** The fair value of equity and fixed income securities and other investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

**Cash equivalents:** Cash equivalents, except those that are managed by external investment managers as part of their long-term strategies, are carried at cost, which approximates fair value.

During the years ended June 30, 2018 and 2017, there were no changes to the University's valuation techniques that had, or are expected to have, a material impact on its financial position or statement of activities.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

**Equity method investment:** The University accounts for its investment in The FIX, LLC ("FIX") under the equity method of accounting. At June 30, 2018 and 2017, the University had a 50% ownership in FIX. FIX is a research and development company that focuses on developing appetizing nutritional products that have specific medicinal or health related benefits. The University contributed \$640 and \$1,100 to FIX in fiscal 2018 and 2017, respectively, as part of its annual commitment for capital contributions of not more than \$1,800 in each calendar year for ongoing research and development and related strategic activities. The University may terminate this annual commitment with one year's advance notice. In addition, the University had a \$1,000 commitment of additional capital contributions, of which \$550 and \$450 was funded in fiscal years 2018 and 2017, respectively. Under the operating agreement, the University absorbed all losses, as such the University has recognized these losses in the University's statement of activities as part of the return on unrestricted investments. The University's share of income or losses is treated as additions to or subtractions from the carrying value of the investment account. The fiscal year for FIX ends on December 31 and the University will consistently follow the practice of recognizing the net earnings of FIX on that basis. Therefore, the net gains or losses of FIX, which are reported in the University's statement of activities, are for the year which ended on the previous December 31st. Losses for the years ended December 31, 2017 and 2016 of \$2,359 (includes an adjustment of \$1,476 to attribute 100% of FIX's cumulative losses to date to the University) and \$160, respectively, are included in the returns from unrestricted investments in the consolidated statements of activities. The carrying value of the investment in FIX at June 30, 2018 and 2017 was \$2,200 and \$3,968, respectively. The amounts are included in investments on the consolidated statements of financial position.

During fiscal year 2018, PodCo, LLC, formerly a wholly-owned subsidiary of FIX, and the creator and manufacturer of the Hummus Pod product sold in major grocery store chains nationwide, was spun out in a tax-free reorganization and became a wholly owned-subsubsidiary of PodCo, Inc. ("PodCo"), a newly created company. The University's non-voting Class C shares in FIX, issued for its \$600 capital contribution to fund PodCo, LLC in fiscal year 2017, were exchanged for preferred and common stock shares in PodCo, Inc. in fiscal year 2018. The University elected to account for its 40% investment in PodCo at fair value.

**Functional expense allocation:** The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Physical plant costs, including depreciation and interest expense, have been allocated based on square footage utilization. All other program expenses represent actual costs incurred.

**Auxiliary enterprises:** Auxiliary enterprises include dining facilities, residence halls, parking garage, hotels and banquet operations.

Revenue generated from the hotels for the fiscal years 2018 and 2017 was \$10,696 and \$12,219, respectively. Operating expenses generated by the hotel for the fiscal years 2018 and 2017 were \$10,275 and \$11,146, respectively, and are included in auxiliary enterprises expense on the consolidated statements of activities. Revenue is recognized when the hotel stay or banquet event is completed.

In April 2018, the University sold one of the hotel properties resulting in a gain of \$2,794. This is included in the gain (loss) on disposal of property and equipment on the statement of activities.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of the consolidated financial statements in conformity with GAAP 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to the allowance for doubtful loans, contributions and accounts receivable, fair value of certain investments, the estimate of annuity and pension obligations, recoverability of long-lived assets, and the allocation of common expenses over program functions.

**Liquidity:** In order to provide information about liquidity, assets are sequenced in the statements of financial position according to their nearness of conversion to cash and liabilities based on their estimated maturity.

**Cash and cash equivalents:** The University considers highly-liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents held by investment managers are considered part of investments given the expectation of near term reinvestment.

The University maintains its cash balances at several financial institutions, which at times may exceed federally insured limits. The University monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

**Short term investments:** Short term investments include amounts which will be used to pay liabilities of the University within the next year.

**Inventory:** Inventory is carried at the lower of cost (average cost) or net realizable value.

**Contributions:** Contributions received, including unconditional promises to give are initially recorded at fair value in the period the donor's commitments are received. Unconditional pledges which are receivable in future periods are included in the consolidated financial statements as contributions receivable. Unconditional pledges receivable are recognized at the estimated net present value using a discount rate commensurate with the risk involved. Conditional promises to give are recognized as revenues when donor stipulations are substantially met. There are no conditional gifts at June 30, 2018 or 2017.

Unconditional promises to give are recorded net of an allowance and periodically reviewed to assess an estimate of an allowance for doubtful collections. Management estimates the allowance based on a review of historical experience and a specific review of collection trends that differ from plan on individual accounts.

**Accounts receivable:** Receivables are carried at the outstanding amount less an estimate made for doubtful receivables based on a periodic review using historical experience applied to an aging of accounts. The allowance for doubtful accounts was \$1,669 and \$1,849 as of June 30, 2018 and 2017, respectively. Receivables are written off when deemed uncollectible. Accounts receivable are considered past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on receivables.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

**Student loans:** Included in loans receivable are University funds loaned to students and funds advanced by the University via the Federal Perkins Loan Program ("Perkins").

