Babson College

Consolidated Financial Statements

June 30, 2018 and 2017

Babson College
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June 30, 2018 and 2017

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, 2018 and 2017 and the related consolidated statements of activities for the year ended June 30, 2018 and of cash flows for the years ended June 30, 2018 and 2017.

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.

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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, 2018 and 2017 and the changes in their net assets for the year ended June 30, 2018 and their cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended (not presented herein), and in our report dated October 20, 2017, 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, 2017 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

Boston, Massachusetts
October 19, 2018

Babson College
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 53,714,391	$ 37,542,162
Working capital investments	9,051,172	9,067,425
Accounts receivable, net of allowance of $507,511 and $412,583 at June 30, 2018 and 2017, respectively	6,112,330	5,371,758
Prepaid expenses and other assets	8,289,338	7,942,319
Contributions receivable, net	37,985,403	35,073,793
Loans receivable, net of allowance of $851,000 and $821,000 at June 30, 2018 and 2017, respectively	2,885,797	3,377,598
Bond deposits with trustee	37,581,720	12,580,227
Investments, at fair value	421,920,139	391,463,550
Land, buildings, equipment and software, net	214,577,450	188,814,423
Total assets	$ 792,117,740	$ 691,233,255
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 31,660,161	$ 21,699,078
Deposits and advance payments	22,241,384	25,040,592
Government advances for student loans	2,263,353	3,105,115
Interest rate swap liability	8,974,854	12,290,289
Bonds payable, net	185,202,173	153,983,694
Total liabilities	250,341,925	216,118,768
Net assets		
Unrestricted	229,261,192	189,689,890
Temporarily restricted	169,717,740	148,464,481
Permanently restricted	142,796,883	136,960,116
Total net assets	541,775,815	475,114,487
Total liabilities and net assets	$ 792,117,740	$ 691,233,255

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

Babson College
Consolidated Statement of Activities
Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 172,572,035	$ -	$ -	$ 172,572,035	$ 158,943,202
Less: Student aid	(45,146,310)			(45,146,310)	(42,127,067)
Net tuition and fees	127,425,725	-	-	127,425,725	116,816,135
Room and board	29,900,106			29,900,106	28,902,406
Educational programs	2,784,200			2,784,200	2,530,038
Noneducation programs and auxiliary activities	24,939,068			24,939,068	25,832,532
Total program service fees	185,049,099	-	-	185,049,099	174,081,111
Contributions and grants	6,584,879			6,584,879	7,541,587
Investment income used in operations	374,210			374,210	220,910
Endowment spending used in operations	13,709,061			13,709,061	12,386,970
Net assets released from restrictions	8,911,250			8,911,250	11,286,483
Total operating revenues and support	214,628,499	-	-	214,628,499	205,517,061
Operating expenses					
Instruction	57,718,478			57,718,478	55,485,189
Academic support	36,013,154			36,013,154	35,289,869
Student services	30,550,918			30,550,918	30,135,232
Auxiliary activities	44,990,885			44,990,885	44,801,376
Institutional support	37,562,475			37,562,475	36,854,197
Total operating expenses	206,835,910	-	-	206,835,910	202,565,863
Increase in net assets from operations	7,792,589	-	-	7,792,589	2,951,198
Nonoperating activities					
Contributions and grants		33,730,652	5,954,781	39,685,433	20,059,501
Net assets released from restrictions	29,421,508	(38,242,674)	(90,084)	(8,911,250)	(11,286,483)
Unrealized gains on interest rate swap agreements	3,315,435			3,315,435	4,747,312
Other nonoperating net revenues(expenses)	(591,407)			(591,407)	736,602
	32,145,536	(4,512,022)	5,864,697	33,498,211	14,256,932
Investment return					
Realized and unrealized net gains	13,471,831	25,983,838	(27,930)	39,427,739	44,569,675
Interest and dividend income	481,664	(218,557)		263,107	818,584
Investment consultant fees	(611,257)			(611,257)	(359,722)
Net total investment return	13,342,238	25,765,281	(27,930)	39,079,589	45,028,537
Less: Endowment spending draw	(13,709,061)			(13,709,061)	(12,386,970)
Total nonoperating activities	31,778,713	21,253,259	5,836,767	58,868,739	46,898,499
Total increase in net assets	39,571,302	21,253,259	5,836,767	66,661,328	49,849,697
Net assets					
Beginning of year	189,689,890	148,464,481	136,960,116	475,114,487	425,264,790
End of year	$ 229,261,192	$ 169,717,740	$ 142,796,883	$ 541,775,815	$ 475,114,487

