

Johnson & Wales University

Consolidated Financial Report
June 30, 2023

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Independent Auditor's Report

Board of Trustees
Johnson & Wales University

Opinion

We have audited the consolidated financial statements of Johnson & Wales University (the University), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

Boston, Massachusetts
October 31, 2023

Johnson & Wales University

**Consolidated Statements of Financial Position
June 30, 2023 and 2022
(In Thousands)**

	2023	2022
Assets		
Cash and cash equivalents	\$ 31,958	\$ 48,321
Short-term investments	17,984	2,757
Student accounts receivable, net	9,395	10,605
Inventories, deferred charges and prepaid expenses	9,124	8,017
Contributions receivable, net	2,058	2,109
Student loans, notes and other receivables, net	10,998	10,133
Asset held for sale	-	37,343
Investments	348,170	321,959
Right-of-use assets	3,291	4,097
Property and equipment, net	367,659	367,024
Total assets	\$ 800,637	\$ 812,365
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 23,255	\$ 28,809
Deferred revenue and student deposits	14,205	24,365
Retirement plan and annuity obligations	2,641	1,989
Refundable U.S. government grants	751	1,078
Lease liability	3,790	4,683
Bonds and notes payable and line of credit	41,372	55,284
Total liabilities	86,014	116,208
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Available for operations and designated for long-term investment	340,530	298,075
Net investment in property and equipment	325,789	348,497
Loan program	2,821	5,268
Total without donor restrictions	669,140	651,840
With donor restrictions:	45,483	44,317
Total net assets	714,623	696,157
Total liabilities and net assets	\$ 800,637	\$ 812,365

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Activities Years Ended June 30, 2023 and 2022 (In Thousands)

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue, gains and other support:						
Tuition and fees, net of financial aid and scholarships (\$103,419 and \$109,785 at June 30, 2023 and 2022, respectively)	\$ 128,030	\$ -	\$ 128,030	\$ 128,904	\$ -	\$ 128,904
Residence and dining	41,993	-	41,993	44,558	-	44,558
Hotels	8,441	-	8,441	6,083	-	6,083
Contributions, grants and federal aid to students	4,481	-	4,481	43,776	-	43,776
Investment return appropriated for operations	13,368	-	13,368	12,207	-	12,207
Other student generated	1,122	-	1,122	1,426	-	1,426
Other sources	6,017	-	6,017	3,602	-	3,602
Net assets released from restrictions	2,101	-	2,101	1,607	-	1,607
Gain (loss) on disposal of property and equipment	32,644	-	32,644	(1,295)	-	(1,295)
Total operating revenue, gains and other support	238,197	-	238,197	240,868	-	240,868
Operating expenses:						
Instructional	85,027	-	85,027	83,745	-	83,745
Academic support	20,667	-	20,667	16,272	-	16,272
Student services	63,550	-	63,550	78,876	-	78,876
Auxiliary enterprises	36,707	-	36,707	29,121	-	29,121
Institutional support	23,545	-	23,545	26,193	-	26,193
Public service	28	-	28	131	-	131
Research and development	434	-	434	337	-	337
Total operating expenses	229,958	-	229,958	234,675	-	234,675
Increase in net assets from operations	8,239	-	8,239	6,193	-	6,193
Nonoperating activities:						
Return (loss) on long-term investments, net	21,086	2,752	23,838	(29,229)	(3,491)	(32,720)
Investment return appropriated for operations	(11,857)	(1,511)	(13,368)	(10,772)	(1,435)	(12,207)
Restricted contributions	-	2,026	2,026	-	2,345	2,345
Net assets released from restrictions	-	(2,101)	(2,101)	-	(1,607)	(1,607)
Loss on extinguishment of debt	(168)	-	(168)	(442)	-	(442)
Increase (decrease) in net assets from nonoperating activities	9,061	1,166	10,227	(40,443)	(4,188)	(44,631)
Increase (decrease) in net assets	17,300	1,166	18,466	(34,250)	(4,188)	(38,438)
Net assets at beginning of year	651,840	44,317	696,157	686,090	48,505	734,595
Net assets at end of year	\$ 669,140	\$ 45,483	\$ 714,623	\$ 651,840	\$ 44,317	\$ 696,157

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(In Thousands)

	2023	2022
Cash flows from operating activities:		
Continuing operations:		
Increase (decrease) in net assets	\$ 18,466	\$ (38,438)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) continuing operating activities:		
Depreciation and amortization expense	22,233	23,276
Amortization of right-of-use asset	806	1,094
Net realized and unrealized (gain) loss on investments	(22,317)	33,042
Change in allowance for uncollectible accounts	(713)	(1,989)
Contributions restricted for long-term investment	(694)	(525)
(Gain) loss on sale of property and equipment	(32,644)	375
Impairment of assets held for sale	-	920
Payments on right of use liability	(893)	(1,197)
Loss on extinguishment of debt	168	442
Changes in assets and liabilities:		
(Increase) decrease in:		
Student accounts receivable	1,455	249
Inventories, deferred charges and prepaid expenses	(1,107)	481
Contributions receivable	(65)	675
Student loans, notes and other receivables	(2,172)	(2,790)
Increase (decrease) in:		
Accounts payable and accrued expenses	(5,729)	(2,234)
Deferred revenue and student deposits	(10,160)	9,634
Retirement plan and annuity obligations	652	(260)
Cash (used in) provided by continuing operating activities	(32,714)	22,755
Discontinued operations:		
Changes in assets and liabilities:		
(Increase) decrease in:		
Inventories, deferred charges and prepaid expenses	-	175
Increase (decrease) in:		
Accounts payable and accrued expenses	-	(652)
Cash used in discontinued operating activities	-	(477)
Net cash (used in) provided by operating activities	(32,714)	22,278

