Babson College

Consolidated Financial Statements

June 30, 2019 and 2018

Babson College
Index
June 30, 2019 and 2018

Page(s)

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, 2019 and 2018 and the related consolidated statements of activities for the year ended June 30, 2019 and of cash flows for the years ended June 30, 2019 and 2018.

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, 2019 and 2018 and the changes in their net assets for the year ended June 30, 2019 and their cash flows for the years ended June 30, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the College changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

Other Matter

We have previously audited the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated October 19, 2018, 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, 2018 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
November 11, 2019

Babson College
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 22,778,854	$ 53,714,391
Working capital investments	9,495,043	9,051,172
Accounts receivable, net of allowance of $555,487 and $507,511 at June 30, 2019 and 2018, respectively	5,012,435	6,112,330
Prepaid expenses and other assets	8,206,574	8,289,338
Contributions receivable, net	47,199,860	37,985,403
Loans receivable, net of allowance of $851,000 at June 30, 2019 and 2018	2,228,358	2,885,797
Bond deposits with trustee	11,447,112	37,581,720
Investments, at fair value	459,393,515	421,920,139
Land, buildings, equipment and software, net	265,232,580	214,577,450
Total assets	$ 830,994,331	$ 792,117,740
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 28,629,559	$ 31,660,161
Deposits and advance payments	18,261,681	22,241,384
Government advances for student loans	2,294,913	2,263,353
Interest rate swap liability	10,677,136	8,974,854
Bonds payable, net	177,914,180	185,202,173
Total liabilities	237,777,469	250,341,925
Net assets		
Without donor restrictions	240,796,871	229,261,192
With donor restrictions	352,419,991	312,514,623
Total net assets	593,216,862	541,775,815
Total liabilities and net assets	$ 830,994,331	$ 792,117,740

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

Babson College
Consolidated Statements of Activities
Year Ended June 30, 2019
(With Summarized Financial Information for the Year Ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating activities				
Operating revenues and support				
Tuition, fees, room and board net of discount of $49,293,154 in 2019 and $45,146,310 in 2018	$ 157,286,015	$ -	$ 157,286,015	$ 157,325,831
Educational programs	2,921,834	-	2,921,834	2,784,200
Other programs and auxiliary activities	25,654,185	-	25,654,185	24,939,068
Total program service fees	185,862,034	-	185,862,034	185,049,099
Contributions and grants	7,241,581	-	7,241,581	6,584,879
Investment income used in operations	1,466,982	-	1,466,982	374,210
Endowment spending used in operations	14,795,163	-	14,795,163	13,709,061
Net assets released from restrictions	10,833,472	-	10,833,472	8,911,250
Total operating revenues and support	220,199,232	-	220,199,232	214,628,499
Operating expenses				
Instruction	58,652,864	-	58,652,864	57,560,216
Academic support	41,622,713	-	41,622,713	37,631,994
Student services	33,246,221	-	33,246,221	32,983,443
Auxiliary activities	44,127,074	-	44,127,074	43,874,978
Institutional support	39,431,941	-	39,431,941	34,785,279
Total operating expenses	217,080,813	-	217,080,813	206,835,910
Increase in net assets from operations	3,118,419	-	3,118,419	7,792,589
Nonoperating activities				
Contributions and grants	-	30,333,454	30,333,454	39,685,433
Net assets released from restrictions	9,793,807	(20,627,279)	(10,833,472)	(8,911,250)
Investment return	15,260,410	30,199,193	45,459,603	39,079,589
Unrealized (losses) gains on interest rate swap agreements	(1,702,282)	-	(1,702,282)	3,315,435
Other nonoperating net expenses	(139,512)	-	(139,512)	(591,407)
	23,212,423	39,905,368	63,117,791	72,577,800
Less: Endowment spending draw	(14,795,163)	-	(14,795,163)	(13,709,061)
Total nonoperating activities	8,417,260	39,905,368	48,322,628	58,868,739
Total increase in net assets	11,535,679	39,905,368	51,441,047	66,661,328
Net assets				
Beginning of year	229,261,192	312,514,623	541,775,815	475,114,487
End of year	$ 240,796,871	$ 352,419,991	$ 593,216,862	$ 541,775,815