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

Babson College
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net tuition and fees received	$ 155,790,357	$ 148,275,837
Other educational and noneducational receipts	25,986,706	28,054,742
Contributions and grants received, net of amounts restricted for long-term purposes	35,912,659	17,049,644
Proceeds from stock gifts received for operations	968,220	820,175
Interest and dividends received	1,144,064	1,143,058
Payments to employees and suppliers	(188,090,743)	(180,864,207)
Proceeds from bond premium issuance	5,092,499	-
Interest paid	(3,638,775)	(3,787,309)
Net cash provided by operating activities	33,164,987	10,691,940
Cash flows from investing activities		
Purchases of investments	(76,285,754)	(77,353,161)
Sales of investments	84,682,340	75,139,846
Transfers (to) from bond deposits with trustee, net	(25,001,493)	10,045,345
Acquisition and construction of property and equipment	(29,154,654)	(21,412,812)
Student loans repaid	623,342	651,046
Student loans issued	(161,541)	(261,085)
Net cash used in investing activities	(45,297,760)	(13,190,821)
Cash flows from financing activities		
Payment of bond issuance costs	(438,538)	-
Repayments of bonds and notes	(6,304,560)	(6,092,659)
Proceeds from new debt issued	33,000,000	-
Payments on split interest agreements	(661,613)	(332,046)
Decrease for refundable U.S. government grants	(841,762)	(171,971)
Payments on interest rate swap contracts	(1,856,210)	(2,312,474)
Proceeds from stock gifts received for long-term purposes	290,561	368,052
Permanently restricted contributions	5,117,124	10,648,772
Net cash provided by financing activities	28,305,002	2,107,674
Net increase (decrease) in cash and cash equivalents	16,172,229	(391,207)
Cash and cash equivalents		
Beginning of year	37,542,162	37,933,369
End of year	$ 53,714,391	$ 37,542,162
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 66,661,328	$ 49,849,697
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net gains on investments	(38,894,021)	(44,641,843)
Depreciation and amortization	14,505,804	13,392,902
Loss on disposal of building	600,647	119,717
Permanently restricted contributions	(5,117,124)	(10,648,772)
(Increase) decrease in contributions receivable	(2,101,157)	3,367,139
Decrease in allowances	(810,453)	(585,437)
Proceeds from bond premium issuance	5,092,499	-
Payments on interest rate swap contracts	1,856,210	2,312,474
Decrease in interest rate swap liability	(3,315,435)	(4,747,312)
Changes in working capital assets and liabilities, net	(5,313,311)	2,273,375
Net cash provided by operating activities	$ 33,164,987	$ 10,691,940

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 2,300 undergraduate and 900 graduate students from the United States and more than 75 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 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 classified 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 restrictions 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, 2018 and 2017. 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, 2018 and 2017.

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 College. The balance of these funds for the fiscal years ended June 30, 2018 and 2017 was $9,051,172 and $9,067,425, 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 ASC 815, *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. Advance deposits received for Babson Global projects have been deferred and will be recognized as revenue in the year in which the services are performed.

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.

All costs incurred to issue debt are presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability in accordance with ASU 2015-03 *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*.

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.

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.

$24,005 and $27,006 of asset retirement costs, net of accumulated depreciation, has been included in land, buildings, equipment and software, net and $1,222,437 and $1,164,226 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

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, 2017, from which the summarized information is derived.

