Johnson & Wales University

Consolidated Financial Report
June 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017

Johnson & Wales University

Consolidated Statements of Financial Position
June 30, 2017 and 2016
(In Thousands)

		2017		2016
Assets				
Cash and cash equivalents	**$**	**16,115**	$	10,678
Short term investments		**7,317**		8,595
Student accounts receivable, net		**11,021**		11,076
Inventories, deferred charges and prepaid expenses		**9,827**		10,394
Contributions receivable, net		**5,495**		1,401
Student loans, notes and other receivables, net		**19,893**		27,191
Investments		**268,048**		248,534
Property and equipment, net		**650,079**		663,974
Total assets	**$**	**987,795**	$	981,843
Liabilities and Net Assets				
Accounts payable and accrued expenses	**$**	**44,003**	$	44,472
Deferred revenue and student deposits		**14,591**		15,424
Pension plan and annuity obligations		**2,464**		4,044
Refundable U.S. Government grants		**3,660**		4,421
Bonds and notes payable, line of credit and capital lease		**176,618**		191,094
Total liabilities		**241,336**		259,455
Net assets:				
Unrestricted:				
Available for operations and designated for long-term investment		**221,916**		198,801
Net investment in property and equipment		**473,461**		472,880
Loan program		**13,031**		20,470
Total unrestricted		**708,408**		692,151
Temporarily restricted		**13,878**		8,217
Permanently restricted		**24,173**		22,020
Total net assets		**746,459**		722,388
Total liabilities and net assets	**$**	**987,795**	$	981,843

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statement of Activities
Year Ended June 30, 2017
(with Summarized Financial Information for the Year Ended June 30, 2016)
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Operating revenue, gains and other support:					
Tuition and fees	$ 395,837	$ -	$ -	**$ 395,837**	$ 389,227
Residence and dining	80,479	-	-	**80,479**	77,856
Less financial aid and scholarships	(168,364)	-	-	**(168,364)**	(157,694)
Net tuition and fees	307,952	-	-	**307,952**	309,389
Hotels	12,219	-	-	**12,219**	12,708
Contributions, grants and federal aid to students	2,900	-		**2,900**	2,727
Investment return appropriated for operations	12,939	-	-	**12,939**	12,680
Other student generated	2,810	-	-	**2,810**	2,319
Other sources	4,400	-	-	**4,400**	5,023
Net assets released from restrictions	1,764	-	-	**1,764**	1,683
Total operating revenue, gains and other support	344,984	-	-	**344,984**	346,529
Operating expenses:					
Instructional	99,848	-	-	**99,848**	96,635
Academic support	26,911	-	-	**26,911**	26,918
Student services	74,372	-	-	**74,372**	77,613
Auxiliary enterprises	77,941	-	-	**77,941**	78,581
Institutional support	64,433	-	-	**64,433**	55,325
Public service	436	-	-	**436**	1,206
Loss on disposal of property and equipment	556	-	-	**556**	534
Total operating expenses	344,497	-	-	**344,497**	336,812
Increase in net assets from operations	487	-	-	**487**	9,717
Non-operating activities:					
Actuarial changes in defined benefit liability	1,362	-	-	**1,362**	256
Return on long-term investments	26,697	3,227	23	**29,947**	(10,130)
Investment return appropriated for operations	(12,289)	(650)	-	**(12,939)**	(12,680)
Restricted contributions	-	4,848	2,130	**6,978**	2,778
Net assets released from restrictions	-	(1,764)	-	**(1,764)**	(1,683)
Increase (decrease) in net assets from non-operating activities	15,770	5,661	2,153	**23,584**	(21,459)
Increase (decrease) in net assets	16,257	5,661	2,153	**24,071**	(11,742)
Net assets at beginning of year	692,151	8,217	22,020	**722,388**	734,130
Net assets at end of year	$ 708,408	$ 13,878	$ 24,173	**$ 746,459**	$ 722,388

