Johnson & Wales University

Consolidated Financial Report
June 30, 2019

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Johnson & Wales University

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Johnson & Wales University (the “University”), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements (collectively, the financial statements).

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the University adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and disclosures relating to net assets. The adoption was retrospectively applied to July 1, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

Boston, Massachusetts
October 31, 2019

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Johnson & Wales University

Consolidated Statements of Financial Position
June 30, 2019 and 2018
(In Thousands)

		2019		2018
Assets				
Cash and cash equivalents	**$**	**23,164**	$	24,878
Short term investments		**7,721**		7,749
Student accounts receivable, net		**10,964**		10,390
Inventories, deferred charges and prepaid expenses		**8,700**		8,412
Contributions receivable, net		**5,947**		6,897
Student loans, notes and other receivables, net		**17,390**		15,681
Investments		**273,002**		276,840
Property and equipment, net		**606,324**		623,068
Total assets	**$**	**953,212**	$	973,915
Liabilities and Net Assets				
Accounts payable and accrued expenses	**$**	**35,698**	$	33,375
Deferred revenue and student deposits		**14,236**		12,682
Retirement plan and annuity obligations		**2,256**		2,581
Refundable U.S. Government grants		**3,413**		3,455
Bonds and notes payable and line of credit		**148,245**		161,915
Total liabilities		**203,848**		214,008
Commitments and contingencies				
Net assets:				
Without donor restrictions:				
Available for operations and designated for long-term investment		**226,658**		244,336
Net investment in property and equipment		**459,037**		461,153
Loan program		**22,391**		13,002
Total without donor restrictions		**708,086**		718,491
With donor restrictions		**41,799**		41,416
Total University net assets		**749,885**		759,907
Non-controlling interest in subsidiary		**(521)**		-
Total net assets		**749,364**		759,907
Total liabilities and net assets	**$**	**953,212**	$	973,915

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018
(In Thousands)

	2019			2018		
	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 ($154,507 and $162,537 in June 30, 2019 and 2018, respectively)	**$ 188,828**	**$ -**	**$ 188,828**	$ 210,714	$ -	$ 210,714
Residence and dining	**69,080**	**-**	**69,080**	73,111	-	73,111
Hotels	**8,995**	**-**	**8,995**	10,696	-	10,696
Contributions, grants and federal aid to students	**3,591**	**-**	**3,591**	2,812	-	2,812
Investment return appropriated for operations	**21,772**	**-**	**21,772**	22,120	-	22,120
Other student generated	**2,341**	**-**	**2,341**	2,252	-	2,252
Other sources	**5,794**	**-**	**5,794**	4,176	-	4,176
Net assets released from restrictions	**1,803**	**-**	**1,803**	1,888	-	1,888
(Loss) gain on disposal of property and equipment	**(713)**	**-**	**(713)**	2,583	-	2,583
Total operating revenue, gains and other support	**301,491**	**-**	**301,491**	330,352	-	330,352
Operating expenses:						
Instructional	**102,768**	**-**	**102,768**	104,776	-	104,776
Academic support	**19,304**	**-**	**19,304**	18,834	-	18,834
Student services	**76,007**	**-**	**76,007**	73,354	-	73,354
Auxiliary enterprises	**69,760**	**-**	**69,760**	74,263	-	74,263
Institutional support	**32,174**	**-**	**32,174**	43,645	-	43,645
Public service	**104**	**-**	**104**	85	-	85
Total operating expenses	**300,117**	**-**	**300,117**	314,957	-	314,957
Increase in net assets from operations	**1,374**	**-**	**1,374**	15,395	-	15,395
Non-operating activities:						
Actuarial changes in pension liability	**-**	**-**	**-**	341	-	341
Goodwill and intangible asset impairment	**(2,187)**	**-**	**(2,187)**	-	-	-
Return on long-term investments, net	**10,041**	**1,653**	**11,694**	15,372	2,095	17,467
Investment return appropriated for operations	**(20,762)**	**(1,010)**	**(21,772)**	(21,025)	(1,095)	(22,120)
Restricted contributions	**-**	**1,543**	**1,543**	-	4,253	4,253
Net assets released from restrictions	**-**	**(1,803)**	**(1,803)**	-	(1,888)	(1,888)
(Decrease) increase in net assets from non-operating activities	**(12,908)**	**383**	**(12,525)**	(5,312)	3,365	(1,947)
(Decrease) Increase in net assets	**(11,534)**	**383**	**(11,151)**	10,083	3,365	13,448
Less decrease attributable to non-controlling interest in subsidiary	**1,129**	**-**	**1,129**	-	-	-
(Decrease) increase in net assets attributable to the University	**(10,405)**	**383**	**(10,022)**	10,083	3,365	13,448
Net assets at beginning of year	**718,491**	**41,416**	**759,907**	708,408	38,051	746,459
Net assets at end of year	**$ 708,086**	**$ 41,799**	**$ 749,885**	$ 718,491	$ 41,416	$ 759,907

See notes to consolidated financial statements.

