Grand Canyon Education, Inc.
Form 10-K
February 16, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [   ] to [   ]

Commission file number: 001-34211

GRAND CANYON EDUCATION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE   **20-3356009**
(State or other jurisdiction of   **(I.R.S. Employer**

incorporation or organization)   **Identification No.)**
3300 W. CAMELBACK ROAD, PHOENIX, ARIZONA 85017

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: (602) 639-7500

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)   **(Name of Each Exchange on Which Registered)**
Grand Canyon Education, Inc.   **The NASDAQ Global Market**

Common stock, $.01 par value
Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes   No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes   No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes   No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes   No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of   large accelerated filer,   accelerated filer   and   smaller reporting company   in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   Accelerated filer

Non-accelerated filer   (Do not check if a smaller reporting company)   Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).   Yes   No

The total number of shares of common stock outstanding as of February 10, 2017 was 47,742,773.

As of June 30, 2016, the last business day of the registrant s most recently completed second fiscal quarter, the registrant s common stock was listed on the NASDAQ Global Market. As of June 30, 2016, the aggregate market value of the registrant s common stock held by non-affiliates was approximately $1.8 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders (which is expected to be filed with the Commission within 120 days after the end of the registrant s 2016 fiscal year) are incorporated by reference into Part III of this Report.

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including Item 1, *Business*; Item 1A, *Risk Factors*; and Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, contains certain forward-looking statements, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation, and availability of resources. These forward-looking statements include, without limitation, statements regarding proposed new programs; statements as to whether regulatory developments or other matters may or may not have a material adverse effect on our financial position, results of operations, or liquidity; statements concerning projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, and future economic performance; and statements of management s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as may, should, could, would, predicts, potential, continue, expects, anticipates, future, intends, plans, believes, estimates and si well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

   our failure to comply with the extensive regulatory framework applicable to our industry, including Title IV of the Higher Education Act and the regulations thereunder, state laws and regulatory requirements, and accrediting commission requirements;

   the ability of our students to obtain federal Title IV funds, state financial aid, and private financing;

   potential damage to our reputation or other adverse effects as a result of negative publicity in the media, in the industry or in connection with governmental reports or investigations or otherwise, affecting us or other companies in the for-profit postsecondary education sector;

   risks associated with changes in applicable federal and state laws and regulations and accrediting commission standards, including pending rulemaking by the Department of Education;

   competition from other universities in our geographic region and market sector, including competition for students, qualified executives and other personnel;

   our ability to properly manage risks and challenges associated with strategic initiatives, including the expansion of our campus, potential acquisitions of, or investments in, new businesses, acquisitions of new properties, or the development of new campuses;

our ability to hire and train new, and develop and train existing employees and faculty;

the pace of growth of our enrollment;

our ability to convert prospective students to enrolled students and to retain active students;

our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;

industry competition, including competition for qualified executives and other personnel;

risks associated with the competitive environment for marketing our programs;

failure on our part to keep up with advances in technology that could enhance the online experience for our students;

the extent to which obligations under our credit agreement, including the need to comply with restrictive and financial covenants and to pay principal and interest payments, limits our ability to conduct our operations or seek new business opportunities;

our ability to manage future growth effectively;

general adverse economic conditions or other developments that affect the job prospects of our students; and

other factors discussed under the headings Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, and Regulation.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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Part I

Item 1.   *Business*
Overview

We are a comprehensive regionally accredited university that offers over 200 graduate and undergraduate degree programs and certificates across nine colleges both online and on ground at our over 260 acre campus in Phoenix, Arizona, at leased facilities and at facilities owned by third party employers of our students. We are committed to providing an academically rigorous educational experience with a focus on professionally relevant programs that meet the objectives of our students. Our undergraduate programs are designed to be innovative and meet the future needs of employers, while providing students with the needed critical thinking and effective communication skills developed through a Christian-oriented, liberal arts foundation. We offer master s and doctoral degrees in contemporary fields that are designed to provide students with the capacity for transformational leadership in their chosen industry, emphasizing the immediate relevance of theory, application, and evaluation to promote personal and organizational change. We believe the growing brand of the University and the value proposition for both traditional aged students attending on our campus in Phoenix, Arizona and working adult students attending on our campus or at off-site locations in cohorts (referred to by us as professional studies students) or online, has enabled us to increase enrollment to approximately 81,900 students at December 31, 2016. At December 31, 2016, 78.9% of our students were enrolled in our online programs, and, of our working adult students (online and professional studies students), 49.5% were pursuing master s or doctoral degrees.

We define working adults as students age 25 or older who are pursuing a degree while employed. As of December 31, 2016, 86.5% of our online and professional studies students were age 25 or older. We believe that working adults are attracted to the convenience and flexibility of our online programs because they can study and interact with faculty and classmates during times that suit their schedules. We also believe that working adults, particularly those who have some college experience, represent an attractive student population because they are better able to more readily recognize the benefits of a postsecondary degree, have higher persistence and completion rates than other students, and to finance their education generally.