The Perkins program was terminated effective September 30, 2017, as such no further loans can be awarded to students on or after October 1, 2017. Perkins loans receivable are unsecured and carried at their estimated net realizable value. Interest and late fees are recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the U.S. Department of Education ("DOE"). The federal portion of the funds are ultimately refundable to the Federal government. The Federal government has begun the wind-down of the Perkins Loan Program and will begin collecting the federal share of the Perkins funds through a process similar to the excess liquid capital process currently in place.

Included in loans receivable are University funded Achievement Loans, which are carried at their net realizable value. These amounts represent unsecured loans to students that are forgiven if students achieve certain grade point averages during their course of study. If the criteria for forgiveness are not met, then the students are required to repay the Achievement Loans in accordance with established terms. Interest and late fees are recorded when received. The Achievement Loan program ended during the fiscal year ending June 30, 2006. As such, no new loans are being awarded under this program.

For all loans, management estimates the allowance for credit losses based on historical experience applied to an aging of accounts, current economic conditions and the credit quality of the loans. Achievement Loan credit losses are also evaluated based on forgiveness trends.

**Property and equipment:** Constructed and purchased property and equipment are carried at cost. Land, buildings or equipment donated to the University are carried at estimated fair value at the date of the gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of land, buildings and equipment are recorded as unrestricted support at fair value.

Long-lived fixed assets, with the exception of land, library holdings and artwork, are depreciated using the straight-line method over the estimated useful lives of the respective assets.

Costs incurred in connection with construction projects are accumulated in construction in progress until the project is complete and placed in service, at which time the cost is transferred to the appropriate asset account and depreciation begins.

Expenditures for maintenance and repairs are charged to expense as incurred; betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is credited or charged to operating or non-operating activities depending on the nature of the transaction.

The University reviews the carrying value of its long-lived assets to assess the recoverability of these assets whenever events or changes in circumstances indicate the need; any impairment is recognized in operating results if a permanent reduction in value is deemed to have occurred. As of June 30, 2018 and 2017 no impairment indicators were identified.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

The University had previously determined the existence of certain environmental obligations which are managed by the University's facilities department, including regular external inspections, to ensure compliance with various environmental regulations. The recording of a liability is required if the obligation can be reasonably estimated and legally required. The University has estimated the liability at June 30, 2018 and 2017 to be \$1,715 and \$1,716, respectively, which is included in accrued expenses in the consolidated statements of financial position.

**Bond issuance costs:** Bond issuance costs are capitalized and amortized using the effective interest method over the life of the associated bond issue. The bond issuance costs are included within bonds and notes payable, line of credit and capital leases in the consolidated statements of financial position. Amortization expense was \$179 and \$184 in 2018 and 2017, respectively.

**Revenue recognition, deferred revenue and student deposits:** The University defers recognition of registration and tuition revenue and residence and dining fees to the period in which the related educational instruction is performed and related expenses incurred. Accordingly, registration and tuition fees received for the next academic year are deferred until the first day of the new fiscal year and recognized ratably over the school term.

Student deposits, along with advance payments for tuition, room and board and other fees related to all subsequent terms have been deferred and will be reported as unrestricted revenue in the year in which the related educational services are provided.

**Annuity obligations:** The University's split-interest agreements consist principally of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments and reported at fair value. Contribution revenues are initially recognized at fair value at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted during the term of the trusts for changes in the actuarial value, accretion of the discount and other changes affecting the estimates of future obligations. The liabilities are included in pension plan and annuity obligations on the consolidated statements of financial position.

**Fundraising expenses:** Fundraising costs of \$4,291 and \$6,115 in fiscal years 2018 and 2017, respectively, are charged to expense and are included in institutional support expenses in the consolidated statements of activities.

**Advertising, promotions and publication expenses:** The University expenses advertising, promotion and publication costs as incurred. Advertising, promotions and publications expenses for the years ended June 30, 2018 and 2017 were \$9,688 and \$10,463, respectively.

**Tax status:** Johnson & Wales University is recognized by the Internal Revenue Service as an educational institution as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from Federal and state income taxes on related income. Any tax on the subsidiaries or unrelated business activities is not significant to the consolidated financial statements.

The University has identified its tax status as a tax exempt entity and its decision to include or exclude items of income unrelated to its operations as tax positions; however, the University has determined that such tax positions do not result in an uncertainty requiring recognition. Management believes the University has no uncertain tax positions at June 30, 2018 or 2017.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)

With few exceptions, the University is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2015. Interest and penalties, if any, are included in income tax expense.

**Reclassifications:** Certain reclassifications within the financial statements have been made to the 2017 consolidated financial statements to conform to the 2018 presentation.

During the year ended June 30, 2018, the University changed its method of presenting the statement of cash flows for operating activities from the direct method (which showed principal components of operating cash receipts and payments) to the indirect method (which adjusts net income to remove the effects of noncash operating transactions). This change has been applied retroactively to the 2017 statement of cash flows. In addition, the University reclassified certain cash flow activity to be consistent with the 2018 presentation.

