Johnson & Wales University

Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

Johnson & Wales University

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

C O N T E N T S

Independent Auditor's Report

RSM US LLP

To the Board of Directors
Johnson & Wales University
Providence, Rhode Island

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, 2016 and 2015, and the related consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets, changes in net assets and cash flows for the years then ended and the related notes to the 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2016 and 2015, and the consolidated unrestricted revenues, expenses, and other changes in unrestricted net assets, consolidated changes in its net assets and consolidated 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 28, 2016

Johnson & Wales University

Consolidated Statements of Financial Position
June 30, 2016 and 2015
(In Thousands)

		2016		2015
ASSETS				
Cash and cash equivalents	**$**	**11,212**	$	7,645
Funds on deposit with bond trustee and short term investments		**4,594**		9,157
Student accounts receivable, net		**11,076**		9,680
Inventories, deferred charges, prepaid expenses and other assets		**11,818**		10,983
Contributions receivable, net		**1,401**		899
Student loans, notes and other receivables, net		**27,191**		26,907
Investments		**252,001**		284,998
Property and equipment, net		**663,974**		636,750
Total assets	**$**	**983,267**	$	987,019
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	**$**	**44,472**	$	49,729
Deferred revenue and student deposits		**15,424**		14,609
Bonds and notes payable, line of credit and capital lease		**192,518**		176,909
Pension plan and annuity obligations		**4,044**		7,534
Refundable U.S. Government grants		**4,421**		4,108
Total liabilities		**260,879**		252,889
Net assets:				
Unrestricted:				
Available for operations and designated for long-term investment		**201,162**		217,209
Net investment in property and equipment		**472,881**		470,530
Loan program		**18,108**		16,428
Total unrestricted		**692,151**		704,167
Temporarily restricted		**8,217**		8,424
Permanently restricted		**22,020**		21,539
Total net assets		**722,388**		734,130
Total liabilities and net assets	**$**	**983,267**	$	987,019

See accompanying notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
Changes in unrestricted operating net assets:		
Revenues and gains:		
Tuition and fees	**$ 389,227**	$ 391,541
Residence and dining	**77,856**	72,820
Scholarships	**(157,694)**	(148,644)
Net student fees	**309,389**	315,717
Hotels	**12,708**	12,161
Private gifts, grants and federal aid to students	**2,727**	2,679
Investment return appropriated for operations	**11,663**	6,141
Other student generated	**2,319**	2,815
Other sources	**5,022**	4,964
Total revenue and gains	**343,828**	344,477
Net assets released from restrictions	**2,700**	2,871
Total revenue, gains and other support	**346,528**	347,348
Operating expenses:		
Instructional	**95,970**	91,062
Academic support	**26,727**	24,522
Student services	**77,175**	72,564
Auxiliary enterprises	**76,875**	72,387
Institutional support	**58,329**	67,217
Public service	**1,202**	1,442
Loss on sale of property and equipment	**534**	326
Total operating expenses	**336,812**	329,520
Increase in unrestricted net assets from operations	**9,716**	17,828
Non-operating activities:		
Increase resulting from actuarial changes in defined benefit liability	**256**	623
Other losses	**-**	(871)
Return on unrestricted investments	**(8,997)**	(2,474)
Investment return appropriated for operations	**(11,663)**	(6,141)
Reclassifications to temporarily restricted net assets	**(1,328)**	(11)
Decrease in unrestricted net assets from non-operating activities	**(21,732)**	(8,874)
(Decrease) increase in unrestricted net assets	**$ (12,016)**	$ 8,954

See accompanying notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
Summary of changes in unrestricted net assets:		
Total unrestricted operating revenues and gains	$ 343,828	$ 344,477
Net operating assets released from restrictions	2,700	2,871
Total unrestricted operating expenses	(336,812)	(329,520)
Decrease in unrestricted net assets from non-operating activities	(21,732)	(8,874)
(Decrease) increase in unrestricted net assets	(12,016)	8,954
Changes in temporarily restricted net assets:		
Contributions	2,333	1,866
Return on long-term investments	(1,116)	(667)
Net assets released from restrictions	(2,700)	(2,871)
Reclassifications (to) from unrestricted and permanently restricted net assets	1,276	(20)
Decrease in temporarily restricted net assets	(207)	(1,692)
Changes in permanently restricted net assets:		
Contributions	445	439
Return on long-term investments	(17)	(9)
Reclassifications from temporarily restricted net assets	53	31
Increase in permanently restricted net assets	481	461
(Decrease) Increase in net assets	(11,742)	7,723
Net assets, beginning of year	734,130	726,407
Net assets, end of year	$ 722,388	$ 734,130

