

Simmons University
Financial Statements
June 30, 2018 and 2017

Simmons University
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June 30, 2018 and 2017

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Report of Independent Auditors

To the Board of Trustees of
Simmons University

We have audited the accompanying financial statements of Simmons University, which comprise the statements of financial position as of June 30, 2018 and June 30, 2017, and the related statements of activities and cash flows for the years then ended.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Company'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 Company'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 Simmons University as of June 30, 2018 and June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Boston, Massachusetts

October 18, 2018

Simmons University
Statements of Financial Position
June 30, 2018 and 2017

(in thousands of dollars)

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 28,432 | \$ 24,427 |
| Accounts receivable, net | 12,705 | 13,379 |
| Contributions receivable, net | 3,094 | 4,590 |
| Amounts held under agreement with bond trustee | - | 48 |
| Investments | 195,453 | 189,455 |
| Beneficial interest in trusts | 8,966 | 8,608 |
| Loans to students, net | 2,269 | 2,805 |
| Other assets | 11,468 | 9,478 |
| Property, plant, and equipment, net | 172,011 | 174,218 |
| Total assets | <u>\$ 434,398</u> | <u>\$ 427,008</u> |
| Liabilities and Net Assets | | |
| Accounts payable and accrued liabilities | \$ 12,826 | \$ 9,528 |
| Deposits payable and deferred revenues | 22,473 | 20,425 |
| Bonds payable | 152,218 | 157,541 |
| U.S. government loan advances | 1,821 | 2,147 |
| Other liabilities | 2,722 | 3,180 |
| Total liabilities | <u>192,060</u> | <u>192,821</u> |
| Net assets | | |
| Unrestricted | 77,012 | 73,713 |
| Temporarily restricted | 84,281 | 81,426 |
| Permanently restricted | 81,045 | 79,048 |
| Total net assets | <u>242,338</u> | <u>234,187</u> |
| Total liabilities and net assets | <u>\$ 434,398</u> | <u>\$ 427,008</u> |

The accompanying notes are an integral part of these financial statements.

Simmons University
Statements of Activities
Years Ended June 30, 2018 and 2017

(in thousands of dollars)

| | Unrestricted | | Temporarily Restricted | | Permanently Restricted | | Total | |
|--|--------------|------------|------------------------|-----------|------------------------|-----------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Operating activities | | | | | | | | |
| Operating revenues | | | | | | | | |
| Undergraduate and graduate tuition and fees | \$ 113,371 | \$ 115,946 | \$ - | \$ - | \$ - | \$ - | \$ 113,371 | \$ 115,946 |
| Online revenue tuition and fees | 77,720 | 65,605 | | | | | 77,720 | 65,605 |
| Less: Student aid | (47,313) | (44,830) | | | | | (47,313) | (44,830) |
| Net tuition and fees | 143,778 | 136,721 | - | - | - | - | 143,778 | 136,721 |
| Auxiliary enterprises | 19,615 | 18,277 | | | | | 19,615 | 18,277 |
| Investment return in support of operations | 2,428 | 2,489 | 6,411 | 6,264 | | | 8,839 | 8,753 |
| Gifts | 3,882 | 2,798 | 3,764 | 3,151 | | | 7,646 | 5,949 |
| Government and private grants | 2,625 | 3,059 | | | | | 2,625 | 3,059 |
| Leases | 3,440 | 3,459 | | | | | 3,440 | 3,459 |
| Other operating revenues | 5,276 | 4,817 | | | | | 5,276 | 4,817 |
| Net assets released from restriction | 10,832 | 8,762 | (10,832) | (8,762) | | | - | - |
| Total operating revenues | 191,876 | 180,382 | (657) | 653 | - | - | 191,219 | 181,035 |
| Operating expenses | | | | | | | | |
| Salaries and wages | 69,642 | 65,188 | | | | | 69,642 | 65,188 |
| Employee benefits | 15,517 | 15,452 | | | | | 15,517 | 15,452 |
| Materials, supplies, and services | 35,282 | 34,263 | | | | | 35,282 | 34,263 |
| Partner share of online revenue | 51,869 | 44,187 | | | | | 51,869 | 44,187 |
| Interest expense | 5,570 | 5,412 | | | | | 5,570 | 5,412 |
| Total operating expenses | 177,880 | 164,502 | - | - | - | - | 177,880 | 164,502 |
| Results from operations before depreciation and accretion | 13,996 | 15,880 | (657) | 653 | - | - | 13,339 | 16,533 |
| Depreciation and accretion expense | 12,066 | 12,005 | | | | | 12,066 | 12,005 |
| Results from operations after depreciation and accretion | 1,930 | 3,875 | (657) | 653 | - | - | 1,273 | 4,528 |
| Nonoperating revenues, gains, and losses | | | | | | | | |
| Gifts | 131 | | | | 1,408 | 964 | 1,539 | 964 |
| Total investment return | 3,540 | 4,383 | 10,128 | 13,605 | 128 | (83) | 13,796 | 17,905 |
| Distribution of investment return in support of operations | (2,428) | (2,489) | (6,411) | (6,264) | | | (8,839) | (8,753) |
| Change in value of trusts | | | 24 | 62 | 361 | 329 | 385 | 391 |
| Realized gain on disposal of property, plant and equipment, including insurance recoveries | | 1,132 | | | | | - | - |
| Loss on extinguishment of debt | (3) | (152) | | | | | (3) | (152) |
| Net assets released due to donor redesignation | 129 | 75 | (229) | | 100 | (75) | - | - |
| Change from nonoperating activity | 1,369 | 2,949 | 3,512 | 7,403 | 1,997 | 1,135 | 6,878 | 11,487 |
| Change in net assets | 3,299 | 6,824 | 2,855 | 8,056 | 1,997 | 1,135 | 8,151 | 16,015 |
| Net assets | | | | | | | | |
| Beginning of year | 73,713 | 66,889 | 81,426 | 73,370 | 79,048 | 77,913 | 234,187 | 218,172 |
| End of year | \$ 77,012 | \$ 73,713 | \$ 84,281 | \$ 81,426 | \$ 81,045 | \$ 79,048 | \$ 242,338 | \$ 234,187 |

The accompanying notes are an integral part of these financial statements.