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

Babson College
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net tuition and fees received	$ 156,425,643	$ 155,790,357
Other educational and noneducational receipts	27,241,801	25,986,706
Contributions and grants received, net of amounts restricted for long-term purposes	18,486,652	35,912,659
Proceeds from stock gifts received for operations	693,783	968,220
Interest and dividends received	1,796,213	1,144,064
Payments to employees and suppliers	(196,396,136)	(188,090,743)
Proceeds from bond premium issuance	-	5,092,499
Interest paid	(3,564,912)	(3,638,775)
Net cash provided by operating activities	4,683,044	33,164,987
Cash flows from investing activities		
Purchases of investments	(161,614,167)	(76,285,754)
Sales of investments	168,979,100	84,682,340
Transfers from/(to) bond deposits with trustee, net	26,134,608	(25,001,493)
Acquisition and construction of property and equipment	(69,017,551)	(29,154,654)
Student loans repaid	699,589	623,342
Student loans issued	(42,150)	(161,541)
Net cash used in investing activities	(34,860,571)	(45,297,760)
Cash flows from financing activities		
Payment of bond issuance costs	-	(438,538)
Repayments of bonds and notes	(7,102,338)	(6,304,560)
Proceeds from new debt issued	-	33,000,000
Payments on split interest agreements	(130,690)	(661,613)
Increase/(Decrease) for refundable U.S. government grants	31,560	(841,762)
Permanently restricted contributions	7,186,856	5,117,124
Proceeds from stock gifts received for long-term purposes	714,286	290,561
Payments on interest rate swap contracts	(1,457,684)	(1,856,210)
Net cash (used in)/provided by financing activities	(758,010)	28,305,002
Net (decrease)/increase in cash and cash equivalents	(30,935,537)	16,172,229
Cash and cash equivalents		
Beginning of year	53,714,391	37,542,162
End of year	$ 22,778,854	$ 53,714,391
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 51,441,047	$ 66,661,328
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net gains on investments	(44,657,499)	(38,894,021)
Depreciation and amortization	14,872,056	14,505,804
Loss on disposal of building, equipment and software	155,002	600,647
Permanently restricted contributions	(7,186,856)	(5,117,124)
Increase in contributions receivable	(9,830,386)	(2,101,157)
Increase/(decrease) in allowances	663,905	(810,453)
Proceeds from bond issuance premium	-	5,092,499
Increase/(decrease) in interest rate swap liability	1,702,282	(3,315,435)
Payments on interest rate swap contracts	1,457,684	1,856,210
Changes in working capital assets and liabilities, net	(3,934,191)	(5,313,311)
Net cash provided by operating activities	$ 4,683,044	$ 33,164,987

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 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, in accordance with accounting principles generally accepted in the United States of America which requires the College to classify its net assets into two categories based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes herein are classified as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are net assets which the College may use at its discretion. Funds invested in fixed assets, unrestricted endowment and other unrestricted current funds comprise the majority of the College's net assets without donor restrictions.

Net Assets With Donor Restrictions

Net assets with donor restrictions are net assets subject to donor-imposed restrictions that will be met, either by the passage of time or the events specified by the donor. Other donor imposed restrictions are perpetual in nature, whereby the donor stipulates that resources be maintained in perpetuity. In these instances, 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.

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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of donor imposed restrictions on net assets are reported as released from restrictions. Expirations of donor imposed 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 net assets without donor restrictions and net assets with donor imposed restrictions 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 class.

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 revenues without donor restrictions. Unconditional promises to give with due dates scheduled after the statement of financial position date are shown as increases in net assets with donor imposed restrictions, depending on the nature of the restrictions involved. Conditional contributions received are accounted for as a liability within deposits and advance payments or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as an unconditional contribution and classified as either net assets with donor restrictions or net assets without donor restrictions. 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. 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 increases in net assets without donor restrictions 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 increases in net assets with donor restrictions and are reclassified to increases in net assets without donor restrictions upon the later of the asset being placed into service or when a time restriction expires.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the College expects to be entitled to in exchange for those goods or services.