(Continued)

Johnson & Wales University

Consolidated Statements of Cash Flows (Continued) Years Ended June 30, 2023 and 2022 (In Thousands)

	2023	2022
Cash flows from investing activities:		
Purchase of property, plant and equipment	\$ (16,599)	\$ (8,928)
Proceeds from sale of property, plant and equipment	63,933	477
Proceeds from sale of property, plant and equipment—discontinued operations	-	45,143
Purchase of investments	(94,704)	(185,390)
Purchase of short-term investments	(15,227)	(240)
Proceeds from maturity and sale of investments	90,810	159,559
Student loans, notes and other receivables collected	1,891	3,361
Net cash provided by investing activities	30,104	13,982
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(14,216)	(31,591)
Payments for bond defeasance	(130)	(625)
Proceeds from issuance of bonds	-	24,900
Proceeds from note payable	248	197
Payment of bond issuance costs	(22)	(199)
Contributions restricted for long-term investment	694	525
Repayment of refundable U.S. grants	(327)	(701)
Net cash used in financing activities	(13,753)	(7,494)
Net (decrease) increase in cash and cash equivalents	(16,363)	28,766
Cash and cash equivalents, beginning of year	48,321	19,555
Cash and cash equivalents of continuing operations, end of year	\$ 31,958	\$ 48,321
Cash paid for interest	\$ 1,402	\$ 2,160
Sale of property and equipment with note receivable	\$ -	\$ 1,100
Property and equipment included in accounts payable and accrued expenses	\$ 1,846	\$ 1,671
Student loans cancelled or assigned to the federal government	\$ 619	\$ 2,671

See notes to consolidated financial statements.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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 8,100 graduate, undergraduate and online students at its campuses in Providence, Rhode Island, and Charlotte, North Carolina. An innovative educational leader, the University offers undergraduate and graduate degree programs in arts and science, business, engineering, food innovation, hospitality, nutrition, and health and wellness. It also offers undergraduate programs in culinary arts, dietetics and design. The University's unique model provides students with the personalized attention, academic expertise and industry connections that inspire professional success and personal growth. The time students spend at the University is nothing short of transformative, as demonstrated by career outcomes, expected earnings, and economic mobility rankings. The University's impact is global, with alumni in 128 countries pursuing careers worldwide.

The University's 10-year vision, known as the POWERED BY series, has three components spanning that time frame. The first of the series, POWERED BY PURPOSE 2024, builds upon past strategic plans and sets clear goals for the future to ensure that the University attracts and retains well-regarded faculty and staff, recruits high-performing and ambitious students, and promotes a culture across the University that takes pride in fostering student success, scholarly excellence and institutional efficiency.

The University consists of the following entities, which have been consolidated in the accompanying consolidated financial statements: Johnson & Wales University, Johnson & Wales University Club, Wildcat Realty Holdings LLC and The FIX, LLC (FIX). FIX was dissolved during the year ended June 30, 2022 and Johnson & Wales University Club was dissolved during the year ended June 30, 2023. All 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 accounting principles generally accepted in the United States (U.S. GAAP) to ensure financial condition, results of operations, and cash flows are consistently reported. References to U.S. GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (ASC).

Classification and reporting of net assets: The University reports two classes of net assets and the changes in those net assets in the consolidated statements of financial position and consolidated statements of activities, respectively. The two classes of net assets—without donor restrictions and with donor restrictions—are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The two classifications are defined as follows:

Without donor restrictions: Net assets are not subject to donor-imposed stipulations. Net assets without donor restrictions include expendable funds available for support of the University as well as funds invested in plant, including campus buildings and loan programs. In addition, net assets without donor restrictions include funds which represent resources designated by the Board for endowment.

With donor restrictions: Net assets are subject to donor-imposed restrictions that require they be maintained in perpetuity or 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. Net assets with donor restrictions also include, under Rhode Island law, amounts representing cumulative unexpended gains on donor-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), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

Operating activities: The consolidated statements of activities report the changes in net assets without donor restrictions from operating and nonoperating activities. Operating revenues without donor restrictions 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 nonoperating activities commensurate with any restrictions. The University also considers restricted contributions as nonoperating activities, until released into operations, and loss on extinguishment of debt.

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 net assets with donor restrictions if the terms of the original gift require that they be applied to the principal of a donor-restricted endowment fund or 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 net assets without donor restrictions in all other cases.

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

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

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

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

- Level 1:** Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.
- Level 2:** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3:** Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

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

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

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

Equity and fixed-income securities, cash equivalents, and other investments: The fair value of equity and fixed-income securities, cash equivalents, 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.

During the years ended June 30, 2023 and 2022, there were no changes to the University's valuation techniques that had, or are expected to have, a material impact on its consolidated statements of financial position or consolidated statements of activities.

Use of estimates: The preparation of the consolidated financial statements in conformity with U.S. 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 consolidated 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 consolidated financial statements relate to the allowance for doubtful loans, contributions and accounts receivable, fair value of certain investments, the estimate of annuity and pension obligations, recoverability of long-lived assets, valuation of assets held for sale and the allocation of common expenses over program functions.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

Liquidity: In order to provide information about liquidity, assets are sequenced in the consolidated 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's banking relationship with Truist Commercial Equity, Inc. requires the University to maintain a minimum account balance of \$10,000, which is included in cash and cash equivalents on the consolidated statements of financial position at June 30, 2023 and 2022.

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 are highly liquid investments which are available to be used to pay liabilities of the University within the next year.

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

Contributions: Contributions received, including unconditional promises to give, are initially recorded at fair value in the period the donor's commitments are received based on Level 2 inputs. Unconditional pledges which are receivable in future periods are included in the consolidated financial statements as contributions receivable. Unconditional contributions receivable is recognized at the estimated net present value using a discount rate commensurate with the risk involved.