In 2016, we continued to increase the number of students in attendance at our expanding traditional ground campus. We attribute the significant growth in our enrollment to our increasing brand recognition and the value proposition that our ground traditional campus affords to traditional-aged students and their parents. After scholarships, our ground traditional students pay for tuition, room, board, and fees, often half to a third of what it costs to attend a private, traditional university in another state and an amount comparable to what it costs to attend a public university. We plan to continue increasing enrollment growth for our traditional campus over the next few years, and seek to have 19,000 traditional ground students in attendance at the beginning of our 2017-2018 academic year. In November 2012, we accepted an invitation to become a member of the Division I Western Athletic Conference beginning with the 2013-2014 academic year, and in 2013 we began the four-year process to reclassify our NCAA membership from Division II to Division I. During the reclassification process we are considered a Division I university and are playing full conference schedules but are ineligible to compete for national championships which, for example, precludes us from playing in the end-of-year NCAA basketball tournament during that period of time.

We continue to experience growth in enrollment, net revenue, and operating income over the last several years. Our enrollment at December 31, 2016 was approximately 81,900, representing an increase of approximately 9.9% over our enrollment at December 31, 2015. Our net revenue and operating income for the year ended December 31, 2016 were $873.3 million and $237.2 million, respectively, representing increases of 12.2% and 12.8%, respectively, over the

year ended December 31, 2015. Our net revenue and operating income for the year ended December 31, 2015 were $778.2 million and $210.4 million, respectively, representing increases of 12.6% and 16.3%, respectively, over the year ended December 31, 2014. We seek to achieve continued growth in a manner that reinforces our reputation for providing academically rigorous, professionally relevant educational programs that advance the educations and careers of our students.

History

Grand Canyon College was founded in Prescott, Arizona in 1949 as a traditional, private, non-profit college and moved to its existing campus in Phoenix, Arizona in 1951. Established as a Baptist-affiliated institution with a strong emphasis on religious studies, the school initially focused on offering bachelor s degree programs in education. Over the years, the school expanded its curricula to include programs in the sciences, nursing, business, music, and arts. The college obtained regional accreditation in 1968 from the Commission on Institutions of Higher Education, North Central Association of Colleges and Schools, the predecessor to the Higher Learning Commission, and began offering nursing programs and master s degree programs in education and business in the 1980s. In 1989, it achieved university status and became Grand Canyon University. The university introduced its first distance learning programs in 1997, and launched its first online programs in 2003 in business and education. In early 2000, it discontinued its Baptist affiliation and became an interdenominational Christian university.

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In late 2003, the school s Board of Trustees initiated a process to evaluate alternatives as a result of the school s poor financial condition and, in February 2004, a group of investors acquired the assets of the school and converted the school into a for-profit institution.

Our Approach to Academic Quality

Some of the key elements that we focus on to promote a high level of academic quality include:

Academically rigorous, professionally relevant curricula. We prepare learners to become global citizens, critical thinkers, effective communicators and responsible leaders by providing an academically challenging, values-based curriculum from the context of our Christian heritage. We create academically rigorous curricula that are designed to enable all students to gain the foundational knowledge, professional competencies, and demonstrable skills required to be successful in their chosen fields. Our curriculum is designed and delivered by faculty and industry-specific subject-matter experts who are committed to high quality, rigorous education and professional preparedness. We design our curricula to address specific objectives that pre-career and working-adult students need and are seeking. Through this combination, we believe that we produce graduates that can compete with integrity and become leaders in their chosen fields.

Qualified faculty. We demonstrate our commitment to high quality education by hiring qualified faculty with relevant practical experience. Substantially all of our current faculty members hold at least a master s degree in their respective fields and approximately 47% of our faculty members of record are doctorate prepared. Further, the University has implemented a full time faculty model for online course instruction. In 2016, almost all of the online first year courses were taught by an online, full time faculty member. We believe the presence of a full time faculty member in the classroom for the first year students results in increased student retention. We invest in the professional development of our faculty members by providing online and ground pedagogical training along with hosting events that encourage the development and sharing of best practices. Additionally, we also monitor and evaluate teaching effectiveness through assessment content reviews, peer reviews, and student evaluations.

Centralized program design and curriculum development. We employ a college driven highly collaboratively designed curriculum development process to ensure a consistent learning experience. We continuously review our programs at least every 3 years in an effort to ensure that they remain consistent, up-to-date, relevant, and effective in producing the desired learning outcomes. We also annually review programmatic assessment results, mission based competency results, graduation rates, retention rates and constituency surveys to identify opportunities for course modifications and upgrades.

Effective student services. We establish teams comprised of admissions and student services counselor personnel that act as the primary support contact point for each of our students, beginning at the application stage and continuing through graduation. We also continually focus on improving the technology used to support student learning, including delivering a new online learning platform and further improving student services through the implementation of online interfaces. As a result, many

of our support services, including academic, administrative, financial, library, and career services, are accessible online, generally allowing users to access these services at a time and in a manner that is convenient to them.