Simmons University

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

(in thousands of dollars)

| | 2018 | 2017 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 8,151 | \$ 16,015 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and accretion expense | 12,066 | 12,005 |
| Amortization of bond premium/discount and bond issuance costs, net | (308) | (321) |
| Loss on extinguishment of long-term debt | - | 152 |
| Noncash contribution securities received | (316) | (998) |
| Proceeds from sale of contributed securities | 304 | 489 |
| Net realized and unrealized (gain) on investments | (12,276) | (17,273) |
| Change in beneficial interest in trusts | (385) | (391) |
| Net realized (gain) on disposals of property, plant and equipment, including insurance recoveries | - | (1,132) |
| Contributions to be used for long-term purposes | (1,974) | (1,604) |
| Cash premium received upon issuance of bonds | - | - |
| Change in reserve for bad debt | 405 | (205) |
| Changes in assets and liabilities | | |
| (Increase) in receivables and other assets | (121) | (1,860) |
| Increase (decrease) in accounts payable and accrued liabilities | 399 | (631) |
| Increase in deferred revenues and deposits payable | 2,048 | 2,155 |
| Net cash provided by operating activities | <u>7,993</u> | <u>6,401</u> |
| Cash flows from investing activities | | |
| Purchases of property, plant, and equipment | (7,457) | (12,448) |
| Proceeds from disposal of property, plant and equipment, including insurance recoveries | - | 1,346 |
| Proceeds from the sale and maturities of investments | 57,331 | 70,463 |
| Purchases of investments | (51,026) | (68,628) |
| Increase (decrease) in amounts held under agreement with bond trustee | 48 | (27) |
| Student loans advanced | (87) | (82) |
| Student loans collected | 519 | 629 |
| Net cash used in investing activities | <u>(672)</u> | <u>(8,747)</u> |
| Cash flows from financing activities | | |
| Repayments of long-term debt | (5,015) | (5,141) |
| Deposits into refunding trusts | - | - |
| Proceeds from bond issuance | - | - |
| Debt issuance costs | - | (152) |
| Payments to annuity beneficiaries | (287) | (307) |
| Contributions to be used for long-term purposes | 1,974 | 1,604 |
| Proceeds from sale of contributed securities for long-term purposes | 12 | 605 |
| Net cash used in financing activities | <u>(3,316)</u> | <u>(3,391)</u> |
| Net increase (decrease) in cash and cash equivalents | 4,005 | (5,737) |
| Cash and cash equivalents | | |
| Beginning of year | <u>24,427</u> | <u>30,164</u> |
| End of year | <u>\$ 28,432</u> | <u>\$ 24,427</u> |
| Supplemental data / noncash investing and financing activity | | |
| Cash paid for interest | \$ 5,426 | \$ 5,106 |
| Purchases of property, plant, and equipment in accounts payable and accrued liabilities | 2,858 | 526 |
| Proceeds from conversion of Series 2008 Taxable Bonds to Direct Purchase Mode | - | 10,415 |
| Payments to bondholders from conversion of Series 2008 Taxable Bonds to Direct Purchase Mode | - | (10,415) |
| Noncash contribution securities received | 316 | 998 |

The accompanying notes are an integral part of these financial statements.

Simmons University

Notes to Financial Statements

June 30, 2018 and 2017

1. Accounting Policies

Organization

In October 2017, Simmons changed its name from Simmons College to Simmons University to reflect its broad educational mission following a recent university-wide academic restructuring. Simmons University (the "University") is a private, nonsectarian institution located in Boston's Back Bay that currently serves approximately 1,700 undergraduate women and over 4,000 men and women in its graduate programs at the master and doctoral levels. In addition, the University also offers Online Graduate Programs in Nursing, Social Work, Business Administration, Healthcare Business Administration, Public Health, Behavioral Analysis, Nutrition and Library and Information Sciences.

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting.

Accounting principles generally accepted in the United States of America (GAAP) for private, not for-profit organizations require classification of net assets, revenues, expenses, gains, and losses into three categories based on the existence or absence of externally imposed restrictions. The categories – unrestricted, temporarily restricted, and permanently restricted net assets – are defined as follows:

Unrestricted Net Assets

Unrestricted net assets are the net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the University's Board of Trustees (the "Trustees").

All expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law.

Temporarily Restricted Net Assets

Temporarily restricted net assets are the net assets subject to donor-imposed stipulations that will be met either by actions of the University or the passage of time as well as unexpended endowment income allocated under the spending formula. When the stipulations have been met (i.e., the time requirement has expired, the restricted purpose is accomplished or spending has been appropriated), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. This includes restricted gifts that are received and whose purpose restrictions have been met in the same fiscal period.

Permanently Restricted Net Assets

Permanently restricted net assets are the net assets that are subject to donor-imposed stipulations that they be maintained in perpetuity by the University. Generally, the donors of these assets permit the University to use all or part of the income earned and gains, if any, on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is subject to donor-imposed restrictions. In those cases, amounts received that are permanently or temporarily restricted by the donor are reported as increases to those net asset classes.

Simmons University
Notes to Financial Statements
June 30, 2018 and 2017

Nonoperating Revenues, Gains and Losses

The nonoperating revenues, gains and losses include investment income, realized and unrealized investment gains and losses net of amounts distributed in support of operations, change in value of trusts, contributions to permanently restricted net assets, insurance recoveries, loss on extinguishment of debt and nonoperating net assets released due to donor redesignation.

Fundraising Expenses

Expenses associated with fundraising were \$2,331,000 and \$1,839,000 in 2018 and 2017, respectively, and are included in institutional support and advancement expenditures disclosed in Note 14.

