Babson College

Consolidated Financial Statements
June 30, 2016 and 2015

Babson College
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June 30, 2016 and 2015

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Report of Independent Auditors

To the Board of Trustees of Babson College:

We have audited the accompanying consolidated financial statements of Babson College and its subsidiary (the "College"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015 and the related consolidated statement of activities for the year ended June 30, 2016 and of cash flows for the years ended June 30, 2016 and 2015.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the consolidated 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 College'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 consolidated 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 consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of Babson College and its subsidiary as of June 30, 2016 and 2015 and the changes in their net assets for the year ended June 30, 2016 and their cash flows for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

We have previously audited the consolidated statement of financial position as of June 30, 2015, and the related consolidated statement of activities and of cash flows for the year then ended (not presented herein), and in our report dated October 17, 2015, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 22, 2016

Babson College
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 37,933,369	$ 44,447,082
Working Capital Investments	7,015,749	-
Accounts receivable, net of allowance of $473,067 and $524,673 at June 30, 2016 and 2015, respectively	7,449,388	6,658,005
Prepaid expenses and other assets	8,656,384	7,775,101
Contributions receivable, net	37,860,979	49,702,429
Loans receivable, net of allowance of $766,000 and $741,000 at June 30, 2016 and 2015, respectively	3,822,559	4,104,285
Bond deposits with trustee	22,625,572	8,026,642
Investments, at fair value	346,696,532	348,628,929
Land, buildings, equipment and software, net	183,363,187	161,465,927
Total assets	$ 655,423,719	$ 630,808,400
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 24,501,494	$ 25,483,145
Deposits and advance payments	24,150,417	22,741,268
Government advances for student loans	3,277,086	3,209,864
Interest rate swap liability	17,037,601	13,876,719
Bonds payable, net	161,192,331	130,066,766
Total liabilities	230,158,929	195,377,762
Net assets		
Unrestricted	169,924,716	177,559,584
Temporarily restricted	126,336,686	135,074,893
Permanently restricted	129,003,388	122,796,161
Total net assets	425,264,790	435,430,638
Total liabilities and net assets	$ 655,423,719	$ 630,808,400

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

Babson College
Consolidated Statements of Activities
Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 152,320,841	$ -	$ -	$ 152,320,841	$ 150,479,558
Less: Student aid	(40,063,452)			(40,063,452)	(36,377,328)
Net tuition and fees	112,257,389	-	-	112,257,389	114,102,230
Room and board	26,786,769			26,786,769	24,828,795
Educational programs	2,606,357			2,606,357	2,699,672
Noneducation programs and auxiliary activities	28,540,178			28,540,178	33,167,405
Total program service fees	170,190,693	-	-	170,190,693	174,798,102
Contributions and grants	4,318,031			4,318,031	3,566,970
Investment income used in operations	156,682			156,682	143,358
Endowment spending used in operations	11,709,723			11,709,723	10,681,639
Net assets released from restrictions	9,334,005			9,334,005	6,802,960
Total operating revenues and support	195,709,134	-	-	195,709,134	195,993,029
Operating expenses					
Instruction	52,935,120			52,935,120	49,401,922
Academic support	32,907,746			32,907,746	31,981,092
Student services	27,337,407			27,337,407	27,876,461
Auxiliary activities	45,613,504			45,613,504	48,264,288
Institutional support	32,469,638			32,469,638	30,069,999
Total operating expenses	191,263,415	-	-	191,263,415	187,593,762
Increase in net assets from operations	4,445,719	-	-	4,445,719	8,399,267
Nonoperating activities					
Contributions and grants	-	12,040,207	5,714,894	17,755,101	33,945,104
Net assets released from restrictions	6,836,396	(16,604,901)	434,500	(9,334,005)	(6,802,960)
Unrealized (losses) gains on interest rate swap agreements	(3,160,882)			(3,160,882)	341,747
Other nonoperating net (expenses)/revenue	(1,534,561)			(1,534,561)	28,958
	2,140,953	(4,564,694)	6,149,394	3,725,653	27,512,849
Investment return					
Realized and unrealized net (losses) gains	(3,063,966)	(5,086,396)	57,833	(8,092,529)	13,362,467
Interest and dividend income	1,187,126	912,883		2,100,009	3,531,877
Investment consultant fees and taxes	(634,977)			(634,977)	(317,651)
Net total investment return	(2,511,817)	(4,173,513)	57,833	(6,627,497)	16,576,693
Less: Endowment spending draw	(11,709,723)			(11,709,723)	(10,681,639)
Total nonoperating activities	(12,080,587)	(8,738,207)	6,207,227	(14,611,567)	33,407,903
Total (decrease) increase in net assets	(7,634,868)	(8,738,207)	6,207,227	(10,165,848)	41,807,170
Net assets					
Beginning of year	177,559,584	135,074,893	122,796,161	435,430,638	393,623,468
End of year	$ 169,924,716	$ 126,336,686	$ 129,003,388	$ 425,264,790	$ 435,430,638