Continual academic oversight. We have centralized the support functions of assessment for all of our programs through our Office of Assessment. While each of our colleges continuously evaluates the desired learning outcomes for each of their programs, the Office of Assessment provides data collection and analysis support. We continuously assess outcomes data to determine whether our students graduate with the knowledge, competencies, and skills that are necessary to succeed in the workplace. The Office of Assessment also initiates and manages periodic examinations of the mission-based competencies in our curricula by full-time and adjunct reviewers to evaluate and verify mission-based competency attainment. Based on these processes and student feedback from both programmatic and mission-based assessment, we determine whether to modify or discontinue programs that do not meet our standards or market needs, or to create new programs.

We also offer the following features in an effort to enrich the academic experience of current and prospective students:

Flexibility in program delivery. We seek to meet market demands by providing students with the flexibility to take courses exclusively online or to combine online coursework with various campus and onsite options. For example, based on market demand, particularly in connection with our nursing programs, we have established satellite locations at multiple hospitals that allow nursing students to take clinical courses onsite while completing other course work online. We have established similar onsite arrangements with other major employers, including schools and school districts through which students can pursue student teaching opportunities. This flexibility raises our profile among employers, encourages students to take and complete courses, and eliminates inconveniences that tend to lessen student persistence.

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Small class size. At December 31, 2016, 95.1% of our online and professional studies classes had 25 or fewer students. Our average, class size on our ground traditional campus is 25 students. These class sizes provide each student with the opportunity to interact directly with course faculty and to receive individualized feedback and attention while also affording our faculty with the opportunity to engage proactively with a manageable number of students. We believe this interaction enhances the academic quality of our programs by promoting opportunities for students to participate actively and thus build the requisite knowledge, competencies, and skills.

We have been regionally accredited by the Higher Learning Commission and its predecessor since 1968. We were reaccredited in 2007 for the maximum term of ten years and expect to have our accreditation reaffirmed in the Spring of 2017. We believe that our regional accreditation, together with appropriate specialized programmatic accreditations, reflect the quality of our programs, enhance their marketability to students, and improve the employability of our graduates.

Curricula

We offer the degrees of Doctor of Education, Doctor of Business Administration, Doctor of Nursing Practice, Doctor of Philosophy, Education Specialist, Master of Divinity, Master of Arts, Master of Education, Master of Business Administration, Master of Public Administration, Master of Public Health, Master of Science, Bachelor of Arts, and Bachelor of Science and a variety of programs leading to each of these degrees. Many of our degree programs also offer a selection of emphases. We also offer certificate programs, which consist of a series of courses focused on a particular area of study, for both the post-baccalaureate and post-graduate students who seek to enhance their skills and knowledge or achieve additional licensure.

We offer over 200 graduate and undergraduate degree programs and certificates through our nine distinct colleges:

the Colangelo College of Business, which has a well-known brand among our target student population, an advisory board that includes nationally recognized business leaders, and a reputation for offering professionally relevant degree programs;

the College of Doctoral Studies, which utilizes innovative technology, collaboration, and learning communities to develop expert practitioners and researchers who can become leaders in the disciplines and communities they serve;

the College of Education, which has greater than a 60-year history as one of Arizona s leading teacher s colleges and consistently graduates teachers who meet or exceed state averages on the Arizona Educator Proficiency Assessment exams;

the College of Fine Arts and Production, which continues the long and highly regarded tradition that the University has in the Fine Arts;

the Honors College, which serves to develop our most ambitious students across any of our programs and many of these students participate in the Honors Research Fellowship program, which partners

students with faculty or industry partners on scientific and applied research projects;

the College of Humanities and Social Sciences, which develops and provides many of the general education course requirements in our other colleges and also serves as one of the vehicles through which we offer programs in additional targeted disciplines;

the College of Nursing and Health Care Professions, which has a strong reputation within the Arizona nursing community and is the largest nursing program in Arizona when considering total college enrollment (bachelor and master s degree students);

the College of Science, Engineering, and Technology, which with science, engineering, technology, and mathematics professions in extremely high demand, driving our economy, continuously evolving, and redefining modern day life is focused on preparing exceptionally competent graduates to enter the dynamic and highly competitive workforce of the 21st century; and

the College of Theology, which serves as one of the many vehicles through which the University affirms its Christian heritage.

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Under the overall leadership of our senior academic affairs personnel and the deans of the individual colleges, each of the colleges organizes its academic programs through various departments and schools.

We have established relationships with community colleges, health-care systems, school districts, and other employers through which we offer programs to provide flexibility and convenience to students and their employers. For example, for our nursing programs, we offer clinical courses onsite at hospitals and other health-care centers with which we have partnerships, and also arrange to allow these students to complete their clinical work onsite.

We currently offer our ground-based programs to traditional students through three 15-week semesters in a calendar year and to online students in courses that generally range from five to sixteen weeks throughout the calendar year. Traditional students generally enroll in three or four courses per semester while online students typically concentrate on one course at a time. We require our online students to be actively engaged in their online student classroom at least three or four times each week, depending on the content and degree level of the class, in order to maintain an active dialogue with their professors and classmates. Our online programs provide a digital record of student interactions for the course instructor to assess students levels of engagement and demonstration of required competencies.