**Recently issued accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The updated standard will be effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The University has elected to adopt the modified retrospective transition approach.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The University is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In August, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB’s improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The University is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### **Note 1. Nature of the University and Summary of Significant Accounting Policies (Continued)**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU make improvements to the guidance provided in Topic 230, Statement of Cash Flows in regards to the classification and presentation of certain cash receipts and cash payments. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted, subject to certain requirements. The University is in the process of evaluating the impact of this ASU on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted. The University is in the process of evaluating the impact of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is contingent. ASU 2018-08 is effective for annual periods, in which it is the resource recipient, beginning after December 15, 2018, and annual and interim periods thereafter. ASU 2018-08 is effective for annual periods in which it is the resource provider, beginning after December 15, 2019, and annual and interim periods thereafter. Early adoption is permitted. The amendments in this update should be applied on a modified prospective basis. The University is currently evaluating the impact of this ASU on the financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topics 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendment removes, modifies, and adds additions to the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods, within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The amendments on the changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent or interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The University is currently evaluating the impact of this ASU on the financial statements and disclosures.



**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 2. Student Accounts Receivable, Student Loans, Notes and Other Receivables**

Student accounts receivables consist of the following at June 30:

	2018	2017
Student accounts receivable:		
Student receivables	\$ 12,059	\$ 12,870
Allowance for doubtful accounts	(1,669)	(1,849)
Student accounts receivable, net	<u>\$ 10,390</u>	<u>\$ 11,021</u>

Student loans, notes and other receivables consist of the following at June 30:

	2018	2017
Achievement loans	\$ 4,667	\$ 5,358
Perkins loans	33,286	38,423
	<u>37,953</u>	<u>43,781</u>
Less allowance for doubtful accounts:		
Beginning of year	27,325	28,621
Current year (write-offs/recoveries) provisions	(2,305)	(1,285)
Achievement Loan cancellations	(17)	(11)
End of year	<u>25,003</u>	<u>27,325</u>
Student loans and notes receivable, net	12,950	16,456
Notes and other receivables	2,731	3,437
Student loans, notes and other receivables, net	<u>\$ 15,681</u>	<u>\$ 19,893</u>

At June 30, the following is an aging analysis of amounts due under the student loan programs:

	31-120 Days Past Due	121-360 Days Past Due	Greater than 360 Days Past Due	Total Past Due	Current	Total Financing Receivable
2018:						
Achievement Loans	\$ 68	\$ 64	\$ 4,149	\$ 4,281	\$ 386	\$ 4,667
Perkins loans	3,308	763	6,897	10,968	22,318	33,286
Student loans and notes receivable	<u>\$ 3,376</u>	<u>\$ 827</u>	<u>\$ 11,046</u>	<u>\$ 15,249</u>	<u>\$ 22,704</u>	<u>\$ 37,953</u>
2017:						
Achievement Loans	\$ 134	\$ 73	\$ 4,557	\$ 4,764	\$ 594	\$ 5,358
Perkins loans	3,177	737	8,768	12,682	25,741	38,423
Student loans and notes receivable	<u>\$ 3,311</u>	<u>\$ 810</u>	<u>\$ 13,325</u>	<u>\$ 17,446</u>	<u>\$ 26,335</u>	<u>\$ 43,781</u>

Performing loans are those which are less than or equal to 120 days past due. Nonperforming loans are those which are greater than 120 days past due.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 3. Contributions Receivable

Contributions receivable consist of the following at June 30:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,501	\$ 1,597
One to five years	5,968	3,996
Thereafter	575	1,050
	<u>8,044</u>	<u>6,643</u>
Less:		
Allowance for uncollectible contributions	(531)	(514)
Discount to present value	(616)	(634)
Contributions receivable, net	<u>\$ 6,897</u>	<u>\$ 5,495</u>

The discount rates used to calculate the discounted value of contributions receivable ranged from 4.73% to 1.24% for June 30, 2018 and 2017.

#### Note 4. Investments

Long-term investment activities consist of the following for the years ended June 30:

	2018	2017
Investments, beginning of year	\$ 268,048	\$ 248,534
Contributions restricted for long-term investment	<u>283</u>	<u>497</u>
Investment return, net of investment fees:		
Interest and dividends	1,879	2,309
Net unrealized gains	13,041	24,927
Net realized gains	3,095	2,900
Investment fees	(548)	(189)
Total return on investments, net of investment fees	<u>17,467</u>	<u>29,947</u>
Investment return appropriated for operations	<u>(22,120)</u>	<u>(12,939)</u>
Other activity:		
Transfers, withdrawals and adjustments	4,119	2,494
Current year investment return available but not withdrawn	9,287	-
Net changes in due to operations	(244)	(485)
Total other activity	<u>13,162</u>	<u>2,009</u>
Investments, end of year	<u>\$ 276,840</u>	<u>\$ 268,048</u>

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

#### Note 5. Fair Values

**Fair values of financial instruments:** The following table presents financial instruments at June 30, 2018 for which the University measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Other Investments Measured at Net Asset Value (a)	Total
<b>Assets:</b>					
U.S. equities	\$ 7,830	\$ -	\$ -	\$ -	\$ 7,830
Global equities	61,186	-	-	-	61,186
U.S. fixed income	2,731	-	-	-	2,731
Marketable alternative assets	-	-	-	167,197	167,197
Non-marketable alternative assets:					
Restructuring funds	-	-	-	15,749	15,749
Private equity funds	-	-	-	8,023	8,023
Non-marketable inflation hedging	-	-	-	4,517	4,517
Cash and cash equivalents	2,498	2	-	-	2,500
Other investments	12	2,495	2,400	-	4,907
Investments measured at fair value	<u>\$ 74,257</u>	<u>\$ 2,497</u>	<u>\$ 2,400</u>	<u>\$ 195,486</u>	<u>274,640</u>
Investments accounted for using equity method					2,200
Total investments					<u>\$ 276,840</u>
<b>Short-term investments:</b>					
U.S. fixed income	\$ 7,749	\$ -	\$ -	\$ -	\$ 7,749