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statement of Activities
Year Ended June 30, 2016
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Operating revenue, gains and other support:				
Tuition and fees	$ 389,227	$ -	$ -	$ 389,227
Residence and dining	77,856	-	-	77,856
Less financial aid and scholarships	(157,694)	-	-	(157,694)
Net tuition and fees	309,389	-	-	309,389
Hotels	12,708	-	-	12,708
Contributions, grants and federal aid to students	2,727	-		2,727
Investment return appropriated for operations	12,680	-	-	12,680
Other student generated	2,319	-	-	2,319
Other sources	5,023	-	-	5,023
Net assets released from restrictions	1,683	-	-	1,683
Total operating revenue, gains and other support	346,529	-	-	346,529
Operating expenses:				
Instructional	96,635	-	-	96,635
Academic support	26,918	-	-	26,918
Student services	77,613	-	-	77,613
Auxiliary enterprises	78,581	-	-	78,581
Institutional support	55,325	-	-	55,325
Public service	1,206	-	-	1,206
Loss on disposal of property and equipment	534	-	-	534
Total operating expenses	336,812	-	-	336,812
Increase in net assets from operations	9,717	-	-	9,717
Non-operating activities:				
Actuarial changes in defined benefit liability	256	-	-	256
Return on long-term investments	(8,997)	(1,116)	(17)	(10,130)
Investment return appropriated for operations	(11,663)	(1,017)	-	(12,680)
Restricted contributions	-	2,333	445	2,778
Net assets released from restrictions	-	(1,683)	-	(1,683)
Reclassifications of net assets	(1,329)	1,276	53	-
Decrease in net assets from non-operating activities	(21,733)	(207)	481	(21,459)
Decrease in net assets	(12,016)	(207)	481	(11,742)
Net assets at beginning of year	704,167	8,424	21,539	734,130
Net assets at end of year	$ 692,151	$ 8,217	$ 22,020	$ 722,388

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
Cash flows from operating activities:		
Received from students	**$ 140,787**	$ 147,471
Cash received from operation of practicum properties	**12,219**	12,708
Cash received from other sources	**4,531**	4,954
Gifts and grants received	**5,316**	4,533
Drawdowns of federal grants and loans	**158,283**	156,826
Investment management fees	**(189)**	(553)
Investment income	**2,306**	2,386
Collection of loans from students	**14,678**	14,977
Payments for services	**(39,666)**	(43,574)
Interest paid on long term debt less capitalized interest	**(7,066)**	(6,501)
Payments for taxes	**(2,595)**	(3,276)
Payments to vendors and suppliers	**(31,676)**	(34,268)
Payments to employees and fringe benefits	**(194,225)**	(194,716)
Payments for occupancy	**(29,775)**	(27,042)
Cash provided by operating activities	**32,928**	33,925
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	**73,756**	222,424
Proceeds from funds on deposit with bond trustee	**-**	9,157
Purchases of investments	**(65,444)**	(197,457)
Sale of short-term investments	**1,278**	-
Transfers of short-term investments	**-**	(8,595)
Purchase of property and equipment	**(22,306)**	(71,324)
Capitalized interest paid	**(107)**	(711)
Proceeds from sale of property and equipment	**256**	133
Cash used in investing activities	**(12,567)**	(46,373)
Cash flows from financing activities:		
Principal payments under capital lease obligations	**(28)**	(26)
Principal payments on bonds, notes payable and lines of credit	**(25,734)**	(26,505)
Financing costs	**-**	(77)
Repayment of refundable grants	**(761)**	(462)
Proceeds from note payable	**-**	473
Advances from lines of credit	**11,102**	11,667
Contributions restricted for long term investment	**497**	411
Proceeds from issuance of bonds	**-**	30,000
Cash (used in) provided by financing activities	**(14,924)**	15,481
Net change in cash and cash equivalents	**5,437**	3,033
Cash and cash equivalents at beginning of year	**10,678**	7,645
Cash and cash equivalents at end of year	**$ 16,115**	$ 10,678
Non-cash investing activities:		
Land, buildings and equipment included in accounts payable	**$ 4,082**	$ 2,466

See 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, 2017 and 2016
(In Thousands)