Cash Equivalents

Cash and cash equivalents include highly liquid investments purchased with an initial maturity date of three months or less. For purposes of the statements of financial position and cash flows, cash and cash equivalents exclude such amounts which are included within the investment accounts.

Investments and Life Income Funds

Investments and life income funds are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Certain investments are not publicly traded and are referred to as alternative investments. The alternative investments are carried at estimated fair values as provided by the investment managers (Notes 4 and 6).

The University invests in various securities, including U.S. government securities, corporate debt instruments, hedge funds, private equities, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes could occur and materially affect the amounts reported in the financial statements.

Endowment Investment and Spending Policies

On July 2, 2009, The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in Massachusetts. UPMIFA provides greater flexibility for organizations that may consider spending from underwater endowment funds. The University did not spend from underwater endowment funds in fiscal years 2018 and 2017.

The Trustees have interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Trustees and expended.

Simmons University

Notes to Financial Statements

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The University has adopted investment and spending policies for endowment assets to provide long term capital appreciation to supply funds for the specified purposes for which the original endowed gifts were given (e.g., scholarships, endowed chairs and operations). The time horizon for the endowment is perpetuity. The assets of the University are managed accordingly by external professional investment managers or invested in professionally managed funds, including funds of funds or managers of managers. The appointment of such managers or funds is the responsibility of the Investment Committee, a standing committee of the Board of Trustees. Investment managers have discretion over their investment programs, subject to appropriate constraints reflected in the University's Investment Policy Statement or in the applicable investment management contracts.

The long-term objective of the University is to achieve a total return equivalent to or greater than the expected return. The expected return is the sum of the annual spending rate, the long-term inflation rate and any growth factor which the Investment Committee may deem appropriate. The spending rate for the years ended June 30, 2018 and June 30, 2017 was 5.0%. The annual spending rate calculation is based on the average of the prior twelve quarter end market values as of December 31. To the extent that current yield is inadequate to meet the spending rate, a portion of cumulative realized and unrealized net gains is also available for current use.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of receipt. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets. The University reports gifts of property and equipment as unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The estimated useful lives used in computing depreciation are as follows:

| | |
|-----------------------------------|-------------|
| Furniture, fixtures and equipment | 3–15 years |
| Land improvements | 10 years |
| Library books | 10 years |
| Building renovations | 20 years |
| Buildings | 40–50 years |

Leasehold improvements are depreciated over the shorter of the useful life of the Improvement or the remaining lease term. The range of depreciable lives currently included in leasehold improvements is between 5 and 20 years.

The University's policy is not to capitalize collections, primarily art objects, as they are held for educational, research, and curatorial purposes. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Any proceeds from the sale of collection items are used to acquire other items for the collection.

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Notes to Financial Statements
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Asset Retirement Obligations

The University has recognized an asset retirement obligation for the future remediation of asbestos in campus facilities. The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Statements of Activities. The accrual balance for this obligation as of June 30, 2018 and 2017 is included in Other Liabilities in the statements of Financial Position. Changes in this balance for the years ended June 30 are as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--------------------------------------|-----------------|-----------------|
| Balances at beginning of year | \$ 1,780 | \$ 1,717 |
| Remediation | - | (2) |
| Accretion expense | 68 | 65 |
| Balances at end of year | <u>\$ 1,848</u> | <u>\$ 1,780</u> |

Fair Value of Financial Instruments Other Than Investments

The carrying amounts of cash equivalents, accounts receivable, accrued interest receivable, accounts payable, and student deposits approximate fair value because of the short maturities of these financial instruments.

Reasonable estimates of the fair values of the notes receivable from students under government loan programs and advances from the federal government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designees.

Tuition and Fees Revenue

The University recognizes tuition and fees revenue in the period in which the educational instruction is performed. Accordingly, tuition and fees received in advance are deferred until the educational instruction is provided and related expenses incurred. The University pays online partner fees to use the online platform. These fees are included within Operating Expenses on the Statement of Activities.

Contributions

Contributions received, including unconditional promises, are recognized as revenues when the donors' commitments are received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Promises of noncash assets are recorded at their fair market values. Conditional promises are recorded at their fair values when donor stipulations are substantially met.

Contributed Securities

Contributed securities that are immediately sold are presented within cash flows from operations if there are no donor imposed restrictions and within cash flows from financing if there are donor imposed restrictions for a long term purpose.

Simmons University

Notes to Financial Statements

June 30, 2018 and 2017

Lease Revenue

The University leases parking garage and office space under operating leases. The operating leases have scheduled annual increases which the University recognizes on a straight-line basis over the lease term beginning with the start of the lease.

Future minimum lease payments due to the University on leases of parking garage and office space are as follows:

(in thousands of dollars)

| Year Ending June 30, | |
|----------------------|------------------|
| 2019 | \$ 3,557 |
| 2020 | 3,644 |
| 2021 | 3,762 |
| 2022 | 2,916 |
| 2023 | 2,191 |
| Thereafter | <u>1,112</u> |
| | <u>\$ 17,182</u> |

Tax Status

The University is a qualified tax-exempt organization under the provisions of Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Use of Estimates

The preparation of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Funds with Shortfalls

From time to time, the market value of assets associated with permanently restricted funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Shortfalls of this nature are reported in unrestricted net assets, and totaled \$15,000 and \$7,000 as of June 30, 2018 and 2017, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The original standard was effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the University.

Simmons University

Notes to Financial Statements

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In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the University.

In June 2018, The FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU amends the new revenue recognition standard and long-standing contribution accounting guidance and is expected to shift the majority of grants from an exchange to a nonexchange recognition model. The ASU is effective for annual periods beginning after June 15, 2018 or fiscal year 2019 for the University.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on generally a straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the University.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or fiscal year 2020 for the University. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) may be early adopted. The University has early adopted the provision to eliminate the disclosure of the fair value of debt.