Reclassifications
Certain 2017 financial information has been reclassified to conform with the 2018 presentation.

New Accounting Pronouncements
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 standard is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the College. We have completed our initial assessment and our policies and procedures related to this ASU, which we adopted, effective July 1, 2018. We do not expect the adoption of this ASU to result in a significant change to our method of recognizing operating and nonoperating revenues and support at the College.

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 will continue to evaluate 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 and was by the College in 2017. The College will continue to evaluate 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. The College has completed an initial draft of the consolidated financial statements in the new format and does not expect this guidance to have a significant impact other than condensing net assets and adding new required disclosures.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2018 and 2017:

	2018			2017		
	Temporarily Restricted	**Permanently Restricted**	**Total**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-imposed restrictions						
Capital construction and maintenance	$ 1,638,897	$ 1,000,126	$ 2,639,023	$ 836,214	$ 1,093,750	$ 1,929,964
Scholarships and fellowships	11,155,224	7,462,487	18,617,711	10,965,125	5,901,029	16,866,154
Instruction and academic support	11,943,415	2,065,946	14,009,361	10,463,645	2,176,179	12,639,824
Student programs	491,837	1,208,847	1,700,684	449,064	1,267,739	1,716,803
Other	830,013	5,189,300	6,019,313	1,869,569	6,247,228	8,116,797
	$ 26,059,386	$ 16,926,706	$ 42,986,092	$ 24,583,617	$ 16,685,925	$ 41,269,542

	2018			2017		
	Temporarily Restricted	**Permanently Restricted**	**Total**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Unconditional promises due within						
Less than one year	$ 8,725,948	$ 4,724,951	$ 13,450,899	$ 7,982,153	$ 4,000,990	$ 11,983,143
One year to five years	16,439,794	11,454,208	27,894,002	15,346,703	11,607,458	26,954,161
More than five years	893,644	747,547	1,641,191	1,254,761	1,077,477	2,332,238
	26,059,386	16,926,706	42,986,092	24,583,617	16,685,925	41,269,542
Less						
Unamortized discount	(1,750,564)	(1,352,954)	(3,103,518)	(1,865,784)	(1,622,341)	(3,488,125)
Allowance for uncollectibles	(1,226,822)	(670,349)	(1,897,171)	(2,124,864)	(582,760)	(2,707,624)
	$ 23,082,000	$ 14,903,403	$ 37,985,403	$ 20,592,969	$ 14,480,824	$ 35,073,793

In addition, at June 30, 2018 and 2017, the College had $6,083,256 and $700,791, 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, 2018, 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:

	2018	2017
Equity securities and funds	$ 103,882,125	$ 97,939,887
Fixed income securities and funds	32,668,493	36,529,221
Alternative investments		
Equity securities and funds	148,625,073	137,593,822
Fixed income securities and funds	30,429,539	25,846,566
Hedge funds	17,170,138	21,030,358
Private equity and venture capital funds	87,844,090	71,290,588
Real estate funds	1,300,681	1,233,108
	$ 421,920,139	$ 391,463,550

Equity securities and funds includes net unsettled purchases of $234,492 and net unsettled trades of $34,653 at June 30, 2018 and 2017, respectively.

The College incurred investment management fees of $4,298,175 and $4,146,943 during the years ended June 30, 2018 and 2017, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $608,842 and $356,263 during the years ended June 30, 2018 and 2017, respectively, which are reported as a separate component of expenses. The College also incurred unrelated business income tax ("UBIT") on private equity funds of $0 and $3,459, for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, by caption on the consolidated statement of financial position and by the fair value valuation hierarchy defined above:

	Fair Value as of June 30, 2018			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 103,882,125	$ -	$ -	$ 103,882,125
Fixed income securities and funds	32,668,493		12,000	32,680,493
Total Leveled Investments	$ 136,550,618	$ -	$ 12,000	136,562,618
Investments at NAV				285,357,521
Investment totals				$ 421,920,139
Working capital investments				
Fixed income securities	$ 9,051,172	$ -	$ -	$ 9,051,172
Liabilities				
Interest rate swaps	$ -	$ 8,974,854	$ -	$ 8,974,854

	Fair Value as of June 30, 2017			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 97,939,887	$ -	$ -	$ 97,939,887
Fixed income securities and funds	36,529,221		12,000	36,541,221
Private equity and venture capital funds			10,331	10,331
Total Leveled Investments	$ 134,469,108	$ -	$ 22,331	134,491,439
Investments at NAV				256,972,111
Investment totals				$ 391,463,550
Working capital investments				
Fixed income securities	$ 9,067,425	$ -	$ -	$ 9,067,425
Liabilities				
Interest rate swaps	$ -	$ 12,290,289	$ -	$ 12,290,289

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year. The College recognizes transfers at the end of the reporting period.

The tables below present rollforwards of investments classified by the College within Level 3 of the fair value hierarchy at June 30, 2018 and 2017:

Rollforward of Investments Classified as Level 3 as of June 30, 2018

	Value at June 30, 2017	Realized Gains	Unrealized Gains (Losses)	Interest and Dividends Net	Purchases	Sales	Value at June 30, 2018
Fixed income securities and funds	$ 12,000	$ -	$ -	$ -	$ -	$ -	$ 12,000
Hedge funds							-
Private equity and venture capital funds	10,331					(10,331)	-
	$ 22,331	$ -	$ -	$ -	$ -	$ (10,331)	$ 12,000

Rollforward of Investments Classified as Level 3 as of June 30, 2017

	Value at June 30, 2016	Realized Gains	Unrealized Gains (Losses)	Interest and Dividends Net	Purchases	Sales	Value at June 30, 2017
Fixed income securities and funds	$ 12,000	$ -	$ -	$ -	$ -	$ -	$ 12,000
Hedge funds	-						-
Private equity and venture capital funds	19,868		(9,537)				10,331
	$ 31,868	$ -	$ (9,537)	$ -	$ -	$ -	$ 22,331

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 and has assessed whether it is probable that any of these investments would be sold at amounts different from NAV. The College has assessed factors including, but not limited to, managers' compliance with ASC 820 *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:

	2018	2017
Emerging market funds	$ 14,439,312	$ 14,995,694
Domestic equity funds	57,437,234	50,006,278
International equity funds	27,811,302	26,153,018
Global asset allocation funds	48,937,225	46,438,832
Fixed income funds	30,417,539	25,834,566
Hedge funds	17,170,138	21,030,358
Private equity funds	87,844,090	71,280,257
Real estate funds	1,300,681	1,233,108
	$ 285,357,521	$ 256,972,111

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, 2018 and 2017, respectively:

	Investments Asset Value as of June 30, 2018			
	Fair Value	Commitments Unfunded	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 252,507,198	$ -	Daily - Quarterly	1-60 Days
Fixed income securities and funds	63,098,032		Daily - Monthly	3-30 Days
Hedge funds	17,170,138		Quarterly - Annually	45-60 Days
Private equity and venture capital funds	87,844,090	44,927,912	N/A	N/A
Real estate funds	1,300,681	7,625,119	N/A	N/A
	$ 421,920,139	$ 52,553,031		

	Investments Asset Value as of June 30, 2017			
	Fair Value	Commitments Unfunded	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 235,533,709	$ -	Daily - Quarterly	1-60 Days
Fixed income securities and funds	62,375,787		Daily - Monthly	3-30 Days
Hedge funds	21,030,358		Quarterly - Annually	45-60 Days
Private equity and venture capital funds	71,290,588	43,861,034	N/A	N/A
Real estate funds	1,233,108	2,060,000	Quarterly	90 Days
	$ 391,463,550	$ 45,921,034		

5. Land, Buildings, Equipment and Software

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

	2018	2017
Land	$ 1,600,545	$ 1,600,545
Land improvements	38,165,722	35,540,919
Buildings and improvements	338,307,780	332,683,458
Equipment and software	59,906,190	54,755,960
Construction in progress	33,277,516	6,541,454
	471,257,753	431,122,336
Less: Accumulated depreciation	(256,680,303)	(242,307,913)
	$ 214,577,450	$ 188,814,423

Depreciation expense was $14,751,722 and $13,561,255 for the years ended June 30, 2018 and 2017, respectively.