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.

Conditional promises to give, that is those with a measurable performance or other barrier and a right of return, are not recognized as revenue until the conditions on which they depend are met. Conditional grants, other than the conditional grants described below, which the University has not incurred qualifying expenditures on as of June 30, 2023 and 2022, totaled \$3,611 and \$3,072, respectively.

Individual grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. These transactions are then recognized as unconditional and classified as increases to unrestricted net assets.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

The University was awarded funding from the federal government through three COVID-19 relief programs, which are referred to as the Higher Education Emergency Relief Funds (HEERF). The cumulative amount of the grants available through the year ended June 30, 2022, was \$76,095 and included a requirement that the University use no less than \$33,105 of the funds for emergency financial aid grants to students, with the remainder available for institutional expenses. During the year ended June 30, 2022, the University distributed \$18,923 of the funds to eligible students to help offset the expenses related to the disruption of campus operations beginning in the spring of 2020. The institutional portion contains an additional barrier relating to limited discretion over the types of expenditures for which the funds can be used. During the year ended June 30, 2022, the University recorded \$19,861 in institutional funds. The revenue associated with both the student distributions and institutional aid is included within contributions, grants and federal aid to students on the consolidated statements of activities. As of June 30, 2022, the University had met all barriers relating to the expenditure of funds and all of the HEERF funds have been expended.

Gifts in kind: Gifts in kind are noncash, tangible donations received by the University. Gifts-in-kind donations are valued at fair market value as determined by a written appraisal from an independent qualified appraiser or other substantiating documentation. Gifts-in-kind contributions are reported as part of contributions, grants and federal aid to students in the consolidated statements of activities. Detail of gifts in kind as of June 30 is as follows:

	2023	2022
Horse and equipment for equine program	\$ 93	\$ 29
Classroom supplies, including food for culinary program	549	246
	<u>\$ 642</u>	<u>\$ 275</u>

Student 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. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received as a reduction of bad debt expense. 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).

The Perkins program was terminated effective September 30, 2017. As such, no further loans can be awarded to students on or after October 1, 2017. Perkins loans receivable are unsecured and carried at their estimated net realizable value. Interest and late fees are recorded when received. Perkins loans that are in default and meet certain requirements can be assigned to the U.S. Department of Education (DOE). The federal portion of the funds are ultimately refundable to the federal government. The federal government has begun the wind down of Perkins and has begun collecting the federal share of the Perkins funds through the revolving fund distribution of assets process.

Included in loans receivable are University-funded achievement loans, which are carried at their net realizable value. These amounts represent unsecured loans to students which are payable in accordance with established terms. Interest and late fees are recorded when received. The Achievement Loan program ended during the fiscal year ended June 30, 2006.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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.

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 within net assets with donor restrictions. In the absence of such stipulations, contributions of land, buildings and equipment are recorded within net assets without donor restriction 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 nonoperating 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, 2023 and 2022, no impairment indicators were identified for assets used in continuing operations.

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, 2023 and 2022, to be \$356 and \$325, respectively, which is included in accrued expenses in the consolidated statements of financial position.

Assets held for sale: The University classified certain buildings as held for sale during the year ended June 30, 2022, at the time the University committed to sell the assets and began actively marketing the assets and the assets were available for immediate sale in their present condition. As of June 30, 2022, five properties at the Providence campus and two properties at the Charlotte campus were classified as held for sale on the consolidated statements of financial position. The assets are reported at the lower of the carrying value or fair value, less costs to sell. As of June 30, 2022, the University recorded an impairment loss of \$920, which is included in loss from disposal of property and equipment on the consolidated statements of activities, to reduce the value of the assets to fair value less costs to sell. During the year ended June 30, 2023, the University decided to keep two properties previously classified as held for sale totaling \$6,155, including one property at the Providence campus and an undeveloped lot at the Charlotte campus, and reclassified them back into property and equipment. The University recognized the depreciation on the building from the date it was classified as held for sale through the date it was reclassified back into property and equipment during the year ended June 30, 2023. All other assets classified as held for sale as of June 30, 2022, were sold during the year ended June 30, 2023.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

Collections: Collections consist of items that include works of art that were donated or purchased by the University. These items are capitalized at cost, if the items were purchased, or at the fair value on their accession date, if the items were contributed and included in property and equipment on the consolidated statements of financial position. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service and, therefore, are not depreciated. Proceeds from deaccessions are reflected as increases in the appropriate net asset class and can be used to acquire new items or used as direct care for existing items already in possession. Direct care is defined as costs incurred that enhance the life, usefulness, or quality of the University's collections.

Leases: The University determines if an arrangement is a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant or equipment (an identified asset) in exchange for consideration. The University's lease agreements do not contain any material residual value or restrictive covenants.

Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. Leases result in the recognition of right-of-use assets and lease liabilities on the consolidated statements of financial position. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The University determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The right-of-use asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent. The University elected the private company alternative to use the risk-free rate in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

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 and line of credit in the consolidated statements of financial position. Amortization expense was \$39 and \$45 in 2023 and 2022, respectively, and is included as a component of interest expense in the consolidated statements of activities.

Revenue recognition: The University uses a five-step model for revenue recognition defined by FASB ASC Topic 606, Revenue from Contracts with Customers, which requires the University to: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied.