See accompanying notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
Cash flows from operating activities:		
Received from students	**$ 147,563**	$ 154,197
Cash received from operation of practicum properties	**12,708**	12,158
Cash received from other sources	**4,827**	7,438
Gifts and grants received	**4,533**	4,602
Drawdowns of federal grants and loans	**156,825**	154,437
Investment management fees	**(553)**	(1,009)
Investment income	**2,420**	3,907
Collection of loans from students	**14,977**	12,581
Payments for services	**(43,574)**	(45,266)
Interest paid on long term debt less capitalized interest	**(6,500)**	(4,565)
Payments for taxes	**(3,276)**	(1,902)
Payments to vendors and suppliers	**(34,264)**	(29,288)
Payments to employees and fringe benefits	**(194,716)**	(181,907)
Payments for occupancy	**(27,046)**	(27,257)
Cash provided by operating activities	**33,924**	58,126
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	**222,424**	166,233
Proceeds from funds on deposit with bond trustee	**9,157**	19,680
Purchases of investments	**(200,924)**	(167,733)
Purchases of short-term investments	**(4,593)**	-
Purchase of property, plant and equipment	**(71,325)**	(64,738)
Capitalized interest paid	**(711)**	(2,549)
Proceeds from sale of property, plant and equipment	**133**	547
Cash used in investing activities	**(45,839)**	(48,560)
Cash flows from financing activities:		
Principal payments under capital lease obligations	**(26)**	(25)
Principal payments on bonds, notes payable and lines of credit	**(26,505)**	(28,407)
Financing costs	**(77)**	(21)
Repayment of refundable grants	**(462)**	-
Proceeds from national grid note payable	**474**	-
Advances from lines of credit	**11,667**	15,056
Contributions restricted for long term investment	**411**	422
Proceeds from issuance of bonds	**30,000**	-
Cash provided by (used in) financing activities	**15,482**	(12,975)
Net change in cash and cash equivalents	**3,567**	(3,409)
Cash and cash equivalents at beginning of year	**7,645**	11,054
Cash and cash equivalents at end of year	**$ 11,212**	$ 7,645
Land, buildings and equipment included in accounts payable	**$ 2,466**	$ 10,257

See accompanying notes to consolidated financial statements.

Johnson & Wales University

Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
(Decrease) increase in net assets	**$ (11,742)**	$ 7,723
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	**36,538**	35,585
Net realized and unrealized loss on investments	**11,497**	5,527
Gain on interest rate swap	**(10)**	(46)
(Decrease) increase in allowance for uncollectible accounts	**(8,755)**	2,716
Contributions restricted for long-term investment	**(411)**	(422)
Loss on sale of property and equipment and other losses	**534**	1,197
Change in accounts receivable and other assets	**(2,016)**	(883)
Change in accounts payable, accrued expenses, deferred revenue, student deposits, and pension plan obligations and refundable grants	**644**	4,049
Student loans, notes and other receivables advanced	**(7,332)**	(11,326)
Student loans, notes and other receivables collected	**14,977**	14,006
Net cash provided by operating activities	**$ 33,924**	$ 58,126

See accompanying notes to consolidated financial statements.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Founded in 1914 in Providence, R.I., Johnson & Wales University (the “University”) is a private, nonprofit, accredited institution with more than 15,000 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, design and engineering, education, health and wellness, hospitality, nutrition, and physician assistant studies. 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 growth. The University’s impact is global, with alumni from nearly 123 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 and Multicultural Foodservice & Hospitality Alliance. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

<u>Basis of Statement Presentation</u>

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 statements of financial position and consolidated statements of changes in net assets, 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 changes in net assets and unrestricted revenues, expenses and other changes in unrestricted net assets as net assets released from restrictions.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Basis of Statement Presentation…continued

- 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.

Operating Activities

The consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets reports 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 unrestricted endowment computed using the spending policy for the period as approved by the Board. Amounts appropriated from donor restricted endowment funds pursuant to the spending policy approved by the Board are included in net assets released from restrictions and included in operations. 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 certain other losses as non-operating.

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 hedge funds, marketable asset partnerships, non-marketable asset partnerships, and various inflation hedging vehicles. Alternative investments utilize a variety of instrument strategies incorporating 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 broader 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.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Fair Value Measurements

The University reports required 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 and the interest rate swap contract. 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.

Instruments measured and reported at fair value 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. 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.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Fair Value Measurements...continued

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

Equity, Fixed Income, Marketable Inflation Hedging Securities and Other Investments

The fair value of equity, fixed income, marketable inflation hedging 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.

Derivative Instruments

Derivatives are carried at fair value according to their classification as over-the-counter (“OTC”). OTC derivatives consist of interest rate swaps. Fair value for these derivatives is determined by third parties and generally classified as level 2 in the fair value hierarchy. Observable market inputs include yield curves (the LIBOR swap curve).

During the years ended June 30, 2016 and 2015, 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 changes in net assets.

