Babson College

Financial Statements
June 30, 2006 and 2005

Babson College
Index
June 30, 2006 and 2005

Report of Independent Auditors

To the Board of Trustees of
Babson College

In our opinion, the accompanying statements of financial position at June 30, 2006 and 2005 and the related statement of activities for the year ended June 30, 2006 and the related statements of cash flows for the years ended June 30, 2006 and 2005, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2006 and 2005, and the changes in its net assets for the year ended June 30, 2006 and its cash flows for the years ended June 30, 2006 and 2005, 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 on the statement of activities has been derived from Babson College's 2005 financial statements, and in our report dated September 7, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit 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

September 5, 2006

Babson College
Statements of Financial Position
June 30, 2006 and 2005

	2006	2005
Assets		
Cash and cash equivalents	$ 19,346,899	$ 20,340,441
Accounts receivable, net of allowance of $440,440 and $432,452 at June 30, 2006 and 2005, respectively	5,664,937	5,761,861
Prepaid expenses and other assets	3,129,086	3,074,744
Contributions receivable, net (Note 3)	16,777,214	19,297,080
Loans receivable, net of allowance of $309,092 and $314,327 at June 30, 2006 and 2005, respectively (Note 12)	3,573,392	3,567,214
Bond deposits with trustee (Note 6)	7,702,672	2,070,540
Investments, at fair value (Note 4)	193,138,548	179,152,232
Land, buildings and equipment, net (Note 5)	150,598,595	143,858,332
Total assets	$ 399,931,343	$ 377,122,444
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 13,286,411	$ 13,046,787
Deposits and advance payments	8,881,577	8,452,424
Government advances for student loans (Note 12)	2,711,862	2,739,891
Note payable (Note 6)	-	125,000
Interest rate swap liability (Notes 6 and 7)	3,228,553	8,584,747
Bonds payable, net (Note 6)	127,077,085	113,014,335
Total liabilities	155,185,488	145,963,184
Net assets		
Unrestricted	111,128,116	104,587,213
Temporarily restricted (Note 8)	67,807,912	53,509,535
Permanently restricted (Note 8)	65,809,827	73,062,512
Total net assets	244,745,855	231,159,260
Total liabilities and net assets	$ 399,931,343	$ 377,122,444

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

Babson College
Statements of Activities
Year Ended June 30, 2006, with Summarized Financial Information for the Year Ended June 30, 2005

	2006				2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 93,154,030	$ -	$ -	$ 93,154,030	$ 86,569,326
Less: Student aid	(19,147,069)	-	-	(19,147,069)	(17,836,437)
Net tuition and fees	74,006,961	-	-	74,006,961	68,732,889
Room and board	15,561,077	-	-	15,561,077	15,020,447
Educational programs	3,391,105	-	-	3,391,105	3,447,041
Noneducation programs and auxiliary activities	19,287,195	-	-	19,287,195	19,017,694
Total program service fees	112,246,338	-	-	112,246,338	106,218,071
Contributions and grants	2,720,127	-	-	2,720,127	3,640,775
Investment income used in operations	1,573,940	-	-	1,573,940	585,285
Endowment spending used in operations	8,023,739	-	-	8,023,739	7,333,508
Net assets released from restrictions	6,086,442	-	-	6,086,442	4,900,186
Total operating revenues and support	130,650,586	-	-	130,650,586	122,677,825
Operating expenses					
Instruction	35,799,029	-	-	35,799,029	36,144,321
Academic support	23,947,024	-	-	23,947,024	21,603,055
Student services	16,477,094	-	-	16,477,094	15,607,947
Auxiliary activities	34,848,962	-	-	34,848,962	33,703,066
Institutional support	22,988,486	-	-	22,988,486	19,564,327
Total operating expenses	134,060,595	-	-	134,060,595	126,622,716
Decrease in net assets from operations	(3,410,009)	-	-	(3,410,009)	(3,944,891)
Nonoperating activities					
Contributions and grants	-	3,118,966	4,129,121	7,248,087	15,101,101
Net assets released from restrictions (Note 9)	4,753,814	(8,792,444)	(2,047,812)	(6,086,442)	(4,900,186)
Reclassifications (Note 8)	-	9,445,000	(9,445,000)	-	-
Realized and unrealized gains on interest rate swap agreements	5,356,194	-	-	5,356,194	(7,380,426)
Other nonoperating revenue	287,741	-	-	287,741	166,667
	10,397,749	3,771,522	(7,363,691)	6,805,580	2,987,156
Investment return					
Realized and unrealized net gains	7,388,465	8,618,368	111,006	16,117,839	13,827,906
Interest and dividend income	1,114,529	1,908,487	-	3,023,016	3,051,693
Investment consultant fees	(252,755)	-	-	(252,755)	(214,870)
Net total investment return	8,250,239	10,526,855	111,006	18,888,100	16,664,729
Less: Endowment spending used in operations	(8,023,739)	-	-	(8,023,739)	(7,333,508)
Total nonoperating activities	10,624,249	14,298,377	(7,252,685)	17,669,941	12,318,377
Total increase (decrease) in net assets before cumulative effect of change in accounting principle	7,214,240	14,298,377	(7,252,685)	14,259,932	8,373,486
Cumulative effect of change in accounting principle (Note 2)	(673,337)	-	-	(673,337)	-
Total increase (decrease) in net assets	6,540,903	14,298,377	(7,252,685)	13,586,595	8,373,486
Net assets at beginning of year	104,587,213	53,509,535	73,062,512	231,159,260	222,785,774
Net assets at end of year	$ 111,128,116	$ 67,807,912	$ 65,809,827	$ 244,745,855	$ 231,159,260