Tuition and fees are derived from degree programs as well as certain executive education programs and are recognized ratably over the academic period of the course or program offered based on time elapsed and aid awarded to students reduces the amount of revenue recognized. The majority of the College’s programs are designed to be completed within the fiscal year. Discounts in the form of scholarships and financial aid grants, including those funded by the endowment, restricted specific-purpose gifts and government grants, are reported as a reduction of tuition and fees. A discount represents the difference between the stated charge for the academic (living/learning) program and the amount that is billed to the student and/or third parties making payments on behalf of the student. The academic programs are delivered in the Fall (late-August to mid-December), Winter (mid-December to mid-January) and Spring (mid-January to mid-May) terms, as well as summer terms spanning from June to August. Payments for the fall term are due by August 1st and recorded as deposits and advance payments until the performance obligations are met and totaled $1,105,896 and $1,436,376, respectively, for the years ended June 30, 2019 and 2018.

Total tuition and fees and room and board amounted to the following for the years ended June 30, 2019 and June 30, 2018 respectively.

	2019	2018
Tuition and fees	$ 176,052,737	$ 172,572,035
Room and board	30,526,432	29,900,106

Educational revenue is derived from various sources across the campus including Centers and Institutes, Global Programs Office, and Athletics (excluding the Skating Rink) and is recognized ratably over the academic period of the course or program offered based on the time elapsed.

Other programs and auxiliary revenue includes revenues from the Babson Executive Conference Center, Babson Global, Summer Camps and Conferences, Skating Rink, facility rentals and other miscellaneous activities. These revenues are subject to ASC 606, *Revenue from Contracts with Customers* and, except for Babson Global (Note 16), are recognized at the point in time goods or services are provided, with the exception of lease rental and interest income, which are accounting for under other standards. Advance payments of $7,924,559 and $9,615,234 were recorded at June 30, 2019 and 2018, which are primarily related to Babson Global and will be recognized as performance obligations under the contract are met.

The College receives sponsored support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on the College’s fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Other sponsored support is considered contribution revenue in accordance with ASU 2018-08, *Contributions Received and Contributions Made*, which is recognized when any donor-imposed conditions (if any) have been met. There were no significant conditional contributions or advance payments from sponsored support at June 30, 2019 and 2018.

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 net assets with donor restrictions 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 net assets with donor restrictions 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 net assets without donor restrictions 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 15). The approved spending rate was 4.5% for the fiscal years ending June 30, 2019 and 2018. 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, 2019 and 2018.

Working Capital Investments
The College has certain investments for working capital purposes that are intended to be used to cover immediate cash needs of the College. These are comprised of cash, money market funds, and fixed income securities. The balance of these funds for the fiscal years ended June 30, 2019 and 2018 was $9,495,043 and $9,051,172, 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.

Investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

See Note 4 for additional fair value disclosures.

See Note 15 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 nonoperating section of 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 estimated 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

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. (Note 13).

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.

Related Parties

The College may procure certain banking, investment management and construction 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 accounting principles 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.

$21,004 and $24,005 of asset retirement costs, net of accumulated depreciation, has been included in land, buildings, equipment and software, net and $1,283,573 and $1,222,437 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2019 and 2018, 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2018, from which the summarized information is derived.

Reclassifications

Certain 2018 financial information has been reclassified to conform with the 2019 presentation.

New Accounting Pronouncements

On July 1, 2018, the College adopted ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which made targeted changes to the not-for-profit financial reporting model and applied these changes retroactively. 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 has been streamlined and clarified. The existing three category classification of net assets has been 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 land, buildings, equipment and software have also been simplified and clarified. New disclosures have been incorporated to highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements (Note 17). The ASU also imposes several new requirements related to reporting expenses (Note 13).

As a result of adopting this standard, certain amounts as of June 30, 2018 were reclassified to conform to the presentation requirements as follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	**With Donor Restrictions**	**Total Net Assets**
Net asset classifications			
As previously presented:			
Unrestricted	$ 229,261,192	$ -	$ 229,261,192
Temporarily restricted	-	169,717,740	169,717,740
Permanently restricted	-	142,796,883	142,796,883
Total net assets	$ 229,261,192	$ 312,514,623	$ 541,775,815

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606) which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and 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. The College adopted ASC 606 as of July 1, 2018 using the modified retrospective transition method. The College elected to apply the standard only to contracts that are not completed as of that date, therefore, the 2018 comparative information has not been adjusted and continues to be reported under the prior guidance of ASC 605. The guidance did not have a significant impact on the College's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new guidance clarifies the definition of an exchange transaction and the criteria for evaluation whether contributions are unconditional or conditional. Effective July 1, 2018, the College adopted ASU 2018-08 simultaneously with adoption of the new revenue standard, using the modified prospective transition method. The guidance did not have a significant impact on the College's 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. The College will continue to evaluate the impact of the new guidance on the consolidated financial statements and has procured lease tracking software to assist with implementing the new standard.