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

Babson College
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net tuition and fees received	$ 138,653,630	$ 138,916,463
Other educational and noneducational receipts	32,668,058	40,191,881
Contributions and grants received, net of amounts restricted for long-term purposes	21,656,849	13,346,512
Proceeds from stock gifts received for operations	571,361	842,400
Interest and dividends received	2,316,645	3,731,610
Payments to employees and suppliers	(173,121,540)	(173,805,225)
Interest paid	(2,639,385)	(3,079,580)
Net cash provided by operating activities	20,105,618	20,144,061
Cash flows from investing activities		
Purchases of investments	(87,771,105)	(77,843,209)
Sales of investments	73,711,971	75,677,483
Transfers (to)/from bond deposits with trustee, net	(14,598,930)	19,988,780
Acquisition and construction of property and equipment	(37,919,946)	(29,479,364)
Student loans repaid	718,382	681,106
Student loans issued	(466,056)	(528,312)
Net cash used in investing activities	(66,325,684)	(11,503,516)
Cash flows from financing activities		
Payment of bond issuance costs	(564,162)	-
Repayments of bonds and notes	(32,939,950)	(5,741,885)
Proceeds from bonds payable	63,784,611	-
Payments on split interest agreements	(341,133)	(337,900)
Increase for refundable U.S. government grants	67,222	55,504
Permanently restricted contributions	11,258,063	2,633,212
Proceeds from stock gifts received for long-term purposes	994,129	341,809
Payments on swap contracts	(2,552,427)	(2,719,342)
Net cash provided by/(used in) financing activities	39,706,353	(5,768,602)
Net (decrease)/increase in cash and cash equivalents	(6,513,713)	2,871,943
Cash and cash equivalents		
Beginning of year	44,447,082	41,575,139
End of year	$ 37,933,369	$ 44,447,082
Reconciliation of (decrease)/increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
(Decrease)/Increase in net assets	$ (10,165,848)	$ 41,807,170
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net losses/(gains) on investments	8,092,529	(13,436,326)
Depreciation and amortization	11,607,685	10,551,577
Loss on disposal of building	574,085	-
Loss on defeasence of debt	1,196,675	-
Permanently restricted contributions	(11,258,063)	(2,633,212)
Decrease/(Increase) in contributions receivable	11,882,815	(19,295,221)
Decrease in allowances	(63,571)	(868,759)
Increase/(Decrease) in interest rate swap liability	3,160,882	(341,747)
Payments on interest rate swap contracts	2,552,427	2,719,342
Changes in working capital assets and liabilities, net	2,526,002	1,641,237
Net cash provided by operating activities	$ 20,105,618	$ 20,144,061

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

1. Organization

Founded in 1919 and located in Wellesley, Massachusetts, Babson College (the “College”) enrolls approximately 2,100 undergraduate and 900 graduate students from the United States and more than 80 countries worldwide. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree through its undergraduate program. The College also grants Master of Business Administration degrees and custom Master of Science degrees through the F.W. Olin Graduate School of Business at the College. Additionally, the College offers distinct executive education programs to help companies reach their strategic goals.

Babson Global, Inc. (“Babson Global”) is a 501(c) (3) supporting organization of the College. Babson Global was created to carry out certain educational purposes of the College and to advance and support the educational objectives of the College by providing consulting, technical services and educational products to organizations.

2. Summary of Significant Accounting Policies

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of the College and its wholly owned subsidiary, Babson Global. All significant inter-entity balances and transactions have been eliminated in consolidation.

Basis of Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting with net assets, revenues, expenses, gains and losses into three categories based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets
Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. The donors of these assets generally permit the College to use all or part of the related investment income and appreciation earned for general or specific purposes.

Temporarily Restricted Net Assets
Net assets subject to donor-imposed stipulations, or law, that may or will be met by actions of the College and/or the passage of time.

Unrestricted Net Assets
Net assets not subject to donor-imposed stipulations which the College may use at its discretion.

The College has defined its primary activities as operating and nonoperating. Operating activities consist primarily of activities supporting the educational mission and purpose of the College. Nonoperating activities represent transactions of a capital and investing nature including realized and unrealized gains on investments that are invested by the College to generate a return that will support operations, endowment gifts, gifts restricted to future periods, capital gifts and unrealized gains and losses on interest rate swap agreements.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as released from restrictions. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue. Changes or clarifications to donor-imposed restrictions subsequent to the period of contribution are reported as reclassifications within the appropriate net asset classes.

Contributions

Contributions are recognized as revenues in the period received or when an unconditional promise to give has been made. Contributions and investment income subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenues. Unconditional promises to give with due dates scheduled after the statement of financial position date are shown as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions involved. Temporarily restricted net assets are released to unrestricted net assets when the related purpose and/or time restrictions are met. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgment including such factors as prior collection history, type of contribution, past due amounts and the nature of fund-raising activity.

The College reports contributions of land, buildings, equipment and software as unrestricted support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire or construct long-lived assets are reported as temporarily restricted support and are reclassified.to unrestricted net assets upon the later of the asset being placed into service or when a time restriction expires.

Works of Art and Special Collections

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are not capitalized. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collection items are not recorded for financial statement purposes.

Dividends, Interest and Net Gains
Dividends, interest and net gains on investments are reported as follows:

- As increases or decreases in permanently restricted net assets if the terms of the underlying gift require that they be added to the principal of a permanent endowment fund;

- As increases or decreases in temporarily restricted net assets if the terms of the underlying gift or relevant state law impose restrictions on the current use of the income or net gains; and

- As increases or decreases in unrestricted net assets in all other cases.

The College employs an endowment spending policy that establishes the amount of investment return made available for expenditure each year. This amount is up to 5% of the previous 20 quarter average market value of the Endowment Fund as of June 30 of the preceding year, plus additional spending for endowment management, excluding amounts internally designated for use in Master Plan projects (Note 16). The approved spending rate was 4.5% for the fiscal years ending June 30, 2016 and 2015. Investment return earned in excess of the amount distributed annually is reinvested in the fund, but can be distributed in future years in accordance with the endowment spending policy.

Cash and Cash Equivalents
Operating cash invested with original maturities of less than three months at the date of purchase are considered cash equivalents. The College may use cash to post collateral related to interest rate swap agreements with an investment banker. Any cash posted as collateral is not available for use (Note 7). No collateral was required to be posted as of June 30, 2016 and 2015.