Equity Method Investments

The University accounts for its investment in The FIX, LLC (FIX) under the equity method of accounting. FIX is a research and development partnership that focuses on developing appetizing nutritional products that have specific medicinal or health related benefits. The University has a 19.5% ownership of voting rights in FIX. Although the University's investment in FIX falls below the threshold of a controlling interest, the University's contractual relationship with FIX gives it the ability to exercise significant influence. On April 26, 2016, the outstanding loans to FIX totaling $1,676 were converted to capital in FIX and Class C and D units (non-voting units) were issued to the University. In addition, as outlined in the FIX amended operating agreement; the University has also committed to provide annual additional capital contributions of not less than $1,200 or more than $1,800. The University may terminate this obligation on one year’s advance notice. Under the equity method of accounting, the University's share of the net earnings of FIX is recognized in the University's statement of activities as part of the return on unrestricted investments. The University’s proportionate share of income or losses is treated as additions to or subtractions from the investment account. The fiscal year of 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, is for the year which ended on the previous December 31st. The carrying value of the investment at June 30, 2016 was $1,978, and is included in investments on the consolidated statement of financial position and the loss for the year ended December 31, 2015 of $198 is included in the loss from unrestricted investments in the consolidated statements of unrestricted revenues, expenses and other changes in unrestricted net assets.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

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 unrestricted revenues, expenses and other changes in unrestricted net assets. 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 2016 and 2015 was $12,708 and $12,161, respectively. Operating expenses generated by the hotel for the fiscal years 2016 and 2015 were $12,155 and $11,453, respectively, and are included in auxiliary enterprises expense on the consolidated statements of unrestricted revenues, expenses and other changes in unrestricted net assets. Revenue is recognized when the hotel stay or banquet event is completed.

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, 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.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

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 market.

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 rate commensurate with the risk involved. Conditional promises to give are recognized as revenues when donor stipulations are substantially met.

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 $1,631 and $1,706 as of June 30, 2016 and 2015, 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.

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").

Perkins funds may be reloaned by the University after collection, but in the event that the University no longer participates in the Program, the federal portion of the funds is generally refundable to the Federal government. 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 Department of Education, which reduces the Perkins balance of refundable U.S. Government Grants in the consolidated statements of financial position.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Student Loans…continued

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, 2016 and 2015 no impairment indicators were identified.

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, 2016 and 2015 to be $1,653 and $1,512, respectively, which is included in accrued expenses in the consolidated statements of financial position.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

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 of $1,424 and $1,532 at June 30, 2016 and 2015, respectively, are included in other assets in the consolidated statements of financial position. Amortization expense was $185 and $183 in 2016 and 2015, 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 $5,081 and $4,858 in fiscal years 2016 and 2015, 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, 2016 and 2015 was $ 10,709 and $ 9,610, respectively.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Derivative Financial Instruments

Derivative financial instruments were used for the purpose of hedging exposure to changes in interest rates. The University's only derivatives were interest rate swap agreements which expired during 2016. Derivative financial instruments were accounted for at fair value. Derivative financial instruments were not used for trading or speculative purposes. The fair value of each derivative was included in accounts payable and accrued expenses in the consolidated statements of financial position. The gains or losses resulting from the changes in the fair value of derivatives are recognized immediately in the consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets in other sources because the derivatives do not qualify for hedge accounting or are not designated as hedges.

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 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, 2016 or 2015.

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 2013. Interest and penalties, if any, are included in income tax expense.

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. The updated standard will be effective for the fiscal years beginning after December 15, 2017. The University has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments are effective for fiscal years beginning after December 31, 2015. The adoption of ASU 2015-03 is not expected to have a material effect on the University's financial statements or disclosures.

1. NATURE OF THE UNIVERSITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…continued

Recently Issued Accounting Pronouncements…continued

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the University for fiscal years beginning after December 15, 2018. The University elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

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, 2019, 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 has not evaluated the impact of this ASU on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 presentation.

During the year ended June 30, 2016, the University changed its operating functional expense classifications to conform to the IPEDS (Integrated Postsecondary Education Data System) reporting format. This change has been applied retroactively to the 2015 operating expenses.

Johnson & Wales University

Notes to Consolidated Financial Statements
(In Thousands)
Years Ended June 30, 2016 and 2015

2. STUDENT ACCOUNTS RECEIVABLE, STUDENT LOANS, NOTES AND OTHER RECEIVABLES

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

	2016	2015
Student accounts receivable:		
Student receivables	$ 12,707	$ 11,386
Allowance for doubtful accounts	(1,631)	(1,706)
Student accounts receivable, net	$ 11,076	$ 9,680

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

	2016	2015
Achievement loans	$ 6,290	$ 7,385
Perkins loans	35,538	40,246
	41,828	47,631
Less - allowance for doubtful accounts:		
Beginning of year	26,343	26,252
Current year (recoveries) provisions	(8,686)	149
Achievement Loan cancellations	(36)	(58)
End of year	17,621	26,343
Student loans and notes receivable, net	24,207	21,288
Notes and other receivables	2,984	5,619
Student loans, notes and other receivables, net	$ 27,191	$ 26,907