The following table presents financial instruments at June 30, 2017 for which the University measures fair value on a recurring basis, by level, within the fair value hierarchy:

	Level 1	Level 2	Level 3	Other Investments Measured at Net Asset Value (a)	Total
<b>Assets:</b>					
U.S. equities	\$ 307	\$ -	\$ -	\$ -	\$ 307
Global equities	10,618	-	-	-	10,618
U.S. fixed income	21	-	-	-	21
Marketable alternative assets	-	-	-	173,912	173,912
Non-marketable alternative assets:					
Restructuring funds	-	-	-	16,505	16,505
Private equity funds	-	-	-	8,813	8,813
Non-marketable inflation hedging	-	-	-	5,077	5,077
Cash and cash equivalents	1,128	4	-	-	1,132
Other investments	12	2,388	-	-	2,400
Investments measured at fair value	<u>\$ 12,086</u>	<u>\$ 2,392</u>	<u>\$ -</u>	<u>\$ 204,307</u>	<u>218,785</u>
Cash (trades settled in July 2017)					45,295
Investments accounted for using equity method					3,968
Total investments					<u>\$ 268,048</u>
<b>Short-term investments:</b>					
U.S. fixed income	\$ 7,275	\$ -	\$ -	\$ -	\$ 7,275

**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 5. Fair Values (Continued)**

(a) In accordance with ASC Subtopic 820-10, *Fair Value Measurements*, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy amounts to amounts presented in the consolidated statements of financial position.

The changes in assets, at fair value, for which the University has used Level 3 inputs to determine fair value are as follows:

	2018
Balance, beginning of year	\$ -
Contributions	600
Unrealized gains	1,800
Balance, end of year	<u>\$ 2,400</u>

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements at June 30:

	2018 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
PodCo	<u>\$ 2,400</u>	Market approach, discounted cash flow methods and option pricing models	Long term Growth rate Discount rate Term Risk-free rate Volatility	3% 25% 5 years 2.73% 47.9%

The University invests in certain investments that calculate net asset value per share and these investments are reported at fair value based on the NAV per share as reported by the investment manager. A summary of the significant categories of such investments and their attributes is as follows:

2018	Number of Funds in 2018	2018 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	4	\$ 167,197	\$ -	Semi- monthly/ Quarterly/ Annually	5 - 90 days
Non-marketable alternative assets	14	23,772	2,190	N/A	N/A
Non-marketable inflation hedging	4	4,517	218	N/A	N/A
	<u>22</u>	<u>\$ 195,486</u>	<u>\$ 2,408</u>		

**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 5. Fair Values (Continued)**

2017	Number of Funds in 2017	2017 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	3	\$ 173,912	\$ -	Quarterly/ Annually	65 - 90 days
Non-marketable alternative assets	15	25,318	3,072	N/A	N/A
Non-marketable inflation hedging	4	5,077	392	N/A	N/A
	<u>22</u>	<u>\$ 204,307</u>	<u>\$ 3,464</u>		

Following are the investment strategies employed by the various investment managers:

**Marketable alternative assets** - includes both domestic and global investments, such as investments in distressed securities, corporate restructuring, merger arbitrage, as well as investments in emerging markets, and funds of funds, designed to give the managers flexibility to invest both long and short term within their areas of expertise.

At June 30, 2018 and 2017, 97.5% and 99.9%, respectively, of the marketable alternative assets is an investment in the Agility Fund, which has an endowment allocation focus and utilizes Agility's five Building Block Portfolios. A Building Block is organized around a specific asset class; Global Equities, Global Fixed Income, Absolute Return (hedged strategies), Real Assets, and Private Capital. Each Building Block is diversified by manager, geography, investment strategy, and underlying security. By utilizing these Building Blocks in constructing its portfolio, JWU manages its portfolio risk, and has access to a customized asset allocation and an investment portfolio that is unique to the University.

The University's investment in the Agility Fund totaled \$163,096 and \$173,779 and is broken into the following categories at June 30:

	2018	2017
Global equities	\$ 58,170	\$ 67,223
Global fixed income	14,696	25,146
Absolute return	50,961	50,869
Real assets	19,636	16,421
Private capital	19,319	13,870
Cash	314	250
	<u>\$ 163,096</u>	<u>\$ 173,779</u>

**Non-marketable alternative assets** - includes investments in pooled investment vehicles and private equity funds. These investments can never be redeemed. Instead, the nature of the investments in this category is that distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next five to seven years.

**Non-marketable inflation hedging** - includes funds that invest in natural resources, such as crude oil, natural gas production, and timberland. These investments can never be redeemed. Instead, the nature of the investments in this category is that distributions will be received as the underlying investments of the fund are liquidated.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 6. Property and Equipment

The following is a summary of the University's property and equipment as of June 30:

	Estimated Useful Lives	2018	2017
Cost:			
Land	-	\$ 73,514	\$ 74,326
Building and land improvements	25 - 40	760,292	770,925
Equipment and furniture	3 - 12	174,625	175,101
Leasehold improvements	5 - 15	6,244	6,194
Library and museum holdings	-	7,786	7,786
Construction in progress	-	4,108	3,376
Total cost		1,026,569	1,037,708
Less accumulated depreciation		(403,501)	(387,629)
Property and equipment, net		<u>\$ 623,068</u>	<u>\$ 650,079</u>

Depreciation expense charged to operations was \$36,846 and \$37,108 in 2018 and 2017, respectively.