The University has identified a performance obligation associated with the provision of its educational instruction and other educational services, housing services, and other academic-related services and uses the output measure for recognition as the period of time over which the services are provided.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

Tuition revenue and discounts: Tuition and fees revenue is substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as academic programs are delivered. Institutional financial aid and scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely may receive a full or partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Students are responsible for paying all charges in full or for making arrangements for monthly or by term payments by due dates published by the University. Accounts and notes receivable from students for services provided from contracts are disclosed in Note 3 of the consolidated financial statements. Payments received prior to the start of an academic period are recorded as deposits, to be recognized as revenue over the academic period as services are rendered, which totaled \$5,671 and \$15,049 as of June 30, 2023 and 2022, respectively, and are included in deferred revenue and student deposits on the consolidated statements of financial position.

The portion of tuition revenue received by June 30, 2023 and 2022, for the summer terms that is earned subsequent to the years ended June 30, 2023 and 2022, is treated as deferred revenue. The deferred revenue balance of \$7,713 as of June 30, 2022, was recognized as tuition revenue during the year ended June 30, 2023. The deferred revenue balance of \$8,475 at June 30, 2021, was recognized as tuition revenue during the year ended June 30, 2022. The deferred revenue balance of \$7,370 as of June 30, 2023, will be recognized as tuition revenue during the year ending June 30, 2024.

The composition of tuition and fees based on degree programs for the years ended June 30 is as follows:

	2023	2022
Undergraduate (net of financial aid and scholarships of \$102,447 and \$108,178 in 2023 and 2022, respectively)	\$ 108,193	\$ 108,215
Graduate (net of financial aid and scholarships of \$972 and \$1,607 in 2023 and 2022, respectively)	18,900	20,131
Non-degree programs	937	558
	<u>\$ 128,030</u>	<u>\$ 128,904</u>

Residence and dining, other student generated and other sources: These consist principally of goods and services to the campus community, including dining facilities, residence halls, parking garage, banquet operations, facility rentals and other miscellaneous fees, such as print shop services. These revenues and expenses are reported as a component of changes in net assets without donor restrictions.

Revenue associated with other student generated and other sources are recorded at the point in time the associated service is provided.

Charges to students for campus residence and dining services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered.

Hotels: Room, food, beverage and other sales revenue from the Doubletree Hotel, owned by the University and managed by Hilton Hotels, is recognized as services are provided and obligations are fulfilled.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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 to arrive at fair value using Level 2 inputs. 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 retirement plan and annuity obligations on the consolidated statements of financial position.

Fundraising expenses: Fundraising costs of \$2,582 and \$2,809 in fiscal years 2023 and 2022, 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, 2023 and 2022, were \$12,579 and \$9,065, 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 as of June 30, 2023 or 2022.

With few exceptions, the University is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for three years from the filing date of its returns. Interest and penalties, if any, are included in income tax expense.

Recently issued accounting pronouncement: In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The University is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Liquidity and Availability

As of June 30, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capitalized construction costs not financed with debt, were as follows:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 31,958	\$ 48,321
Short-term investments	17,984	2,757
Student accounts receivable	9,395	10,605
Contributions receivable, net	2,058	2,109
Student loans, notes and other receivables, net	10,998	10,133
Investments	348,170	321,959
	<u>420,563</u>	<u>395,884</u>
Less amounts not available to be used within one year:		
Net asset with donor restrictions	(45,263)	(44,215)
Net assets with time restrictions	(1,620)	(1,847)
Net assets with contractual restrictions	(14,891)	(15,751)
Board-designated for endowment	(298,944)	(275,321)
	<u>(360,718)</u>	<u>(337,134)</u>
Add amounts available to be used within one year:		
Net assets with donor restrictions to be met within one year	1,850	1,750
Investment return to be appropriated for operations	14,670	13,368
	<u>16,520</u>	<u>15,118</u>
Financial assets available to meet general expenditure within one year	<u>\$ 76,365</u>	<u>\$ 73,868</u>

As part of its liquidity management, the University evaluates, on an annual basis, liquidity requirements taking into consideration operating expectations, capital plans and debt service requirements. Financial assets are structured to be available as general expenditures, liabilities and other obligations become due. In addition, the University has a board-designated endowment totaling \$298,944 and \$275,321 as of June 30, 2023 and 2022, respectively. Although the University does not intend to spend from its board-designated endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

The University's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. To manage liquidity, the University maintains a working capital portfolio conservatively invested where the amounts and duration of investments correspond with the University's projected liquidity need.

In addition, the University has a \$26 million line of credit available for use as of June 30, 2023 and 2022 (see Note 8).

Johnson & Wales University

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

Note 3. Student Accounts Receivable, Student Loans, Notes and Other Receivables

Student accounts receivables consist of the following at June 30:

	2023	2022
Student accounts receivable:		
Student receivables	\$ 10,854	\$ 12,309
Allowance for doubtful accounts	(1,459)	(1,704)
Student accounts receivable, net	<u>\$ 9,395</u>	<u>\$ 10,605</u>

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

	2023	2022
Achievement loans	\$ 2,646	\$ 2,849
Perkins loans	3,183	5,490
	<u>5,829</u>	<u>8,339</u>
Less allowance for doubtful accounts:		
Beginning of year	4,873	8,893
Current year (write-offs/recoveries) provisions	(1,195)	(4,002)
Achievement loan cancellations	(8)	(18)
End of year	<u>3,670</u>	<u>4,873</u>
Student loans and notes receivable, net	2,159	3,466
Notes and other receivables	8,839	6,667
Student loans, notes and other receivables, net	<u>\$ 10,998</u>	<u>\$ 10,133</u>

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

	2023					
	31-120 Days Past Due	121-360 Days Past Due	Greater Than 360 Days Past Due	Total Past Due	Current	Total Financing Receivable
Achievement loans	\$ 3	\$ 7	\$ 2,600	\$ 2,610	\$ 36	\$ 2,646
Perkins loans	529	140	522	1,191	1,992	3,183
Student loans and notes receivable	<u>\$ 532</u>	<u>\$ 147</u>	<u>\$ 3,122</u>	<u>\$ 3,801</u>	<u>\$ 2,028</u>	<u>\$ 5,829</u>