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
2016:						
Achievement Loans	$ 179	$ 152	$ 5,067	$ 5,398	$ 892	$ 6,290
Perkins loans	3,617	965	2,237	6,819	28,719	35,538
Student loans and notes receivable	$ 3,796	$ 1,117	$ 7,304	$ 12,217	$ 29,611	$ 41,828
2015:						
Achievement Loans	$ 274	$ 242	$ 5,391	$ 5,907	$ 1,478	$ 7,385
Perkins loans	3,190	1,131	4,227	8,548	31,698	40,246
Student loans and notes receivable	$ 3,464	$ 1,373	$ 9,618	$ 14,455	$ 33,176	$ 47,631

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)
Years Ended June 30, 2016 and 2015

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	$ 972	$ 470
One to five years	723	681
	1,695	1,151
Less:		
Allowance for uncollectible contributions	(260)	(213)
Discount to present value	(34)	(39)
Contributions receivable, net	$ 1,401	$ 899

The discount rates used to calculate the discounted value of contributions receivable ranged from 2.11% to 3.97% for June 30, 2016 and 2015.

4. INVESTMENTS

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

	2016	2015
Investments, beginning of year	$ 284,998	$ 289,025
Contributions restricted for long-term investment	536	572
Investment return, net of investment fees:		
Interest and dividends	1,920	3,387
Net unrealized losses	(4,232)	(18,981)
Net realized gains	(7,266)	13,454
Investment fees	(552)	(1,010)
Total return on investments, net of investment fees	(10,130)	(3,150)
Net assets released, transfers and adjustments:		
Accumulated gains released from restriction	(1,017)	(1,066)
Other transfers/withdrawals and adjustments	(18,829)	153
Net due from operations	(3,557)	(536)
Total net assets released, transfers and adjustments	(23,403)	(1,449)
Investments, end of year	$ 252,001	$ 284,998

Johnson & Wales University

Notes to Consolidated Financial Statements
(In Thousands)
Years Ended June 30, 2016 and 2015

5. FAIR VALUES

Fair Values of Financial Instruments

The following table presents financial instruments at June 30, 2016 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
Assets:					
U.S. equities	$ 266	$ -	$ -	$ -	$ 266
U.S. fixed income	21	-	-	-	21
Marketable alternative assets	-	-	-	206,451	206,451
Non-marketable alternative assets:					
Restructuring funds	-	-	-	17,710	17,710
Private equity funds	-	-	-	11,018	11,018
Non-marketable inflation hedging funds	-	-	-	4,942	4,942
Cash and cash equivalents	4,101	6	-	-	4,107
Other investments	3,685	1,823	-	-	5,508
Investments measured at fair value	$ 8,073	$ 1,829	$ -	$ 240,121	250,023
Investments accounted for using equity method					1,978
Total investments					$ 252,001
Short-term investments:					
U.S. fixed income	$ 4,593	$ -	$ -	$ -	$ 4,593

The following table presents financial instruments at June 30, 2015 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
Assets:					
U.S. equities	$ 92,435	$ -	$ -	$ -	$ 92,435
Global equities	9,363	-	-	-	9,363
U.S. fixed income	3,193	-	-	-	3,193
Marketable alternative assets	-	-	-	135,174	135,174
Non-marketable alternative assets:					
Restructuring funds	-	-	-	17,438	17,438
Private equity funds	-	-	-	12,852	12,852
Non-marketable inflation hedging funds	-	-	-	5,260	5,260
Cash and cash equivalents	2,974	1,315	-	-	4,289
Other investments	3,406	1,588	-	-	4,994
Total investments	$ 111,371	$ 2,903	$ -	$ 170,724	$ 284,998
Liabilities:					
Interest rate swap	$ -	$ (10)	$ -	$ -	$ (10)

Johnson & Wales University

Notes to Consolidated Financial Statements
(In Thousands)
Years Ended June 30, 2016 and 2015

5. FAIR VALUES…continued

Fair Values of Financial Instruments...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 2015 financial statements previously reported variable annuities, included in other investments, using NAV (or its equivalent) as a practical expedient, and excluded from the fair value hierarchy. Beginning in October 2014, these funds had a readily determinable fair value. Therefore, the fair value hierarchy for 2015 has been revised to include these funds within Level 2, consistent with the classification for 2016. In addition, these funds have been removed from the table below related to investments at NAV (or its equivalent) as a practical expedient.