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) was adopted early by the College in fiscal year 2018.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which simplifies fair value measurement disclosures through the removal and modification of a number of investment related disclosure requirements. Certain disclosures are no longer required including amount of and reasons for transfers between Level 1 and 2; policy for timing of transfers between levels; valuation processes for Level 3 investments and a Level 3 investment rollforward. The ASU is effective for fiscal years beginning after December 15, 2019 or fiscal year 2021 for the College. Early adoption is permitted.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires presentation of the total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. The beginning and ending balance of cash, cash equivalents, restricted cash, and restricted cash equivalents shown on the statement of cash flows should agree to the total of similarly titled line items on the statement of financial position. The ASU is effective for fiscal years beginning after December 15, 2018 or fiscal year 2020 for the College and will change the cash flow presentation associated with the College’s bond deposits with trustees.

3. Contributions Receivable

Contributions receivable at June 30 have the following donor-imposed restrictions:

	2019	2018
Donor-imposed restrictions		
Capital construction and maintenance	$ 2,692,161	$ 2,639,023
Scholarships and fellowships	18,562,767	18,617,711
Instruction and academic support	14,950,977	14,009,361
Student programs	5,026,167	1,700,684
Other	12,512,678	6,019,313
	$ 53,744,750	$ 42,986,092

These contributions are due as follows:

	2019	2018
Unconditional promises due within		
Less than one year	$ 14,425,767	$ 13,450,899
One year to five years	35,486,503	27,894,002
More than five years	3,832,480	1,641,191
	53,744,750	42,986,092
Less		
Unamortized discount	(4,031,790)	(3,103,518)
Allowance for uncollectibles	(2,513,100)	(1,897,171)
	$ 47,199,860	$ 37,985,403

In addition, at June 30, 2019 and 2018, the College had $12,140,000 and $6,083,256, 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 that depend on the occurrence of specified future and uncertain events.

Also, at June 30, 2019, the College is named as 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 contribution 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:

	2019	2018
Equity securities and funds	$ 121,935,227	$ 103,882,125
Fixed income securities and funds	29,944,364	32,668,493
Alternative investments		
Equity securities and funds	137,318,724	148,625,073
Private equity and venture capital funds	108,785,718	87,844,090
Fixed income securities and funds	46,250,047	30,429,539
Hedge funds	12,645,367	17,170,138
Real estate funds	2,514,068	1,300,681
	$ 459,393,515	$ 421,920,139

Equity securities and funds includes net unsettled sales of $84,779 and net unsettled purchases of $234,492 at June 30, 2019 and 2018, respectively.

The College incurred investment management fees of $4,322,471 and $4,298,175 during the years ended June 30, 2019 and 2018, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $556,929 and $608,842 during the years ended June 30, 2019 and 2018, respectively, which are reported as a separate component of expenses in the nonoperating section of the consolidated statement of activities.

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, 2019 and 2018, by caption on the consolidated statement of financial position and by the fair value valuation hierarchy defined above:

	Fair Value as of June 30, 2019			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 121,935,227	$ -	$ -	$ 121,935,227
Fixed income securities and funds	29,944,364		12,000	29,956,364
Total Leveled Investments	$ 151,879,591	$ -	$ 12,000	151,891,591
Investments at NAV				307,501,924
Investment totals				$ 459,393,515
Working Capital Investments				
Fixed income securities	$ 9,495,043	$ -	$ -	$ 9,495,043
Liabilities				
Interest rate swaps	$ -	$ 10,677,136	$ -	$ 10,677,136

	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

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, 2019 and 2018:

	Rollforward of Investments Classified as Level 3 as of June 30, 2019						
	Value at June 30, 2018	**Realized Gains**	**Unrealized Gains/(Losses)**	**Interest & Dividends Net**	**Purchases**	**Sales**	**Value at June 30, 2019**
Fixed income securities and funds	$ 12,000	$ -	$ -	$ -	$ -	$ -	$ 12,000
Private equity and venture capital funds	-		471				471
	$ 12,000	$ -	$ 471	$ -	$ -	$ -	$ 12,471