New Program Development

To aid us in the identification of potentially new degree programs or emphasis areas, we investigate market demand and review proposals developed by faculty, staff, students, alumni, college specific advisory boards comprised of leaders in their field or other partners. We then perform an analysis of the consistency of the proposed program or emphasis with our mission, long-term demand, and development costs. If, following this analysis, the University Development Committee decides to proceed with a new program, our college faculty and administrators approve subject-matter experts with whom our Curriculum Design and Development Team members, including instructional designers, curriculum developers, librarians, and editors, work to design the program competencies so that it is consistent with our academically rigorous, professionally oriented program standards. The program is then reviewed by the dean of the applicable college, the Program Standards and Evaluation Faculty Committee, the Academic Affairs Committee, and finally, our Provost and Chief Academic Officer. Upon accreditation and regulatory approval, the subject matter experts develop course syllabi, and our Marketing Department creates a marketing plan to publicize the new program. Our average program development process is six months from proposal to course introduction. The development process is typically longer if we are expanding into a new field or offering a new level of degree.

Assessment

Our Office of Assessment serves as our central resource for measuring learning outcomes and student satisfaction and driving systematically engineered and data-driven continuous-improvement cycles for updating our curricula. Among other things, the assessment team reviews student course satisfaction surveys; analyzes archived student assignments to assess whether a given program is developing students foundational knowledge, professional competencies, and college skills to achieve the expected learning outcomes; and provides feedback as to program effectiveness. Based on this data and the conclusions of the assessment team, we modify programs as necessary to meet our student satisfaction and educational development standards.

Faculty

Our faculty includes full-time faculty, as well as adjunct faculty with relevant practical experience whom we employ to teach on a course-by-course basis for a specified fee. Our current faculty members hold at least a master s degree in their respective fields and approximately 47% of our teaching faculty of record hold doctorate degrees.

We believe that the quality of our faculty is critical to our success, particularly because faculty members have more interaction with our students than any other university employee. Accordingly, we regularly review the performance of our faculty, including, but not limited to, engaging our full-time faculty and other specialists to conduct peer reviews of our adjunct faculty, monitoring the amount of contact and the quality of feedback that faculty have with students in our online programs, reviewing student feedback, conducting content reviews and evaluating the learning outcomes achieved by students. If we determine that a faculty member is not performing at the level that we require, we work with the faculty member to improve performance, including, among other things, assigning him or her a mentor or through other means. If the faculty member s performance does not improve, we terminate the faculty member s contract and employment.

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Student Support Services

Encouraging students that enter Grand Canyon University to complete their degree programs is critical to our success. We focus on developing and providing resources that simplify the student enrollment process, acclimate students to our programs and our online environment, support the student educational experience, and track student performance toward degree completion. Many of our support services, including academic, administrative, and library services, are accessible online and are available to our online and ground students, allowing users to access these services at a time and in a manner that is generally convenient to them. The student support services we provide include:

Academic services. We provide students with a variety of services designed to support their academic studies. Our Learning Lounges offer research services, writing services, and other tutoring services. Learning sessions are offered on a one-on-one basis and group sessions.

Administrative services. We provide students with the ability to access a variety of administrative services both telephonically and via the Internet. For example, students can apply for financial aid, pay their tuition, order their transcripts online, and apply for graduation. We believe this online accessibility provides the convenience and self-service capabilities that our students value. Our student services counselors provide personalized online and telephonic support to our students.

Library services. We provide a mix of online and ground resources, services, and instruction to support the educational and research endeavors of all students, faculty, and staff, including ground and online libraries and a qualified library staff that is available to help faculty and students with research, teaching, and library resource instruction. Collectively, our library services meet, or exceed, the requirements set by relevant accrediting bodies for us to offer undergraduate, master s, and doctoral programs.

Career services. For those students seeking to change careers or explore new career opportunities, we offer career services support, including resume review and evaluation, career planning workshops, and access to career services specialists for advice and support. Other resources that we offer include a Job Readiness Program, which advises students on matters such as people skills, resumes and cover letters, mock interviews, and business etiquette; a job board, which advertises employment postings and career exploration opportunities; career counseling appointments and consultations; and career fairs.

Technology support services. We provide online technical support 18 hours per day during the week and 17 hours per day on weekends to help our students remedy technology-related issues. We also provide online tutorials and Frequently Asked Questions for students who are new to online coursework.

Marketing, Recruitment, Admissions and Retention

Marketing. We engage in a range of marketing activities designed to position us as a provider of academically rigorous, professionally relevant educational programs, build strong brand recognition in our core disciplines, differentiate us from other educational providers, raise awareness among prospective students, generate enrollment inquiries, and stimulate student and alumni referrals. We target our online programs to working adults focused on program quality, convenience, and career advancement goals. We target our ground programs to traditional college students, working adults seeking a high quality education in a traditional college setting, and working adults seeking to take classes with a cohort onsite at our leased facilities or at their employer s facility. In marketing our programs to prospective students, we emphasize the value of the educational experience and the academic rigor and professional relevancy of the programs, as well as the cost of the program. We believe this approach reinforces the qualities that we want associated with our brand and also attracts students who tend to be more persistent in starting and finishing their

programs.