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:

2016	Number of Funds in 2016	2016 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	3	$ 206,451	$ -	Quarterly/ Annually	65 - 90 days
Non-marketable alternative assets	15	28,728	4,732	N/A	N/A
Non-marketable inflation hedging	4	4,942	602	N/A	N/A
	22	$ 240,121	$ 5,334		

2015	Number of Funds in 2015	2015 Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	4	$ 135,174	$ -	Quarterly/ Annually	65 days
Non-marketable alternative assets	15	30,290	7,031	Quarterly/ N/A	90 days/ N/A
Non-marketable inflation hedging	4	5,260	1,102	N/A	N/A
	23	$ 170,724	$ 8,133		

(In Thousands)

5. FAIR VALUES…continued

Fair Values of Financial Instruments...continued

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.

99.9% 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 effectively 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 $206,258 and $134,921 and is broken into the following categories:

	2016	2015
Global equities	$ 104,976	$ 29,956
Global fixed income	27,177	24,670
Absolute return	48,567	54,804
Real assets	16,873	20,091
Private capital	8,372	3,655
Cash	293	1,745
	$ 206,258	$ 134,921

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.

(In Thousands)

6. PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2016	2015
Cost:			
Land	-	$ 74,326	$ 73,438
Building and land improvements	25 - 40	724,929	680,082
Equipment and furniture	3 - 12	170,053	161,606
Leasehold improvements	5 - 15	6,168	6,168
Library and museum holdings	-	7,848	7,847
Construction in progress	-	39,302	37,242
Total cost		1,022,626	966,383
Less - accumulated depreciation		(358,652)	(329,633)
Property and equipment, net		$ 663,974	$ 636,750

Depreciation expense charged to operations was $36,353 and $35,402 in 2016 and 2015, respectively.

The University has construction in progress relating to renovations of various buildings. Outstanding commitments at June 30, 2016 and 2015 totaled $1,320 and $32,350, respectively, excluding retainage of $1,730 and $1,986 which is included in construction in progress above and accounts payable and accrued expenses, respectively, in the consolidated statements of financial position.

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, 2016 and 2015 amounted to $12,079 and $11,691, 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 Internal Revenue 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 $1,823 and $1,588 at June 30, 2016 and 2015, 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)
Years Ended June 30, 2016 and 2015

7. RETIREMENT PLANS…continued

Defined Benefit Pension Plans

The University has a Supplemental Executive Retirement Plan that is designed in accordance with Section 457(f) of the Code covering certain University executives. Although the plan is unfunded, at June 30, 2016 and 2015, the University has on deposit $4,789 and $3,959 in a rabbi trust, which is set aside for the purpose of paying these benefits. At June 30, 2016 $4,593 is reported as a component of short term investments as this is the portion that is expected to be paid out within the next fiscal year and $196 is reported as a component of investments within the consolidated statement of financial position. At June 30, 2015 these amounts are reported as a component of investments in the consolidated statements of financial position. 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 University uses a June 30 measurement date to determine the pension obligation.

The following tables set forth the plan's funded status, the amount to be paid in 2017 totaling $4,593 is recorded in accounts payable and accrued expenses and portion to be paid in future years is included in pension plan and annuity obligations in the consolidated statements of financial position as follows:

	2016	2015
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 5,824	$ 5,592
Service cost	166	150
Interest cost	73	68
Actuarial loss	672	14
Benefit obligation, end of year	6,735	5,824
Fair value of plan assets, end of year	-	-
Funded status, end of year	$ (6,735)	$ (5,824)

Amounts recognized as a component of operating activities but not yet recognized in net periodic benefit cost in the consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets consist of:

	2016	2015
Net loss	$ 1,163	$ 995
Transition obligation	171	229
Prior service cost	368	735
	$ 1,702	$ 1,959

Johnson & Wales University

Notes to Consolidated Financial Statements
(In Thousands)
Years Ended June 30, 2016 and 2015

7. RETIREMENT PLANS…continued

Defined Benefit Pension Plans...continued

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

	2016	2015
Net periodic benefit cost:		
Service cost	$ 166	$ 150
Interest cost	73	68
Amortization of transition amount	57	57
Amortization of prior service cost	367	367
Amortization of net loss	504	213
Net periodic benefit cost	1,167	855
Other changes in plan assets and benefit obligations recognized in non-operating activities:		
Net (gain) loss	168	(199)
Amortization of transition obligation	(57)	(57)
Amortization of prior service cost	(367)	(367)
Total other changes	(256)	(623)
Total recognized in net periodic benefit costs and other changes	$ 911	$ 232
Weighted average assumptions used to determine benefit obligations as of June 30:		
Discount rate - pre-retirement	0.96%	1.13%
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	1.13%	1.21%
Discount rate - post-retirement	5.50%	5.50%
Rate of compensation increase	3.50%	3.50%

The estimated net loss, prior service cost and transition obligation for the plan that will be amortized into net periodic benefit cost over the next fiscal year are $489, $368, and $57, respectively.