Johnson & Wales University

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (11,151)	$ 13,448
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	35,332	36,173
Net realized and unrealized gain on investments	(9,318)	(16,136)
Change in allowance for uncollectible accounts	(9,098)	(375)
Contributions restricted for long-term investment	(362)	(283)
Loss (gain) on sale of property and equipment	713	(2,583)
Impairment of goodwill and intangible asset	2,187	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Students accounts receivable	(609)	810
Inventories, deferred charges and prepaid expenses	135	1,415
Contributions receivable	1,053	(1,402)
Notes and other receivables	(755)	706
Increase (decrease) in:		
Accounts payable and accrued expenses	1,816	(6,877)
Deferred revenue and student deposits	1,554	(1,909)
Retirement plan and annuity obligations	(325)	117
Net cash provided by operating activities	11,172	23,104
Cash flows from investing activities:		
Purchase of property, plant and equipment	(19,330)	(18,421)
Proceeds from sale of property, plant and equipment	124	7,420
Purchase of investments	(24,398)	(122,073)
Proceeds (purchase) of short term investments	28	(474)
Proceeds from maturity and sale of investments	36,954	129,417
Student loans, notes and other receivables advanced	-	(4,863)
Student loans, notes and other receivables collected	8,076	8,564
Net cash provided by (used in) investing activities	1,454	(430)
Cash flows from financing activities:		
Principal repayments on bonds and notes payable	(14,660)	(14,031)
Contributions restricted for long term investment	362	283
Repayment of refundable grants	(42)	(205)
Net cash used in financing activities	(14,340)	(13,953)
Net (decrease) increase in cash and cash equivalents	(1,714)	8,721
Cash and cash equivalents, beginning of year	24,878	16,157
Cash and cash equivalents, end of year	$ 23,164	$ 24,878
Cash paid for interest	$ 6,191	$ 6,657
Property and equipment included in accounts payable	$ 475	$ 331
Student loans cancelled or assigned to the Federal government	$ 1,266	$ 2,127
Property and equipment purchased with notes payable	$ 389	$ -

Acquisitions, net of cash acquired - See Note 15

See notes to consolidated financial statements.

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

Founded in 1914, Johnson & Wales University (the "University") is a private, nonprofit, accredited institution with approximately 13,000 graduate, undergraduate and online students at its four campuses in Providence, Rhode Island; North Miami, Florida; Denver, Colorado; and Charlotte, North Carolina. An innovative educational leader, the University offers degree programs in arts and sciences, business, culinary arts, engineering and design, education, health and wellness, hospitality, nutrition and physician assistant studies. Its unique model integrates arts and sciences and industry-focused education with work experience and leadership opportunities, inspiring students to achieve professional success and lifelong personal and intellectual growth. The University's impact is global, with alumni from 125 countries pursuing careers worldwide.

The University consists of the following entities which have been consolidated in the accompanying financial statements: Johnson & Wales University; Johnson & Wales University Club; Wildcat Realty Holdings LLC, Johnson & Wales University-Denver Inc., and PodCo, Inc. 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 ("GAAP") to ensure financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("FASB ASC").

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 – with donor restrictions and without 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 which 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 of Trustees (the "Board") for endowment.

- With donor restrictions – net assets 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.

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 non-operating 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 non-operating activities commensurate with any restrictions. The University also considers as non-operating activities gains and losses resulting from actuarial changes in the defined benefit pension plan liability and restricted contributions until released into operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

During the years ended June 30, 2019 and 2018, there were no changes to the University's valuation techniques that had, or are expected to have, a material impact on its financial position or statement of activities.

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

Equity method investment: The University accounts for its investment in The FIX, LLC ("FIX") under the equity method of accounting. At June 30, 2019 and 2018, the University had a 50% ownership in FIX. FIX is a research and development company that focuses on developing appetizing nutritional products that have specific medicinal or health related benefits. The University contributed $600 and $640 to FIX in fiscal 2019 and 2018, respectively, as part of its annual commitment for capital contributions of not more than $1,800 in each calendar year for ongoing research and development and related strategic activities. The University may terminate this annual commitment with one year's advance notice. In addition, the University had a $1,000 commitment of additional capital contributions, of which $0 and $550 was funded in fiscal years 2019 and 2018, respectively. Under the operating agreement, the University absorbed all losses, as such the University has recognized these losses in the University's statement of activities as part of the return on unrestricted investments. The University's share of income or losses is treated as additions to or subtractions from the carrying value of the investment account. The fiscal year for FIX ends on December 31 and the University will consistently follow the practice of recognizing the net earnings of FIX on that basis. Therefore, the net gains or losses of FIX, which are reported in the University's statement of activities, are for the year which ended on the previous December 31st. Losses for the years ended December 31, 2019 and 2018 of $355 and $2,359 (includes an adjustment of $1,476 to attribute 100% of FIX's cumulative losses to date to the University), respectively, are included in the returns from unrestricted investments in the consolidated statements of activities. The carrying value of the investment in FIX at June 30, 2019 and 2018 was $2,444 and $2,200, respectively, and is included in investments on the consolidated statements of financial position.

During fiscal year 2018, PodCo, LLC, formerly a wholly-owned subsidiary of FIX, and the creator and manufacturer of the Hummus Pod product sold in major grocery store chains nationwide, was spun out in a tax-free reorganization and became a wholly owned-subsidiary of PodCo, Inc. ("PodCo"), a newly created company. The University's non-voting Class C shares in FIX, issued for its $600 capital contribution to fund PodCo, LLC in fiscal year 2017, were exchanged for preferred and common stock shares in PodCo, Inc. in fiscal year 2018. The University elected to account for its 40% investment in PodCo at fair value at June 30, 2018. In October 2018, the University acquired an additional 15% ownership in PodCo, Inc. creating a controlling interest. See Note 15 for details of the business combination. As a result, PodCo, Inc. has been consolidated into the financial statements at June 30, 2019.

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

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

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

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

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

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

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

Contributions: Contributions received, including unconditional promises to give are initially recorded at fair value in the period the donor's commitments are received 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 are recognized at the estimated net present value using a discount rate commensurate with the risk involved. Conditional promises to give are recognized as revenues when donor stipulations are met. There are no conditional gifts at June 30, 2019 or 2018.