Recruitment. Once a prospective student has indicated an interest in enrolling in one of our programs, our lead management system identifies and directs a university counselor to initiate immediate communication. The university counselor serves as the primary, direct contact for the prospective student and the counselor s goal is to help that individual gain sufficient knowledge and understanding of our programs so that he or she can assess whether there is a good match between our offerings and the prospective student s goals. Upon the prospective student s submission of an application, the university counselor, together with our student services personnel, works with the applicant to gain acceptance, arrange financial aid, if needed, register for courses, and prepare for matriculation.

Admissions. Admission to Grand Canyon University is available to qualified students who are at least 16 years of age. Undergraduate applicants may qualify in various ways, including by having a high school diploma, certain minimum grade point average levels, certain minimum composite scores on the Scholastic Aptitude Test or on the ACT test, or certain minimum scores on the General Education Development (GED) tests. Some of our programs require a higher grade point average and/or other criteria to qualify for admission. Applicants to our graduate programs must generally have an undergraduate degree from an accredited college, university, or program with a grade point average of 2.8 or greater, or a graduate degree from an accredited college, university, or program. In addition, some students who do not meet the qualifications for admission may be accepted with specification. A student being considered for such admission may be asked to submit additional information such as personal references and an essay addressing academic history. Students may also need to schedule an interview to help clarify academic goals and help us make an informed decision.

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Retention. A key component in retaining our students is providing an outstanding learning experience. We feel that our team-based, proactive approach to recruitment and enhanced student services results in increased retention due to our systematic approach to contacting students at key milestones during their enrollment, providing encouragement and highlighting their achievements. Our student services counselors proactively assist each student with the student s selection of an appropriate payment option, and monitor the student s progress and account balance to ensure a smooth financial aid experience and to help ensure our students are well prepared for the financial obligations they incur. These counselors also assist students with their academic schedules and regularly monitor triggering events, such as the failure to participate in the classroom or failure to matriculate in a timely manner, which signal that a student may be at-risk for dropping out. Upon identifying an at-risk student, these counselors proactively interact with the student to resolve any issues and encourage the student to continue with his or her program. We have found that personally involving our employees in the student educational process, and proactively seeking to resolve issues before they become larger problems, can significantly increase retention rates among students. These frequent interactions between student services counselors and students are a key component to our retention strategy.

Enrollment

At December 31, 2016, we had 81,908 students enrolled in our courses, of which 64,646, or 78.9%, were enrolled in our online programs, and 17,262, or 21.1%, were enrolled in our ground programs. Of our students in online programs, which were geographically distributed throughout all 50 states of the United States, and Canada, and in professional studies programs, 86.5% were age 25 or older. Of our traditional on-campus students, 94.6% were under age 25 and, although we draw students from throughout the United States, a majority were from Arizona.

The following is a summary of our student enrollment at December 31, 2016 and 2015 by degree type and by instructional delivery method:

	December 31, 2016[1]		December 31, 2015[1]	
	# of Students	% of Total	# of Students	% of Total
Graduate degree[2]	33,215	40.6%	29,237	39.2%
Undergraduate degree	48,693	59.4%	45,269	60.8%
Total	81,908	100.0%	74,506	100.0%

	December 31, 2016[1]		December 31, 2015[1]	
	# of Students	% of Total	# of Students	% of Total
Online[3]	64,646	78.9%	59,311	79.6%
Ground[4]	17,262	21.1%	15,195	20.4%
Total	81,908	100.0%	74,506	100.0%

(1) Enrollment at December 31, 2016 and 2015 represents individual students who attended a course during the last two months of the calendar quarter. Includes 847 and 679 students pursuing non-degree certificates at December 31, 2016 and 2015, respectively.

(2) Includes 7,084 and 6,302 students pursuing doctoral degrees at December 31, 2016 and 2015, respectively.

(3) As of December 31, 2016 and 2015, 49.5% and 47.8%, respectively, of our working adult students (online and professional studies students) were pursuing graduate or doctoral degrees.

(4) Includes our traditional on-campus students, as well as our professional studies students.

Tuition and Fees

For the 2016-17 academic year (the academic year begins in May), our prices per credit hour range from $355 to $470 for undergraduate online and professional studies courses, $330 to $630 for graduate online courses, $640 for doctoral online programs, and $688 for undergraduate courses for ground students. For our active duty military and active reserve online and professional studies students, our prices per credit hour are $250 for undergraduate, $400 for graduate courses and $608 for doctoral courses. The overall price of each course varies based upon the number of credit hours per course (with most courses representing four credit hours), the degree level of the program, and the discipline. In addition, we charge a fixed $8,250   block tuition   for undergraduate ground students taking between 12 and 18 credit hours per semester, with an additional $688 per credit hour for credits in excess of 18. A traditional undergraduate degree typically requires a minimum of 120 credit hours. The minimum number of credit hours required for a master s degree and overall cost for such a degree varies by program, although such programs typically require approximately 36 credit hours. The doctoral program requires approximately 60 credit hours and on average, doctoral students who graduated during the 2014-2015 academic year required 5.25 dissertation continuation courses to complete their degree. The University did not raise tuition in any of our programs for our 2016-2017 academic year and has not raised tuition for its traditional ground programs in eight years.