Estimated future benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2017	$ 4,593
2018	2,375
	$ 6,968

Johnson & Wales University

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(In Thousands)
Years Ended June 30, 2016 and 2015

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:

	2016	2015
Bonds payable, net of discounts and premiums at fixed rates:		
Rhode Island Health and Educational Building Corporation:		
Facility Revenue Bonds:		
Series 2015, 2.18%, maturing 2030	$ 28,611	$ -
Series 1999, 4.0% to 5.5%, maturing serially through 2019	8,749	11,367
North Carolina Capital Facilities Finance Agency:		
Educational Facilities Revenue Bonds:		
Series 2014, 2.65% to 2.95%, maturing 2029	22,527	24,294
Educational Facilities Refunding Revenue Bonds		
Series 2013, 2.0% to 5.0%, maturing 2033	37,011	38,659
Colorado Educational and Cultural Facilities Authority:		
Educational Facilities Revenue Bonds:		
Series 2013A Bonds, 3.0% to 5.0%, maturing 2043	28,516	29,107
Educational Facilities Refunding Revenue Bonds,		
Series 2013B Bonds, 3.0% to 5.0%, maturing 2033	66,300	72,150
Notes payable:		
U.S. Department of Education:		
5.5% fixed, maturing November 1, 2021	564	672
Bank of America:		
Variable rate, with fixed swap rate of 6%, maturing February 1, 2016	-	602
National Grid, maturing 2017 and 2018	209	-
Total bonds, notes payable and line of credit	192,487	176,851
Capital lease:		
Greenwaste – 6.00%, maturing 2017	31	58
	31	58
Total notes, bonds payable, line of credit and capital lease	$ 192,518	$ 176,909

Maturities of notes, capital leases, and bonds payable, net of discounts and premiums, for the fiscal years after June 30, 2016, are as follows:

2017	$ 14,660
2018	14,882
2019	15,215
2020	15,569
2021	11,006
Thereafter	121,186
	$ 192,518

8. BONDS AND NOTES PAYABLE, LINE OF CREDIT AND CAPITAL LEASE…continued

Discounts on bonds payable at June 30, 2016 and 2015 are $395 and $367, respectively. Premiums on bonds payable at June 30, 2016 and 2015 are $4,171 and $5,410, respectively. The discounts and premiums are amortizing on the effective interest model to par value of the bonds on their maturity date.

Rhode Island Health and Educational Building Corporation Revenue Bonds are secured by tuition and other revenues.

Rhode Island Health and Educational Building Corporation 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 U.S. Department of Education are secured by real estate.

The University has available lines of credit totaling $26.0 million with various banks. The lines of credit expire on December 31, 2015 and/or are a demand note with no expiration date. All of the lines of credit are uncollateralized. Management expects to renew its lines in the ordinary course of business. There were no amounts outstanding on the lines of credit at June 30, 2016 and 2015. Interest rates on these agreements range from 1.96% to 1.99%.

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, 2016 and 2015 were $6,494 and $6,921, respectively, of which $711 and $2,549, respectively, was capitalized as a part of the cost of construction.

On July 18, 2013, the University issued $40.0 million in North Carolina Capital Facilities Finance Agency (“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 Colorado Educational and Cultural Facilities Authority (“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 Rhode Island Health and Educational Building Corporation (“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 North Carolina Capital Facilities Finance Agency (“NCFFA”) Revenue Refunding bonds to purchase a dormitory located on the Charlotte, North Carolina Campus. On September 22, 2015, the University issued $30 million Rhode Island Health and Educational Building Corporation (“RIHEBC”) Facility Revenue Bonds to construct an academic building located on the Providence, Rhode Island Campus.

(In Thousands)

9. DERIVATIVE INSTRUMENTS

In January 2004, the University entered into an interest rate swap to manage its exposure to interest rate risk associated with the University's variable rate debt primarily through converting a portion of variable rate debt to a fixed rate. As a result of the use of derivative instruments, the University was exposed to risk that the counterparties will fail to meet their contractual obligation. To mitigate the counterparty risk, the University only enters into contracts with selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At June 30, 2015, all of the counterparties to the University's interest rate swaps had investment grade ratings. The swap agreement terminated in February 2016. At June 30, 2016 and 2015, the change in fair value was $10 and $46, respectively, and is included in other sources on the consolidated statements of unrestricted revenues, expenses and other changes in unrestricted net assets.