The University has construction in progress relating to renovations of various buildings. Outstanding commitments at June 30, 2018 and 2017 totaled \$1,727 and \$2,680, respectively, excluding retainage of \$122 and \$265 which is included in construction in progress above and accounts payable and accrued expenses, respectively, in the consolidated statements of financial position.

#### Note 7. Retirement Plans

**Defined contribution retirement savings plan:** The University has a qualified 401(k) retirement savings plan for its employees. The University contributes 6% of eligible compensation of each eligible employee, as well as matching 100% of employee contributions up to 4% of eligible compensation, subject to limits.

The University's contributions to the plan for the years ended June 30, 2018 and 2017 amounted to \$10,935 and \$12,061, respectively.

**Section 457(b) deferred compensation plan:** The University has an executive retirement plan that is designed in accordance with Section 457(b) of the Code. Participants are designated by the Board. The University generally makes non-elective annual contributions to the plan on behalf of each participant. The participants are responsible for making investment selections within their designated accounts. However, the funds remain assets of the University until such time as the participant withdraws the funds in accordance with plan provisions. Assets held for this plan were \$2,495 and \$2,388 at June 30, 2018 and 2017, respectively, and are reported in investments in the consolidated statements of financial position. A corresponding liability to plan participants is reported in pension plan obligations in the consolidated statements of financial position.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 7. Retirement Plans (Continued)

**Defined benefit pension plans:** The University had previously established a Supplemental Executive Retirement Plan ("SERP") that is designed in accordance with Section 457(f) of the Code covering certain University executives. Although the plan was unfunded, the University had on deposit \$2,480 in a rabbi trust at June 30, 2017, set aside for the purpose of paying these benefits which was reported as a component of short term investments. The plan is a defined benefit plan intended to provide a lump-sum payment at age 65, representing the actuarial value of a lifetime annuity equal to 75% of final salary, offset by the actuarial equivalent of benefits that had been accrued under the University's now terminated defined benefit pension plan and the assumed value of the participant's account in the previously described 457(b) plan, using a 7% assumed rate of return.

The final settlement of the obligation occurred in November 2017 upon the payment of lump-sum benefits to the final beneficiary. The SERP has not been formally terminated by the Board as of June 30, 2018. A portion of the unrecognized accumulated loss equal to \$317 is included as part of the annual expense as a result of the settlement.

The University uses a June 30 measurement date to determine the pension obligation.

The following tables set forth the plan's funded status. The amount recorded in accounts payable and accrued expenses is \$0 and \$2,368 at June 30, 2018 and 2017, respectively.

	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 2,368	\$ 6,735
Service cost	51	133
Interest cost	15	36
Effect of settlement	(2,434)	(4,593)
Actuarial loss	-	57
Benefit obligation, end of year	-	2,368
Fair value of plan assets, end of year	-	-
Funded status, end of year	\$ -	\$ (2,368)

Amounts recognized as a component of operating activities but not yet recognized in net periodic benefit cost in the consolidated statements of activities consist of:

	2018	2017
Net loss	\$ -	\$ 226
Transition obligation	-	114
	\$ -	\$ 340

**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 7. Retirement Plans (Continued)**

Amounts of net periodic benefit cost and other amounts recognized in non-operating activities are as follows:

	2018	2017
Net periodic benefit cost:		
Service cost	\$ 51	\$ 133
Interest cost	15	36
Amortization of transition amount	24	57
Amortization of prior service cost	-	368
Amortization of net loss	-	387
Net periodic benefit cost	<u>90</u>	<u>981</u>
Effect of settlement	<u>317</u>	<u>607</u>
Other changes in plan assets and benefit obligations recognized in non-operating activities:		
Net (gain) loss	-	(330)
Effect of settlement	(317)	(607)
Amortization of transition obligation	(24)	(57)
Amortization of prior service cost	-	(368)
Total other changes	<u>(341)</u>	<u>(1,362)</u>
Total recognized in net periodic benefit costs and other changes	<u>\$ 66</u>	<u>\$ 226</u>

Weighted average assumptions used to determine benefit obligations as of June 30:

Discount rate - pre-retirement	1.53%	1.53%
Discount rate - post-retirement	5.50%	5.50%
Rate of compensation increase	3.50%	3.50%

Weighted average assumptions used to determine net period benefit cost for the year ended June 30:

Discount rate - pre-retirement	1.53%	0.96%
Discount rate - post-retirement	5.50%	5.50%
Rate of compensation increase	3.50%	3.50%

As previously noted, the final settlement of the obligation under the SERP was paid in November, 2017. There are no estimated net loss, prior service cost and transition obligations for the plan to be amortized into net periodic benefit cost over the next fiscal year, and no remaining additional contributions to be made.



## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

#### Note 8. Bonds and Notes Payable, Line of Credit and Capital Lease

The University had the following notes and bonds payable, line of credit outstanding and capital lease at June 30:

	2018	2017
Bonds payable, net of discounts and premiums at fixed rates:		
Rhode Island Health and Educational Building Corporation ("RIHEBC"):		
Facility Revenue Bonds:		
Series 2015, 2.18%, maturing 2030	\$ 25,319	\$ 26,983
Series 1999, 4.0% to 5.5%, maturing serially through 2019	3,073	5,986
North Carolina Capital Facilities Finance Agency ("NCCFFA"):		
Educational Facilities Revenue Bonds:		
Series 2014, 2.65% to 2.95%, maturing 2029	18,993	20,760
Educational Facilities Refunding Revenue Bonds		
Series 2013, 2.0% to 5.0%, maturing 2033	33,638	35,340
Colorado Educational and Cultural Facilities Authority ("CECFA"):		
Educational Facilities Revenue Bonds:		
Series 2013A Bonds, 3.0% to 5.0%, maturing 2043	27,309	27,918
Educational Facilities Refunding Revenue Bonds,		
Series 2013B Bonds, 3.0% to 5.0%, maturing 2033	54,308	60,365
Notes payable:		
U.S. Department of Education:		
5.5% fixed, maturing November 1, 2021	330	450
National Grid, maturing 2017 and 2018	6	52
Capital lease:		
Greenwaste - 6.00%, maturing 2017	-	4
Total bonds and notes payable, line of credit and capital lease	162,976	177,858
Bond issuance costs	(1,061)	(1,240)
Total bonds and notes payable, line of credit, and capital lease, net of bond issuance costs	<u>\$ 161,915</u>	<u>\$ 176,618</u>

Maturities of notes, capital leases, and bonds payable, net of discounts and premiums, for the fiscal years after June 30, 2018, are as follows:

2019	\$ 15,043
2020	15,456
2021	10,904
2022	11,142
2023	9,213
Thereafter	100,157
	<u>\$ 161,915</u>

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### **Note 8. Bonds and Notes Payable, Line of Credit and Capital Lease (Continued)**

Discounts on bonds payable at June 30, 2018 and 2017 are \$662 and \$701, respectively. Premiums on bonds payable at June 30, 2018 and 2017 are \$2,535 and \$3,426, respectively. The discounts and premiums are amortizing on the effective interest model to par value of the bonds on their maturity date.

RIHEBC Revenue Bonds are secured by tuition and other revenues.

RIHEBC provides for certain covenants, the most restrictive of which require that the University maintain a minimum liquidity ratio and a minimum debt service coverage ratio.

Notes payable to the DOE are secured by real estate.

During the year ended June 30, 2017, all existing lines of credit were terminated and one line of credit totaling \$26.0 million was established with one bank. The line of credit is a demand note with expiration date of December 31, 2018. The line of credit is uncollateralized. Management expects to renew the line in the ordinary course of business. There were no amounts outstanding on the line of credit at June 30, 2018 and 2017. Interest rate on the line of credit is 3.59% and 3.48% at June 30, 2018 and 2017.

The bond agreements and line of credit agreements contain covenants regarding certain operating activities and financial statement amounts and ratios of the University.

Interest costs for the years ended June 30, 2018 and 2017 were \$6,556 and \$6,880, respectively, of which \$0 and \$105, respectively, was capitalized as a part of the construction cost.

On July 18, 2013, the University issued \$40.0 million in NCCFFA Revenue Refunding bonds to refinance the NCCFFA series 2003A bonds of \$42.5 million. On August 21, 2013, the University issued \$30.3 million in CECFA Revenue Bonds to fund the renovation of existing buildings located on the Denver, Colorado campus. Also on August 21, 2013, the University issued \$81.9 million in CECFA Revenue Refunding bonds to refinance the CECFA series 2003A, the City of North Miami, Florida Educational Facilities series 2003A, the RIHEBC series 2003A, the callable portion of the RIHEBC series 1999, and the RIHEBC series 1996 bonds totaling \$87.1 million. On March 11, 2014, the University issued \$26.5 million NCCFFA Revenue Refunding bonds to purchase a dormitory located on the Charlotte, North Carolina Campus. On September 22, 2015, the University issued \$30 million RIHEBC Facility Revenue Bonds to construct an academic building located on the Providence, Rhode Island Campus.

During fiscal year 2018, \$5,598 of the CECFA Refunding Revenue Series 2013B bonds attributed to the Radisson Hotel property were defeased through an in-substance defeasance upon sale of that property. As the liability derecognition criteria was not met, the bonds continue to be included in the bonds and notes payable, line of credit and capital leases in the statement of financial position. Funds from proceeds of the sale were deposited in an escrow account with The Bank of New York Mellon Trust Company, the escrow agent, to pay and discharge principal and interest of \$5,647 due in fiscal years 2019 and 2020. The amount due in fiscal year 2019, \$2,889, is included with short term investments and the amount due in fiscal year 2020, \$2,709, is included with long term investments in the consolidated statements of financial position.