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

Accounts receivable: Receivables are carried at the outstanding amount less an estimate made for doubtful receivables based on a periodic review using historical experience applied to an aging of accounts. 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 the Perkins Loan Program and will begin 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.

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.

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

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 non-operating activities depending on the nature of the transaction.

The University reviews the carrying value of its long-lived assets to assess the recoverability of these assets whenever events or changes in circumstances indicate the need; any impairment is recognized in operating results if a permanent reduction in value is deemed to have occurred. As of June 30, 2019 and 2018 no impairment indicators were identified.

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

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, 2019 and 2018 to be $1,764 and $1,715, respectively, which is included in accrued expenses in the consolidated statements of financial position.

Goodwill: Goodwill is recorded as the excess of the cost of a business acquired over the fair value of the identifiable assets acquired and liabilities assumed. The FASB issued Accounting Standards Update ("ASU") No. 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill,* which provides an accounting alternative for private companies related to the subsequent accounting for goodwill. The University adopted the alternative accounting approach for the subsequent accounting for goodwill as provided for in ASU No. 2014-02. As such, the University began to amortize goodwill on a straight-line basis over a period of 10 years. Also pursuant to the accounting alternative, the University will test its goodwill for impairment at the entity level only upon the occurrence of an event or circumstance that may indicate the fair value of the entity is less than its carrying amount. During the year ended June 30, 2019, the University identified impairment triggers which resulted in an impairment charge to reduce the carrying value of goodwill, as further described in Note 7.

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

Intangible assets: In connection with the business combination discussed in Note 15, the University adopted ASU 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination,* which provides an accounting alternative for private companies related to the identifiable intangible assets recognized in the accounting for a business combination. Under ASU 2014-18, a private company may choose to elect an accounting policy under which it would not separately recognize the following intangible assets in the accounting for a business combination: (i) intangible assets that would otherwise arise from a non-competition agreement or; (ii) customer-related intangible assets that cannot be separately sold or licensed. Accordingly, in connection with the business combination the University recorded all intangible assets which met the criteria of ASU 2014-18 as a component of goodwill. Intangible assets that are determined to have an indefinite useful life are not amortized. The University's indefinite lived intangible asset represents a trade name. The University assesses indefinite lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. During the year ended June 30, 2019, the University recorded an impairment charge to reduce the carrying value of tradenames, as further described in Note 7.

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 $172 and $179 in 2019 and 2018, respectively, and is included as a component of interest expense in the consolidated statements of activities.

Revenue recognition: In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The five-step model defined by ASC Topic 606 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. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. ASC Topic 606 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). On July 1, 2018 the University adopted ASC Topic 606, under the modified retrospective approach. The University has determined that the adoption of ASC Topic 606 did not result in an adjustment to net assets and did not have a significant effect on the amount and timing of revenue recognition for the year ended June 30, 2019.

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.

(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 trimester (undergraduate) or semester (graduate). Revenues are earned and recognized over the course of each trimester or 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 from 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 $4,491 and $4,931 at June 30, 2019 and 2018, respectively.

The portion of tuition revenue for the summer terms that is earned subsequent to the years ended June 30, 2019 and 2018, is treated as deferred revenue. The deferred revenue balance of $6,552 at June 30, 2018, was recognized as tuition revenue during the year ended June 30, 2019 The balance of deferred revenue at June 30, 2019 of $7,798, will be recognized during July and August as services are rendered.

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

	2019	2018
Undergraduate (net of financial aid and scholarships of $153,423 in 2019 and $161,817 in 2018)	$ 169,918	$ 189,959
Graduate (net of financial aid and scholarships of $1,084 in 2019 and $718 in 2018)	18,485	20,280
Non-degree programs	425	475
	$ 188,828	$ 210,714

Residence and dining, student generated and other revenues: 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 changes in net assets without donor restrictions.

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

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.

Grants: 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.

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 $5,189 and $5,009 in fiscal years 2019 and 2018, 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, 2019 and 2018 were $10,808 and $9,688, respectively.

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

The University has identified its tax status as a tax exempt entity and its decision to include or exclude items of income unrelated to its operations as tax positions; however, the University has determined that such tax positions do not result in an uncertainty requiring recognition. Management believes the University has no uncertain tax positions at June 30, 2019 or 2018.

With few exceptions, the University is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2016. Interest and penalties, if any, are included in income tax expense.

Reclassifications: Certain reclassifications within the financial statements have been made to the 2018 consolidated financial statements to conform to the 2019 presentation.

Recently adopted accounting pronouncements: During 2019, the University adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require the University to make reporting changes that effect the following:

- Net asset classifications and related disclosures.
- Underwater donor-restricted endowments and related disclosures.
- Additional disclosures useful in assessing liquidity within one year of the balance sheet date.
- New reporting requirements related to expenses including disclosure of expenses by both nature and function.
- Reporting of net investment return.

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

The University made changes to terminology and classification as described above as well as additional or modified disclosures, particularly Notes 2, 10 and 14. Amounts previously reported for the year ended June 30, 2018 have been reclassified, on a retrospective basis, to achieve consistent presentation. Amounts previously reported as temporarily or permanently restricted net assets have been reclassified to be reported as with donor restrictions. There were no underwater endowment funds at June 30, 2018.