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

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

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 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:

	2019	2018
Private equity funds and venture capital funds	$ 108,785,718	$ 87,844,090
Domestic equity funds	64,337,445	57,437,234
Fixed income funds	46,238,047	30,417,539
Global asset allocation funds	29,500,546	48,937,225
International equity funds	27,028,823	27,811,302
Emerging market funds	16,451,910	14,439,312
Hedge funds	12,645,367	17,170,138
Real estate funds	2,514,068	1,300,681
	$ 307,501,924	$ 285,357,521

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, 2019 and 2018, respectively:

	Investments Asset Value as of June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 259,253,951	$ -	Daily - Quarterly	1-60 Days
Fixed income securities and funds	76,194,411		Daily - Monthly	3-30 Days
Hedge funds	12,645,367		Quarterly - Annually	45-60 Days
Private equity and venture capital funds	108,785,718	38,840,045	N/A	N/A
Real estate funds	2,514,068	10,941,602	Quarterly	N/A
	$ 459,393,515	$ 49,781,647		

	Investments Asset Value as of June 30, 2018			
	Fair Value	Unfunded Commitments	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	Quarterly	N/A
	$ 421,920,139	$ 52,553,031		

5. Land, Buildings, Equipment and Software

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

	2019	2018
Land	$ 1,600,545	$ 1,600,545
Land improvements	42,599,641	38,165,722
Buildings and improvements	358,798,037	338,307,780
Equipment and software	40,211,325	59,906,190
Construction in progress	69,258,917	33,277,516
	512,468,465	471,257,753
Less: Accumulated depreciation	(247,235,885)	(256,680,303)
	$ 265,232,580	$ 214,577,450

Depreciation expense was $15,195,540 and $14,751,722 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 respectively.

During 2019, the College disposed of certain assets in conjunction with major capital renovations, Master Plan projects, and implementation of a financial ERP system. A total of $24,794,960 in assets that were no longer in use and primarily fully depreciated were removed from the books, which resulted in a loss on disposal of $155,002. 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 the years ended June 30, 2019 and 2018, the College capitalized interest of $2,611,510 and $1,254,145, respectively.

At June 30, 2019 and 2018, construction costs of $10,719,182 and $13,731,060 respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2019	2018
Revenue bonds payable to Massachusetts Development Finance Agency (“MDFA”), Series 2008A, bearing interest at variable rates (1.43% at June 30, 2019) and due through 2032 (par value $36,475,000)	$ 26,085,000	$ 27,485,000
Revenue bonds payable to Massachusetts Development Finance Agency (“MDFA”), Series 2008B, bearing interest at variable rates (2.50% at June 30, 2019) and due through 2031 (par value $28,840,000)	20,875,000	21,890,000
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 through 2025 (par value $13,680,000)	5,615,000	6,740,000
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)	30,701,395	31,484,888
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)	21,290,000	22,640,000
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)	34,189,603	34,975,618
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 2047 (par value $33,000,000)	32,495,000	33,000,000
	171,250,998	178,215,506
Unamortized premium	8,001,111	8,399,990
Unamortized bond issuance costs	(1,337,929)	(1,413,333)
	$ 177,914,180	$ 185,202,163

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 bond issue amounted to $438,536 and are being 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, 2019 and 2018 were $11,447,112 and $37,581,720, 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	
2020	$ 7,355,156
2021	7,565,223
2022	7,941,360
2023	8,309,717
2024	7,484,775
Thereafter	132,594,767
	$ 171,250,998

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 $46,960,000. 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:, $20,393,000 in fiscal year 2020, $20,589,000 in fiscal year 2021, $20,815,000 in fiscal year 2022, $5,400,000 in fiscal 2023, $4,430,000 in fiscal 2024 and $99,624,000 thereafter.

Interest expense, net of capitalized interest, was $4,985,265 and $5,470,436 for the years ended June 30, 2019 and 2018, 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, 2019. 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, 2019 and 2018, 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 2019	Fair Value of Derivatives 2018
Interest rate swap contracts	Interest rate swap liability	$ 10,677,136	$ 8,974,854

Derivatives not designated as hedging instruments	Consolidated Statement of Activities Location	Fair Value of Derivatives 2019	Fair Value of Derivatives 2018
Interest rate swap contracts	Unrealized (losses) gains on interest rate swap agreements	$ (1,702,282)	$ 3,315,435
	Less: Operating expenses	(1,457,684)	(1,856,210)
	Net impact	$ (3,159,966)	$ 1,459,225

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, 2019 and 2018 accounted for all swap activity for the year.