Working Capital Investments
The College holds certain investments that are held for working capital purposes and intended to be used to cover immediate cash needs of the institution. The balance of these funds for the fiscal years ended June 30, 2016 and 2015 was $7,015,749 and $0, respectively.

Investments
The College's investments are recorded at fair value. The fair value of publicly-traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. In addition, the College invests in certain limited partnerships where the value of the investment is based on the fair value of the underlying investments within these partnerships. The funds are reported as equity, fixed income or alternative investments based on the nature of the underlying investments.

Fair values for certain private equity investments held through limited partnerships and alternative investments are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the College's Investment Committee and management. Because the investments in private equity investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a market for such investments existed.

Purchases and sales of investments are recorded on the trade date. The gain or loss on the sale of investments is determined using average cost.

See Note 4 for additional fair value disclosures.

See Note 16 for endowment disclosure in accordance with an act providing for the Uniform Prudent Management of Institutional Funds ("UPMIFA").

Derivative Instruments

The College accounts for its interest rate swap agreements in accordance with *Accounting for Derivative Instruments and Hedging Activities*. Fair values of interest rate swap agreements are the estimated amounts that the College would have received or paid, including accrued interest, to terminate the agreements on the date of the statements of financial position, taking into account the creditworthiness of the underlying party. The estimated fair values of the agreements are recorded as assets or liabilities within the consolidated statements of financial position. Changes in the estimated fair values are recorded in the consolidated statement of activities.

Land, Buildings, Equipment and Software

Land, buildings, equipment and software are reported at cost at the date of acquisition or fair value at the date of donation in the case of gifts. For assets placed in service, depreciation is provided using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend its estimatable useful life is not capitalized.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

	Years
Buildings	40 to 50
Building improvements	10 to 30
Land improvements	10 to 50
Equipment and software	3 to 10

Deposits and Advance Payments

Student and participant reservation deposits, along with advance payments for tuition and room and board, have been deferred and will be recorded as revenues in the year in which the sessions and services are completed.

Bond Discounts/Premiums and Origination Costs

Bond discounts/premiums and origination costs are capitalized in the period of issuance and amortized over the period of the related debt. The College uses the straight-line method to amortize the bond discounts/premiums and origination costs. This approximates the effective interest method. Unamortized bond discounts/premiums are included in bonds payable, net and unamortized origination costs are included in prepaid expenses and other assets.

Functional Reporting of Expenses

The costs of providing the College's activities have been summarized on a functional basis in the consolidated statements of activities. Expenses associated with the College's land, buildings, equipment and software, including interest, depreciation, and operations and maintenance expenses, are functionally allocated based on square footage utilization.

Student Aid

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students, either as unrestricted College financial aid, reductions from endowment funds, restricted specific-purpose gifts, or government grants awarded to students by the College.

Fair Value of Financial Instruments

The estimated fair values of the College's financial instruments have been determined, where practicable, by using appropriate valuation methodologies. The College has further determined that the carrying values of its financial assets and liabilities, approximate fair value (Note 6).

Related Parties

The College may procure certain banking, legal, investment management and human resources services from business organizations that employ individuals that are also members of the College's Board of Trustees. The procurement of these services is performed in accordance with the College's established policies and procedures, and management and the Board of Trustees report and monitor related party transactions in accordance with a formally adopted Conflict of Interest Policy.

Income Tax Status

The College is an organization described under Internal Revenue Code ("IRC") section 501(c)(3) and is generally exempt from federal and state income taxes under the provisions of IRC section 501(a).

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2015, from which the summarized information is derived.

Conditional Asset Retirement Obligations

Accounting for Conditional Asset Retirement Obligations defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the College. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. Management provides reasonable estimates of certain known retirement obligations.

$30,007 and $33,008 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $1,108,787 and $1,055,988 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2016 and 2015, respectively.

Reclassifications

Certain 2015 financial information has been reclassified to conform with the 2016 presentation.

New Accounting Pronouncements

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as the practical expedient. This guidance is effective in fiscal year 2018, however, early adoption is permitted. The College has elected to adopt the guidance early, and the impact is limited to the notes to the consolidated financial statements. This disclosure was applied retrospectively in Note 4 for both fiscal years 2015 and 2016. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the current year presentation.

In April 2015, the FASB issued ASU 2015-03 - *Imputation of Interest*: *Simplifying the Presentation of Debt Issuance Costs*, which requires all costs incurred to issue debt to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability. The College is evaluating the impact this will have on the consolidated financial statements for the fiscal year ending June 30, 2017, the first year in which the standard is effective.

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers* at the conclusion of a joint effort with the International Accounting Standards Board 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 College. The College is evaluating the impact this will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, 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 balance sheet. 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 a generally 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 College. Early adoption is permitted. The College is evaluating the impact of the new guidance on the consolidated financial statements.

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 College. 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 College is evaluating the impact of the new guidance on the consolidated financial statements.