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Notes to Financial Statements
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2. Accounts Receivable

At June 30 accounts receivable, net consisted of the following:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--|------------------|------------------|
| Accounts receivable - student and other | \$ 15,087 | \$ 15,155 |
| Accounts receivable for sponsored programs | 292 | 339 |
| Less: Allowance for doubtful accounts | <u>(2,674)</u> | <u>(2,115)</u> |
| Accounts receivable, net | <u>\$ 12,705</u> | <u>\$ 13,379</u> |

3. Loans to Students

Loans to students are \$2,269,000 and \$2,805,000 as of June 30, 2018 and 2017, respectively, net of an allowance for uncollectible loans of \$619,000 at June 30, 2018 and \$516,000 at June 30, 2017.

The University regularly assesses the adequacy of the allowance for doubtful accounts related to loans to students by performing ongoing evaluations of the student loan portfolio, including such factors as the economic environment in which the borrowers operate and the level of delinquent loans. The University also performs a detailed review of the aging of the student loan receivable balances in comparison to prior years. The level of the allowance is adjusted based on the results of this analysis. The University considers the allowance recorded at June 30, 2018 and June 30, 2017 to be reasonable and adequate to absorb the potential credit losses inherent in the student loan portfolio.

4. Investments

The fair value of investments by type, including investments under split interest agreements and charitable remainder trusts, as of June 30 were as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|-------------------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 5,083 | \$ 3,691 |
| Receivable from investment managers | 885 | 6,850 |
| Fixed income | 22,331 | 22,635 |
| Equities | 116,204 | 105,555 |
| Private equities | 34,189 | 33,084 |
| Hedge funds | <u>16,761</u> | <u>17,640</u> |
| Total investments | <u>\$ 195,453</u> | <u>\$ 189,455</u> |

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The fair value of certain private equity, real estate, natural resource and other equity investments represents the University's ownership interest in the capital account of limited partnerships. The value of these investments is determined by the general partner and is based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the underlying investment, the fair value is determined by the general partner taking into consideration among other things, multiples of comparable companies in the public markets and/or discounted cash flow analyses. The University performs additional procedures with respect to valuation including due diligence reviews on its investments in limited partnerships and including, but not limited to, general partners' compliance with the Fair Value Measurements standard, price transparency and valuation procedures in place. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a materially different estimate of fair value at the reporting date.

The University is obligated under certain alternative investment agreements to periodically advance additional funding up to their contractual levels.

The composition of investment gains (loss) for the years ended June 30 is as follows:

| | 2018 | | | Total |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| <i>(in thousands of dollars)</i> | | | | |
| Operating (included in Other operating revenues) | | | | |
| Interest and dividend income, net of fees | \$ 1 | \$ - | \$ - | \$ 1 |
| Net realized losses | (202) | - | - | (202) |
| Net change in unrealized gains (losses) on investments | 208 | - | - | 208 |
| Total operating investment return | <u>7</u> | <u>-</u> | <u>-</u> | <u>7</u> |
| Nonoperating | | | | |
| Interest and dividend income, net of fees | 337 | 946 | 1 | 1,284 |
| Net realized gains | 3,281 | 9,617 | 2 | 12,900 |
| Net change in unrealized (losses) gains on investments | (78) | (435) | 125 | (388) |
| Total nonoperating investment return | <u>3,540</u> | <u>10,128</u> | <u>128</u> | <u>13,796</u> |
| Total investment return | <u>\$ 3,547</u> | <u>\$ 10,128</u> | <u>\$ 128</u> | <u>\$ 13,803</u> |

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| | 2017 | | | Total |
|---|-----------------|---------------------------|---------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| <i>(in thousands of dollars)</i> | | | | |
| Operating (included in Other operating revenues) | | | | |
| Interest and dividend income, net of fees | \$ 6 | \$ - | \$ - | \$ 6 |
| Net realized gains | 406 | - | - | 406 |
| Net change in unrealized (losses) gains on investments | (250) | - | - | (250) |
| Total operating investment return | <u>162</u> | <u>-</u> | <u>-</u> | <u>162</u> |
| Nonoperating | | | | |
| Interest and dividend income, net of fees | (241) | 1,028 | 1 | 788 |
| Net realized gains | 2,015 | 5,740 | 8 | 7,763 |
| Net change in unrealized gains (losses) on investments | 2,609 | 6,837 | (92) | 9,354 |
| Total nonoperating investment return | <u>4,383</u> | <u>13,605</u> | <u>(83)</u> | <u>17,905</u> |
| Total investment return | <u>\$ 4,545</u> | <u>\$ 13,605</u> | <u>\$ (83)</u> | <u>\$ 18,067</u> |

Investment management fees were approximately \$928,000 and \$1,130,000 for the years ended June 30, 2018 and 2017, respectively. Investment return transferred from non-operating to operating was \$8,839,000 and \$8,753,000 for the years ended June 30, 2018 and 2017, respectively.

5. Beneficial Interest in Trusts

The University is party to various split interest agreements and these agreements include perpetual trusts, charitable remainder trusts, charitable gift annuities, and pooled life income funds. The University's gift annuities and pooled life income funds are included in Investments on the Statement of Financial Position. The University's interests in perpetual trusts and charitable remainder trusts are included in beneficial interest in trusts. These assets represent the University's share of the fair market value of the trust assets as of the dates of the statements of financial position. Distributions of income from the trusts to the University are recorded as revenue and the carrying value of the assets is adjusted for changes in value over time.

6. Fair Value Measurements

GAAP permits, as a practical expedient, an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value (NAV) per share or its equivalent without adjustment. GAAP requires enhanced disclosures about the nature and risks of investments within its scope. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investee.

The University establishes the fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques.

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As a basis for considering assumptions, the University uses a three-tier fair value hierarchy based upon whether the value of the asset or liability can be readily determined from publicly available data or not. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs mean that the market data is readily available from independent sources to help quantify the valuations, while unobservable inputs mean that the market data is not readily available, and therefore, the value of the asset or liability in the portfolio must be based on other information including the reporting entity's own assumptions about how market participants would value the asset or liability.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis.

