

Babson College

Financial Statements

June 30, 2004 and 2003

Babson College
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June 30, 2004 and 2003

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Report of Independent Auditors

To the Board of Trustees of
Babson College

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Babson College's 2003 financial statements, and in our report dated August 22, 2003, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

August 12, 2004

Babson College
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents	\$ 16,232,476	\$ 11,653,639
Accounts receivable, net of allowance of \$432,452 and \$321,270 at June 30, 2004 and 2003, respectively	5,172,812	4,165,791
Prepaid expenses and other assets	3,591,222	3,393,076
Contributions receivable, net (Note 3)	11,421,237	13,841,168
Loans receivable, net of allowance of \$310,577 and \$395,703 at June 30, 2004 and 2003, respectively (Note 12)	3,314,760	3,249,038
Bond deposits with trustee (Note 6)	4,409,085	17,220,244
Investments, at fair value (Note 4)	167,784,355	150,592,031
Land, buildings and equipment, net (Note 5)	148,801,715	147,373,314
Total assets	<u>\$ 360,727,662</u>	<u>\$ 351,488,301</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 11,158,067	\$ 12,052,842
Deposits and advance payments	7,719,801	6,886,520
Government advances for student loans (Note 12)	2,732,121	2,702,807
Notes payable (Note 6)	225,000	325,000
Interest rate swap liability (Notes 6 and 7)	1,204,321	-
Bonds payable, net (Note 6)	114,902,578	116,940,821
Total liabilities	<u>137,941,888</u>	<u>138,907,990</u>
Net assets		
Unrestricted	112,775,576	112,350,102
Temporarily restricted (Note 8)	50,174,365	41,913,284
Permanently restricted (Note 8)	59,835,833	58,316,925
Total net assets	<u>222,785,774</u>	<u>212,580,311</u>
Total liabilities and net assets	<u>\$ 360,727,662</u>	<u>\$ 351,488,301</u>

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

Babson College
Statements of Activities
Year Ended June 30, 2004, with Summarized Financial Information June 30, 2003

	2004			2003	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	\$ 81,667,508	\$ -	\$ -	\$ 81,667,508	\$ 77,513,455
Less: Student aid	(16,038,831)	-	-	(16,038,831)	(14,301,444)
Net tuition and fees	65,628,677	-	-	65,628,677	63,212,011
Room and board	14,201,128	-	-	14,201,128	13,785,598
Educational programs	3,915,086	-	-	3,915,086	2,494,370
Noneducation program and auxiliary activities	17,162,093	-	-	17,162,093	13,802,536
Total program service fees	100,906,984	-	-	100,906,984	93,294,515
Contributions and grants	2,751,845	-	-	2,751,845	2,365,626
Investment income used in operations	335,281	-	-	335,281	521,762
Endowment spending used in operations	7,262,042	-	-	7,262,042	7,569,938
Net assets released from restrictions	4,366,410	-	-	4,366,410	5,517,991
Total operating revenues and support	115,622,562	-	-	115,622,562	109,269,832
Operating expenses					
Instruction	34,189,583	-	-	34,189,583	32,979,643
Academic support	20,801,888	-	-	20,801,888	19,457,266
Student services	14,679,266	-	-	14,679,266	13,811,402
Auxiliary activities	30,890,325	-	-	30,890,325	29,420,617
Institutional support	18,033,380	-	-	18,033,380	19,997,939
Total operating expenses	118,594,442	-	-	118,594,442	115,666,867
Decrease in net assets from operations	(2,971,880)	-	-	(2,971,880)	(6,397,035)
Nonoperating activities					
Contributions and grants	-	3,309,749	1,361,746	4,671,495	8,033,929
Net assets released from restrictions and reclassifications	4,412,130	(8,837,186)	58,646	(4,366,410)	(5,517,991)
Change in value of interest rate swap agreements	(1,204,321)	-	-	(1,204,321)	-
Other nonoperating revenue	-	-	-	-	521,786
Total nonoperating activities	3,207,809	(5,527,437)	1,420,392	(899,236)	3,037,724
Investment return					
Realized and unrealized net gains (losses)	6,586,661	12,259,634	98,516	18,944,811	(292,575)
Interest and dividend income	1,066,849	1,528,884	-	2,595,733	3,186,058
Investment consultant fees	(201,923)	-	-	(201,923)	(204,584)
Net total investment return	7,451,587	13,788,518	98,516	21,338,621	2,688,899
Less: Endowment spending used in operations	(7,262,042)	-	-	(7,262,042)	(7,569,938)
Total nonoperating activities	3,397,354	8,261,081	1,518,908	13,177,343	(1,843,315)
Total increase (decrease) in net assets	425,474	8,261,081	1,518,908	10,205,463	(8,240,350)
Net assets at beginning of year	112,350,102	41,913,284	58,316,925	212,580,311	220,820,661
Net assets at end of year	\$ 112,775,576	\$ 50,174,365	\$ 59,835,833	\$ 222,785,774	\$ 212,580,311