Johnson & Wales University

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

**Note 3. Student Accounts Receivable, Student Loans, Notes and Other Receivables
(Continued)**

	2022					
	31-120 Days Past Due	121-360 Days Past Due	Greater Than 360 Days Past Due	Total Past Due	Current	Total Financing Receivable
Achievement loans	\$ 7	\$ 17	\$ 2,768	\$ 2,792	\$ 57	\$ 2,849
Perkins loans	731	344	1,016	2,091	3,399	5,490
Student loans and notes receivable	<u>\$ 738</u>	<u>\$ 361</u>	<u>\$ 3,784</u>	<u>\$ 4,883</u>	<u>\$ 3,456</u>	<u>\$ 8,339</u>

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

Note 4. Contributions Receivable, Net

Contributions receivables consist of the following at June 30:

	2023	2022
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,710	\$ 1,194
One to five years	762	1,213
	<u>2,472</u>	<u>2,407</u>
Less:		
Allowance for uncollectible contributions	(239)	(102)
Discount to present value	(175)	(196)
Contributions receivable, net	<u>\$ 2,058</u>	<u>\$ 2,109</u>

The discount rates used to calculate the discounted value of contributions receivable ranged from 7.4% to 2.18% for the years ended June 30, 2023 and 2022.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 5. Investments and Fair Value Measurements

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

	2023				
	Level 1	Level 2	Level 3	Investments Measured at NAV (a)	Total
Investments:					
U.S. equities	\$ 30,688	\$ -	\$ -	\$ -	\$ 30,688
Global equities	51,696	-	-	-	51,696
Fixed income	17,266	-	-	-	17,266
Marketable alternative assets	-	-	-	223,487	223,487
Nonmarketable alternative assets:					
Restructuring funds	-	-	-	12,210	12,210
Private equity funds	-	-	-	2,845	2,845
Nonmarketable inflation hedging	-	-	-	1,923	1,923
Cash and cash equivalents	5,757	-	-	-	5,757
Other investments	9	2,289	-	-	2,298
Investments measured at fair value	<u>\$ 105,416</u>	<u>\$ 2,289</u>	<u>\$ -</u>	<u>\$ 240,465</u>	<u>\$ 348,170</u>
Short-term investments:					
Cash equivalents	\$ 15,406	\$ -	\$ -	\$ -	\$ 15,406
U.S. fixed income	2,578	-	-	-	2,578
	<u>\$ 17,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,984</u>
	2022				
	Level 1	Level 2	Level 3	Investments Measured at NAV (a)	Total
Investments:					
U.S. equities	\$ 27,012	\$ -	\$ -	\$ -	\$ 27,012
Global equities	43,617	-	-	-	43,617
Fixed income	17,250	-	-	-	17,250
Marketable alternative assets	-	-	-	197,066	197,066
Nonmarketable alternative assets:					
Restructuring funds	-	-	-	16,913	16,913
Private equity funds	-	-	-	4,268	4,268
Nonmarketable inflation hedging	-	-	-	2,660	2,660
Cash and cash equivalents	11,365	-	-	-	11,365
Other investments	9	1,799	-	-	1,808
Investments measured at fair value	<u>\$ 99,253</u>	<u>\$ 1,799</u>	<u>\$ -</u>	<u>\$ 220,907</u>	<u>\$ 321,959</u>
Short-term investments:					
U.S. fixed income	\$ 2,757	\$ -	\$ -	\$ -	\$ 2,757

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 5. Investments and Fair Value Measurements (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.

During the years ended June 30, 2023 and 2022, there were no purchases, issuances or settlements of Level 3 investments. For the years ended June 30, 2023 and 2022, there were no transfers in or out of Level 3.

The University invests in certain investments that calculate NAV 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:

2023					
	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	3	\$ 223,487	\$ -	Annually	5-90 days
Nonmarketable alternative assets	11	15,055	1,783	N/A	N/A
Nonmarketable inflation hedging	4	1,923	188	N/A	N/A
	<u>18</u>	<u>\$ 240,465</u>	<u>\$ 1,971</u>	Semimonthly/ Quarterly/	

2022					
	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	4	\$ 197,066	\$ -	Annually	5-90 days
Nonmarketable alternative assets	12	21,181	1,808	N/A	N/A
Nonmarketable inflation hedging	4	2,660	188	N/A	N/A
	<u>20</u>	<u>\$ 220,907</u>	<u>\$ 1,996</u>	Semimonthly/ Quarterly/	

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

Marketable alternative assets: This includes both domestic and global investments, such as investments in distressed securities, corporate restructuring and 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.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 5. Investments and Fair Value Measurements (Continued)

At June 30, 2023 and 2022, 98.7% and 98.5%, respectively, of the marketable alternative assets is an investment in the Agility Fund, which has an endowment allocation focus and utilizes Agility's five Building Block Portfolios. A Building Block is organized around a specific asset class; Global Equities, Global Fixed Income, Absolute Return (hedged strategies), Real Assets and Private Capital. Each Building Block is diversified by manager, geography, investment strategy and underlying security. By utilizing these Building Blocks in constructing its portfolio, the University manages its portfolio risk, and has access to a customized asset allocation and an investment portfolio that is unique to the University. At June 30, 2023 and 2022, \$47,066 and \$44,888, respectively, of the investments in the Agility Fund, are invested in private equity funds which are not redeemable until the underlying investment is liquidated.

The University's investment in the Agility Fund totaled \$220,597 and \$194,169, and is broken into the following categories at June 30:

	2023	2022
Global equities	\$ 74,283	\$ 62,802
Global fixed income	16,213	548
Absolute return	65,221	69,712
Real assets	28,191	24,731
Private capital	36,581	36,278
Cash	108	98
	<u>\$ 220,597</u>	<u>\$ 194,169</u>

Nonmarketable alternative assets: This 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.