**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 9. Net Assets and Endowment Matters**

**Temporarily restricted net assets:** Temporarily restricted net assets consist of the following at June 30, 2018:

	Accumulated Unexpended Gains	Annuities and Other	Contributions Receivable	Fully Expendable	Total
Student aid and instructional	\$ 7,707	\$ -	\$ 784	\$ 2,200	\$ 10,691
Other	320	-	2,748	1,447	4,515
Time restricted	-	11	1,620	228	1,859
	<u>\$ 8,027</u>	<u>\$ 11</u>	<u>\$ 5,152</u>	<u>\$ 3,875</u>	<u>\$ 17,065</u>

Temporarily restricted net assets consist of the following at June 30, 2017:

	Accumulated Unexpended Gains	Annuities and Other	Contributions Receivable	Fully Expendable	Total
Student aid and instructional	\$ 7,011	\$ -	\$ 937	\$ 1,761	\$ 9,709
Other	32	-	1,117	1,163	2,312
Time restricted	-	13	1,608	236	1,857
	<u>\$ 7,043</u>	<u>\$ 13</u>	<u>\$ 3,662</u>	<u>\$ 3,160</u>	<u>\$ 13,878</u>

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

	2018	2017
Endowment funds for which the income is restricted:		
Student aid	\$ 20,998	\$ 20,713
Instructional	979	979
Other	662	648
Contributions receivable	1,712	1,833
	<u>\$ 24,351</u>	<u>\$ 24,173</u>

**Net assets released from restrictions:** Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	2018	2017
Student aid	\$ 764	\$ 1,243
Instructional	66	85
Building/facility projects	123	82
Program support	725	246
Time restricted	210	108
	<u>\$ 1,888</u>	<u>\$ 1,764</u>

**Johnson & Wales University**

**Notes to Consolidated Financial Statements  
(In Thousands)**

**Note 9. Net Assets and Endowment Matters (Continued)**

**Composition of endowment by net asset class:** The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 8,243	\$ 22,547	\$ 30,790
Board-designated endowment funds	220,841	-	-	220,841
Total funds	\$ 220,841	\$ 8,243	\$ 22,547	\$ 251,631

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 7,270	\$ 22,372	\$ 29,642
Board-designated endowment funds	226,245	-	-	226,245
Total funds	\$ 226,245	\$ 7,270	\$ 22,372	\$ 255,887

**Activity by net asset class of endowment and those functioning as endowment assets, and other investments:** The following summarizes the activities within the donor and Board-designated endowment assets and other investments:

	2018							
	Endowment				Available for Operations	Total Board Managed Investments	Other Investments	Total Endowment and Other Investments
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment				
Endowment and those functioning as endowment assets and other investments, beginning of year	\$ 226,245	\$ 7,270	\$ 22,372	\$ 255,887	\$ 5,569	\$ 261,456	\$ 6,592	\$ 268,048
Contributions restricted for long-term investments	-	-	283	283	-	283	-	283
Investment returns	15,505	2,072	7	17,584	409	17,993	(526)	17,467
Investment return appropriated for operations	(21,025)	(1,095)	-	(22,120)	-	(22,120)	-	(22,120)
Other activity:								
Transfers, withdrawals and adjustments	116	(4)	(115)	(3)	-	(3)	4,122	4,119
Current year investment return available but not withdrawn	-	-	-	-	9,287	9,287	-	9,287
Net due to (from) operations	-	-	-	-	(244)	(244)	-	(244)
Total other activity	116	(4)	(115)	(3)	9,043	9,040	4,122	13,162
Total change	(5,404)	973	175	(4,256)	9,452	5,196	3,596	8,792
Endowment and those functioning as endowment assets and other investments, end of year	\$ 220,841	\$ 8,243	\$ 22,547	\$ 251,631	\$ 15,021	\$ 266,652	\$ 10,188	\$ 276,840

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

#### Note 9. Net Assets and Endowment Matters (Continued)

	2017							
	Endowment			Total Endowment	Available for Operations	Total Board Managed Investments	Other Investments	Total Endowment and Other Investments
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Endowment and those functioning as endowment assets and other investments, beginning of year	\$ 212,293	\$ 4,801	\$ 21,850	\$ 238,944	\$ 5,377	\$ 244,321	\$ 4,213	\$ 248,534
Contributions restricted for long-term investments	-	-	497	497	-	497	-	497
Investment returns	26,146	3,227	23	29,396	677	30,073	(126)	29,947
Investment return appropriated for operations	(12,289)	(650)	-	(12,939)	-	(12,939)	-	(12,939)
Other activity:								
Transfers, withdrawals and adjustments	95	(108)	2	(11)	-	(11)	2,505	2,494
Net due to (from) operations	-	-	-	-	(485)	(485)	-	(485)
Total other activity	95	(108)	2	(11)	(485)	(496)	2,505	2,009
Total change	13,952	2,469	522	16,943	192	17,135	2,379	19,514
Endowment and those functioning as endowment assets and other investments, end of year	\$ 226,245	\$ 7,270	\$ 22,372	\$ 255,887	\$ 5,569	\$ 261,456	\$ 6,592	\$ 268,048

**Endowment:** The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Donor restricted funds are comprised of approximately 90 individual funds established for a variety of purposes.

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

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 9. Net Assets and Endowment Matters (Continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

The University will generally make available for distribution to the operating fund, an amount equal to a maximum of 5% of the total endowment funds' average fair value calculated over the 12 quarters ending December 31st of the preceding calendar year. For purposes of this calculation, the total endowment includes both donor restricted/true endowment funds as well as board restricted/quasi-endowment funds. Included in the total 5% spending pool, the University will generally make available for distribution to the operating fund, for the purposes directed by the donors, up to 5% of the donor restricted/true endowment funds' average fair value over the 12 quarters ending December 31st of the preceding calendar year. (In the event that a donor fund has been in existence for less than twelve quarters, the average shall be calculated on the total quarters since the inception of the fund.) At the discretion of the University's management team, in accordance with principals espoused by UPMIFA, the University may distribute more, or less, than 5% of the average fair value of a fund if circumstances arise that would cause such additional spending to be prudent. The difference between the calculated 5% annual calculated spend for the fiscal year and the amount appropriated from the donor restricted endowment is withdrawn from the board designated endowment.