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net tuition and fees received	\$ 79,489,066	\$ 76,489,150
Other educational and noneducational receipts	21,127,178	16,605,292
Contributions and grants received, net of amounts restricted for long-term purposes	7,336,255	7,891,006
Interest and dividends received	2,925,028	3,481,046
Payments to employees and suppliers	(107,275,724)	(108,416,095)
Interest paid	(3,223,695)	(3,626,143)
Net cash provided by (used in) operating activities	<u>378,108</u>	<u>(7,575,744)</u>
Cash flows from investing activities		
Purchases of investments	(112,694,033)	(161,947,459)
Sales of investments	114,350,547	162,901,235
Transfers to bond deposits with trustee (net)	12,811,159	26,901,942
Acquisition and construction of property and equipment	(10,756,511)	(10,798,585)
Student loans repaid	959,631	858,076
Student loans issued	(908,353)	(784,450)
Net cash provided by investing activities	<u>3,762,440</u>	<u>17,130,759</u>
Cash flows from financing activities		
Repayments of bonds and notes payable	(2,200,000)	(7,045,370)
Increase in refundable U.S. government grants	29,314	31,689
Permanently restricted contributions	2,608,975	3,025,666
Net cash provided by (used in) provided by financing activities	<u>438,289</u>	<u>(3,988,015)</u>
Net increase in cash and equivalents	4,578,837	5,567,000
Cash and cash equivalents at beginning of year	<u>11,653,639</u>	<u>6,086,639</u>
Cash and cash equivalents at end of year	<u>\$ 16,232,476</u>	<u>\$ 11,653,639</u>
Reconciliation of increase (decrease) in net assets to net cash provided by (used in) operating activities		
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 10,205,463	\$ (8,240,350)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (net used in) operating activities		
Realized and unrealized (net gains) net losses on investments	(18,944,811)	94,997
Depreciation and amortization	9,554,715	9,306,016
Permanently restricted contributions	(2,608,975)	(3,025,666)
Decrease in contributions receivable	2,419,931	(1,560,797)
Changes in the values of interest rate swaps	1,204,321	-
Changes in working capital assets and liabilities	(1,452,536)	(4,149,944)
Net cash provided by (used in) operating activities	<u>\$ 378,108</u>	<u>\$ (7,575,744)</u>

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

Babson College

Notes to Financial Statements

June 30, 2004 and 2003

1. Organization

Founded in 1919 and located in Wellesley, Massachusetts, Babson College (the "College") enrolls approximately 1,700 undergraduate and 1,600 graduate students from most of the 50 states, U.S. territories, and more than 60 countries. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree and the Master of Business Administration degree.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements include the accounts of Babson College and its subsidiary, Babson Interactive LLC. All significant interentity balances and transactions have been eliminated.

The accompanying financial statements have been prepared on the accrual basis of accounting with net assets, revenues, gains and losses classified 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 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 Babson College. Nonoperating activities represent transactions of a capital nature including realized and unrealized gains on investments to be invested by the College to generate a return that will support operations, endowment gifts and capital grants.

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 reclassifications between the applicable classes of net assets. 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.