Construction in progress consists of costs associated with Master Plan projects and other facilities projects that have not been completed and placed in service as of June 30, 2018 and 2017 respectively.

During 2018, the College disposed of assets in conjunction with major capital renovations and Master Plan projects. A total of $979,979 in assets were removed from the books, which resulted in a loss on disposal of $600,647. During 2017, the College disposed of assets in conjunction with major capital renovations and Master Plan projects. A total of $1,868,848 in assets were removed from the books, which resulted in a loss on disposal of $119,717.

During the years ended June 30, 2018 and 2017, the College capitalized interest of $1,254,145 and $750,347, respectively.

At June 30, 2018 and 2017, construction costs of $13,731,060 and $1,770,318, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2018	2017
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 (par value, $20,440,000)	$ -	$ 955,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (1.06% at June 30, 2018) and due through 2032 (par value, $36,475,000)	27,485,000	28,720,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (1.71% at June 30, 2018) and due through 2031 (par value, $28,840,000)	21,890,000	22,955,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2011, bearing interest at fixed rate of 3.00% to 5.00% and due through 2025 (par value, $13,680,000)	6,740,000	7,830,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2013, bearing interest at fixed rate of 3.59% and due through 2043 (par value, $35,000,000)	31,484,888	32,240,417
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 (par value, $23,285,000)	22,640,000	22,970,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2015B, bearing interest at fixed rate of 3.45% and due through 2045 (par value, $37,000,000)	34,975,618	35,734,653
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2017, bearing interest at fixed rate of 4.00% to 5.00% and due through 2048 (par value, $33,000,000)	33,000,000	-
	178,215,506	151,405,070
Unamortized premium	8,399,990	3,621,495
Unamortized bond issuance costs	(1,413,323)	(1,042,871)
	$ 185,202,173	$ 153,983,694

In December 2017, the College issued $33,000,000 Massachusetts Development Finance Agency Revenue Bonds, Babson College Issue, Series 2017. These bonds mature over 30 years and bear a fixed rate of 4.00% to 5.00%. Proceeds from this issue will be used to fund projects contained within the College's Master Plan. Costs associated with the new bond issue amounted to $438,536 and will be amortized over the life of the bond.

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, 2018 and 2017 were $37,581,720 and $12,580,227, 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:

	Principal Amount
Fiscal Years	
2019	$ 6,964,509
2020	7,355,156
2021	7,565,223
2022	7,941,360
2023	8,309,717
Thereafter	140,079,541
	$ 178,215,506

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 $49,375,000. The repayment schedule under the letter-of-credit commences on the 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 credit 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: $21,008,000 in fiscal year 2019, $21,198,000 in fiscal year 2020, $21,394,000 in fiscal year 2021, $5,011,000 in fiscal year 2022, $5,400,000 in fiscal 2023, and $104,205,000 thereafter.

Interest expense, net of capitalized interest, was $5,470,436 and $5,080,951 for the years ended June 30, 2018 and 2017, 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, 2018. 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, 2018 and 2017, 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:

Derivatives Not Designated as Hedging Instruments	Consolidated Statements of Position Location	Fair Value of Derivatives 2018	Fair Value of Derivatives 2017
Interest rate swap contracts	Interest rate swap liability	$ 8,974,854	$ 12,290,289