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

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 6. Property and Equipment

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

	Estimated Useful Lives	2023	2022
Cost:			
Land	N/A	\$ 49,513	\$ 44,128
Building and land improvements	25-40	551,435	541,507
Equipment and furniture	3-12	118,862	122,779
Leasehold improvements	5-15	6,081	6,081
Library and museum holdings	N/A	6,666	6,666
Construction in progress	N/A	9,034	6,590
Total cost		741,591	727,751
Less accumulated depreciation		(373,932)	(360,727)
Property and equipment, net		<u>\$ 367,659</u>	<u>\$ 367,024</u>

Depreciation expense charged to operations was \$22,193 and \$23,350 in 2023 and 2022, respectively.

The University has construction in progress relating to renovations and construction of various buildings. Outstanding commitments at June 30, 2023 and 2022, totaled \$4,860 and \$8,835, respectively, excluding retainage of \$457 and \$230 included in construction in progress and accrued expenses, respectively, in the consolidated statements of financial position. Projects are expected to be completed in 2024 and 2025.

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 plan document was amended on June 18, 2020, effective August 1, 2020, to remove the 6% contribution through December 31, 2021, and allow the reduction or discontinuance of the matching contribution effective January 1, 2021 at the discretion of the Board. The University's contributions to the plan for the years ended June 30, 2023 and 2022, amounted to \$8,752 and \$6,227, respectively.

Section 457(b) deferred compensation plan: The University has an executive retirement plan that is designed in accordance with Section 457(b) of the Code. Participants are determined by the Board. The University's contributions to the plan were \$144 and \$117 for the years ended June 30, 2023 and 2022, respectively. 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 \$2,289 and \$1,799 as of June 30, 2023 and 2022, respectively, and are reported in investments in the consolidated statements of financial position. A corresponding liability to plan participants is reported in retirement plan obligations in the consolidated statements of financial position.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 7. Retirement Plans (Continued)

Section 457(f) deferred compensation plan: The University has a deferred compensation plan that is a noneligible deferred compensation plan under Section 457(f) of the Code covering a key employee of the University. The plan commenced on January 1, 2021 and will vest on December 31, 2024. The University's contribution to the Plan for the years ended June 30, 2023 and 2022, amounted to \$65 and \$81, respectively. At June 30, 2023 and 2022, liability to the plan participant of \$146 and \$81, respectively, is reported in retirement plan obligations in the consolidated statements of financial position.

Note 8. Bonds and Notes Payable and Line of Credit

The University had the following notes and bonds payable and line of credit outstanding as of June 30:

	2023	2022
Bonds payable, net of discounts and premiums at fixed rates:		
Rhode Island Health and Educational Building Corporation (RIHEBC):		
Facility Revenue Bonds:		
Series 2015, 2.18%, maturing 2030	\$ 16,431	\$ 18,288
North Carolina Capital Facilities Finance Agency (NCCFFA):		
Educational Facilities Revenue Bonds:		
Series 2014, 2.65% to 2.95%, maturing 2029	-	11,926
Revenue Refunding Bonds:		
Series 2022, 2.7% to 3.42%, maturing 2033	24,675	24,900
Notes payable:		
National Grid, maturing 2024 through 2028	475	434
Total bonds and notes payable	41,581	55,548
Bond issuance costs	(209)	(264)
Total bonds and notes payable, net of bond issuance costs	<u>\$ 41,372</u>	<u>\$ 55,284</u>

Maturities of notes and bonds payable, net of bond issuance costs, for the fiscal years after June 30, 2023, are as follows:

Years ending June 30:		
2024		\$ 4,277
2025		4,291
2026		4,336
2027		4,373
2028		4,485
Thereafter		19,610
		<u>\$ 41,372</u>

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

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

On July 18, 2013, the University issued \$40 million in NCCFFA Revenue Refunding bonds to refinance the NCCFFA series 2003A bonds of \$42.5 million. In May 2022, the University defeased the outstanding balance totaling \$26,065 of the 2013 NCCFFA revenue bonds through funding a defeasance escrow using the proceeds from the issuance of new taxable bonds and operating funds. The new bonds are a private placement with Truist Bank using a Cinderella structure, which converted the taxable debt to tax-exempt when the bonds were eligible to be called, at January 1, 2023. At that time, the interest rate dropped to 2.7%. At the closing date of May 12, 2022, the 2013 NCCFFA series was considered legally defeased and met the liability derecognition criteria. As such, the associated liability, including related discounts, premiums and bond issuance costs, and related assets were derecognized from the University's consolidated statements of financial position.

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. This debt was paid off in August 2022 with the proceeds from the sale of the building.

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.

A loss on extinguishment of debt of \$168 and \$442, for June 30, 2023 and 2022, respectively, was recognized.

RIHEBC Revenue Bonds are secured by tuition and other revenues.

The University has one line of credit totaling \$26 million. The line of credit is a demand note with an expiration date of December 31, 2023. The line of credit is uncollateralized. Management expects to renew the line in the ordinary course of business. At June 30, 2023 and 2022, there were no amounts outstanding on the line of credit. The interest rate on the line of credit was 6.72% and 2.66% at June 30, 2023 and 2022, respectively.

The bond agreements and line of credit agreements contain covenants regarding certain operating activities and financial statement amounts and bond agency ratings of the University, the most restrictive of which require that the University maintain a certain debt service coverage ratio, days cash on hand and certain long-term debt ratings by Standard & Poor's Ratings Service.

Interest costs for the years ended June 30, 2023 and 2022, were \$1,443 and \$1,962, respectively.