Babson College
Notes to Financial Statements
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Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and investment income subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenues. Unconditional promises to give with due dates scheduled after the statement of financial position date are shown as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions involved. Temporarily restricted net assets are reclassified 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 gift. Contributions scheduled to be received after one year are discounted at rates commensurate with the risks involved, net of any allowance for uncollectible amounts. 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 or equipment 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 unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction; otherwise, the contributions are reported as temporarily restricted support.

Dividends, Interest and Gains

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

- as increases 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 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. The College has relied on the Massachusetts Attorney General's June 1995 Statement of Position regarding relevant state law that unappropriated endowment gains should generally be classified as temporarily restricted net assets until appropriated by the Board; and
- as increases 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 12 quarter average market value of the Endowment Fund as of June 30 of the preceding year, plus additional spending for capital management. 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.

Babson College
Notes to Financial Statements
June 30, 2004 and 2003

Net assets of the College at June 30, 2004 and 2003 consisted of the following:

2004	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	\$ 4,794,908	\$ 8,750,644	\$ -	\$ 13,545,552
Funding for facilities	37,502,364	43,553	-	37,545,917
Endowment and other funds				
Board designated	70,478,304	-	-	70,478,304
Donor restricted	-	41,380,168	59,835,833	101,216,001
Total net assets	<u>\$ 112,775,576</u>	<u>\$ 50,174,365</u>	<u>\$ 59,835,833</u>	<u>\$ 222,785,774</u>
2003	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	\$ 1,968,319	\$ 10,554,792	\$ -	\$ 12,523,111
Funding for facilities	43,927,350	37,614	-	43,964,964
Endowment and other funds				
Board designated	66,454,433	-	-	66,454,433
Donor restricted	-	31,320,878	58,316,925	89,637,803
Total net assets	<u>\$ 112,350,102</u>	<u>\$ 41,913,284</u>	<u>\$ 58,316,925</u>	<u>\$ 212,580,311</u>

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

Cash and Cash Equivalents

For the purposes of the statements of cash flows, investments with original maturities of three months or less at the date of purchase are considered cash equivalents.

Investments

The College's investments are recorded in the financial statements 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.

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. 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.

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Derivative Instruments

The College accounts for its interest rate swap agreements in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). Fair values of interest rate swap agreements are the estimated amounts that Babson 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. Market or fair value for trading-related instruments is determined by pricing models maintained by the counterparty to the swap agreement. Pricing models utilize a series of market inputs to determine the present value of future cash flows, with adjustments, as required for credit and liquidity risk. The estimated fair values of the agreements are recorded as assets or liabilities within the statements of position. Changes in the estimated fair values are recorded in the statement of activities.

Land, Buildings and Equipment

Land, buildings and equipment are reported at cost at date of acquisition or fair value at 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 the asset or materially extend asset life is not capitalized.

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

	Years
Buildings	40
Building improvements	15 to 25
Land improvements	10 to 25
Equipment	3 to 10

Deposits and Advance Payments

Student reservation deposits, along with advance payments for tuition, room and board and certain expenditures related to the College's Summer II and Fall sessions, have been deferred and will be recorded as revenues and expenses in the year in which the sessions are completed.

Bond Discounts and Origination Costs

Bond discounts and origination costs are capitalized in the period of issuance and amortized over the period of the related debt.

Functional Reporting of Expenses

The costs of providing the College's activities have been summarized on a functional basis in the statements of activities. Expenses associated with the College's land, buildings and equipment, 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, whether as unrestricted College financial aid, reductions from endowment funds, restricted specific-purpose gifts, or government grants awarded to students by the College.

Babson College
Notes to Financial Statements
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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.

Employee Severance and Termination Costs

Employee severance and termination payments are accrued based on previously contracted amounts and are included as a component of accrued liabilities.

Related Parties

The College may procure from time to time 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 from these estimates.

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).