- Level 1 Quoted prices in active markets for identical assets and liabilities.

- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The University's interests in alternative investments are reported at the net asset value (NAV) reported by the investment managers. The University reviews and evaluates the NAVs provided by the investment managers including, but not limited to, managers' compliance with Fair Value Measurement standards, price transparency and valuation procedures in place, and the ability to redeem NAV at the measurement date. The University believes that these valuations are a reasonable estimate of fair value as of June 30, 2018 and 2017 but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed; such differences could be material. The NAV is used as a practical expedient to estimate the fair value of these investments unless it is probable that all or a portion of the investment will be sold for an amount different from NAV.

Due to the level of risk associated with certain investment securities and level of uncertainty related to the changes in value of these investments, it is at least reasonably possible that changes in value in the near term could materially impact the amounts reported as the fair market value of these investments at June 30, 2018.

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The University's assets measured at fair value are as follows:

| <i>(in thousands of dollars)</i> | Assets at Fair Value at June 30, 2018 | | | | |
|---|--|----------------|----------------|--|-------------------|
| | Level 1 | Level 2 | Level 3 | Measured at Net Asset Value | Total |
| Investments | | | | | |
| Cash and cash equivalents | \$ 5,028 | \$ - | \$ - | \$ - | \$ 5,028 |
| Receivable from investment managers | 885 | | | | 885 |
| Fixed income securities | 22,050 | | | | 22,050 |
| Equity securities | 66,340 | | | 49,131 | 115,471 |
| Alternative investments - private equity | | | | 34,189 | 34,189 |
| Alternative investments - hedge funds | | | | 16,761 | 16,761 |
| | <u>94,303</u> | <u>-</u> | <u>-</u> | <u>100,081</u> | <u>194,384</u> |
| Charitable annuities and pooled income funds | | | | | |
| Cash and cash equivalents | 55 | | | | 55 |
| Fixed income securities | | | | 281 | 281 |
| Equity securities | | | | 733 | 733 |
| | <u>55</u> | <u>-</u> | <u>-</u> | <u>1,014</u> | <u>1,069</u> |
| | <u>\$ 94,358</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 101,095</u> | <u>\$ 195,453</u> |

| <i>(in thousands of dollars)</i> | Assets at Fair Value at June 30, 2017 | | | | |
|---|--|----------------|----------------|--|-------------------|
| | Level 1 | Level 2 | Level 3 | Measured at Net Asset Value | Total |
| Investments | | | | | |
| Cash and cash equivalents | \$ 3,638 | \$ - | \$ - | \$ - | \$ 3,638 |
| Receivable from investment managers | 6,850 | | | | 6,850 |
| Fixed income securities | 22,047 | | | | 22,047 |
| Equity securities | 70,745 | | | 34,013 | 104,758 |
| Alternative investments - private equity | | | | 33,084 | 33,084 |
| Alternative investments - hedge funds | | | | 17,640 | 17,640 |
| | <u>103,280</u> | <u>-</u> | <u>-</u> | <u>84,737</u> | <u>188,017</u> |
| Charitable annuities and pooled income funds | | | | | |
| Cash and cash equivalents | 53 | | | | 53 |
| Fixed income securities | | | | 588 | 588 |
| Equity securities | | | | 797 | 797 |
| | <u>53</u> | <u>-</u> | <u>-</u> | <u>1,385</u> | <u>1,438</u> |
| | <u>\$ 103,333</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 86,122</u> | <u>\$ 189,455</u> |

The University is party to various split interest agreements, including perpetual trusts and charitable remainder trusts. Beneficial interests in trusts are recorded at fair value and total \$8,966,000 and \$8,608,000 as of June 30, 2018 and 2017, respectively. These assets are considered Level 3 by the University.

A summary of the changes in the fair value of the University's interest in split interest agreements for the years ended June 30, 2018 and 2017 is as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--------------------------------------|-----------------|-----------------|
| Balances at beginning of year | \$ 8,608 | \$ 8,217 |
| Liquidation of Trust | (27) | - |
| Change in Value of Trusts | 385 | 391 |
| Balances at end of year | <u>\$ 8,966</u> | <u>\$ 8,608</u> |

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Included in Other Liabilities is \$874,000 and \$1,400,000 as of June 30, 2018 and 2017, respectively, which represents the present value of future payments to beneficiaries of charitable, gift annuities. This liability is recorded at fair value and is considered Level 3 by the University.

A summary of the changes in the fair value of the annuities payable for the years ended June 30, 2018 and 2017 is as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--|---------------|-----------------|
| Balances at beginning of year | \$ 1,400 | \$ 1,561 |
| Payments to annuity beneficiaries | (287) | (307) |
| Liquidation of annuity accounts | (103) | (5) |
| Change in Valuation of Annuities Payable | (136) | 151 |
| Balances at end of year | <u>\$ 874</u> | <u>\$ 1,400</u> |

The following table for June 30, 2018, sets forth a summary of the University's investments with a reported NAV:

| Fair Value Estimated Using Net Asset Value | | | |
|---|-------------------|-----------------------------|--|
| June 30, 2018 | | | |
| <i>(in thousands of dollars)</i> | Fair Value | Unfunded Commitments | Redemption Frequency |
| Investment | | | |
| Fixed Income securities ^(a) | \$ 281 | \$ - | Daily |
| Equity securities ^(b) | 49,864 | | Varies from 100% daily, less than 30 days, to 30-60 days |
| Limited partnerships - NAV ^(c) | | | Varies from quarterly with 30 days notice, semi-annually with 30-180 days notice, to none. |
| Hedge funds | 16,761 | | |
| Private equity | 34,189 | 9,185 | N/A |
| | <u>\$ 101,095</u> | <u>\$ 9,185</u> | |