During 2018, the University adopted ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The effects of the University adopting this standard are discussed in the revenue recognition section of Note 1.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities,* or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is contingent. The University adopted this ASU during the year ended June 30, 2019. The amendments in this update were applied on a modified prospective basis. The adoption of this ASU did not have a significant impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU make improvements to the guidance provided in Topic 230, Statement of Cash Flows in regards to the classification and presentation of certain cash receipts and cash payments. The University adopted this ASU during the year ended June 30, 2019. The adoption of this ASU did not have a significant impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The University adopted this ASU during the year ended June 30, 2019. The adoption of this ASU did not have a significant impact on the consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework – Changing the Disclosure Requirement for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements, and removes disclosures related to transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing transfers between levels, and the valuation process of Level 3 fair value measurements and a roll forward of Level 3 investments. Furthermore, entities are no longer required to estimate and disclose the timing of liquidity events for investments measured at fair value. Instead, the requirement to disclose such events applies only when they have been communicated to the reporting entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The University adopted this ASU during the year ended June 30, 2019. The adoption of this ASU did not have a significant impact on the consolidated financial statements.

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

In June 2016, the FASB issued 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, 2020, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The University is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections.* This amendment is this ASU modify the definition of the term *collections* and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection). If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care.* The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. The University does not expect the impact of this ASU to be significant to the financial statements.

(In Thousands)

Note 2. Liquidity and Availability

As of June 30, 2019, 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:

Financial assets at year end:	
Cash and cash equivalents	$ 23,164
Short term investments	7,721
Student accounts receivables	10,964
Contributions receivable, net	5,947
Student loans, notes and other receivables, net	17,390
Investments	273,002
	338,188
Less amounts not available to be used within one year:	
Net asset with donor restrictions	(40,524)
Net assets with time restrictions	(6,616)
Net assets with contractual restrictions	(18,591)
Board designated for endowment	(211,540)
	(277,271)
Add amounts available to be used within one year:	
Net assets with donor restrictions to be met within one year	2,200
Investment return to be appropriated for fiscal year 2020 operations	29,980
	32,180
Financial assets available to meet general expenditures within one year	$ 93,097

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 $211,540 as of June 30, 2019. 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 college 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, 2019 (See Note 9).

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

Student accounts receivables consist of the following at June 30:

	2019	2018
Student accounts receivable:		
Student receivables	$ 12,668	$ 12,059
Allowance for doubtful accounts	(1,704)	(1,669)
Student accounts receivable, net	$ 10,964	$ 10,390

(In Thousands)

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

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

	2019	2018
Achievement loans	$ 4,082	$ 4,667
Perkins loans	24,509	33,286
	28,591	37,953
Less allowance for doubtful accounts:		
Beginning of year	25,003	27,325
Current year (write-offs/recoveries) provisions	(10,283)	(2,305)
Achievement Loan cancellations	(13)	(17)
End of year	14,707	25,003
Student loans and notes receivable, net	13,884	12,950
Notes and other receivables	3,506	2,731
Student loans, notes and other receivables, net	$ 17,390	$ 15,681

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

	31-120 Days Past Due	121-360 Days Past Due	Greater than 360 Days Past Due	Total Past Due	Current	Total Financing Receivable
2019:						
Achievement Loans	$ 35	$ 42	$ 3,760	$ 3,837	$ 245	$ 4,082
Perkins loans	2,317	789	5,862	8,968	15,541	24,509
Student loans and notes receivable	$ 2,352	$ 831	$ 9,622	$ 12,805	$ 15,786	$ 28,591
2018:						
Achievement Loans	$ 68	$ 64	$ 4,149	$ 4,281	$ 386	$ 4,667
Perkins loans	3,308	763	6,897	10,968	22,318	33,286
Student loans and notes receivable	$ 3,376	$ 827	$ 11,046	$ 15,249	$ 22,704	$ 37,953

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

(In Thousands)

Note 4. Contributions Receivable

Contributions receivable consist of the following at June 30:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$ 3,257	$ 1,501
One to five years	3,635	5,968
Thereafter	100	575
	6,992	8,044
Less:		
Allowance for uncollectible contributions	(392)	(531)
Discount to present value	(653)	(616)
Contributions receivable, net	$ 5,947	$ 6,897

The discount rates used to calculate the discounted value of contributions receivable ranged from 1.57% to 4.73% and 1.24% to 4.73% for June 30, 2019 and 2018, respectively.

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:

2019	Level 1	Level 2	Level 3	Investments Measured at NAV (a)	Total
Investments:					
U.S. equities	$ 8,609	$ -	$ -	$ -	$ 8,609
Global equities	60,978	-	-	-	60,978
U.S. fixed income	23	-	-	-	23
Marketable alternative assets	-	-	-	169,174	169,174
Non-marketable alternative assets:					
Restructuring funds	-	-	-	16,175	16,175
Private equity funds	-	-	-	6,189	6,189
Non-marketable inflation hedging	-	-	-	3,535	3,535
Cash and cash equivalents	3,682	-	-	-	3,682
Other investments	12	2,181	-	-	2,193
Investments measured at fair value	$ 73,304	$ 2,181	$ -	$ 195,073	270,558
Investments accounted for using equity method					2,444
Total investments					$ 273,002
Short-term investments:					
U.S. fixed income	$ 7,721	$ -	$ -	$ -	$ 7,721

(In Thousands)

Note 5. Investments and Fair Value Measurements (Continued)

2018	Level 1	Level 2	Level 3	Investments Measured at NAV (a)	Total
Assets:					
U.S. equities	$ 7,830	$ -	$ -	$ -	$ 7,830
Global equities	61,186	-	-	-	61,186
U.S. fixed income	2,731	-	-	-	2,731
Marketable alternative assets	-	-	-	167,197	167,197
Non-marketable alternative assets:					
Restructuring funds	-	-	-	15,749	15,749
Private equity funds	-	-	-	8,023	8,023
Non-marketable inflation hedging	-	-	-	4,517	4,517
Cash and cash equivalents	2,498	2	-	-	2,500
Other investments	12	2,495	2,400	-	4,907
Investments measured at fair value	$ 74,257	$ 2,497	$ 2,400	$ 195,486	274,640
Investments accounted for using equity method					2,200
Total investments					$ 276,840
Short-term investments:					
U.S. fixed income	$ 7,749	$ -	$ -	$ -	$ 7,749