Johnson & Wales University

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

Note 9. Net Assets and Endowment Matters

Net assets with donor restrictions consist of the following as of June 30:

	2023	2022
Subject to expenditure for specific purpose:		
Student aid and instructional	\$ 2,963	\$ 1,748
Other	1,485	3,140
	<u>4,448</u>	<u>4,888</u>
Subject to time restrictions:		
Annuities and other	96	13
Contributions receivable	24	36
	<u>120</u>	<u>49</u>
Subject to the University's spending policy and appropriation:		
Investments in perpetuity (including original gift amount of \$25,861 and \$25,159 as of June 30, 2023 and 2022, respectively) and the investment income from which is expendable to support:		
Student aid and instructional	38,912	37,002
Other	722	706
	<u>39,634</u>	<u>37,708</u>
Term scholarship endowments	156	171
	<u>39,790</u>	<u>37,879</u>
Subject to investment in donor-restricted endowment:		
Annuities	124	87
Contributions receivable	1,001	1,414
Total net assets with donor restrictions	<u>\$ 45,483</u>	<u>\$ 44,317</u>

Net assets released from restrictions: Net assets released from net assets with donor restrictions by incurring expenses satisfying the restricted purposes, passage of time, or by occurrence of events specified by the donors were as follows:

	2023	2022
Student aid	\$ 1,212	\$ 754
Instructional	338	218
Building/facility projects	210	226
Program support	327	198
Time-restricted	14	211
	<u>\$ 2,101</u>	<u>\$ 1,607</u>

Johnson & Wales University

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

Note 9. Net Assets and Endowment Matters (Continued)

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 39,790	\$ 39,790
Board-designated endowment funds:			
General operating support	298,944	-	298,944
Total funds	<u>\$ 298,944</u>	<u>\$ 39,790</u>	<u>\$ 338,734</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 37,879	\$ 37,879
Board-designated endowment funds:			
General operating support	275,321	-	275,321
Total funds	<u>\$ 275,321</u>	<u>\$ 37,879</u>	<u>\$ 313,200</u>

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:

	2023						
	Endowment			Available for Operations	Total Board-Managed Investments	Other Investments	Total Endowment and Other Investments
Without Donor Restrictions	With Donor Restrictions	Total Endowment					
Endowment and those functioning as endowment assets and other investments, beginning of year	\$ 275,321	\$ 37,879	\$ 313,200	\$ 6,512	\$ 319,712	\$ 2,247	\$ 321,959
Contributions restricted for long-term investments	-	694	694	-	694	97	791
Investment return, net	20,505	2,726	23,231	581	23,812	26	23,838
Investment return appropriated for operations	(11,857)	(1,511)	(13,368)	-	(13,368)	-	(13,368)
Other activity:							
Transfers and withdrawals	14,975	2	14,977	(644)	14,333	617	14,950
Total other activity	<u>14,975</u>	<u>2</u>	<u>14,977</u>	<u>(644)</u>	<u>14,333</u>	<u>617</u>	<u>14,950</u>
Total change	23,623	1,911	25,534	(63)	25,471	740	26,211
Endowment and those functioning as endowment assets and other investments, end of year	<u>\$ 298,944</u>	<u>\$ 39,790</u>	<u>\$ 338,734</u>	<u>\$ 6,449</u>	<u>\$ 345,183</u>	<u>\$ 2,987</u>	<u>\$ 348,170</u>

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Notes to Consolidated Financial Statements (In Thousands)

Note 9. Net Assets and Endowment Matters (Continued)

	2022						
	Endowment			Available for Operations	Total Board- Managed Investments	Other Investments	Total Endowment and Other Investments
	Without Donor Restrictions	With Donor Restrictions	Total Endowment				
Endowment and those functioning as endowment assets and other investments, beginning of year	\$ 276,506	\$ 42,196	318,702	\$ 7,756	326,458	\$ 2,712	329,170
Contributions restricted for long-term investments	-	525	525	-	525	-	525
Investment loss, net	(28,413)	(3,407)	(31,820)	(769)	(32,589)	(131)	(32,720)
Investment return appropriated for operations	(10,772)	(1,435)	(12,207)	-	(12,207)	-	(12,207)
Other activity:							
Transfers and withdrawals	38,000	-	38,000	(475)	37,525	(334)	37,191
Total other activity	38,000	-	38,000	(475)	37,525	(334)	37,191
Total change	(1,185)	(4,317)	(5,502)	(1,244)	(6,746)	(465)	(7,211)
Endowment and those functioning as endowment assets and other investments, end of year	\$ 275,321	\$ 37,879	\$ 313,200	\$ 6,512	\$ 319,712	\$ 2,247	\$ 321,959

Endowment: The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Donor-restricted funds are composed of approximately 100 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 net assets with donor restrictions: (a) the original value of gifts donated to the donor-restricted endowment, (b) the original gift value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted endowments 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 over the original gift value and accumulated unexpended gains is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 9. Net Assets and Endowment Matters (Continued)

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 31 of the preceding calendar year. For purposes of this calculation, the total endowment includes both donor-restricted/true endowment funds, as well as Board-designated/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 31 of the preceding calendar year. In the event that a donor fund has been in existence for less than 12 quarters, the average shall be calculated on the total quarters since the inception of the fund. Per the University's spending policy, the corpus of donor-restricted/true endowment funds will remain intact, with only earnings on the corpus available to be spent. At the discretion of the University's Board, 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 arose that would cause such additional spending to be prudent. The difference between the calculated 5% annual spent 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.

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 no such deficiencies as of June 30, 2023 and 2022.

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 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.