Reclassifications

Certain 2003 financial information has been reclassified to conform with the 2004 presentation.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2004			2003		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	\$ 1,006,404	\$ -	\$ 1,006,404	\$ 1,246,905	\$ -	\$ 1,246,905
Scholarships and fellowships	1,884,185	1,486,349	3,370,534	2,413,872	2,574,967	4,988,839
Instruction and academic support	1,260,167	1,488,123	2,748,290	1,770,209	1,548,138	3,318,347
Student programs	43,193	2,418,780	2,461,973	77,975	2,439,605	2,517,580
President's Initiative	232,809	-	232,809	574,059	145,362	719,421
Other	2,721,956	1,039,634	3,761,590	2,792,899	834,015	3,626,914
	<u>\$ 7,148,714</u>	<u>\$ 6,432,886</u>	<u>\$ 13,581,600</u>	<u>\$ 8,875,919</u>	<u>\$ 7,542,087</u>	<u>\$ 16,418,006</u>

Babson College
Notes to Financial Statements
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	2004			2003		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	\$ 4,382,066	\$ 2,618,755	\$ 7,000,821	\$ 4,919,847	\$ 3,595,280	\$ 8,515,127
One year to five years	2,009,235	2,831,600	4,840,835	3,142,105	2,802,792	5,944,897
More than five years	757,413	982,531	1,739,944	813,967	1,144,015	1,957,982
	<u>7,148,544</u>	<u>6,432,886</u>	<u>13,581,600</u>	<u>8,875,919</u>	<u>7,542,087</u>	<u>16,418,006</u>
Less						
Unamortized discount	(274,600)	(390,763)	(665,363)	(297,203)	(279,635)	(576,838)
Allowance for uncollectibles	(565,000)	(930,000)	(1,495,000)	(939,739)	(1,060,261)	(2,000,000)
	<u>\$ 6,309,114</u>	<u>\$ 5,112,123</u>	<u>\$ 11,421,237</u>	<u>\$ 7,638,977</u>	<u>\$ 6,202,191</u>	<u>\$ 13,841,168</u>

In addition, at June 30, 2004 and 2003, the College had approximately \$2,405,500 and \$3,830,000, respectively, of conditional promises from donors that are not recognized as assets in the statement of financial position. These conditional promises consisted of pledges and matching pledges for capital construction, endowment and other purposes.

Also, at June 30, 2004, the College is named the beneficiary of three charitable remainder trusts which, because of their terms, have not been recognized as assets in the 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 trusts' obligations to other beneficiaries have been satisfied.

4. Investments

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

	2004	2003
Equity securities	\$ 89,270,415	\$ 59,961,569
Fixed income securities	45,251,930	40,511,806
Short-term investments	3,850,540	19,862,811
Alternative investments	29,411,470	30,255,845
	<u>\$ 167,784,355</u>	<u>\$ 150,592,031</u>

Alternative investments consist primarily of venture capital and hedge fund holdings. The College is obligated under certain venture capital contracts to periodically advance additional funding up to contractual levels. At June 30, 2004 and 2003, the College had an unfunded commitment of \$3,290,375 and \$4,816,367, respectively, callable upon demand.

The College incurred investment management fees of \$255,657 and \$138,104 during the years ended June 30, 2004 and 2003, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of \$201,293 and \$204,584 during the years ended June 30, 2004 and 2003, respectively, that are reported as a separate component of expenses.

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During 2003 the College participated in a securities lending program designed to enhance return on certain investment holdings. The securities temporarily on loan were included in investments of the College with an estimated fair value of \$10,668,000 as of June 30, 2003. At June 30, 2003, the College had the rights to an \$10,800,000 irrevocable letter of credit as collateral on deposit for securities loaned to a financial institution. All rights to this collateral are available to the College under agreement in the case of the borrower's failure to deliver securities for any reason under the securities loan agreement. Collateral assets are not included in the assets presented in the statement of financial position. There are no securities on loan as of June 30, 2004.

5. Land, Buildings and Equipment

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

	2004	2003
Land	\$ 489,673	\$ 489,673
Land improvements	24,921,429	14,539,530
Buildings and improvements	206,874,312	199,731,384
Equipment	27,226,424	26,973,312
Construction in progress	3,382,065	10,328,966
	<u>262,893,903</u>	<u>252,062,865</u>
Less: Accumulated depreciation	(114,092,188)	(104,689,551)
	<u>\$ 148,801,715</u>	<u>\$ 147,373,314</u>

Depreciation expense was \$9,402,637 in 2004 and \$9,153,939 in 2003.