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. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. 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. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosure must be provided. 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 College and early adoption is permitted. The College is evaluating the impact of the new guidance on the consolidated financial statements.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2016 and 2015:

	2016			2015		
	Temporarily Restricted	**Permanently Restricted**	**Total**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-imposed restrictions						
Capital construction and maintenance	$ 120,000	$ 25,000	$ 145,000	$ 120,000	$ 137,500	$ 257,500
Scholarships and fellowships	11,310,870	3,795,205	15,106,075	9,733,416	2,677,580	12,410,996
Instruction and academic support	11,048,382	3,445,179	14,493,561	10,899,173	2,329,608	13,228,781
Student programs	372,931	1,331,247	1,704,178	379,681	1,446,247	1,825,928
Babson Global Saudi Center		5,000,000	5,000,000	8,000,000	10,000,000	18,000,000
Other	2,227,308	6,283,063	8,510,371	2,947,319	8,729,229	11,676,548
	$ 25,079,491	$ 19,879,694	$ 44,959,185	$ 32,079,589	$ 25,320,164	$ 57,399,753

	2016			2015		
	Temporarily Restricted	**Permanently Restricted**	**Total**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Unconditional promises due within						
Less than one year	$ 6,977,596	$ 9,061,533	$ 16,039,129	$ 13,502,938	$ 12,599,020	$ 26,101,958
One year to five years	16,622,467	8,543,750	25,166,217	17,515,747	6,733,067	24,248,814
More than five years	1,479,428	2,274,411	3,753,839	1,060,904	5,988,077	7,048,981
	25,079,491	19,879,694	44,959,185	32,079,589	25,320,164	57,399,753
Less						
Unamortized discount	(2,277,514)	(1,533,115)	(3,810,629)	(2,547,966)	(1,820,418)	(4,368,384)
Allowance for uncollectibles	(2,117,815)	(1,169,762)	(3,287,577)	(2,114,678)	(1,214,262)	(3,328,940)
	$ 20,684,162	$ 17,176,817	$ 37,860,979	$ 27,416,945	$ 22,285,484	$ 49,702,429

In addition, at June 30, 2016 and 2015, the College had $1,063,291 and $848,271, respectively, of conditional promises from donors that are not recognized as assets in the consolidated statements of financial position. These conditional promises consisted of pledges and matching pledges for scholarships, professorships, endowment and other purposes.

Also, at June 30, 2016, the College is named the beneficiary of several charitable remainder trusts which, because of their terms, have not been recognized as assets in the consolidated statement of financial position. As the benefits from these trusts are shared with the donor or a designated beneficiary, the College will recognize gift revenue only after the amount of beneficial interest is known and estimable after considering the trusts' obligations to other beneficiaries.

4. Investments

Investments, stated at fair value, consisted of the following at June 30:

	2016	**2015**
Equity securities and funds	$ 196,729,874	$ 199,531,798
Fixed income securities and funds	63,282,949	48,361,468
Alternative investments		
Hedge funds	23,180,553	45,383,426
Private equity and venture capital funds	63,384,143	55,103,431
Real estate funds	119,013	248,806
	$ 346,696,532	$ 348,628,929

Equity securities and funds includes net unsettled purchases of $87,037 and net unsettled trades of $896,815 at June 30, 2016 and 2015, respectively.

The College incurred investment management fees of $3,462,221 and $3,271,891 during the years ended June 30, 2016 and 2015, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $329,977 and $317,651 during the years ended June 30, 2016 and 2015, respectively, that are reported as a separate component of expenses. The College also incurred unrelated business income tax ("UBIT") on private equity funds of $305,000 and $0, for the years ended June 30, 2016 and 2015, respectively.

The following describes the hierarchy used to measure fair value and the primary valuation methodologies used by the College for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or 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 and 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 following tables present the financial instruments carried at fair value as of June 30, 2016 and 2015, by caption on the consolidated statement of financial position and by the fair value valuation hierarchy defined above:

	Fair Value as of June 30, 2016			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 79,062,068	$ -	$ -	$ 79,062,068
Fixed income securities and funds	38,787,140		12,000	38,799,140
Private equity and venture capital funds			19,868	19,868
Total Leveled Investments	117,849,208	-	31,868	117,881,076
Investments at net asset value				228,815,456
Investment totals				$ 346,696,532
Liabilities				
Interest rate swaps	$ -	$ 17,037,601	$ -	$ 17,037,601

	Fair Value as of June 30, 2015			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 79,088,490	$ -	$ -	$ 79,088,490
Fixed income securities and funds	24,265,801		14,000	24,279,801
Private equity and venture capital funds			21,839	21,839
Total Leveled Investments	103,354,291	-	35,839	103,390,130
Investments at net asset value				245,238,799
Investment totals				$ 348,628,929
Liabilities				
Interest rate swaps	$ -	$ 13,876,719	$ -	$ 13,876,719

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year.

The tables below present rollforwards of investments classified by the College within Level 3 of the fair value hierarchy at June 30, 2016 and 2015:

Rollforward of Investments Classified as Level 3 as of June 30, 2016

	Value at June 30, 2015	Realized Gains	Unrealized Gains/(Losses)	Interest & Dividends Net	Purchases	Sales	Value at June 30, 2016
Fixed income securities and funds	$ 14,000	$ -	$ -	$ 970	$ -	$ (2,970)	$ 12,000
Private equity and venture capital funds	21,839	-	(1,971)	-	-	-	19,868
	$ 35,839	$ -	$ (1,971)	$ 970	$ -	$ (2,970)	$ 31,868

Rollforward of Investments Classified as Level 3 as of June 30, 2015

	Value at July 1, 2014	Realized Gains	Unrealized Gains	Interest & Dividends Net	Purchases	Sales	Value at June 30, 2015
Fixed income securities and funds	$ 18,000	$ -	$ -	$ 1,111	$ -	$ (5,111)	$ 14,000
Private equity and venture capital funds	12,545	-	9,294	-	-	-	21,839
	$ 30,545	$ -	$ 9,294	$ 1,111	$ -	$ (5,111)	$ 35,839

The net unrealized loss on Level 3 investments held at June 30, 2016 that were also held at June 30, 2015 was ($1,971).