Based on current tuition rates, tuition for a full program would generally equate to between $15,450 and $37,000 for an online master s program, between $42,600 and $56,400 for a full four-year online bachelor s program, approximately $66,000 for a full four-year bachelor s program taken on our ground campus, and $48,000 for a full doctoral program including five dissertation continuation courses. Students requiring dissertation continuation courses in excess of five are only charged $500 per course. The tuition amounts referred to above assume no reductions for transfer credits or scholarships, which many of our students utilize to reduce their total program costs. For example, the average student on our ground traditional campus will pay approximately $8,600 in tuition in the 2016-17 school year after scholarships. Thus, based on the number of transfer credits and the scholarships they receive it is likely that a student will pay less than $35,000 in tuition for a bachelor s degree on our ground campus. For the fiscal years ended December 31, 2016, 2015 and 2014, our revenue was reduced by approximately $179.2 million, $163.9 million and $140.0 million, respectively, as a result of scholarships that we offered to our students. The increase in scholarships reflects our increasing use of academic scholarships, to attract high performing students to our ground traditional campus.

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We have established a refund policy for tuition and fees based upon individual course start dates. Under our policy, for courses offered through a working adult modality, generally if a student drops or withdraws from a course before the course begins, 100% of the charges for tuition and fees are refunded. If a student drops or withdraws from a course during the first week of the course, 75% of the charges for tuition are refunded. If a student drops or withdraws from a course during or after the second week of a course, tuition charges and fees are not refunded. Most fees, including materials fees, are non-refundable for non-traditional students after the start of a course. We will refund tuition and fees according to the above policy unless a student attending courses online is a resident of a state that requires us to comply with different, state specific guidelines. For traditional students attending 15-week courses, generally if a student withdraws before the course begins, 100% of the charges for tuition and fees are refunded. If a student withdraws during the first week of the course, 90% of the charges for tuition are refunded and instructional fees and ground campus-related fees are refunded. If a student drops or withdraws from a course during the second week of a course, 75% of the tuition charges are refunded but most fees are non-refundable. If a student drops during the third week of a course, 50% of the tuition charges are refunded and during or after the fourth week, there are no refunds for tuition charges. Fees charged by us include graduation fees as well as fees for access to certain educational resources such as online materials. This tuition and fees refund policy is different from, and applies in addition to, the return of Title IV funds policy we are required to follow as a condition of our participation in the Title IV programs.

Sources of Student Financing

Our students finance their education through a combination of methods, as follows:

Title IV programs. The federal government provides for grants and loans to students under the Title IV programs, and students can use those funds at any institution that has been certified as eligible by the Department of Education. Student financial aid under the Title IV programs is primarily awarded on the basis of a student s financial need, which is generally defined as the difference between the cost of attending the institution and the amount the student and the student s family can reasonably contribute to that cost. All students receiving Title IV program funds must maintain satisfactory academic progress toward completion of their program of study. In addition, each school must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students.

During fiscal 2016 and 2015, we derived approximately 72.3% and 74.8%, respectively, of our net revenues (calculated on a cash basis in accordance with Department of Education standards currently in effect) from tuition financed under the Title IV programs. The primary Title IV programs that our students receive funding from are the Federal Direct Loan program or FDL Program, and the Federal Pell Grant, or Pell, Program.

Student loans administered through the FDL Program are currently the most significant source of U.S. federal student aid. There are two types of federal student loans: subsidized loans, which are based on the U.S. federal statutory calculation of student need, and unsubsidized loans, which are not need-based. Neither type of student loan is based on creditworthiness although annual and aggregate loan limits apply based on a student s grade level. Students are generally not responsible for interest on subsidized loans while the student is enrolled in school. Students are responsible for the interest on unsubsidized loans while enrolled in school, but have the option to defer payment while enrolled. Repayment on federal student loans begins six months after the date the student ceases to be enrolled. The loans are repayable over the course of 10 years and, in some cases, longer. Both graduate and undergraduate students are eligible for loans. During fiscal 2016, federal student loans (both subsidized and unsubsidized) represented approximately 81.9% of the gross Title IV funds that we received.

Grants under the Pell Program (Pell Grants) are awarded based on need and only to undergraduate students who have not earned a bachelor s or professional degree. Unlike loans, Pell Grants are not repayable. During fiscal year 2016, Pell Grants represented approximately 13.6% of the gross Title IV funds that we received. For the 2015-16 award

year, the maximum amount available under Pell Grants was $5,775 and the maximum income that makes an applicant for Title IV Program funds eligible for an automatic zero Expected Family Contribution was $24,000. For the 2016-2017 award year, the maximum amount available under Pell Grants was increased to $5,815 and the maximum income that makes an applicant to Title IV Program funds eligible for an automatic zero Expected Family Contribution increased to $25,000.