Derivatives Not Designated as Hedging Instruments	Consolidated Statements of Activities Location	Fair Value of Derivatives 2018	Fair Value of Derivatives 2017
Interest rate swap contracts	Unrealized gains on interest rate swap agreements	$ 3,315,435	$ 4,747,312
	Less: Operating expenses	(1,856,210)	(2,312,474)
	Net impact	$ 1,459,225	$ 2,434,838

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, 2018 and 2017 accounted for all swap activity for the year.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2018		2017	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 16,116,745	$ 8,291,334	$ 13,679,219	$ 8,023,310
Instruction and academic support	59,660,155	56,774,520	52,218,017	56,671,990
Scholarships and fellowships	43,381,308	32,832,060	39,403,299	30,739,211
Other	27,097,469	29,941,342	22,807,990	26,990,557
Annuity	380,063	54,224	(237,013)	54,224
	146,635,740	127,893,480	127,871,512	122,479,292
Contributions receivable, net (Note 3)	23,082,000	14,903,403	20,592,969	14,480,824
	$ 169,717,740	$ 142,796,883	$ 148,464,481	$ 136,960,116

9. Net Assets Released From Restrictions

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

	2018	2017
Capital construction and maintenance	$ 1,336,138	$ 657,208
Instruction and academic support	7,066,368	7,602,333
Scholarships and fellowships	6,503,987	5,735,055
Other	23,336,181	4,583,754
	$ 38,242,674	$ 18,578,350

10. Fund-Raising and Alumni Relations Expenses

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

	2018	2017
Fund-raising	$ 7,705,238	$ 6,404,143
Alumni relations	2,768,431	2,601,757
	$ 10,473,669	$ 9,005,900

In addition to the direct fundraising costs shown above, bad debt expense for the uncollectible pledges was $545,584 and $1,813,084 for the years ended June 30, 2018 and 2017, 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 $7,639,457 and $7,203,803 as of June 30, 2018 and 2017, 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 $1,322,510 and $1,142,988 as of June 30, 2018 and 2017, 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, 2018 and 2017 was $2,263,353 and $3,105,115, 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:

	2018		2017	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	$ 2,415,122	$ (41,000)	$ 2,855,609	$ (41,000)
Other student loans	1,321,675	(810,000)	1,342,989	(780,000)
	$ 3,736,797	$ (851,000)	$ 4,198,598	$ (821,000)

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, 2018 were as follows:

	Perkin Loans	Other Student Loans
Beginning Balances June 30, 2017	$ (41,000)	$ (780,000)
Provisions for credit losses	-	(30,000)
Net charge-offs	-	-
Recoveries	-	-
Ending Balances June 30, 2018	$ (41,000)	$ (810,000)

Management considers the allowance for credit losses at June 30, 2018 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	
2019	$ 4,085,554
2020	1,994,494
2021	832,801
2022	710,437
2023	685,058
Thereafter	1,869,687

Expense incurred on leased computers, facilities and equipment amounted to $3,501,123 and $3,373,762 for the years ended June 30, 2018 and 2017, respectively.

Under operating lease agreements, the College rents to third parties certain athletic facilities known as The Wellesley Center and a 59 acre parcel of land located in Needham in which the tenant operates a senior living facility. The total of future minimum payments to be received by the College under the noncancelable component of these leases are as follows:

Fiscal Years	
2019	$ 2,829,291
2020	2,889,546
2021	2,952,060
2022	1,270,485
2023	1,270,485
Thereafter	4,234,951

Rental income for building leases amounted to $2,771,213 and $2,715,234 for the years ended June 30, 2018 and 2017, respectively.