The value of certain investments represent the ownership interest in net asset value ("NAV") of the respective partnership. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The College has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30. The College has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and existence of certain redemption restrictions at the measurement date.

While not part of a leveling category, fair values for certain investments held are based on the net asset value (NAV) of such investments as determined by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the College's external investment advisors. Investment at NAV as of June 30 include:

	2016	2015
Emerging market funds	$ 9,551,579	$ 10,212,959
Domestic equity funds	46,505,010	45,991,820
International equity funds	21,108,897	23,024,744
Global asset allocation funds	40,502,320	41,213,806
Fixed income funds	24,483,809	24,081,646
Hedge funds	23,180,553	45,383,426
Private equity funds	61,271,649	51,628,977
Real estate funds	2,211,639	3,701,421
	$ 228,815,456	$ 245,238,799

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 College 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 different estimate of fair value at the reporting date.

The following tables present liquidity information for the investments carried at fair value at June 30, 2016 and 2015, respectively:

	Investments Asset Value as of June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 196,729,874	$ -	Daily - Quarterly	3-60 Days
Fixed income securities and funds	63,282,949	-	Daily - Monthly	3-30 Days
Hedge funds	23,180,553	-	Quarterly - Annually	45-60 Days
Private equity and venture capital funds	63,384,143	58,280,344	N/A	N/A
Real estate funds	119,013	-	Quarterly	90 Days
	$ 346,696,532	$ 58,280,344		

	Investments Asset Value as of June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 199,531,798	$ -	Daily - Quarterly	3-60 Days
Fixed income securities and funds	48,361,468	-	Daily - Monthly	3-30 Days
Hedge funds	45,383,426	-	Quarterly - Annually	45-60 Days
Private equity and venture capital funds	55,103,431	35,889,077	N/A	N/A
Real estate funds	248,806	-	Quarterly	90 Days
	$ 348,628,929	$ 35,889,077		

5. Land, Buildings, Equipment and Software

Land, buildings, equipment and software consisted of the following at June 30:

	2016	2015
Land	$ 1,600,545	$ 1,600,545
Land improvements	32,651,881	32,621,831
Buildings and improvements	311,501,160	294,537,566
Equipment and software	47,693,507	42,677,188
Construction in progress	20,411,883	11,502,676
	413,858,976	382,939,806
Less: Accumulated depreciation	(230,495,789)	(221,473,879)
	$ 183,363,187	$ 161,465,927

Depreciation expense was $11,849,559 and $10,663,013 for the years ended June 30, 2016 and 2015, respectively.

During the year, the College disposed of assets in conjunction with Master Plan construction projects on campus. A total of $3,401,734 in assets were removed from the books, which resulted in a loss on disposal of $574,085.

During the years ended June 30, 2016 and 2015, the College capitalized interest of $995,566 and $875,472, respectively.

At June 30, 2016 and 2015, construction costs of $4,690,581 and $7,649,964, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2016	2015
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2005A, bearing interest at a fixed rate of 4.00% to 5.00% and due through 2035	$ -	$ 13,790,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2007A, bearing interest at a fixed rate of 4.50% to 5.00% and due through 2017	1,865,000	15,375,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (0.44% at June 30, 2016) and due through 2032	30,015,000	31,145,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (0.45% at June 30, 2016) and due through 2031	23,820,000	24,785,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2011, bearing interest at fixed rate of 4.00% to 5.00% and due through 2025	8,865,000	9,870,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2013, bearing interest at fixed rate of 3.59% and due through 2043	33,024,072	33,723,410
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2015A, bearing interest at fixed rate of 4.00% to 5.00% and due through 2035	23,285,000	-
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2015B, bearing interest at fixed rate of 3.45% and due through 2045	36,467,635	-
	157,341,707	128,688,410
Unamortized premium	3,850,624	1,378,356
	$ 161,192,331	$ 130,066,766

In August 2015, the College issued $23,285,000 Massachusetts Development Finance Agency Revenue Bonds, Babson College Issue, Series 2015A Bonds (the "Series A Bonds"). Proceeds were used to partially refund two existing debt issues, the MDFA Series 2005A and the MDFA Series 2007A. The new issue resulted in interest cost savings and did not extend the maturities of the bonds refunded. Costs associated with the new bond issue amounted to $316,685 and will be amortized over the life of the bond.

In August 2015, the College issued $37,000,000 Massachusetts Development Finance Agency Revenue Note, Babson College Issue, Series 2015B (the "Series B Bonds"). These bonds mature over 30 years and bear a fixed rate of 3.45%. Proceeds from these issues will be used to fund projects contained within the College's Master Plan. Costs associated with the new bond issue amounted to $247,477 and will be amortized over the life of the bond.

The estimated fair value of the College's debt was $163,188,875 and $130,554,236 at June 30, 2016 and 2015, respectively. The fair value of the College's outstanding fixed rate long term debt has been estimated based on discounting the remaining cash flows for each individual fixed rate debt issue at a rate that reflects current market borrowing rates for issuers of comparable credit quality and for debt instruments with comparable structure and terms. The estimated fair value is based on Level 2 inputs. For the College's variable rate long term debt, the carrying value is equal to the fair value.

The bond agreements contain certain restrictive covenants which, among other restrictions, require the pledge of certain revenues as collateral for repayment, the maintenance of a minimum level of aggregate expendable funds and a maximum level of debt service. In addition, for certain bonds, the College is required to maintain deposits with an outside trustee for the purpose of meeting scheduled debt service requirements of the respective outstanding bonds until they become due.