(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 year ended June 30, 2019, there were no purchases, issuances or settlements of Level 3 investments. The previously recorded Level 3 investment was included as part of consideration when the University obtained control of PodCo, Inc. (see Note 15). During the year ended June 30, 2018, purchases of Level 3 investments totaled $600 and there were no sales, issuance or settlements. For the years ended June 30, 2019 and 2018, there were no transfers in or out of Level 3.

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements at June 30, 2018:

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

(In Thousands)

Note 5. Fair Values (Continued)

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

2019	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Marketable alternative assets	4	$ 169,174	$ -	Semi-monthly/ Quarterly/ Annually	5 - 90 days
Non-marketable alternative assets	14	22,364	2,038	N/A	N/A
Non-marketable inflation hedging	4	3,535	218	N/A	N/A
	22	$ 195,073	$ 2,256		

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

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

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

At June 30, 2019 and 2018, 97.5% of the marketable alternative assets is an investment in the Agility Fund, which has an endowment allocation focus and utilizes Agility's five Building Block Portfolios. A Building Block is organized around a specific asset class; Global Equities, Global Fixed Income, Absolute Return (hedged strategies), Real Assets, and Private Capital. Each Building Block is diversified by manager, geography, investment strategy, and underlying security. By utilizing these Building Blocks in constructing its portfolio, JWU manages its portfolio risk, and has access to a customized asset allocation and an investment portfolio that is unique to the University.

(In Thousands)

Note 5. Fair Values (Continued)

The University's investment in the Agility Fund totaled $164,936 and $163,096 and is broken into the following categories at June 30:

	2019	2018
Global equities	$ 61,673	$ 58,170
Global fixed income	7,137	14,696
Absolute return	52,231	50,961
Real assets	18,347	19,636
Private capital	25,104	19,319
Cash	444	314
	$ 164,936	$ 163,096

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

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

Note 6. Property and Equipment

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

	Estimated Useful Lives	2019	2018
Cost:			
Land	-	$ 73,514	$ 73,514
Building and land improvements	25 - 40	772,520	760,292
Equipment and furniture	3 - 12	170,248	174,625
Leasehold improvements	5 - 15	6,260	6,244
Library and museum holdings	-	7,840	7,786
Construction in progress	-	3,560	4,108
Total cost		1,033,942	1,026,569
Less accumulated depreciation		(427,618)	(403,501)
Property and equipment, net		$ 606,324	$ 623,068

Depreciation expense charged to operations was $35,810 and $36,846 in 2019 and 2018, respectively.

The University has construction in progress relating to renovations of various buildings. Outstanding commitments at June 30, 2019 and 2018 totaled $2,025 and $1,727, respectively, excluding retainage of $217 and $122 which is included in construction in progress above and accounts payable and accrued expenses, respectively, in the consolidated statements of financial position.

(In Thousands)

Note 7. Goodwill and Intangible Asset

The following is a schedule of goodwill and intangible asset at June 30, 2019:

	Estimated Useful Life		Cost		Accumulated Amortization		Impairment		Net Book Value
PodCo, Inc.:									
Goodwill	10	$	208	$	(21)	$	(187)	$	-
Tradename	-		2,000		-		(2,000)		-
		$	2,208	$	(21)	$	(2,187)	$	-

Amortization expense related to goodwill totaled $21 for the year ended June 30, 2019. The University recorded an impairment charge of $2,187 during the year ended June 30, 2019 to reduce the carrying value to fair value based on modified projections and anticipated future losses.

Note 8. Retirement Plans

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

The University's contributions to the plan for the years ended June 30, 2019 and 2018 amounted to $10,925 and $10,935, respectively.

Section 457(b) deferred compensation plan: The University has an executive retirement plan that is designed in accordance with Section 457(b) of the Code. Participants are designated by the Board. The University generally makes non-elective annual contributions to the plan on behalf of each participant. The participants are responsible for making investment selections within their designated accounts. However, the funds remain assets of the University until such time as the participant withdraws the funds in accordance with plan provisions. Assets held for this plan were $2,181 and $2,495 at June 30, 2019 and 2018, 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.

Defined benefit pension plans: The University had previously established a Supplemental Executive Retirement Plan ("SERP") that is designed in accordance with Section 457(f) of the Code covering certain University executives. The plan is a defined benefit plan intended to provide a lump-sum payment at age 65, representing the actuarial value of a lifetime annuity equal to 75% of final salary, offset by the actuarial equivalent of benefits that had been accrued under the University's now terminated defined benefit pension plan and the assumed value of the participant's account in the previously described 457(b) plan, using a 7% assumed rate of return.

The final settlement of the obligation occurred in November 2017 upon the payment of lump-sum benefits to the final beneficiary. The SERP has not been formally terminated by the Board as of June 30, 2019. A portion of the unrecognized accumulated loss equal to $317 is included as part of the annual expense as a result of the settlement during the year ended June 30, 2018.

(In Thousands)

Note 8. Retirement Plans (Continued)

The University uses a June 30 measurement date to determine the pension obligation. The following tables set forth the plan's funded status.