	2017	2016
Increase (decrease) in net assets	**$ 24,071**	$ (11,742)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	**37,292**	36,538
Net realized and unrealized (gain) loss on investments	**(27,827)**	11,497
Gain on interest rate swap	**-**	(10)
Change in allowance for uncollectible accounts	**(225)**	(8,755)
Contributions restricted for long-term investment	**(497)**	(411)
Loss on sale of property and equipment	**556**	534
Change in accounts receivable and other assets	**(4,970)**	(2,016)
Change in accounts payable, accrued expenses, deferred revenue, student deposits, pension plan and annuity obligations, and refundable grants	**(4,494)**	644
Student loans, notes and other receivables advanced	**(5,656)**	(7,331)
Student loans, notes and other receivables collected	**14,678**	14,977
Net cash provided by operating activities	**$ 32,928**	$ 33,925

See notes to consolidated financial statements.

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 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, 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 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.

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 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 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.

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

Operating activities: The consolidated statements of activities 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 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 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.

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. 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.

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

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. 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, 2017 and 2016, 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.

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

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 corporation that focuses on developing appetizing nutritional products that have specific medicinal or health related benefits. As outlined in the first amendment to the operating agreement, the University made a $600 capital contribution in fiscal year 2017 in exchange for shares in non-voting Class C units. Additionally, through June 30, 2017, the University contributed $1,100 as part of its commitment for capital contributions of not less than $1,200 or 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. A second amendment to the operating agreement between the University and FIX was executed on March 28, 2017, which included a commitment for an additional capital contribution of $1,000 by the University in exchange for an increase in the University's share of Class B voting units from 19.5% to 50%. In fiscal year 2017, the University contributed $450 of the $1,000 commitment. 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 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. The carrying value of the investment at June 30, 2017 and 2016 was $3,968 and $1,978 respectively and is included in investments on the consolidated statement of financial position. The loss for the year ended December 31, 2016 and 2015 of $160 and $198 respectively is included in the return from unrestricted investments in the consolidated statements of activities. The carrying value of the University's investment exceed its share of the underlying equity in the net assets of FIX by $3,247 and $1,978 at June 30, 2017 and 2016, respectively.

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 2017 and 2016 was $12,219 and $12,708, respectively. Operating expenses generated by the hotel for the fiscal years 2017 and 2016 were $11,146 and $12,155, 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.

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.

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

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 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 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, 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 $1,849 and $1,631 as of June 30, 2017 and 2016, 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.

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.

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

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, 2017 and 2016 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, 2017 and 2016 to be $1,716 and $1,653, 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 in the consolidated statements of financial position. Amortization expense was $184 and $185 in 2017 and 2016, 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.

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

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 $6,572 and $6,195 in fiscal years 2017 and 2016, 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, 2017 and 2016 were $10,463 and $10,709, 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, 2017 or 2016.

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 2014. 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 University has adopted ASU 2015-03 for the year ended June 30, 2017 as well as retrospectively for 2016. The effects of the retrospective application of the accounting change on June 30, 2016 is to decrease both total assets and liabilities by $1,424. There was no effect on the change in net assets.

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

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. 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.

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. For all other entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018. 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. For all other entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018. Early adoption is permitted. The University is in the process of evaluating the impact of this ASU on the financial statements.

Reclassifications: Certain reclassifications within the financial statements have been made to the 2016 consolidated financial statements to conform to the 2017 presentation.

During the year ended June 30, 2017, the University reclassified an investment account from long-term investments to short-term investments as these funds are set aside to pay current bond payments. As such, these assets will be liquidated and used to pay obligations of the University within the next six months and more accurately reflect a short term investment. This change has been applied retroactively to the 2016 financial statements, resulting in a decrease of $3,467 in investments and a corresponding increase in short term investments.