Bond deposits with trustee as of June 30, 2016 and 2015 were $22,625,572 and $8,026,642, respectively, which represent unexpended proceeds for the College's Master Plan projects and funds held to pay debt service. Scheduled aggregate principal payments on bonds payable are as follows:

Fiscal Years	**Principal Amount**
2017	$ 5,881,545
2018	6,189,564
2019	6,459,509
2020	6,830,156
2021	7,020,223
Thereafter	124,960,710
	$ 157,341,707

In the event that the College receives notice of any optional tender on its Series 2008A and 2008B variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will be obligated to purchase the bonds tendered and has secured a standby letter-of-credit for an amount up to an aggregate of $51,675,000. The repayment schedule under the letter-of-credit commences on 90th day subsequent to the borrowing and requires 6 equal semi-annual payments. The amounts noted above in the schedule of maturities would be adjusted if the maximum amount of the letter of credits were utilized. In October of 2016, the College replaced the previous standby letter-of-credit with a new financial institution and the remarketed bonds. The letter-of-credit expires on October 15, 2021.

Drawings on the letter of credit for bonds tendered that are not remarketed are payable in 6 equal, semi-annual principal installments over a period ending no later than the letter of credit expiration date, which may be extended from time to time. Based on the existing repayment and maturity terms of the underlying letters of credit, the maximum principal payments under the variable-rate bonds related letters of credit, given 6 semi-annual payments, would be as follows: $21,667,000 in fiscal year 2017, $21,836,000 in fiscal year 2018, $21,990,000 in fiscal year 2019, $4,215,000 in fiscal year 2020, $4,390,000 in fiscal year 2021 and $83,246,000 thereafter.

Interest expense was $4,854,122 and $4,919,313 for the years ended June 30, 2016 and 2015, respectively.

7. Interest Rate Swaps

The College has two interest rate swap agreements with financial institution counterparties. The purpose of the agreements is to effectively convert the variable rates on both the MDFA, Series 2008A and Series 2008B Revenue Bonds to fixed rates of 4.089% and 6.175%, respectively. The swap agreements expire at the maturity of each bond and the notional principal amount will decrease as the bonds mature.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain of the interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Although these financial instruments involve counterparty credit exposure, the counterparties for the agreements are major financial institutions that meet the College’s criteria for financial stability and creditworthiness at June 30, 2016. The College entered into these agreements to manage the cash flows attributable to interest payments and does not use such instruments for speculative purposes.

The swap agreements’ fair value and changes therein, are reported in the consolidated financial statements. The fair value of the swap agreements represent the estimated cost to the College to cancel the agreement as of the reporting date, and is based on option pricing models that consider risks and other market factors. If the valuation of the swap agreements exceeds certain thresholds, the College is required to post collateral for the amount of the excess. At June 30, 2016 and 2015, no collateral was required to be posted.

The following tables summarize the College’s derivative activity as presented in the consolidated financial statements as of June 30:

Fair Values of Derivative Instruments on the Consolidated Statements of Financial Position

Derivatives not designated as hedging instruments	Consolidated Statements of Position Location	Fair Value of Derivatives 2016	Fair Value of Derivatives 2015
Interest rate swap contracts	Interest rate swap liability	$ 17,037,601	$ 13,876,719

Effect of Derivative Instruments on the Consolidated Statement of Activities

Derivatives not designated as hedging instruments	Consolidated Statement of Activities Location	Fair Value of Derivatives 2016	Fair Value of Derivatives 2015
Interest rate swap contracts	Unrealized (losses) gains on interest rate swap agreements	$ (3,160,882)	$ 341,747
	Less: Operating expenses	(2,552,427)	(2,719,342)
	Net impact	$ (5,713,309)	$ (2,377,595)

Activity reflected in operating expenses is monthly swap payments to counterparties. The payments are allocated across each operating expense line item.

Interest rate swap contracts open at June 30, 2016 and 2015 accounted for all swap activity for the year.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 10,551,400	$ 7,876,960	$ 11,256,478	$ 7,724,109
Instruction and academic support	42,895,145	55,174,669	47,851,860	50,317,832
Scholarships and fellowships	33,948,633	27,346,180	36,662,375	24,767,130
Other	18,522,481	21,374,538	11,980,854	17,647,382
Annuity	(265,135)	54,224	(93,619)	54,224
	105,652,524	111,826,571	107,657,948	100,510,677
Contributions receivable, net (Note 3)	20,684,162	17,176,817	27,416,945	22,285,484
	$ 126,336,686	$ 129,003,388	$ 135,074,893	$ 122,796,161

9. Net Assets Released From Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows for the years ended June 30:

	2016	2015
Capital construction and maintenance	$ 345,282	$ 617,883
Instruction and academic support	7,378,955	6,238,640
Scholarships and fellowships	5,353,175	4,390,647
Other	3,527,489	2,793,999
	$ 16,604,901	$ 14,041,169

10. Fund-Raising and Alumni Relations Expenses

Fund-raising and alumni relations expenses, which are included in institutional support expenses, and other nonoperating net revenue were as follows for the years ended June 30:

	2016	2015
Fund-raising	$ 4,815,079	$ 4,421,875
Alumni relations	2,472,173	2,359,054
	$ 7,287,252	$ 6,780,929

In addition to the direct fundraising costs shown above, bad debt expense for the uncollectible pledges was $692,119 and $179,054 for the years ended June 30, 2016 and 2015, respectively.

11. Retirement Plans

Defined Contribution Plan
The College has a defined contribution retirement plan for eligible full-time academic, administrative and service personnel. This plan is designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. The College's expense under this plan was $6,844,957 and $6,557,828 as of June 30, 2016 and 2015, respectively. The College has no liability for benefits paid under this plan.