During 2004 and 2003, the College capitalized interest of \$70,967 and \$502,091, respectively.

At June 30, 2004 and 2003, construction costs of \$3,560 and \$2,722,230, respectively, were included in the accounts payable and accrued expenses balance.

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Notes to Financial Statements
June 30, 2004 and 2003

6. Bonds and Notes Payable

Bonds payable consisted of the following at June 30:

	2004	2003
Revenue bonds payable to Massachusetts Health and Educational Facilities Authority ("MHEFA"), Series A of 1974, bearing interest at a fixed rate of 6.1% and due through 2004. The bonds are collateralized by pledged tuition revenue and certain buildings	\$ 20,000	\$ 155,000
Revenue bonds payable to MIFA, Series 1995A, bearing interest at fixed rates between 5.4% and 5.8% and due through 2015	7,740,000	8,180,000
Revenue bonds payable to MIFA, Series 1997A, bearing interest at fixed rates ranging from 4.5% to 5.75% and due through 2027	22,350,000	22,800,000
Revenue bonds payable to MIFA, Series 1998A, bearing interest at fixed rates ranging from 4.0% to 5% and due through 2028	18,790,000	19,365,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2001A, bearing interest at variable auction rates (1.4% and 1.05% at June 30, 2004 and 2003, respectively) and due through 2031	31,500,000	32,000,000
Revenue bonds payable to MDFA, Series 2002A, bearing interest at variable auction rates (1.4% and 0.85% at June 30, 2004 and 2003, respectively) and due through 2032	36,000,000	36,000,000
	<u>116,400,000</u>	<u>118,500,000</u>
Less: Unamortized discount	(1,497,422)	(1,559,179)
	<u>\$ 114,902,578</u>	<u>\$ 116,940,821</u>

The fair value of the College's debt was \$118,196,773 and \$123,233,139 at June 30, 2004 and 2003, respectively.

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.

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Bond deposits with trustee as of June 30, 2004 and 2003 were \$4,409,085 and \$17,220,244, respectively. Of the total bond deposits with the trustee as of June 30, 2004 and 2003, \$1,816,072 and \$2,208,760, respectively, represents funds held to pay debt service. The remaining balance at June 30, 2004 and 2003 of \$2,593,013 and \$15,011,484, respectively, represents bond proceeds committed for use on authorized construction projects recently completed, currently underway and planned for future completion. Scheduled aggregate principal and interest payments on bonds payable are as follows:

Fiscal Year	Principal Amount	Interest Amount
2005	\$ 1,950,000	\$ 3,630,713
2006	2,200,000	3,442,169
2007	2,280,000	3,397,508
2008	2,225,000	3,305,486
2009	2,520,000	3,189,132
Thereafter	105,225,000	33,620,717
	<u>\$ 116,400,000</u>	<u>\$ 50,585,725</u>

Interest expense was \$3,152,728 in 2004 and \$3,124,052 in 2003.

The College has a note payable of \$225,000 and \$325,000 at June 30, 2004 and 2003, respectively. This note is payable in equal installments over the next two years.

7. Interest Rate Swaps

During the year the College entered into two interest rate forward swap agreements with a financial institution counterparty. The purpose of the agreements was to effectively convert the variable rates on both the MDFA, Series 2001A and Series 2002A Revenue Bonds to fixed rates of 6.175% and 4.489%, respectively, effective May 2008. The swap agreements expire at the maturity of each bond and the notional principal amount will decrease as the bonds mature.

Although this financial instrument involves counterparty credit exposure, the counterparty for the agreements is a major financial institution that meets the College's criteria for financial stability and creditworthiness. 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 agreement's fair value, and changes therein, are reported in the statement of activities. 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. For the year ended June 30, 2004 the College recorded an unrealized loss of \$1,204,321 on the forward swap agreements.