14. Natural Classification of Expenses

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

	2018	**2017**
Salaries	$ 96,337,942	$ 93,547,779
Benefits	25,459,526	24,344,607
Depreciation	14,751,722	13,561,255
Travel/training/entertainment	10,722,196	10,381,754
Food and beverage services	8,673,464	8,140,876
Utilities and other facility services	8,489,797	8,289,074
Communication and information	7,334,533	7,050,965
Professional and consulting	7,229,514	7,258,904
Debt and finance expenses	6,157,162	6,849,656
Advertising and media	5,600,678	5,024,512
Consumable expenses	3,906,770	4,106,114
Other expenses	3,692,889	5,302,052
Babson Executive Conference Center ("BECC") room, conference and administration	3,286,611	3,154,517
Materials and supplies	3,086,033	3,080,852
Purchased services	2,107,073	2,472,946
	$ 206,835,910	$ 202,565,863

15. Commitments

At June 30, 2018, the College had approximately $43.9 million in contractual commitments on capital projects involving construction and renovation of certain facilities, equipment purchases, and land improvements. It is expected that the resources to satisfy these commitments will come from bond proceeds, anticipated gifts, unexpended plant funds, and unrestricted funds.

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 260 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, 2018 and 2017, there were no endowment funds that were deemed underwater, where the fair value had declined below the corpus.

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, 2018 and 2017, respectively:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2017	$ 158,129,584	$ 109,510,518	$ 122,479,290	$ 390,119,392
Contributions received July 1, 2017 - June 30, 2018	-	1,000	5,406,686	5,407,686
Investment return				
Investment income	(129,593)	(218,557)	-	(348,150)
Net appreciation (realized and unrealized)	13,476,951	25,983,931	-	39,460,882
Total investment return	13,347,358	25,765,374	-	39,112,732
Endowment spending policy allocation	(5,103,111)	(8,605,950)	-	(13,709,061)
Other changes				
Reclassifications and other adjustments	-	(119,110)	7,504	(111,606)
Babson Global endowment transfer	-	-	-	-
Total other changes	-	(119,110)	7,504	(111,606)
Endowment net assets at June 30, 2018	166,373,831	126,551,832	127,893,480	420,819,143
Operating funds - Babson College	6,819,541	38,555,320	-	45,374,861
Funding for facilities	62,522,208	3,561,712	-	66,083,920
Interest rate swap valuation	(8,974,854)	-	-	(8,974,854)
Other funds	-	-	14,903,403	14,903,403
Babson Global	2,520,466	1,048,876	-	3,569,342
Total net assets at June 30, 2018	$ 229,261,192	$ 169,717,740	$ 142,796,883	$ 541,775,815

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2016	$ 147,007,844	$ 85,721,869	$ 111,826,571	$ 344,556,284
Contributions received July 1, 2016 - June 30, 2017	-	-	5,648,772	5,648,772
Investment return				
Investment income	153,611	305,251	-	458,862
Net appreciation (realized and unrealized)	15,997,901	28,590,117	-	44,588,018
Total investment return	16,151,512	28,895,368	-	45,046,880
Endowment spending policy allocation	(5,029,772)	(7,357,198)	-	(12,386,970)
Other changes				
Reclassifications and other adjustments	-	(49,521)	3,947	(45,574)
Babson Global endowment transfer	-	2,300,000	5,000,000	7,300,000
Transfers to Board-designated funds	-	-	-	-
Total other changes	-	2,250,479	5,003,947	7,254,426
Endowment net assets at June 30, 2017	158,129,584	109,510,518	122,479,290	390,119,392
Operating funds - Babson College	3,478,681	35,169,961	-	38,648,642
Funding for facilities	39,335,176	2,735,127	-	42,070,303
Interest rate swap valuation	(12,290,289)	-	-	(12,290,289)
Other funds	-	-	14,480,826	14,480,826
Babson Global	1,036,738	1,048,875	-	2,085,613
Total net assets at June 30, 2017	$ 189,689,890	$ 148,464,481	$ 136,960,116	$ 475,114,487

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, 2018 and 2017. In addition, this balance includes board-designated funds of Babson Global, amounting to $4,688,768 and $4,493,766 as of June 30, 2018 and 2017, 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 surpluses.

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 opening date of the school on September 10, 2017, 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. The entire pledge balance was paid as of June 30, 2017.

Babson Global has invested a total of $4,000,000 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 19, 2018, 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.