Our students also receive funding under other Title IV programs, including the Federal Perkins Loan Program, the Federal Supplemental Educational Opportunity Grant Program, the Federal Work-Study Program, and the Teacher Education Assistance for College and Higher Education Grant Program.

Other financial aid programs. In addition to the Title IV programs listed above, eligible students may participate in several other financial aid programs or receive support from other governmental sources. These include veterans educational benefits administered by the U.S. Department of Veterans Affairs and state financial aid programs. During fiscal 2016 and 2015, we derived an immaterial amount of our net revenue from tuition financed by such programs.

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Private loans. Some of our students also use private loan programs to help finance their education. Students can apply to a number of different lenders for private loans at current market interest rates. Private loans are intended to fund a portion of students   cost of education not covered by the Title IV programs and other financial aid. During fiscal 2016 and 2015, payments derived from private loans constituted less than 1% of our net revenues for each year, respectively.

Other sources. We derived the remainder of our net revenue from tuition that is self-funded or attributable to employer tuition reimbursements.

Technology Systems and Management

We believe that we have established secure, reliable and scalable technology systems that provide a high quality educational environment and that give us the capability to substantially grow our online and traditional programs and enrollment.

Online course delivery and management. Our online delivery platform was developed in partnership with a third party and put into full production in 2011. We have a prepaid license for this platform for the foreseeable future as well as full source code rights. Because of its modular implementation, this platform can easily and reliably scale as our student population increases. The platform provides in depth analytics that allows us to closely monitor student success and the quality of our instructional resources. All ground and online students receive online course delivery and resources through this learning management platform.

Internal administration. We utilize a commercial customer relations management development platform to distribute, manage, track, and report on all interactions with prospective student leads as well as all active and inactive students. This software is scalable to capacity levels well in excess of current requirements. We also utilize a commercial software package to track Title IV funds, student records, grades, accounts receivable, accounts payable and general ledger.

Infrastructure. We operate two data centers, one at our campus and one at another Phoenix-area location. All of our servers are networked and we have redundant data backup. We manage our technology environment internally. Our wide area network is fully redundant to ensure maximum uptime, bandwidth capacity and network performance. Student access is load balanced for maximum performance. Real-time monitoring provides current system status across network, server, and storage components.

Ground Campus

We own our ground campus, which is located on over 260 acres in the center of the Phoenix, Arizona metropolitan area, near downtown Phoenix. Our on-campus facilities currently consist of classroom buildings, lecture halls, a 300-seat theater, a 155,000-volume newly renovated library, a media arts complex that provides communications students with audio and video equipment, a 55,000 square foot recreation center for both student-athletes and on-campus students, a 140,000 square foot/ 7,500 seat basketball and entertainment arena, a gymnasium, an activity center that contains a food court, a bowling alley and other student services, a student union which was recently remodeled and expanded, residence halls, apartments, campus pools, athletic facilities and parking garages. Additionally, we have several office buildings used for administration. In order to accommodate the continued growth of our traditional ground population, we completed four additional residence halls, a classroom building for our College of Science, Engineering and Technology and a third parking structure prior to the 2015/2016 school year and prior to the 2016/2017 school year we completed construction on three apartment style residence halls, an additional 170,000 square foot classroom building for its College of Science, Engineering and Technology, a student service

center and a fourth parking structure.

We have 21 intercollegiate athletic teams that currently compete in Division I of the National Collegiate Athletic Association (NCAA). Our athletic facilities include the University Arena (a 7,500 seat venue for all men s and women s basketball games plus select other GCU athletic competitions, concerts, speakers and other events); a stadium that hosts NCAA men s and women s soccer as well as several club sports programs; a basketball practice facility; on-campus tennis courts; beach volleyball courts; and a competition/practice gymnasium, which accommodates men s and women s volleyball and competitive events. In addition, the University s 55,000 square foot student recreation center has state of the art training facilities for our 400 student-athletes plus practice space and locker rooms for men s and women s basketball. Our baseball, softball and track and field programs utilize on-campus practice and competition sites. In January 2016 the Grand Canyon University Championship golf course opened to the public. The men s and women s golf teams have dedicated practice facilities, a team room and coaches offices at the course. The cross-country and swimming programs utilize off-campus sites for practice and competition. The University won the 2012-13 and 2011-12 Learfield Sports Directors Cup as the top overall NCAA Division II intercollegiate athletic program based on the combined success in all of the sports in which we competed. We advanced 16 programs into NCAA Championship competition and gained top 10 finishes in nine separate sports. In November 2012, we accepted an invitation to be a member of the NCAA Division I Western Athletic Conference beginning with the 2013-14 academic year and in September 2013 we began playing full Division I schedules. In June 2016, the University successfully completed all year three requirements and was advanced to the fourth and final year of reclassification. During the 2015-2016 academic year, men s tennis won its first ever conference title while the men s and women s track teams swept the indoor and outdoor track and field conference championships. GCU televises home athletic events in multiple sports highlighted by the men s basketball games that have averaged approximately 5,800 fans per night with most games played when the students are not on semester break at or near capacity.