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 9. Net Assets and Endowment Matters (Continued)

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. Leasing

The University leases office, classroom, dormitory facilities and equipment under noncancelable leases expiring at various dates through 2026. During fiscal year 2022, the University entered into an operating lease obligation for office space that expires in 2026. Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease costs during 2023 and 2022 were \$761 and \$1,050, respectively. Finance lease cost is recognized as a combination of the amortization expense for the right of use asset and interest expense for the outstanding lease liabilities. Amortization and interest on finance leases for 2023 and 2022 was \$44 and \$2, respectively. The weighted-average remaining lease term is 3.5 years and 42.67 years, and the weighted-average discount rate is 0.53% and 1.12% for operating and finance leases, respectively.

Minimum lease payments at June 30, 2023:

	Finance	Operating	Total
Years ending June 30:			
2024	\$ 45	\$ 1,133	\$ 1,178
2025	45	1,161	1,206
2026	45	1,190	1,235
2027	-	600	600
Total minimum lease payments	135	4,084	4,219
Less:			
Amount representing amortization/interest	(2)	(427)	(429)
Present value of lease liabilities	\$ 133	\$ 3,657	\$ 3,790

Note 11. Commitments, Contingencies and Uncertainties

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

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

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.

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Notes to Consolidated Financial Statements (In Thousands)

Note 12. Related-Party Transactions (Continued)

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. Total amounts paid for these supplies and services during the years ending June 30, 2023 and 2022, were \$394 and \$25,817, respectively. 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.

During the year ended June 30, 2022, one trustee was affiliated with a financial institution which holds outstanding bonds of the University of \$24,900 and which the University has a cash balance of \$10,006 at the institution on June 30, 2022.

As of June 30, 2023 and 2022, contributions receivable from trustees totaled \$76 and \$93, respectively.

Note 13. Classification of Expenses

The following reflects the classification of the University's expenses, by both the underlying nature of the expense and function, for the years ended June 30, 2023 and 2022. An individual expense is allocated to the underlying activity through which it was incurred. The consolidated statements of activities include certain expenses which must be allocated on a reasonable basis which has been consistently applied. The expenses that are allocated include depreciation and amortization, occupancy and maintenance costs, interest expense and information technology. Depreciation expense, occupancy, interest and information technology are allocated based on functional square footage usage.

Continuing Operations	2023							Total
	Instructional	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Public Service	Research & Development	
Salaries and wages	\$ 48,909	\$ 14,636	\$ 29,456	\$ 10,039	\$ 1,670	\$ 7	\$ 306	\$ 105,023
Benefits other than retirement plan	8,260	1,475	5,928	1,716	4,016	1	44	21,440
Retirement plan	3,758	575	2,105	464	2,061	-	19	8,982
Food and beverage	1,279	-	9	3,700	6	-	-	4,994
Professional fees and contracted services	1,510	241	3,046	3,514	2,300	5	3	10,619
Occupancy	5,659	857	2,860	5,533	1,363	6	-	16,278
Depreciation	8,907	950	3,336	6,291	2,702	7	-	22,193
Advertising, promotions and publications	134	2	10,414	667	1,362	-	-	12,579
Travel and training	1,731	23	2,041	278	229	-	5	4,307
Supplies and miscellaneous	2,880	775	2,384	1,588	124	1	51	7,803
Insurance, taxes, fees and dues	1,107	162	866	2,345	2,782	1	6	7,269
Hardware, software and telecommunications	261	857	724	326	4,876	-	-	7,044
Bad debt (recovery)	-	22	-	-	(125)	-	-	(103)
Interest and amortization	632	92	381	246	179	-	-	1,530
Total	\$ 85,027	\$ 20,667	\$ 63,550	\$ 36,707	\$ 23,545	\$ 28	\$ 434	\$ 229,958

Johnson & Wales University

Notes to Consolidated Financial Statements (In Thousands)

Note 13. Classification of Expenses (Continued)

Continuing Operations	2022							Total
	Instructional	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Public Service	Research & Development	
Salaries and wages	\$ 45,643	\$ 9,984	\$ 25,336	\$ 6,829	\$ 12,963	\$ 29	\$ 227	\$ 101,011
Benefits other than retirement plan	10,251	1,181	7,055	1,692	3,719	3	31	23,932
Retirement plan	2,923	307	1,599	288	1,323	1	7	6,448
Food and beverage	1,413	-	-	2,744	-	-	-	4,157
Professional fees and contracted services	1,127	216	2,045	1,882	1,843	8	26	7,147
Occupancy	6,205	1,000	3,225	4,708	796	6	2	15,942
Depreciation	8,985	1,541	5,195	6,172	1,445	9	3	23,350
Advertising, promotions and publications	89	2	7,967	482	525	-	-	9,065
Travel and training	480	12	1,675	241	178	63	19	2,668
Supplies and miscellaneous	2,725	750	2,489	1,136	267	10	21	7,398
Insurance, taxes, fees and dues	1,247	211	905	1,749	2,146	2	1	6,261
Hardware, software and telecommunications	1,894	956	2,110	421	1,829	-	-	7,210
Bad debt (recovery)	-	-	-	-	(890)	-	-	(890)
Interest and amortization	763	112	352	777	49	-	-	2,053
Cares Act student relief aid	-	-	18,923	-	-	-	-	18,923
Total	\$ 83,745	\$ 16,272	\$ 78,876	\$ 29,121	\$ 26,193	\$ 131	\$ 337	\$ 234,675

Operating expenses generated by the hotel for fiscal years 2023 and 2022, were \$7,154 and \$5,651, respectively, and are included in auxiliary enterprises expense on the consolidated statements of activities.

Note 14. Subsequent Events

The University evaluated all events and transactions through October 31, 2023, the date on which the consolidated financial statements were issued. There were no material subsequent events requiring accounting recognition or disclosure in the accompanying consolidated financial statements.