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The following table for June 30, 2017, sets forth a summary of the University's investments with a reported NAV:

| <i>(in thousands of dollars)</i> | Fair Value Estimated Using Net Asset Value | | |
|---|---|-----------------------------|--|
| | June 30, 2017 | | |
| | Fair Value | Unfunded Commitments | Redemption Frequency |
| Investment | | | |
| Fixed Income securities ^(a) | \$ 588 | \$ - | Daily |
| Equity securities ^(b) | 34,810 | | Varies from 100% daily, less than 30 days, to 30-60 days |
| Limited partnerships - NAV ^(c) | | | Varies from quarterly with 30 days notice, semi-annually with 30-180 days notice, to none. |
| Hedge funds | 17,640 | | N/A |
| Private equity | 33,084 | 8,787 | |
| | <u>\$ 86,122</u> | <u>\$ 8,787</u> | |

- a. This category includes investments in funds with the objective to achieve an inflation protected return.
- b. This category includes investments with the objective to achieve long-term growth from a diversified portfolio of equity securities. To achieve this objective the University has selected investment managers that focus on both U.S. and international markets in various business sectors including commodities, industrial material, healthcare, information technology, utilities and others.
- c. This category includes investments with the objective to achieve long-term growth from a diversified portfolio of limited partnerships. The objective is to generate long term returns significantly higher than public equity markets.

7. Donor-Restricted and Board-Designated Endowment Funds

Donor-restricted and board-designated endowment net assets as of June 30, 2018 are as follows:

| <i>(in thousands of dollars)</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|-------------------------------|-------------------------------|-------------------|
| Endowment net assets | | | | |
| Donor restricted | \$ - | \$ 73,647 | \$ 70,562 | \$ 144,209 |
| Board designated | 50,652 | | | 50,652 |
| Total endowment net assets | <u>\$ 50,652</u> | <u>\$ 73,647</u> | <u>\$ 70,562</u> | <u>\$ 194,861</u> |

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Changes in donor-restricted and board-designated endowment net assets for the fiscal year ended June 30, 2018 are as follow

| <i>(in thousands of dollars)</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-------------------------------|-------------------------------|-------------------|
| Endowment net assets beginning of year | \$ 49,545 | \$ 70,143 | \$ 68,477 | \$ 188,165 |
| Contributions | | | 2,035 | 2,035 |
| Change in donor designation | | | 50 | 50 |
| Investment income | 332 | 938 | | 1,270 |
| Net appreciation (depreciation) | 3,203 | 8,977 | | 12,180 |
| Amounts appropriated for expenditure | (2,428) | (6,411) | | (8,839) |
| Endowment net assets end of year | <u>\$ 50,652</u> | <u>\$ 73,647</u> | <u>\$ 70,562</u> | <u>\$ 194,861</u> |

Donor-restricted and board-designated endowment net assets as of June 30, 2017 are as follows:

| <i>(in thousands of dollars)</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|-------------------------------|-------------------------------|-------------------|
| Endowment net assets | | | | |
| Donor restricted | \$ - | \$ 70,143 | \$ 68,477 | \$ 138,620 |
| Board designated | 49,545 | | | 49,545 |
| Total endowment net assets | <u>\$ 49,545</u> | <u>\$ 70,143</u> | <u>\$ 68,477</u> | <u>\$ 188,165</u> |

Changes in donor-restricted and board-designated endowment net assets for the fiscal year ended June 30, 2017 are as follows:

| <i>(in thousands of dollars)</i> | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-------------------------------|-------------------------------|-------------------|
| Endowment net assets beginning of year | \$ 46,464 | \$ 63,014 | \$ 66,343 | \$ 175,821 |
| Contributions | 731 | | 2,233 | 2,964 |
| Change in donor designation | | | (99) | (99) |
| Investment income | 365 | 1,017 | | 1,382 |
| Net appreciation (depreciation) | 4,474 | 12,376 | | 16,850 |
| Amounts appropriated for expenditure | (2,489) | (6,264) | | (8,753) |
| Endowment net assets end of year | <u>\$ 49,545</u> | <u>\$ 70,143</u> | <u>\$ 68,477</u> | <u>\$ 188,165</u> |

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8. Contributions Receivable

Contributions receivable as of June 30 consist of the following:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--|-----------------|-----------------|
| Due in one year or less | \$ 1,578 | \$ 2,598 |
| Due between one year and five years | 1,683 | 2,440 |
| | <u>3,261</u> | <u>5,038</u> |
| Less: Allowance for uncollectible contributions | (32) | (289) |
| Less: Discount to present value (discount rates range from 0.72%–4.7%) | (135) | (159) |
| | <u>(167)</u> | <u>(448)</u> |
| Contributions receivable, net | <u>\$ 3,094</u> | <u>\$ 4,590</u> |

Fluctuations in the allowance for uncollectible contributions are recorded as a net against the associated gift revenue on the Statement of Activities.

9. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or fair value at date of gift, less accumulated depreciation, and as of June 30 are summarized as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|-------------------------------------|-------------------|-------------------|
| Land | \$ 815 | \$ 815 |
| Buildings and improvements | 257,008 | 252,720 |
| Furniture, fixtures, and equipment | 53,917 | 49,627 |
| Library books | 10,593 | 10,593 |
| Construction in progress | 4,892 | 3,679 |
| Leasehold Improvements | 14,246 | 14,246 |
| | <u>341,471</u> | <u>331,680</u> |
| Less: Accumulated depreciation | (169,460) | (157,462) |
| Property, plant, and equipment, net | <u>\$ 172,011</u> | <u>\$ 174,218</u> |

Depreciation expense was \$11,998,000 and \$11,942,000 for the years ended June 30, 2018 and 2017, respectively.

The University has contractual obligations outstanding, related to various renovations on campus, of \$1,314,000 and \$749,000 at June 30, 2018 and 2017, respectively.