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We believe our ground-based programs and traditional campus not only offer our ground students, faculty, and staff an opportunity to participate in a traditional college experience, but also provide our online students, faculty, and staff with a sense of connection to a traditional university. Additionally, our full-time ground faculty play an important role in integrating online faculty into our academic programs and ensuring the overall consistency and quality of the ground and online student experience. We believe the mix of our online program with our traditional ground-based program with a greater than 60-year history and heritage differentiates us from other for-profit postsecondary education providers.

We intend to continue to expand the size and enhance the profile and reputation of our ground campus by, among other things, adding faculty, excelling in the performance areas such as athletics, debate, theatre, music and dance, expanding upon our campus infrastructure and technological capabilities, and potentially adding additional locations in the Southwest United States. These activities will require significant capital expenditures.

Employees

As of December 31, 2016, we employed approximately 3,850 full-time faculty, and staff and administrative personnel in university services, academic advising and academic support, enrollment services, university administration, financial aid, information technology, human resources, corporate accounting, finance, and other administrative functions. None of our employees is a party to any collective bargaining or similar agreement with us. We consider our relationships with our employees to be good.

Community Involvement and the Public Good

The University has embarked on a five-point plan to revitalize its West Phoenix neighborhood through the following initiatives. We believe these initiatives reflect well on the University and its employees, make the University more appealing to students and prospective students, help us develop strong working relationships with local government bodies, and continue to build the Grand Canyon University brand.

Significant support for K-12 education. We have expanded our free tutoring/mentoring program to 25 Phoenix-area high schools. This program, which is served by over 1,200 University students, operates in partnership with Phoenix-area businesses to provide 100 full-tuition scholarships to attend Grand Canyon University each year for students from inner-city schools.

Increased home values. Together with Habitat for Humanity, we participated in the largest home renovation project in the country in the West Phoenix area. These efforts, combined with the University s expanded presence in the community, has resulted in a 30 percent increase in home values in the 85017 zip code in the past year.

Improved safety. We are in the fourth year of a $1.0 million partnership with City of Phoenix Police Department that focuses on improving safety and reducing crime in the communities surrounding our campus. Since the initiation of this program, crime has decreased by 30 percent in the two-mile radius surrounding the University.

Job creation on the campus. We have tripled the number of our full-time employees from 1,219 in 2008 to nearly 4,000 by the end of 2016.

Job creation off campus. We are launching ten new business enterprises that will provide management opportunities for recent graduates and employment opportunities for current students and neighborhood residents, while spurring economic growth in the area.

The University is also involved in countless community events and projects throughout the year, helping organizations such as the Phoenix Dream Center, Feed My Starving Children, Hopefest, Arizona Foster Care, Phoenix Rescue Mission, Boy/Girl Scouts, Goodwill Arizona, St. Vincent de Paul, Young Life, Elevate Phoenix and St. Mary s Food Bank. The University also puts on popular gift drives at Christmas and Easter to help brighten those seasons for many underprivileged families. Our faculty, staff and students also go out into our surrounding neighborhoods to participate in University-sponsored programs such as Serve the City, Canyon Kids, Salute Our Troops, Colter Commons senior home visits and the Run to Fight Children s Cancer.

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Competition

There are more than 4,000 U.S. colleges and universities serving traditional and adult students. Competition is highly fragmented and varies by geography, program offerings, modality, ownership, quality level, and selectivity of admissions. No one institution has a significant share of the total postsecondary market.

Our ground program competes with Arizona State University, Northern Arizona University, and the University of Arizona, the in-state public universities, as well as two-year colleges within the state community college system. Our ground program also competes with geographically proximate universities with similar religious heritages, including Azusa Pacific University, Baylor University, and Pepperdine University. Our online programs compete with local, traditional universities geographically located near each of our prospective students, and with other for-profit postsecondary schools that offer online degrees, particularly those schools that offer online graduate programs within our core disciplines.

Non-profit institutions receive substantial government subsidies, and have access to government and foundation grants, tax-deductible contributions and other financial resources generally not available to for-profit schools. Accordingly, non-profit institutions may have instructional and support resources that are superior to those in the for-profit sector. In addition, some of our competitors, including both traditional colleges and universities and other for-profit schools, have substantially greater name recognition and financial resources than we have, which may enable them to compete more effectively for potential students. We also expect to face increased competition as a result of new entrants to the online education market, including established colleges and universities that had not previously offered online education programs.

We believe that the competitive factors in the postsecondary education market include:

availability of professionally relevant and accredited program offerings;

the types of degrees offered and the marketability of those degrees;

reputation, regulatory approvals, and compliance history of the school;

convenient, flexible and dependable access to programs and classes;

qualified and experienced faculty;

quality of the ground