	2018
Change in benefit obligation:	
Benefit obligation, beginning of year	$ 2,368
Service cost	51
Interest cost	15
Effect of settlement	(2,434)
Actuarial loss	-
Benefit obligation, end of year	-
Fair value of plan assets, end of year	-
Funded status, end of year	$ -

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

	2018
Net periodic benefit cost:	
Service cost	$ 51
Interest cost	15
Amortization of transition amount	24
Amortization of prior service cost	-
Amortization of net loss	-
Net periodic benefit cost	90
Effect of settlement	317
Other changes in plan assets and benefit obligations recognized in non-operating activities:	
Net (gain) loss	-
Effect of settlement	(317)
Amortization of transition obligation	(24)
Amortization of prior service cost	-
Total other changes	(341)
Total recognized in net periodic benefit costs and other changes	$ 66

Weighted average assumptions used to determine benefit obligations as of June 30:	
Discount rate - pre-retirement	1.53%
Discount rate - post-retirement	5.50%
Rate of compensation increase	3.50%
Weighted average assumptions used to determine net period benefit cost for the year ended June 30:	
Discount rate - pre-retirement	1.53%
Discount rate - post-retirement	5.50%
Rate of compensation increase	3.50%

(In Thousands)

Note 8. Retirement Plans (Continued)

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

Note 9. Bonds and Notes Payable and Line of Credit

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

	2019	2018
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	$ 23,618	$ 25,319
Series 1999, 4.0% to 5.5%, maturing serially through 2019	-	3,073
North Carolina Capital Facilities Finance Agency ("NCCFFA"):		
Educational Facilities Revenue Bonds:		
Series 2014, 2.65% to 2.95%, maturing 2029	17,226	18,993
Educational Facilities Refunding Revenue Bonds		
Series 2013, 2.0% to 5.0%, maturing 2033	31,902	33,638
Colorado Educational and Cultural Facilities Authority ("CECFA"):		
Educational Facilities Revenue Bonds:		
Series 2013A Bonds, 3.0% to 5.0%, maturing 2043	26,691	27,309
Educational Facilities Refunding Revenue Bonds,		
Series 2013B Bonds, 3.0% to 5.0%, maturing 2033	48,119	54,308
Notes payable:		
U.S. DOE:		
5.5% fixed, maturing November 1, 2021	204	330
National Grid, maturing 2023 and 2024	362	6
Line of credit:		
PodCo. Inc.	1,012	-
Total bonds and notes payable and line of credit	149,134	162,976
Bond issuance costs	(889)	(1,061)
Total bonds and notes payable and line of credit, net of bond issuance costs	$ 148,245	$ 161,915

Maturities of notes and bonds payable, net of discounts and premiums, for the fiscal years after June 30, 2019, are as follows:

2020	$ 16,546
2021	10,982
2022	11,220
2023	9,292
2024	9,516
Thereafter	90,689
	$ 148,245

Note 9. Bonds and Notes Payable and Line of Credit (Continued)

Discounts on bonds payable at June 30, 2019 and 2018 are $621 and $662, respectively. Premiums on bonds payable at June 30, 2019 and 2018 are $1,823 and $2,535, respectively. The discounts and premiums are amortizing on the effective interest model to par value of the bonds on their maturity date.

RIHEBC Revenue Bonds are secured by tuition and other revenues.

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

Notes payable to the DOE are secured by real estate.

The University has one line of credit totaling $26 million with one bank. The line of credit is a demand note with expiration date of December 31, 2019. The line of credit is uncollateralized. Management expects to renew the line in the ordinary course of business. There were no amounts outstanding on the line of credit at June 30, 2019 and 2018. Interest rate on the line of credit is 3.94% and 3.59% at June 30, 2019 and 2018.

PodCo Inc. has a line of credit from FIX for advances up to $1,100 at June 30, 2019. The line of credit has a maturity date of June 30, 2021 and simple interest is accrued at a rate of 1.01% per annum and payable quarterly. The line of credit is secured by a lien on PodCo, LLC assets.

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

Interest costs for the years ended June 30, 2019 and 2018 were $6,076 and $6,556.

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

During fiscal year 2018, $5,598 of the CECFA Refunding Revenue Series 2013B bonds attributed to the Radisson Hotel property were defeased through an in-substance defeasance upon sale of that property. As the liability derecognition criteria was not met, the bonds continue to be included in the bonds and notes payable and line of credit in the consolidated statements of financial position. Funds from proceeds of the sale were deposited in an escrow account with The Bank of New York Mellon Trust Company, the escrow agent, to pay and discharge principal and interest of $5,647 due in fiscal years 2019 and 2020. At June 30, 2019, the amount due in fiscal year 2020, $2,709, is included in short term investments and at June 30, 2018, the amount due in fiscal year 2019, $2,889, is included with short term investments and the amount due in fiscal year 2020, $2,709, is included with long term investments in the consolidated statements of financial position.