8. Net Assets Released From Restrictions

Net assets released from 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:

	2019	2018
Capital construction and maintenance	$ 3,183,755	$ 1,336,138
Instruction and academic support	6,137,852	7,058,864
Scholarships and fellowships	6,325,333	6,503,987
Other	4,980,339	23,433,769
	$ 20,627,279	$ 38,332,758

9. 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:

	2019	2018
Fund-raising	$ 10,042,626	$ 7,705,238
Alumni relations	2,053,543	2,768,431
	$ 12,096,169	$ 10,473,669

In addition to the direct fundraising costs shown above, bad debt expense for the uncollectible pledges was $747,075 and $545,584 for the years ended June 30, 2019 and 2018, respectively.

10. 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 $7,905,499 and $7,639,457 as of June 30, 2019 and 2018, 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 $1,466,354 and $1,322,510 as of June 30, 2019 and 2018, respectively.

11. 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. Under federal law, the authority for the College to make new Federal Perkins Loans to graduate and undergraduate students expired on September 30, 2016 and 2017, respectively, and final disbursements were permitted through June 30, 2018. As such, students are no longer eligible to receive these loans. The College continues to service the outstanding loans and the federal government's portion of these student loans at June 30, 2019 and 2018 was $2,294,913 and $2,263,353, 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, 2019		June 30, 2018	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	$ 1,874,464	$ (41,000)	$ 2,415,122	$ (41,000)
Other student loans	1,204,894	(810,000)	1,321,675	(810,000)
	$ 3,079,358	$ (851,000)	$ 3,736,797	$ (851,000)

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, 2019 were as follows:

	Perkin Loans	Other Student Loans
Beginning Balances June 30, 2018	$ (41,000)	$ (810,000)
Provisions for credit losses	-	-
Net charge-offs	-	-
Recoveries	-	-
Ending Balances June 30, 2019	$ (41,000)	$ (810,000)

Management considers the allowance for credit losses at June 30, 2019 to be prudent and reasonable.

12. 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	
2020	$ 2,863,642
2021	1,688,915
2022	856,689
2023	679,576
2024	694,196
Thereafter	1,363,670

Expenses incurred on leased computers, facilities and equipment amounted to $3,634,974 and $3,501,123 for the years ended June 30, 2019 and 2018, 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	
2020	$ 2,980,600
2021	3,042,743
2022	1,361,168
2023	1,361,168
2024	1,361,168
Thereafter	5,324,360

Rental income for building leases amounted to $2,889,745 and $2,771,213 for the years ended June 30, 2019 and 2018, respectively.

13. Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the College. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, interest on indebtedness and depreciation and amortization expense. The College allocates costs among the program and support functions by the amount of building space utilized based on square footage. Plant operations and maintenance related expenditures allocated across functional expense classifications amounted to $17,755,878 and $17,638,441 as of June 30, 2019 and 2018, respectively. General and Administrative expenses, along with Fundraising expenses (Note 9), are the components in the Institutional Support functional expense classification. Operating and nonoperating expenses by functional and natural classification were as follows for the years ended June 30:

	2019			
	Academic & Student Services	**Auxiliary Activities**	**Institutional Support**	**Total Expenses**
Salaries and wages	$ 73,331,716	$ 6,031,571	$ 19,806,579	$ 99,169,866
Benefits	18,943,066	1,549,048	5,758,102	26,250,216
Depreciation	5,004,019	9,414,695	776,826	15,195,540
Interest	1,643,971	3,086,083	255,211	4,985,265
Supplies, services, and other	34,599,026	24,045,677	12,835,223	71,479,926
	$ 133,521,798	$ 44,127,074	$ 39,431,941	$ 217,080,813

	2018			
	Academic & Student Services	**Auxiliary Activities**	**Institutional Support**	**Total Expenses**
Salaries and wages	$ 71,973,033	$ 6,601,419	$ 17,763,491	$ 96,337,943
Benefits	18,507,370	1,703,039	5,249,117	25,459,526
Depreciation	4,684,180	9,310,643	756,899	14,751,722
Interest	1,742,033	3,446,915	281,488	5,470,436
Supplies, services, and other	31,269,037	22,812,962	10,734,284	64,816,283
	$ 128,175,653	$ 43,874,978	$ 34,785,279	$ 206,835,910

14. Commitments

At June 30, 2019, the College had approximately $21.9 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.