Deferred Compensation Plan
The College has a deferred compensation plan for a select group of management which is designed in accordance with the provisions of Section 457 of the Internal Revenue Code. This plan allows participants to defer a portion of their compensation until after employment termination. This plan does not currently provide for any employer matching of amounts deferred by employees. Deferred amounts are invested with a third-party administrator and included in prepaid expenses and other assets of the College. A corresponding liability is recorded in accounts payable and accrued expenses reflecting the College's obligation to the employees. The total amount of deferred compensation included in the assets and liabilities of the College was $968,511 and $904,102 as of June 30, 2016 and 2015, respectively.

12. Loans Receivable and Credit Loss Disclosures

Loans receivable are the result of loans to students of funds advanced to the College by the U.S. government under the Federal Perkins Loan Program (the "Program"). Such funds are reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the federal government. The federal government's portion of these student loans at June 30, 2016 and 2015 was $3,277,086 and $3,209,864, respectively. Loans receivable under the Program are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

The College records an allowance for doubtful accounts (credit losses) for the following loans receivable:

	June 30, 2016		June 30, 2015	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	$ 3,211,528	$ (41,000)	$ 3,406,508	$ (41,000)
Other student loans	1,377,031	(725,000)	1,438,777	(700,000)
	$ 4,588,559	$ (766,000)	$ 4,845,285	$ (741,000)

The College's Perkins Loan receivable represents the amounts due from current and former students under the Federal Perkins Loan program. The loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal Government in certain nonpayment situations. In these situations, the Federal portion of the loan balance is guaranteed.

Management performs on-going reviews to assess the adequacy of the allowance for credit losses. This includes evaluating the student loan portfolio, including economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which borrowers operate, and the level of delinquent loans. Also included in the evaluation is a detailed review of the aging of student loans and a review of the default rate by loan category in comparison to prior years.

In accordance with the College's policy, the loan allowance is adjusted at the end of each fiscal year based on a review of loan balances delinquent in excess of 120 days and/or currently in collections.

Changes in the allowance for credit losses for the year ended June 30, 2016 were as follows:

	Perkin Loans	Other Student Loans
Beginning Balances June 30, 2015	$ (41,000)	$ (700,000)
Provisions for credit losses	-	(25,000)
Net charge-offs	-	-
Recoveries	-	-
Ending Balances June 30, 2016	$ (41,000)	$ (725,000)

Management considers the allowance for credit losses at June 30, 2016 to be prudent and reasonable.

13. Lease Commitments

The College leases certain equipment, computers and facilities under operating leases expiring at various dates. The College is committed to minimum annual rent payments under these operating leases as follows:

Fiscal Years	
2017	$ 3,348,279
2018	2,022,441
2019	982,251
2020	933,790
2021	555,990
Thereafter	2,838,588

Expense incurred on leased computers, facilities and equipment amounted to $2,571,336 and $2,052,056 for the years ended June 30, 2016 and 2015, respectively.

Under an operating lease agreement, the College rents to a third party certain athletic facilities known as The Wellesley Center. The total of future minimum payments to be received by the College under this noncancelable lease are as follows:

Fiscal Years	
2017	$ 1,492,750
2018	1,548,728
2019	1,606,805
2020	1,667,060
2021	1,729,575

Rental income for building leases amounted to $1,438,795 and $1,386,791 for the years ended June 30, 2016 and 2015, respectively.

14. Natural Classification of Expenses

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

	2016	2015
Salaries	$ 88,480,035	$ 86,200,093
Benefits	22,634,223	21,485,547
Depreciation	11,849,559	10,663,013
Travel/training/entertainment	9,664,073	10,021,975
Food and beverage services	8,621,256	8,441,976
Professional and consulting	7,753,865	8,661,076
Utilities and other facility services	7,668,032	7,662,654
Communication and information	6,766,391	6,286,418
Debt and finance expenses	6,753,479	5,976,587
Advertising and media	4,811,279	5,295,887
Other expenses	4,009,160	3,775,194
Consumable expenses	3,756,812	4,938,675
Babson Executive Conference Center ("BECC") room, conference and administration	3,102,668	3,006,644
Materials and supplies	3,058,927	2,813,666
Purchased services	2,333,656	2,364,357
	$ 191,263,415	$ 187,593,762

15. Commitments

As of June 30, 2016, the College has no contractual commitments on open construction contracts and acquisitions. From time to time, various claims and suits generally incident to the conduct of normal business are pending or may rise against the College. In the opinion of counsel and management of the College, losses, if any, from the resolution of pending litigation should not have a material effect on the College's financial position or results of operations.

16. Babson College Endowment Funds and Net Assets

The College's endowment consists of over 250 individual funds which have been established over time for various purposes, including scholarships, chairs and professorships, facilities, athletics and other educational services. The College's endowment consists of both donor-restricted funds as well as board-designated endowment funds. The classification of funds is based on the existence or absence of donor-imposed restrictions.

Underwater Endowment Funds

Periodically, the fair value of individual endowment funds may fall below the original gift amount "corpus". These deficiencies may be the result of significant market fluctuations in conjunction with prudent appropriations against the funds. As of June 30, 2016, there were 7 endowment funds that were deemed underwater, where the fair value had declined below the corpus by a total of $35,337. In all cases, the underwater status was a result of market deterioration combined with the length of time funds have been in existence. As of June 30, 2015, there were no endowment funds that were deemed underwater.

Return Objectives and Strategies for Achieving Objectives

The College has approved and adopted investment and endowment spending policies with the expectation of capital preservation and enhancement over time. The College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Total return with prudent investment management is the primary goal.