(In Thousands)

Note 10. Net Assets and Endowment Matters

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

	2019	2018
Subject to expenditure for specific purpose:		
Student aid and instructional	$ 2,654	$ 2,984
Other	4,418	4,195
	7,072	7,179
Subject to time restrictions		
Annuities and other	34	23
Contributions receivable	1,181	1,620
	1,215	1,643
Subject to the University's spending policy and appropriation:		
Investments in perpetuity (including original gift amount of $22,907 and $22,547 as of June 30, 2019 and 2018, respectively) and the investment income from which is expendable to support:		
Student aid and instructional	30,648	29,684
Other	945	890
	31,593	30,574
Term scholarship endowments	202	216
	31,795	30,790
Subject to investment in donor restricted endowment:		
Annuities	96	92
Contributions receivable	1,621	1,712
Total net assets with donor restrictions	$ 41,799	$ 41,416

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

	2019	2018
Student aid	$ 990	$ 764
Instructional	78	66
Building/facility projects	50	123
Program support	213	725
Time restricted	472	210
	$ 1,803	$ 1,888

(In Thousands)

Note 10. 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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 31,795	$ 31,795
Board-designated endowment funds			
General operating support	211,540	-	211,540
Total funds	$ 211,540	$ 31,795	$ 243,335

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 30,790	$ 30,790
Board-designated endowment funds			
General operating support	220,841	-	220,841
Total funds	$ 220,841	$ 30,790	$ 251,631

(In Thousands)

Note 10. Net Assets and Endowment Matters (Continued)

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:

	2019						
	Endowment						
	Without Donor Restrictions	With Donor Restrictions	Total Endowment	Available for Operations	Total Board Managed Investments	Other Investments	Total Endowment and Other Investments
Endowment and those functioning as endowment assets and other investments, beginning of year	$ 220,841	$ 30,790	$ 251,631	$ 15,021	$ 266,652	$ 10,188	$ 276,840
Contributions restricted for long-term investments		362	362		362		362
Investment return, net	11,461	1,653	13,114	691	13,805	(2,111)	11,694
Investment return appropriated for operations	(20,762)	(1,010)	(21,772)	-	(21,772)	-	(21,772)
Other activity:							
Transfers, withdrawals and adjustments	-	-	-	-	-	(3,052)	(3,052)
Current year investment return available but not withdrawn	-	-	-	8,999	8,999		8,999
Net due to (from) operations	-	-	-	(69)	(69)		(69)
Total other activity	-	-	-	8,930	8,930	(3,052)	5,878
Total change	(9,301)	1,005	(8,296)	9,621	1,325	(5,163)	(3,838)
Endowment and those functioning as endowment assets and other investments, end of year	$ 211,540	$ 31,795	$ 243,335	$ 24,642	$ 267,977	$ 5,025	$ 273,002

(In Thousands)

Note 10. Net Assets and Endowment Matters (Continued)

	2018						
	Endowment						Total
	Without Donor Restrictions	With Donor Restrictions	Total Endowment	Available for Operations	Total Board Managed Investments	Other Investments	Endowment and Other Investments
Endowment and those functioning as endowment assets and other investments, beginning of year	$ 226,245	$ 29,642	$ 255,887	$ 5,569	$ 261,456	$ 6,592	$ 268,048
Contributions restricted for long-term investments	-	283	283	-	283	-	283
Investment return, net	15,505	2,079	17,584	409	17,993	(526)	17,467
Investment return appropriated for operations	(21,025)	(1,095)	(22,120)	-	(22,120)	-	(22,120)
Other activity:							
Transfers, withdrawals and adjustments	116	(119)	(3)	-	(3)	4,122	4,119
Current year investment return available but not withdrawn	-	-	-	9,287	9,287	-	9,287
Net due to (from) operations	-	-	-	(244)	(244)	-	(244)
Total other activity	116	(119)	(3)	9,043	9,040	4,122	13,162
Total change	(5,404)	1,148	(4,256)	9,452	5,196	3,596	8,792
Endowment and those functioning as endowment assets and other investments, end of year	$ 220,841	$ 30,790	$ 251,631	$ 15,021	$ 266,652	$ 10,188	$ 276,840

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

Interpretation of relevant law and spending policy: The University has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") signed into law in the state of Rhode Island, requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as 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, 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:

Note 10. Net Assets and Endowment Matters (Continued)

(1) The duration and preservation of the fund

(2) The purposes of the University and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the University

(7) The investment policies of the University

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

The spending policy is intended for the general benefit of the University's current, present and future students, and for the furtherance of the educational mission of the University. In establishing this policy, the University considered the long-term expected return on its endowment. In the event that the University does not distribute the entire 5% to the operating fund account in any year, it may add the undistributed portion to the amount to be distributed in future years. For the years ended June 30, 2019 and 2018, $21,772 and $22,120, respectively, ($12,772 based on the spending policy plus an additional $9,000 appropriation approved by the Board drawn from Board designated funds and $12,833 based on spending policy plus an additional $9,287 appropriation approved by the Board drawn from Board designated funds, respectively) were appropriated to operating income, of which $1,010 and $1,095, respectively, were from donor restricted funds.

Funds with deficiencies: From time-to-time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

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

(1) Preserve and enhance the real purchasing power of the principal, and

(2) Provide a stable source of perpetual financial support to Endowment beneficiaries in accordance with the University's spending policy.

(In Thousands)

Note 10. Net Assets and Endowment Matters (Continued)

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

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

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

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

Note 11. Operating Leases

The University leases office, classroom, dormitory facilities and equipment under non-cancellable leases expiring at various dates through 2055. Leases for classroom and dormitory facilities contain provisions for rent adjustments due to increased operating expenses. Rent expense for the years ended June 30, 2019 and 2018 was $4,596 and $5,223 respectively. Certain leases have escalating rent payments over the lease term therefore the University has straight lined the rental expense over the lease term resulting in a deferred rent expense of $1,582 and $1,825 at June 30, 2019 and 2018 respectively, which is included in accounts payable and accrued expenses on the consolidated statements of financial position.

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

Year ended:	
2020	$ 4,571
2021	4,698
2022	1,529
2023	1,213
2024	1,240
Thereafter	6,449
	$ 19,700

Note 12. Commitments and Contingencies

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

The University 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 13. Related Party Transactions

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

In the ordinary course of business, the University purchased supplies and services, which included health insurance administration, internet and phone services, and gas and electricity from entities whose officers, partners and/or stockholders are trustees, officers or senior executives of the University. Total amounts paid for these supplies and services during the years ending June 30, 2019 and 2018 were approximately $22,000 and $21,000, 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.