15. Babson College Endowment Funds and Net Assets

Net assets are categorized as without donor restrictions and with donor restrictions. Net assets without donor restrictions are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. This category also includes income and gains on these funds. Included in the total is the net investment in plant and equipment. Certain net assets classified as without donor restrictions for external reporting purposes are board-designated for specific purposes or uses under the internal operating budget practices of the College. Net assets with donor restrictions are generally established by donors in support of various programs and initiatives of the College, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, athletics, building construction, and other specific purposes. This category includes gifts, pledges, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions and time restrictions imposed by donors or implied by the nature of the gift, or by the interpretations of law. Donor restrictions are normally released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Certain donor restrictions are perpetual in nature and may include gifts and pledges that are required to be permanently retained.

The components of net assets with donor restriction and by purpose at June 30, 2019 and 2018 were as follows:

	2019	2018
Donor stipulations		
Capital construction and maintenance	$ 27,478,429	$ 24,408,079
Instruction and academic support	127,667,821	116,434,675
Scholarships and fellowships	86,950,277	76,213,368
Other	62,752,822	57,038,811
Annuity	370,782	434,287
	305,220,131	274,529,220
Contributions receivable, net (Note 3)	47,199,860	37,985,403
	$ 352,419,991	$ 312,514,623

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.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College retains in perpetuity: (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment fund. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate endowment funds:

(1) The duration and preservation of the fund;

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

(3) General economic conditions;

(4) The possible effect of inflation and deflation;

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

(6) Other resources of the College; and

(7) The investment policies of the College.

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. When donor-restricted endowment fund deficits exist, they are classified as a reduction of donor-restricted net assets. If an individual endowment fund does not have sufficient earnings within a particular year to support the annual spending draw based upon the approved spending rate, either (a) no payment will be made, or (b) a reduced payment will be made based upon the amount of actual returns. It is the College's policy to not spend from underwater endowments funds.

As of June 30, 2019 and 2018, 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 of principal over time, while at the same time providing a dependable source of income for current operations and programs. 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.

Endowment Net Asset Composition

Endowment net asset composition by type of funds are as follows for the years ended June 30, 2019 and 2018, respectively:

	Fiscal Year 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds			
Board designated unrestricted purposes	$ 74,516,825	$ -	$ 74,516,825
Board desginated for Master Plan projects	34,473,123	-	34,473,123
Board designated for scholarships	5,518,238	-	5,518,238
Board designated for Babson Global	4,959,025	-	4,959,025
Total Board-designated endowment funds	119,467,211	-	119,467,211
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	137,268,711	137,268,711
Accumulated investment gains	54,503,177	148,084,513	202,587,690
Total Donor-restricted endowment funds	54,503,177	285,353,224	339,856,401
Total endowment funds	$ 173,970,388	$ 285,353,224	$ 459,323,612

	Fiscal Year 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds			
Board designated unrestricted purposes	$ 69,527,308	$ -	$ 69,527,308
Board desginated for Master Plan projects	34,473,123	-	34,473,123
Board designated for scholarships	5,150,009	-	5,150,009
Board designated for Babson Global	4,688,768	-	4,688,768
Total Board-designated endowment funds	113,839,208	-	113,839,208
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	127,893,482	127,893,482
Accumulated investment gains	52,534,623	126,551,830	179,086,453
Total Donor-restricted endowment funds	52,534,623	254,445,312	306,979,935
Total endowment funds	$ 166,373,831	$ 254,445,312	$ 420,819,143

Changes in net assets are as follows for the years ended June 30, 2019 and 2018, respectively:

	Fiscal Year 2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets at June 30, 2018	$ 166,373,831	$ 254,445,312	$ 420,819,143
Contributions received July 1, 2018 - June 30, 2019	-	7,858,140	7,858,140
Investment return	15,268,164	30,203,593	45,471,757
Appropriation of endowment assets pursuant to spend rate policy	(4,473,564)	(10,321,599)	(14,795,163)
Other changes			
Reclassifications and other adjustments	(3,198,043)	3,167,778	(30,265)
Transfers to Board-designated funds	-	-	-
Total other changes	(3,198,043)	3,167,778	(30,265)
Endowment net assets at June 30, 2019	173,970,388	285,353,224	459,323,612
Operating funds - Babson College	(943,153)	41,076,285	40,133,132
Funding for facilities	72,814,623	2,058,335	74,872,958
Interest rate swap valuation	(10,677,136)	-	(10,677,136)
Other funds	5,632,149	1,048,876	6,681,025
Babson Global	-	22,883,271	22,883,271
Total net assets at June 30, 2019	$ 240,796,871	$ 352,419,991	$ 593,216,862

	Fiscal Year 2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets at June 30, 2017	$ 158,129,584	$ 231,989,808	$ 390,119,392
Contributions received July 1, 2017 - June 30, 2018		5,407,686	5,407,686
Investment return	13,347,358	25,765,374	39,112,732
Appropriation of endowment assets pursuant to spend rate policy	(5,103,111)	(8,605,950)	(13,709,061)
Other changes			
Reclassifications and other adjustments	-	(111,606)	(111,606)
Transfers to Board-designated funds	-	-	-
Total other changes	-	(111,606)	(111,606)
Endowment net assets at June 30, 2018	166,373,831	254,445,312	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	$ 312,514,623	$ 541,775,815

Endowment net asset amounts without donor restrictions 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, 2019 and 2018. In addition, this balance includes board-designated funds of Babson Global, amounting to $4,959,025 and $4,688,768 as of June 30, 2019 and 2018, respectively. All other endowment net asset amounts represent donor-restricted endowment funds.

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

16. 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 and 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 totaling $20 million to establish a Center for Entrepreneurial Leadership in the Kingdom of Saudi Arabia.

Through June 30, 2018, revenue under these contracts was recognized on a proportional performance model resulting in revenue being recorded on a straight-line basis over the term of the agreements. On July 1, 2018, the College adopted ASC 606 and as a result, transitioned to a percentage of completion revenue recognition model. The impact of adoption of ASC 606 to Babson Global was not significant. Under the Technical Academic Services Agreement, management identified specific performance obligations that make up the related transaction price. The level of effort the College puts forth each year to deliver the identified performance obligations can vary based upon the needs of the New College. As a result, the College does not have a reliable method of estimating progress based on outputs and it was determined that the most reliable method of estimating progress would be using a cost-to-cost input revenue recognition model. This model is based on measuring the College's percentage of completion under the contract based on actual costs incurred to date divided by estimated costs expected to be incurred over the term of the Technical Academic Services Agreement. The College excludes costs that are not related to the completion of performance obligations under this arrangement, such as administrative tasks associated with operating Babson Global. Revenue under the IP agreement will continue to be recognized on a straight-line basis.

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.

17. Liquidity and Availability

The College regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12 month period, the College considers all expenditures related to its ongoing activities of teaching as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are therefore, not available to meet current operating needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures that are not covered by donor designated resources.

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. As described in Note 2, the College's board designated endowment is subject to an annual spending rate of 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. Although the Board does not intend to spend from this board-designated endowment (other than amounts appropriated per the Board's annual spending rate approval), these amounts could be made available if necessary.

As of June 30, 2019 the following table depicts the amount of financial assets that could be made readily available within one year of the balance sheet date to meet general expenditures:

	2019
Total assets at year end	$ 830,994,331
Less:	
Accounts and loans receivable due in more than one year	(1,651,199)
Pledges receivable due in more than one year	(46,711,401)
Donor-restricted endowment funds	(285,353,224)
Board-designated endowment funds	(173,970,388)
Prepaid expenses and other assets	(8,206,574)
Bond deposits with trustee	(11,447,112)
Working Capital Investments	(6,574,684)
Endowment spending allocation for fiscal year 2020	15,685,920
Land, buildings, equipment and software, net	(265,232,580)
	$ 47,533,089

The College also maintains a line of credit of $5 million with a financial institution which was not drawn on at June 30, 2019 or 2018.

Although the College does not intend to spend from its board-designated endowment funds other than the amount appropriated for expenditure in conjunction with its annual budget approval process, amounts from its board-designated endowment could be made readily available if necessary.

18. Subsequent Events

Subsequent events have been evaluated through November 11, 2019, 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.