(In Thousands)

Note 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:

	2017	2016
Student accounts receivable:		
Student receivables	$ 12,870	$ 12,707
Allowance for doubtful accounts	(1,849)	(1,631)
Student accounts receivable, net	$ 11,021	$ 11,076

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

	2017	2016
Achievement loans	$ 5,358	$ 6,290
Perkins loans	38,423	46,538
	43,781	52,828
Less allowance for doubtful accounts:		
Beginning of year	28,621	26,343
Current year (recoveries) provisions	(1,285)	2,314
Achievement Loan cancellations	(11)	(36)
End of year	27,325	28,621
Student loans and notes receivable, net	16,456	24,207
Notes and other receivables	3,437	2,984
Student loans, notes and other receivables, net	$ 19,893	$ 27,191

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
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	$ 3,311	$ 810	$ 13,325	$ 17,446	$ 26,335	$ 43,781
2016:						
Achievement Loans	$ 179	$ 152	$ 5,067	$ 5,398	$ 892	$ 6,290
Perkins loans	3,617	965	13,237	17,819	28,719	46,538
Student loans and notes receivable	$ 3,796	$ 1,117	$ 18,304	$ 23,217	$ 29,611	$ 52,828

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.

(In Thousands)

Note 3. Contributions Receivable

Contributions receivable consist of the following at June 30:

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	$ 1,597	$ 972
One to five years	3,996	723
Thereafter	1,050	-
	6,643	1,695
Less:		
Allowance for uncollectible contributions	(514)	(260)
Discount to present value	(634)	(34)
Contributions receivable, net	$ 5,495	$ 1,401

The discount rates used to calculate the discounted value of contributions receivable ranged from 1.24% to 4.31% for June 30, 2017 and 2016.

Note 4. Investments

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

	2017	2016
Investments, beginning of year	$ 248,534	$ 284,998
Contributions restricted for long-term investment	497	536
Investment return, net of investment fees:		
Interest and dividends	2,309	1,920
Net unrealized gains (losses)	24,927	(4,231)
Net realized gains (losses)	2,900	(7,266)
Investment fees	(189)	(553)
Total return on investments, net of investment fees	29,947	(10,130)
Investment return appropriated for operations	(12,939)	(12,680)
Other activity:		
Transfers, withdrawals and adjustments	2,494	(14,664)
Net changes in (due to) from operations	(485)	474
Total other activity	2,009	(14,190)
Investments, end of year	$ 268,048	$ 248,534

(In Thousands)

Note 5. Fair Values

Fair values of financial instruments: 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
Assets:					
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	$ 12,086	$ 2,392	$ -	$ 204,307	218,785
Cash (trades settled in July 2017)					45,295
Investments accounted for using equity method					3,968
Total investments					$ 268,048
Short-term investments:					
U.S. fixed income	$ 7,317	$ -	$ -	$ -	$ 7,317

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	634	6	-	-	640
Other investments	3,685	1,823	-	-	5,508
Investments measured at fair value	$ 4,606	$ 1,829	$ -	$ 240,121	246,556
Investments accounted for using equity method					1,978
Total investments					$ 248,534
Short-term investments:					
U.S. fixed income	$ 8,595	$ -	$ -	$ -	$ 8,595

(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 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:

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
	22	$ 204,307	$ 3,464		

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		

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.

(In Thousands)

Note 5. Fair Values (Continued)

The University's investment in the Agility Fund totaled $173,779 and $206,258 and is broken into the following categories:

	2017	2016
Global equities	$ 67,223	$ 104,976
Global fixed income	25,146	27,177
Absolute return	50,869	48,567
Real assets	16,421	16,873
Private capital	13,870	8,372
Cash	250	293
	$ 173,779	$ 206,258

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.

Note 6. Property and Equipment

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

	Estimated Useful Lives	2017	2016
Cost:			
Land	-	$ 74,326	$ 74,326
Building and land improvements	25 - 40	770,925	724,929
Equipment and furniture	3 - 12	175,101	170,053
Leasehold improvements	5 - 15	6,194	6,168
Library and museum holdings	-	7,786	7,848
Construction in progress	-	3,376	39,302
Total cost		1,037,708	1,022,626
Less accumulated depreciation		(387,629)	(358,652)
Property and equipment, net		$ 650,079	$ 663,974

Depreciation expense charged to operations was $37,108 and $36,353 in 2017 and 2016, respectively.

The University has construction in progress relating to renovations of various buildings. Outstanding commitments at June 30, 2017 and 2016 totaled $2,680 and $1,320, respectively, excluding retainage of $265 and $1,730 which is included in construction in progress above and accounts payable and accrued expenses, respectively, in the consolidated statements of financial position.