Net Asset Composition

The College had the following endowment activities and net assets during the fiscal years ended June 30, 2016 and 2015, respectively:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2015	$ 154,396,117	$ 90,631,037	$ 100,510,677	$ 345,537,831
Contributions received July 1, 2015 - June 30, 2016	-	89,749	3,446,894	3,536,643
Investment return	-	-	-	
Investment income	551,856	912,883	-	1,464,739
Net appreciation (realized and unrealized)	(3,062,336)	(5,075,679)	-	(8,138,015)
Total investment return	(2,510,480)	(4,162,796)	-	(6,673,276)
Endowment spending policy allocation	(4,877,793)	(6,831,930)	-	(11,709,723)
Other changes				
Reclassifications and other adjustments	-	(4,191)	2,869,000	2,864,809
Babson Global endowment transfer	-	6,000,000	5,000,000	11,000,000
Total other changes	-	5,995,809	7,869,000	13,864,809
Endowment net assets at June 30, 2016	147,007,844	85,721,869	111,826,571	344,556,284
Operating funds - Babson College	5,541,867	35,499,434	-	41,041,301
Funding for facilities	33,208,005	1,555,081	-	34,763,086
Interest rate swap valuation	(17,037,601)	-	-	(17,037,601)
Other funds	-	-	12,176,817	12,176,817
Babson Global	1,204,601	3,560,302	5,000,000	9,764,903
Total net assets at June 30, 2016	$ 169,924,716	$ 126,336,686	$ 129,003,388	$ 425,264,790

	Unrestricted	Restricted	Restricted	Total
Endowment net assets at June 30, 2014	$ 145,658,661	$ 86,978,979	$ 97,543,303	$ 330,180,943
Contributions received July 1, 2014 - June 30, 2015	-	357,112	2,965,123	3,322,235
Investment return				
Investment income	1,235,182	1,972,975	-	3,208,157
Net appreciation (realized and unrealized)	5,408,461	8,103,745	-	13,512,206
Total investment return	6,643,643	10,076,720	-	16,720,363
Endowment spending policy allocation	(3,906,116)	(6,775,523)	-	(10,681,639)
Other changes				
Reclassifications and other adjustments	(71)	(6,251)	2,251	(4,071)
Babson Global endowment transfer	2,000,000	-	-	2,000,000
Transfers to Board-designated funds	4,000,000	-	-	4,000,000
Total other changes	5,999,929	(6,251)	2,251	5,995,929
Endowment net assets at June 30, 2015	154,396,117	90,631,037	100,510,677	345,537,831
Operating funds - Babson College	9,910,985	32,997,588	-	42,908,573
Funding for facilities	27,798,308	1,568,965	-	29,367,273
Interest rate swap valuation	(13,876,719)	-	-	(13,876,719)
Other funds	-	-	12,285,484	12,285,484
Babson Global	(669,107)	9,877,303	10,000,000	19,208,196
Total net assets at June 30, 2015	$ 177,559,584	$ 135,074,893	$ 122,796,161	$ 435,430,638

The unrestricted endowment net asset amounts represent board-designated funds. Of these amounts, a total of $34,473,123 has been internally designated for the College's Master Plan as of June 30, 2016 and 2015. In addition, this balance includes board-designated funds of Babson Global, amounting to $3,929,737 and $4,181,572 as of June 30, 2016 and 2015, respectively. All other endowment net asset amounts represent donor-restricted endowment funds.

Operating funds of the College consist primarily of unendowed pledge receivables, unspent restricted gifts related to instruction and academic support, and cumulative unrestricted surplus.

17. Babson Global Activities

In 2014, Babson Global, a wholly owned subsidiary of Babson College, entered into a Technical Academic Services Agreement and a Name and Intellectual Property (IP) Agreement with Lockheed Martin Corporation and EMAAR, The Economic City, to work together in furtherance of the establishment, development and operation of an institution of higher education in the King Abdullah Economic City in the Kingdom of Saudi Arabia focusing on entrepreneurship (the "New College"). These agreements will result in Babson Global receiving approximately $52.2 million over a period of time beginning in 2014 for ten years after the school is opened, which occurred during fiscal year 2016, for the use of Babson IP, Academic Development Services, and Technical Academic Services. In addition, there was a gift agreement entered into between Babson Global and Lockheed Martin to establish a Center for Entrepreneurial Leadership in the Kingdom of Saudi Arabia.

After reviewing the applicable accounting guidance governing revenue recognition for multiple element arrangements, management has concluded that revenue should be recognized as a single arrangement as the deliverables do not have a stand-alone value to the customer on a stand-alone basis. Revenue will be recognized on a proportional performance model, and the recognition will occur on a straight-line basis that is consistent with Babson Global's level of effort in performing the obligations within the agreements.

The gift agreement from Lockheed Martin is accounted for under the accounting guidance for contributions received for a not-for-profit organization. The $20,000,000 pledge was recorded on the consolidated financial statements during fiscal year ended June 30, 2015. A total of $15,000,000 has been collected through June 30, 2016. The remaining pledge balance of $5,000,000 is included in the contributions receivable detail disclosed in Note 3.

During fiscal year 2015, Babson Global invested $2,000,000 with the College's endowment funds. These funds are board-designated and are considered unrestricted in nature. Funds will be held by the College on behalf of Babson Global in accordance with its policies and procedures governing the investment, management and distribution of endowment and other funds. The agreement may be terminated by a party if other parties fail to perform their obligations under the contract.

18. Subsequent Events

Subsequent events have been evaluated through October 22, 2016, the date the consolidated financial statements were issued. The College has concluded that no other material events have occurred that are not accounted for in the accompanying consolidated financial statements or disclosed in the accompanying notes (see Note 6).