Babson College
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8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2004		2003	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	\$ 4,016,831	\$ 3,748,712	\$ 2,990,666	\$ 3,743,612
Instruction and academic support	25,770,944	31,558,336	20,589,226	30,488,742
Scholarships and fellowships	11,395,957	14,212,079	8,599,368	12,559,498
Other	1,973,503	5,204,583	1,672,492	5,322,882
Annuity	708,016	-	422,555	-
	<u>43,865,251</u>	<u>54,723,710</u>	<u>34,274,307</u>	<u>52,114,734</u>
Contributions receivable, net (Note 3)	<u>6,309,114</u>	<u>5,112,123</u>	<u>7,638,977</u>	<u>6,202,191</u>
	<u>\$ 50,174,365</u>	<u>\$ 59,835,833</u>	<u>\$ 41,913,284</u>	<u>\$ 58,316,925</u>

9. Net Assets Released from Restrictions

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

	2004	2003
Capital construction and maintenance	\$ 590,507	\$ 794,590
Instruction and academic support	5,777,387	5,355,318
Scholarships and fellowships	1,727,054	1,733,277
Other	742,238	1,083,530
	<u>\$ 8,837,186</u>	<u>\$ 8,966,715</u>

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:

	2004	2003
Fund-raising	\$ 3,571,336	\$ 3,201,868
Alumni relations	1,987,838	2,203,654
	<u>\$ 5,559,174</u>	<u>\$ 5,405,522</u>

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was \$36,259 and \$1,072,876 for the years ended June 30, 2004 and 2003, respectively.

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11. Retirement Plans

Defined Contribution Plan

The College has a defined contribution retirement plan (the "Plan") for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. Contributions are made by the provisions of Section 403(b) of the Internal Revenue Code. The College's expense under the Plan in 2004 and 2003 was \$4,069,262 and \$4,187,027, respectively. The College has no liability for benefits paid under the Plan.

Deferred Compensation Plan

The College has a deferred compensation plan for a select group of management which is designed in accordance with the provision of Section 457 of the Internal Revenue Code.

12. Loans Receivable

Loans receivable include 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, 2004 and 2003 was \$2,732,121 and \$2,702,807, respectively. Loans receivable under the Program are subject to significant restrictions. Accordingly, it is not practicable to determine fair value of such amounts.

13. Leases Commitments

During 2004 the College entered into operating lease arrangements for the purpose of providing laptop computers to students. The College is committed to minimum annual rent payments under these operating leases as follows:

Fiscal Year	
2005	\$ 875,160
2006	145,860
Thereafter	-

Rent expense for all leased computers amounted to \$1,745,007 and \$1,745,005 for the years ended June 30, 2004 and 2003, respectively.

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

Fiscal Year	
2005	\$ 959,687
2006	959,687
2007	959,687
2008	959,687
2009	959,687
Thereafter	6,717,809

Rental income for building leases amounted to \$925,000 and \$925,000 for the years ended June 30, 2004 and 2003, respectively.

14. Natural Classification of Expenses

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

	2004	2003
Salaries	\$ 51,492,637	\$ 49,493,595
Benefits	12,820,077	12,564,740
Depreciation	9,402,637	9,153,939
Food and beverage services	5,666,106	4,945,810
Utilities and other facility services	6,480,269	6,650,478
Communication and information	4,343,167	4,128,513
Other expenses	2,539,882	4,794,724
Consumable expenses	4,039,356	4,184,019
Travel/training/entertainment	4,455,454	4,411,845
Debt and finance expenses	3,864,686	3,806,089
Purchased services	3,101,277	2,834,809
CEE room, conference and administration	2,408,861	2,222,101
Advertising and media	1,565,701	2,178,659
Materials and supplies	2,809,507	2,131,523
Professional and consulting	3,604,825	2,166,023
	<u>\$ 118,594,442</u>	<u>\$ 115,666,867</u>

15. Commitments

As of June 30, 2004, \$401,000 is committed principally on open construction contracts and acquisitions. This amount will be financed from operations, private donations and bond proceeds. The College is also committed to continue to construct the assets which it has approved and borrowed funds for (Note 6).