(In Thousands)

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, 2017 and 2016 amounted to $12,061 and $12,079, 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 $2,388 and $1,823 at June 30, 2017 and 2016, 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.

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, 2017 and 2016, the University has on deposit $2,480 and $4,789 in a rabbi trust, which is set aside for the purpose of paying these benefits and reported as a component of 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.

A settlement of the obligation occurred in February 2017 upon the payment of lump-sum benefits to one of the beneficiaries. A portion of the unrecognized accumulated loss equal to $607 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 $2,368 and $4,593 at June 30, 2017 and 2016, respectively. The amount recorded in pension plan and annuity obligations in the consolidated statements of financial position is $0 and $2,142 at June 30, 2017 and 2016, respectively.

	2017	2016
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 6,735	$ 5,824
Service cost	133	166
Interest cost	36	73
Effect of settlement	(4,593)	-
Actuarial loss	57	672
Benefit obligation, end of year	2,368	6,735
Fair value of plan assets, end of year	-	-
Funded status, end of year	$ (2,368)	$ (6,735)

(In Thousands)

Note 7. Retirement Plans (Continued)

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:

	2017	2016
Net loss	$ 226	$ 1,163
Transition obligation	114	171
Prior service cost	-	368
	$ 340	$ 1,702

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

	2017	2016
Net periodic benefit cost:		
Service cost	$ 133	$ 166
Interest cost	36	73
Amortization of transition amount	57	57
Amortization of prior service cost	368	367
Amortization of net loss	387	504
Net periodic benefit cost	981	1,167
Effect of settlement	607	-
Other changes in plan assets and benefit obligations recognized in non-operating activities:		
Net (gain) loss	(330)	168
Effect of settlement	(607)	-
Amortization of transition obligation	(57)	(57)
Amortization of prior service cost	(368)	(367)
Total other changes	(1,362)	(256)
Total recognized in net periodic benefit costs and other changes	$ 226	$ 911
Weighted average assumptions used to determine benefit obligations as of 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%
Weighted average assumptions used to determine net period benefit cost for the year ended 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%

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 $0, $0 and $57, respectively.

(In Thousands)

Note 7. Retirement Plans (Continued)

The University expects to contribute $2,434 to the plan from the rabbi trust during fiscal year 2018. Estimated future benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2018	$ 2,434

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:

	2017	2016
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	$ 26,983	$ 28,611
Series 1999, 4.0% to 5.5%, maturing serially through 2019	5,986	8,749
North Carolina Capital Facilities Finance Agency:		
Educational Facilities Revenue Bonds:		
Series 2014, 2.65% to 2.95%, maturing 2029	20,760	22,527
Educational Facilities Refunding Revenue Bonds		
Series 2013, 2.0% to 5.0%, maturing 2033	35,340	37,011
Colorado Educational and Cultural Facilities Authority:		
Educational Facilities Revenue Bonds:		
Series 2013A Bonds, 3.0% to 5.0%, maturing 2043	27,918	28,516
Educational Facilities Refunding Revenue Bonds,		
Series 2013B Bonds, 3.0% to 5.0%, maturing 2033	60,365	66,300
Notes payable:		
U.S. Department of Education:		
5.5% fixed, maturing November 1, 2021	450	564
National Grid, maturing 2017 and 2018	52	209
Capital lease:		
Greenwaste - 6.00%, maturing 2017	4	31
Total bonds and notes payable, line of credit and capital lease	177,858	192,518
Bond issuance costs	(1,240)	(1,424)
Total bonds and notes payable, line of credit, and capital lease, net of bond issuance costs	$ 176,618	$ 191,094

Maturities of notes, capital leases, and bonds payable, net of discounts and premiums, for the fiscal years after June 30, 2017, are as follows:

2018	$ 14,703
2019	15,043
2020	15,456
2021	10,904
2022	11,142
Thereafter	109,370
	$ 176,618

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

Discounts on bonds payable at June 30, 2017 and 2016 are $408 and $395, respectively. Premiums on bonds payable at June 30, 2017 and 2016 are $3,134 and $4,171, 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 (“DOE”) are secured by real estate.