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10. Bonds Payable

Bonds payable as of June 30 consisted of the following:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|---|-------------------|-------------------|
| Massachusetts Development Finance Agency (MDFA) | | |
| Revenue Bonds | | |
| Simmons College Series G Variable Rate Demand Variable Mode Revenue Bonds, payable through 2036 | \$ 47,910 | \$ 48,415 |
| Simmons College Series H, 5.25%, payable through 2033 | 33,185 | 34,630 |
| Simmons College Bonds Series 2008 Taxable, variable rate, payable through 2022 | 9,020 | 10,415 |
| Simmons College Series J, 5.125%–5.5%, payable through 2039 | 18,970 | 18,970 |
| Simmons College Series K-1 4%-5%, payable through 2036 | 34,595 | 34,595 |
| Simmons College Series K-2 2.8%-4.1%, payable through 2022 | 6,465 | 8,135 |
| | <u>150,145</u> | <u>155,160</u> |
| Unamortized bond premium/discount, net | 4,495 | 4,973 |
| Unamortized bond issuance costs | <u>(2,422)</u> | <u>(2,592)</u> |
| Total MDFA Revenue Bonds | <u>\$ 152,218</u> | <u>\$ 157,541</u> |

On January 4, 2007, the University issued MDFA Revenue Bonds, Simmons College Series H (the "Series H Bonds") in the amount of \$45,344,000. The primary purpose of this issue was to refinance portions of the Simmons College Series C Bonds, Series D Bonds, and Series F Bonds.

The defeasance was achieved through the deposit of \$44,283,000 of the proceeds of the Series H Bonds in a refunding trust and has been accounted for as legal defeasance. Accordingly, the defeased bonds and the assets in the defeasance trust were removed from the statements of financial position in 2007.

Monies in the defeasance trust have been applied to the purchase of noncancelable direct obligations of the U.S. government. The government obligations, together with the interest thereon, will be sufficient in amount and available when necessary to pay the principal and interest on the defeased Series F Bonds when due or called.

On April 1, 2008, the University remarketed its Series G Bonds. The purpose of the remarketing was to provide for the cancellation of the bond insurance policy that previously secured the Series G Bonds, due to a downgrade of the bond insurer's credit rating, and to replace the bond insurance with a letter of credit. The interest rate on these bonds is determined weekly based upon the Securities Industry and Financial Market Association Municipal Swap Index (SIFMA). The average interest rate in fiscal year 2018 on these bonds was 1.13%.

On February 21, 2008, the University issued the Simmons College Series 2008 (Taxable) Bonds in the amount of \$18,730,000. The primary purpose of this issue was to finance the construction of a portion of an approximately 715-car garage located behind the University's Main Academic Building. The interest rate on these bonds is determined weekly based upon the SIFMA. The average interest rate in fiscal year 2018 on these bonds was 1.96%.

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On June 1, 2017 the University amended the Simmons College Series 2008 (Taxable) Bonds with an outstanding principal of \$10,415,000. The amended Loan Agreement provided for the addition of a Direct Purchase Mode to the 2008 Loan Agreement to allow for the direct purchase of the Bonds by TD Bank, N.A. There were no changes to the principal repayment schedule as a result of this transaction. As a result of the direct purchase of the Bonds by TD Bank, N.A. the University no longer has a letter of credit for the Series 2008 Bonds. The direct purchase agreement between Simmons University and TD Bank, N.A. is effective from June 1, 2017 through October 1, 2022, when the ending outstanding bonds will be fully redeemed. The direct purchase agreement calls for interest during the term of the agreement at the rate of 30-day LIBOR plus 46 basis points.

On September 5, 2013 the University issued MDFA Revenue Bonds, Simmons College Issue, Series J (the "Series J Bonds") in the face amount of \$18,970,000. The primary purpose of this issue was to refinance portions of the Simmons College MDFA Series F and MDFA Series I Bonds.

The proceeds from Series J were used to current refund outstanding maturities of Series I and advance refund Series F. The University also chose to redeem Series F bonds totaling \$965,000 with a call date of October 7, 2013. The refunded and redeemed bonds were legally defeased and, as such, are not reflected in "Bonds Payable" at June 30, 2014.

The defeasance was achieved through the deposit of \$18,736,000 of the Series J proceeds into a Refunding Trust and the release and transfer of \$1,811,000 previously held in the Series I Debt Service Reserve Fund to the Refunding Trust.

Monies in the defeasance trust have been applied to the purchase of noncancelable direct obligations of the U.S. government. The government obligations, together with the interest thereon, will be sufficient in amount and available when necessary to pay the principal and interest on the defeased Series F and Series I Bonds when due or called.

On May 20, 2015 Simmons issued \$9,850,000 of Series K-2 taxable, fixed rate bonds maturing between October 1, 2016 and October 1, 2022. The main purpose of this issue was to refinance a portion of the Simmons College MDFA Series I bonds. This issuance resulted in an accounting charge of \$1,960,000 which represents the write off of capitalized debt issuance costs and bond issuance discount on the extinguished issue.

The defeasances were achieved through the deposit of \$11,934,000 into the Series I Refunding Trusts which represents bond proceeds of \$9,703,000, Institutional Contribution of \$1,192,000 and the Release of Debt Service Reserve Funds of \$1,039,000.

Monies in the defeasance trust have been applied to the purchase of noncancelable direct obligations of the U.S. government. The government obligations, together with the interest thereon, will be sufficient in amount and available when necessary to pay the principal and interest on the defeased Series I Bonds when due or called.

On July 8, 2015 Simmons issued \$34,595,000 of Series K-1 tax exempt bonds, fixed rate bonds maturing between October 1, 2022 and October 1, 2036. The Series K-1 tax-exempt bonds current refunded \$8,030,000 of the remaining Series C bonds, \$24,405,000 of the Series I bonds, and advance refunded \$6,265,000 of the Series I bonds. This issuance resulted in an accounting charge of \$2,719,000 which represents the write off of capitalized debt issuance costs and bond issuance discount on the extinguished issues. With the issuance of the Series K-1 tax exempt bonds, the mortgage on the residence campus was released.