The University had the following swap outstanding:

Year End	Notional Amount	Termination Date	Interest Rate Received	Interest Rate Paid	Fair Value
June 30, 2015	$ 602	February 2016	One month LIBOR plus 1.5%	6.00%	(10)
June 30, 2016	$ -	-	-	-	-

10. NET ASSETS AND ENDOWMENT MATTERS

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2016:

	Accumulated Unexpended Gains	Annuities and Other	Contributions Receivable	Fully Expendable	Total
Student aid and instructional	$ 4,527	$ -	$ 719	$ 1,857	$ 7,103
Other	64	-	474	343	881
Time restricted	-	6	5	222	233
	$ 4,591	$ 6	$ 1,198	$ 2,422	$ 8,217

Temporarily restricted net assets consist of the following at June 30, 2015:

	Accumulated Unexpended Gains	Annuities and Other	Contributions Receivable	Fully Expendable	Total
Student aid and instructional	$ 5,394	$ -	$ 646	$ 1,974	$ 8,014
Other	6	-	48	336	390
Time restricted	-	5	2	13	20
	$ 5,400	$ 5	$ 696	$ 2,323	$ 8,424

(In Thousands)

10. NET ASSETS AND ENDOWMENT MATTERS…continued

Permanently Restricted Net Assets

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

	2016	2015
Endowment funds for which the income is restricted:		
Student aid	$ 20,206	$ 19,667
Instructional	979	979
Other	632	690
Contributions receivable	203	203
	$ 22,020	$ 21,539

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:

	2016	2015
Student aid	$ 2,284	$ 2,372
Instructional	44	55
Building/facility projects	151	-
Program support	218	290
Time restricted	3	154
	$ 2,700	$ 2,871

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 4,801	$ 21,850	$ 26,651
Board-designated endowment funds	212,293	-	-	212,293
Total funds	$ 212,293	$ 4,801	$ 21,850	$ 238,944

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Notes to Consolidated Financial Statements
(In Thousands)
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10. NET ASSETS AND ENDOWMENT MATTERS…continued

Composition of Endowment by Net Asset Class…continued

The following is the composition of endowment assets and those functioning as endowment assets by net asset class as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 5,526	$ 21,407	$ 26,933
Board-designated endowment funds	236,847	-	-	236,847
Total funds	$ 236,847	$ 5,526	$ 21,407	$ 263,780

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:

	2016							
	Endowment							
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment	Available for Operations	Total Board Managed Investments	Other Investments	Total Endowment and Other Investments
Endowment and those functioning as endowment assets and other investments, beginning of year	$ 236,847	$ 5,526	$ 21,407	$ 263,780	$ 11,537	$ 275,317	$ 9,681	$ 284,998
Contributions restricted for long-term investments	-	125	411	536	-	536	-	536
Investment returns	(10,741)	(1,111)	(17)	(11,869)	(291)	(12,160)	2,030	(10,130)
Net assets released, transfers and adjustments:								
Accumulated gains released from restriction	-	(1,017)	-	(1,017)	-	(1,017)	-	(1,017)
Investment return appropriated for operations	(11,708)	-	-	(11,708)	-	(11,708)	-	(11,708)
Reinvested appropriation	-	-	-	-	11,708	11,708	-	11,708
Other transfers, withdrawals and adjustments	(2,105)	1,278	49	(778)	(18,051)	(18,829)	-	(18,829)
Net (due to)/from operating cash	-	-	-	-	474	474	(4,031)	(3,557)
Total net assets released, transfers and adjustments	(13,813)	261	49	(13,503)	(5,869)	(19,372)	(4,031)	(23,403)
Total change	(24,554)	(725)	443	(24,836)	(6,160)	(30,996)	(2,001)	(32,997)
Endowment and those functioning as endowment assets and other investments, end of year	$ 212,293	$ 4,801	$ 21,850	$ 238,944	$ 5,377	$ 244,321	$ 7,680	$ 252,001

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10. NET ASSETS AND ENDOWMENT MATTERS…continued

Activity by Net Asset Class of Endowment and Those Functioning as Endowment Assets, and Other Investments…continued

	2015							
	Endowment							
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment	Available for Operations	Total Board Managed Investments	Other Investments	Total Endowment and Other Investments
Endowment and those functioning as endowment assets and other investments, beginning of year	$ 244,864	$ 7,109	$ 20,964	$ 272,937	$ 5,238	$ 278,175	$ 10,850	$ 289,025
Contributions restricted for long-term investments	-	150	422	572	-	572	-	572
Investment returns	(1,768)	(667)	(9)	(2,444)	(214)	(2,658)	(492)	(3,150)
Net assets released, transfers and adjustments:								
Accumulated gains released from restriction	-	(1,066)	-	(1,066)	-	(1,066)	-	(1,066)
Investment return appropriated for operations	(6,141)	-	-	(6,141)	-	(6,141)	-	(6,141)
Reinvested appropriation	-	-	-	-	6,141	6,141	-	6,141
Other transfers, withdrawals and adjustments	(108)	-	30	(78)	(262)	(340)	493	153
Net (due to)/from operating cash	-	-	-	-	634	634	(1,170)	(536)
Total net assets released, transfers and adjustments	(6,249)	(1,066)	30	(7,285)	6,513	(772)	(677)	(1,449)
Total change	(8,017)	(1,583)	443	(9,157)	6,299	(2,858)	(1,169)	(4,027)
Endowment and those functioning as endowment assets and other investments, end of year	$ 236,847	$ 5,526	$ 21,407	$ 263,780	$ 11,537	$ 275,317	$ 9,681	$ 284,998