The University had available lines of credit totaling $26.0 million with various banks at June 30, 2016. During June 30, 2017, all lines of credits were terminated and one line of credit totaling $26.0 million was established with one bank. The line of credit expires on December 31, 2017. The lines of credit were demand notes with no expiration date. 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 lines of credit at June 30, 2017 and 2016. Interest rates on the line of credit is 2.55%.

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, 2017 and 2016 were $6,880 and $6,494, respectively, of which $105 and $711, 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 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.

(In Thousands)

Note 9. Net Assets and Endowment Matters

Temporarily restricted net assets: 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
	$ 7,043	$ 13	$ 3,662	$ 3,160	$ 13,878

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

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

	2017	2016
Endowment funds for which the income is restricted:		
Student aid	$ 20,713	$ 20,206
Instructional	979	979
Other	648	632
Contributions receivable	1,833	203
	$ 24,173	$ 22,020

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:

	2017	2016
Student aid	$ 1,243	$ 1,267
Instructional	85	44
Building/facility projects	82	151
Program support	246	218
Time restricted	108	3
	$ 1,764	$ 1,683

(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, 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

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

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:

	2017							
	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	$ 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

(In Thousands)

Note 9. Net Assets and Endowment Matters (Continued)

	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	(10,736)	(1,116)	(17)	(11,869)	(291)	(12,160)	2,030	(10,130)
Investment return appropriated for operations	(11,663)	(1,017)	-	(12,680)	-	(12,680)	-	(12,680)
Other Activity:								
Transfers, withdrawals and adjustments	(2,155)	1,283	49	(823)	(6,343)	(7,166)	(7,498)	(14,664)
Net (due to) from operations	-	-	-	-	474	474	-	474
Total other activity	(2,155)	1,283	49	(823)	(5,869)	(6,692)	(7,498)	(14,190)
Total change	(24,554)	(725)	443	(24,836)	(6,160)	(30,996)	(5,468)	(36,464)
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	$ 4,213	$ 248,534

Endowment: 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. 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 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:

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

During the year ended 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, 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, 2017 and 2016, $12,939 and $12,680, respectively, were appropriated to operating income, of which $650 and $1,017, 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 $1 and $5 of such deficiencies as of June 30, 2017 and 2016, 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)

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, 2017 and 2016 was $5,512 and $5,947 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 $1,995 and $1,655 at June 30, 2017 and 2016, 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:	
2018	$ 5,147
2019	4,955
2020	5,090
2021	5,228
2022	2,070
Thereafter	9,627
	$ 32,117

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.

(In Thousands)

Note 11. Commitments and Contingencies (Continued)

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.

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 of banks with which the University has a line of credit. Such direct investments represented approximately 1.7% of the University's total investments, and lines of credit available were $26,000 and $10,000 as of June 30, 2017 and 2016, respectively.

Note 13. Natural Classification of Operating Expenses

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

	2017	2016
Salaries and wages	$ 146,898	$ 147,301
Benefits other than pension	33,198	33,722
Pension	14,019	13,337
Food and beverage	7,931	8,355
Professional fees and contracted services	18,216	20,108
Occupancy	26,499	26,864
Depreciation	37,108	36,353
Advertising, promotions and publications	10,463	10,709
Travel and training	6,420	6,950
Supplies and miscellaneous	13,938	14,564
Insurance, taxes, fees and dues	7,604	8,882
Hardware, software and telecommunications	9,924	9,375
Bad debts	4,561	(7,012)
Interest and amortization	7,162	6,770
Loss on sale of property and equipment	556	534
	$ 344,497	$ 336,812

Note 14. Subsequent Events

The University evaluated all events and transactions through October 30, 2017, 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.

Federal Perkins Loan Program expired September 30, 2017 and the University cannot disburse Perkins loans to any student on or after October 1, 2017, except for subsequent disbursements of loans first disbursed between June 30, 2017 and September 30, 2017. The University will be liquidating its Federal Perkins Revolving Loan Fund at the direction of the DOE. The liquidation will likely involve the University continuing to service outstanding loans and the ongoing remittance of the federal share to the Department of Education.