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The defeasances were achieved through the deposit of \$32,820,000 into the Series I Refunding Trust and \$8,173,000 which represents bond proceeds of \$37,048,000, Institutional Contribution of \$820,000 and the Release of Debt Service Reserve Funds of \$3,125,000.

Monies in the defeasance trust have been applied to the purchase of noncancelable direct obligations of the U.S. government. The government obligations, together with the interest thereon, will be sufficient in amount and available when necessary to pay the principal and interest on the defeased Series I Bonds when due or called.

Collateral

The University has pledged its tuition receipts as collateral for the bonds detailed above.

Loan Payable

In July 2008, the University acquired a nine-year \$2,000,000 loan from its cafeteria management vendor to assist with the expansion of the Fens Cafeteria. Principal payments of \$222,000 were due each year. The note carries no stated interest. This loan was fully repaid during fiscal 2017.

Aggregate principal payments related to bonds payable and the loan payable are as follows:

(in thousands of dollars)

| Year Ending June 30, | |
|-----------------------------|-------------------|
| 2019 | \$ 5,200 |
| 2020 | 5,405 |
| 2021 | 5,625 |
| 2022 | 5,860 |
| 2023 | 6,115 |
| Thereafter | <u>121,940</u> |
| | <u>\$ 150,145</u> |

Included in the University's debt is \$47,910,000 of variable rate demand bonds ("VRDBs"). In order to secure bond repayment and interest obligations associated with these VRDBs, the University has entered into an irrevocable letters of credit ("LOC") with a financial institution.

On September 1, 2013 the University amended its existing letter of credit for the purpose of extending the maturity dates from September 1, 2016 to September 1, 2018. The principal balance of the letter of credit as of June 30, 2018 are as follows:

(in thousands of dollars)

| Issue | Provider | Balance | Maturity Date |
|----------------|-----------------|----------------|----------------------|
| Series G Bonds | JPMorgan Chase | \$ 47,910 | September 1, 2018 |

To date, the University has never had an instance where its VRDBs failed to be remarketed. However, in the unlikely event that the VRDBs cannot be remarketed successfully, they may be "put" in part or in full to the above LOC provider.

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Bank Lines

The University maintains a line of credit with a bank in the amount of \$7,500,000. There were no amounts outstanding on the line at June 30, 2018 and 2017.

Loan Covenants

Several of the loan agreements contain covenants and financial ratios which require compliance by the University. Certain of the agreements also provide for restrictions on additional indebtedness. Covenants that exist also relate to debt service coverage and liquidity ratios.

11. Other Liabilities

Other liabilities as of June 30 consist of the following:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|---|-----------------|-----------------|
| Present value of charitable annuities payable | \$ 874 | \$ 1,400 |
| Asset retirement obligation liability | 1,848 | 1,780 |
| Total other liabilities | <u>\$ 2,722</u> | <u>\$ 3,180</u> |

12. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 consist of the following:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|---|------------------|------------------|
| Educational and general purposes | \$ 6,805 | \$ 6,716 |
| Capital needs | 157 | 157 |
| Annuity and life income agreements | 433 | 417 |
| Trusts | 1,236 | 1,238 |
| Net appreciation of permanently restricted net assets available for board appropriation | 73,732 | 70,143 |
| Contributions receivable | 1,918 | 2,755 |
| Total temporarily restricted net assets | <u>\$ 84,281</u> | <u>\$ 81,426</u> |

Net appreciation of permanently restricted net assets includes unappropriated gains from funds for which the donor's intention was to support the general operations of the University. These unappropriated gains total approximately \$33,833,000 and \$32,852,000 in 2018 and 2017, respectively.

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13. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following at June 30:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|--|------------------|------------------|
| Endowment | \$ 70,562 | \$ 68,477 |
| Permanently restricted loan funds | 1,909 | 1,909 |
| Annuity and life income agreements | (232) | (360) |
| Perpetual trusts held by third parties | 7,730 | 7,370 |
| Contributions receivable | 1,076 | 1,652 |
| | <u>\$ 81,045</u> | <u>\$ 79,048</u> |

14. Functional Classifications of Expenditures

The statements of activities present operating expenditures by natural classification. The operating expenditures on a functional basis as of June 30 are as follows:

| <i>(in thousands of dollars)</i> | 2018 | 2017 |
|---------------------------------------|-------------------|-------------------|
| Instruction and academic support | \$ 130,971 | \$ 120,266 |
| Student services | 10,909 | 10,663 |
| Institutional support and advancement | 31,222 | 29,491 |
| Sponsored activities | 804 | 991 |
| Auxiliary operations and other | 16,040 | 15,096 |
| Total expenses | <u>\$ 189,946</u> | <u>\$ 176,507</u> |

15. Retirement Plans

Substantially all employees of the University have individual annuity accounts with the Teachers Insurance and Annuity Association and the University Retirement Equities Fund. Total retirement expense charged to operations was \$3,507,000 and \$3,468,000 for 2018 and 2017, respectively.

16. Commitments and Contingencies

In conducting its activities, the University, from time to time, is the subject of various claims and also has claims against others. In management's opinion, the ultimate resolution of such claims at June 30, 2018, would not have a material effect on the financial position of the University.

The University receives funds from the federal government. Entitlements to the resources are generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the University.

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17. Subsequent Events

The University evaluated the period from June 30, 2018, the date of the financial statements, through October 18, 2018, the date of the issuance of the financial statements for subsequent events. On August 27, 2018, the University issued \$42,385,000 aggregate principal amount of 2018 Revenue Refunding Bonds, Series L (Series L Bonds) through the Massachusetts Development Finance Agency at a premium. The proceeds will be used to refund the Series G Variable Mode Revenue Bonds which were scheduled to mature in 2036, and to fund the costs of issuing the Series L Bonds. No other events were identified that require adjustments to the audited financial statements or disclosures in the notes to the audited financial statements.