The spending policy is intended for the general benefit of the University's current, present and future students, and for the furtherance of the educational mission of the University. In establishing this policy, the University considered the long-term expected return on its endowment. In the event that the University does not distribute the entire 5% to the operating fund account in any year, it may add the undistributed portion to the amount to be distributed in future years. For the years ended June 30, 2018 and 2017, \$22,120 (\$12,832 based on the spending policy plus an additional \$9,287 appropriation approved by the Board drawn from Board designated funds) and \$12,939, respectively, were appropriated to operating income, of which \$1,095 and \$650, respectively, were from donor restricted funds.

**Funds with deficiencies:** From time-to-time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. There were \$0 and \$1 of such deficiencies as of June 30, 2018 and 2017, respectively.

**Return objectives and risk parameters:** The purpose of the Endowment is to support the mission of the University over the long term. Accordingly, the primary investment objectives of the Endowment are to:

- (1) Preserve and enhance the real purchasing power of the principal, and
- (2) Provide a stable source of perpetual financial support to Endowment beneficiaries in accordance with the University's spending policy.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 9. Net Assets and Endowment Matters (Continued)

In order to preserve the purchasing power of both principal and of withdrawals made available for spending, the long-term annualized total rate of return objective for the Endowment is inflation plus 5%. A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the Endowment, and the additional 5% is required to provide for spending.

**Strategies employed for achieving objectives:** To satisfy its long-term rate of return objective, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). Asset allocation guidelines and the investment manager structure were designed to provide adequate diversification in order to reduce the volatility of investment returns.

To achieve its investment objectives, the Endowment is allocated among a number of diverse asset classes. These asset classes may include, but are not limited to: domestic equity, domestic fixed income, international equity, international fixed income, hedge funds, absolute return funds, real estate, inflation hedging assets and private capital. The purpose of allocating among asset classes is to provide for the proper level of diversification within the Endowment.

The general policy is to diversify investments among equity, fixed income and alternative strategies so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

#### Note 10. Operating Leases

The University leases office, classroom, dormitory facilities and equipment under non-cancellable leases expiring at various dates through 2055. Leases for classroom and dormitory facilities contain provisions for rent adjustments due to increased operating expenses. Rent expense for the years ended June 30, 2018 and 2017 was \$5,223 and \$5,512 respectively. Certain leases have escalating rent payments over the lease term therefore the University has straight lined the rental expense over the lease term resulting in a deferred rent expense of \$1,825 and \$1,995 at June 30, 2018 and 2017, respectively, which is included in accrued expenses on the consolidated statement of financial position.

The following is a schedule of future minimum lease payments required under the non-cancellable operating leases:

Year ended:	
2019	\$ 4,697
2020	4,568
2021	4,694
2022	1,525
2023	1,210
Thereafter	7,580
	<u>\$ 24,274</u>

#### Note 11. Commitments and Contingencies

The University participates in a number of federal programs that are subject to financial and compliance audits. Management believes its programs have been conducted in accordance with the terms of the agreements and, thus, does not expect any significant impact if such programs are further audited by funders.

The University is involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial condition or results of operations.

## Johnson & Wales University

### Notes to Consolidated Financial Statements (In Thousands)

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#### Note 12. Related Party Transactions

The University has a conflict of interest policy which requires that each trustee, officer, and senior executive shall disclose to the Board at least once each year all the material facts concerning his or her relationship with or interest in any person, firm, corporation or other entity with whom the University has, or proposes to enter into, any contract or other transaction which may, directly or indirectly, result in financial gain or other advantage to such trustee, officer, or senior executive by reason of such relationship or interest.

In the ordinary course of business, the University purchased supplies and services, which included health insurance administration, internet and phone services, and gas and electricity from entities whose officers, partners and/or stockholders are trustees, officers or senior executives of the University. When such a relationship exists, trustees, officers, and senior executives are responsible to make decisions without favor or preference to third parties, but solely on the basis that the decision is in the best interest of the University.

Certain trustees, officers, and senior executives of the University are on the governing boards of investment companies in which the University has direct investments, and the bank with which the University has a line of credit. Such direct investments represented approximately 1.8% of the University's total investments, and line of credit available was \$26,000 as of June 30, 2018 and 2017, respectively.

#### Note 13. Natural Classification of Operating Expenses

Operating expenses by their natural classification were as follows for the years ended June 30:

	2018	2017
Salaries and wages	\$ 132,869	\$ 146,898
Benefits other than pension	29,967	33,198
Pension	11,511	14,019
Food and beverage	6,924	7,931
Professional fees and contracted services	19,728	18,216
Occupancy	25,354	26,499
Depreciation	36,846	37,108
Advertising, promotions and publications	9,688	10,463
Travel and training	5,357	6,420
Supplies and miscellaneous	11,598	13,938
Insurance, taxes, fees and dues	8,180	7,604
Hardware, software and telecommunications	9,095	9,924
Bad debts	1,008	4,561
Interest and amortization	6,832	7,162
	<u>\$ 314,957</u>	<u>\$ 343,941</u>

#### Note 14. Subsequent Events

The University evaluated all events and transactions through October 30, 2018, the date on which the financial statements were issued. There were no material subsequent events requiring accounting recognition or disclosure in the accompanying financial statements.