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(In Thousands)
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10. NET ASSETS AND ENDOWMENT MATTERS…continued

Activity by Net Asset Class of Endowment and Those Functioning as Endowment Assets, and Other Investments…continued

Reconciliation of endowment assets to total net assets at June 30, 2016:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment assets and those functioning as endowment assets	$ 212,293	$ 4,801	$ 21,850	$ 238,944
Board managed - other investments	5,377	-	-	5,377
Other investments	7,610	70	-	7,680
Contribution receivables, net	-	1,198	203	1,401
Gift annuity obligations	-	(46)	(33)	(79)
Temporarily-restricted funds included in operating cash	-	2,194	-	2,194
Other net assets	466,871	-	-	466,871
Total net assets	$ 692,151	$ 8,217	$ 22,020	$ 722,388

Reconciliation of endowment assets to total net assets at June 30, 2015:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment assets and those functioning as endowment assets	$ 236,847	$ 5,526	$ 21,407	$ 263,780
Board managed - other investments	11,537	-	-	11,537
Other investments	9,601	80	-	9,681
Contribution receivables, net	-	696	203	899
Gift annuity obligations	-	(51)	(71)	(122)
Temporarily-restricted funds included in operating cash	-	2,173	-	2,173
Other net assets	446,182	-	-	446,182
Total net assets	$ 704,167	$ 8,424	$ 21,539	$ 734,130

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(In Thousands)
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10. NET ASSETS AND ENDOWMENT MATTERS…continued

Activity by Net Asset Class of Endowment and Those Functioning as Endowment Assets, and Other Investments…continued

Total investments are comprised of:

	2016	2015
Donor and Board-designated funds overseen by the Board's Investment Committee	$ 238,848	$ 263,678
Donor-designated funds invested per donors' instructions	96	102
Endowment assets and those functioning as endowment assets	238,944	263,780
Other investments	13,057	21,218
Total investments	$ 252,001	$ 284,998

Endowment

The University's endowment consists of approximately 70 individual funds established for a variety of purposes. The endowment includes 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 to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 University 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:

10. NET ASSETS AND ENDOWMENT MATTERS…continued

Interpretation of Relevant Law and Spending Policy...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

For the year ending June 30, 2016, the University changed the spending policy from 3% to 5%. 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, 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 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, 2016 and 2015, $12,725 and $7,207, respectively, were appropriated to operating income, of which $1,017 and $1,066, 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 $19 and 0 of such deficiencies as of June 30, 2016 and 2015, 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.

(In Thousands)

10. NET ASSETS AND ENDOWMENT MATTERS…continued

Return Objectives and Risk Parameters…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.

11. 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, 2016 and 2015 was $5,632 and $5,481, respectively.

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

Year ended:	
2017	$ 4,655
2018	4,701
2019	4,498
2020	4,621
2021	4,747
Thereafter	9,051
	$ 32,273

12. 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's defined benefit pension plan termination, which took place during the fiscal year ended June 30, 2012, was audited by the Pension Benefit Guaranty Corporation (PBGC). PBGC is of the opinion that the plan's calculation of retirement benefits, for those who elected to start receiving benefits after their full retirement age ,should have included an actuarial mortality adjustment that the plan actuaries asserts is not applicable. The University disagrees with the PBGC's position and has requested that the PBGC reconsider its determination. In the opinion of management, the ultimate disposition of this matter is uncertain. Should this matter be determined adversely, the University would be required to make an additional contribution to finance the termination of its defined benefit pension plan in an amount that would not have a materially adverse effect on the University's financial condition.

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.

13. 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 of banks with which the University has a line of credit. Such direct investments represented approximately 1.9% of the University's total investments, and lines of credit available were $10,000 and $16,000 as of June 30, 2016 and 2015, respectively.

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Years Ended June 30, 2016 and 2015

14. NATURAL CLASSIFICATION OF OPERATING EXPENSES

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

	2016	2015
Salaries and wages	$ 147,301	$ 142,066
Benefits other than pension	33,722	30,242
Pension	13,337	12,590
Food and Beverage	8,355	8,210
Professional fees and contracted services	20,108	18,363
Occupancy	26,868	25,763
Depreciation	36,353	35,402
Advertising, promotions and publications	10,709	9,610
Travel and training	6,949	6,165
Supplies and miscellaneous	14,560	14,985
Insurance, taxes, fees and dues	8,883	7,217
Hardware, software and telecommunications	9,375	8,787
Bad debts	(7,012)	5,153
Interest and amortization	6,770	4,641
Loss on sale of property and equipment	534	326
	$ 336,812	$ 329,520

15. SUBSEQUENT EVENTS

The University evaluated all events and transactions from July 1, 2015 through October 28, 2016, the date on which the financial statements were issued. During this period there were no material subsequent events requiring accounting recognition or disclosure in the accompanying financial statements.