Certain trustees, officers, and senior executives of the University are on the governing boards of investment companies in which the University has direct investments, and the bank with which the University has a line of credit. Such direct investments represented approximately 1.4% and 1.8% of the University's total investments as of as of June 30, 2019 and 2018, respectively. Additionally, the line of credit available was $26,000 as of June 30, 2019 and 2018, though no amounts are outstanding on this line of credit at June 30, 2019 or 2018.

Note 14. 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 year ended June 30, 2019 and 2018. An individual expense is allocated to the underlying activity through which it was incurred. The consolidated statements of activities includes 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 and interest are allocated based on functional square footage usage. Information technology ("IT") is allocated using a blended method: non-payroll expenses are allocated by the functions supported by the expense, as identified by IT; and payroll expenses are allocated by the headcount in each functional area.

(In Thousands)

Note 14. Classification of Expenses (Continued)

	2019						
	Instructional	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Public Service	Total
Salaries and Wages	$ 56,147	$ 11,601	$ 31,126	$ 11,768	$ 21,106	$ 21	$ 131,769
Benefits other than Retirement Plan	12,235	1,467	8,642	2,952	4,141	3	29,440
Retirement Plan	5,219	429	2,814	754	1,667	-	10,883
Food and Beverage	2,391	-	-	3,930	-	-	6,321
Professional Fees and Contracted Services	2,981	330	3,813	7,657	2,461	5	17,247
Occupancy	5,453	1,328	3,443	13,044	1,078	9	24,355
Depreciation	8,132	1,976	4,862	19,345	1,480	15	35,810
Advertising, Promotions and Publications	107	1	9,282	723	694	1	10,808
Travel and Training	2,027	49	3,786	-	597	9	6,468
Supplies and Miscellaneous	3,720	853	4,348	1,629	726	35	11,311
Insurance, Taxes, Fees and Dues	1,092	250	1,267	3,793	1,484	2	7,888
Hardware, Software and Telecommunications	1,795	663	1,746	787	3,914	1	8,906
Bad Debt	-	-	-	5	(7,474)	-	(7,469)
Interest and Amortization	1,469	357	878	3,373	300	3	6,380
Total	$ 102,768	$ 19,304	$ 76,007	$ 69,760	$ 32,174	$ 104	$ 300,117

(In Thousands)

Note 14. Classification of Expenses (Continued)

	2018						
	Instructional	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Public Service	Total
Salaries and Wages	$ 56,638	$ 11,209	$30,682	$ 12,306	$ 22,014	22	$132,871
Benefits other than Retirement Plan	12,388	1,404	8,558	3,231	4,384	2	29,967
Retirement Plan	5,594	393	2,576	761	2,186	-	11,510
Food and Beverage	2,682	-	-	4,238	4	-	6,924
Professional Fees and Contracted Services	3,813	295	4,191	8,656	2,772	2	19,729
Occupancy	5,554	1,359	3,580	13,447	1,402	12	25,354
Depreciation	8,271	2,047	5,032	20,034	1,447	15	36,846
Advertising, Promotions and Publications	60	-	7,319	700	1,609	-	9,688
Travel and Training	1,573	57	3,278	-	588	6	5,502
Supplies and Miscellaneous	3,824	900	4,268	2,119	320	20	11,451
Insurance, Taxes, Fees and Dues	1,140	266	1,281	4,201	1,290	2	8,180
Hardware, Software and Telecommunications	1,700	523	1,653	844	4,374	1	9,095
Bad Debt	-	-	-	22	986	-	1,008
Interest and Amortization	1,539	381	936	3,704	269	3	6,832
Total	$ 104,776	$ 18,834	$73,354	$ 74,263	$ 43,645	85	$314,957

Operating expenses generated by the hotel for the fiscal years 2019 and 2018 were $7,546 and $10,275, respectively, and are included in auxiliary enterprises expense on the consolidated statements of activities.

Note 15. Business Combination

On October 12, 2018, the University acquired a controlling interest in PodCo, Inc. through an additional investment of $2,000. Due to the change in control, the University accounted for the transaction as a business combination and applied the acquisition method of accounting. Total consideration used to calculate goodwill was $1,108, which consists of the fair value of the University's previously held non-controlling interest and fair value of the third party non-controlling interest. As the University retained control over the $2,000 cash paid for the additional investment, it is not considered as part of consideration. The consideration was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. Prior to the transaction, the University recorded a loss on investment of $1,800 which is included in investment return, net on the consolidated statement of activities. The strategic intent of the acquisition is to expand the University's synergistic opportunities to combine food innovation with the University's new College of Food Innovation Technology.

(In Thousands)

Note 15. Business Combination (Continued)

The following table summarizes the allocation of the purchase price to the assets acquired and liabilities assumed:

Fair value of identifiable assets acquired:		
Cash	$	39
Trade accounts and other receivable		66
Inventory		318
Property and equipment, net		40
Goodwill		208
Intangibles		2,000
Accounts payable and other liabilities		(363)
Line of credit		(1,200)
Fair value of net assets acquired	$	1,108
Total fair value of net assets acquired	$	1,108
Less fair value of third party non-controlling interest		(508)
Less fair value of previously held non-controlling interest		(600)
Cash paid for net assets acquired	$	-

Note 16. Subsequent Events

The University evaluated all events and transactions through October 31, 2019, the date on which the financial statements were issued. There were no material subsequent events requiring accounting recognition or disclosure in the accompanying financial statements.