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Net tuition and fees received	$ 89,147,432	$ 83,691,665
Other educational and noneducational receipts	23,769,837	22,938,976
Contributions and grants received, net of amounts restricted for long-term purposes	6,318,476	7,290,855
Interest and dividends received	4,945,100	4,061,340
Payments to employees and suppliers	(117,237,866)	(110,370,216)
Interest paid	(5,258,917)	(3,929,360)
Net cash provided by operating activities	1,684,062	3,683,260
Cash flows from investing activities		
Purchases of investments	(97,921,658)	(26,237,729)
Sales of investments	100,033,758	28,937,727
Transfers (from) to bond deposits with trustee, net	(5,632,132)	2,338,545
Acquisition and construction of property and equipment	(15,432,595)	(4,286,434)
Student loans repaid	984,429	857,412
Student loans issued	(985,372)	(1,109,866)
Net cash (used in) provided by investing activities	(18,953,570)	499,655
Cash flows from financing activities		
Receipts from bond issuance	22,996,717	-
Payment of bond issuance costs	(657,142)	-
Repayments of bonds and note payable	(9,110,000)	(2,050,000)
Payments on split interest agreements	(199,203)	(176,250)
Increase for refundable U.S. government grants	(28,029)	7,770
Permanently restricted contributions	3,273,623	2,143,530
Net cash provided by financing activities	16,275,966	(74,950)
Net (decrease) increase in cash and cash equivalents	(993,542)	4,107,965
Cash and cash equivalents at beginning of year	20,340,441	16,232,476
Cash and cash equivalents at end of year	$ 19,346,899	$ 20,340,441
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 13,586,595	$ 8,373,486
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized (net gains) on investments	(16,117,839)	(13,827,906)
Depreciation and amortization	9,783,056	9,998,233
Cumulative effect of change in accounting principle	673,337	-
Permanently restricted contributions	(3,273,623)	(2,143,530)
Decrease (increase) in contributions receivable	4,308,543	(7,052,843)
Increase in allowance for uncollectible pledges	(1,788,677)	(823,000)
Changes in the values of interest rate swaps	(5,356,194)	7,380,426
Changes in working capital assets and liabilities, net	(131,136)	1,778,394
Net cash provided by operating activities	$ 1,684,062	$ 3,683,260

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

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 the United States and more than 75 countries worldwide. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree through its undergraduate program. The College also grants Master of Business Administration degrees and custom Master of Science degrees through the F.W. Olin Graduate School of Business at Babson College. Additionally, Babson offers distinct executive education programs to help companies reach their strategic goals.

2. Summary of Significant Accounting Policies

Basis of Presentation

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.

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.

Net assets of the College at June 30, 2006 and 2005 consisted of the following:

2006	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 8,585,886	$ 13,225,849		$ 21,811,735
Funding for facilities	24,411,883	406,915		24,818,798
Endowment and other funds				
Board designated	78,130,347	-	-	78,130,347
Donor restricted	-	54,175,148	65,809,827	119,984,975
Total net assets	$ 111,128,116	$ 67,807,912	$ 65,809,827	$ 244,745,855

2005	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 7,185,649	$ 6,470,637	$ -	$ 13,656,286
Funding for facilities	24,266,835	336,021	-	24,602,856
Endowment and other funds				
Board designated	73,134,729	-	-	73,134,729
Donor restricted	-	46,702,877	73,062,512	119,765,389
Total net assets	$ 104,587,213	$ 53,509,535	$ 73,062,512	$ 231,159,260

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

See Note 8 for reclassifications within net assets.

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. 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 underlying investments have identifiable fair values and are reported as equity or fixed income securities 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. 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.

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. 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.

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.

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 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.

Summarized Comparative Information
The 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, 2005, from which the summarized information was derived.

Reclassifications
Certain 2005 financial information has been reclassified to conform with the 2006 presentation.

New Accounting Standards
In March of 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143 *Accounting for Asset Retirement Obligations*. FIN 47 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 entity. 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. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of certain known retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in an accounting principle. Specifically, FIN 47 requires the recognition, a cumulative effect, the cumulative accretion and accumulated depreciation for the period from the date the liability was incurred to the date of adoption of this interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

Upon initial application of FIN 47, the College recognized $673,337 as the cumulative effect of a change in accounting principle in the statement of operations. As of June 30, 2006, $79,987 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $799,829 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the balance sheet.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2006			2005		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 564,651	$ -	$ 564,651	$ 596,118	$ -	$ 596,118
Scholarships and fellowships	7,650,186	626,420	8,276,606	1,293,351	1,047,752	2,341,103
Instruction and academic support	1,855,907	5,048,123	6,904,030	1,509,329	5,673,123	7,182,452
Student programs	78,542	2,440,159	2,518,701	35,677	2,385,592	2,421,269
President's Initiative	10,000	-	10,000	220,309	-	220,309
Other	2,842,821	2,297,195	5,140,016	1,381,407	9,551,960	10,933,367
	$ 13,002,107	$ 10,411,897	$ 23,414,004	$ 5,036,191	$ 18,658,427	$ 23,694,618

	2006			2005		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 3,295,577	$ 3,609,910	$ 6,905,487	$ 2,737,850	$ 4,831,427	$ 7,569,277
One year to five years	7,887,247	5,591,967	13,479,214	1,571,403	10,665,467	12,236,870
More than five years	1,819,283	1,210,020	3,029,303	726,938	3,161,533	3,888,471
	13,002,107	10,411,897	23,414,004	5,036,191	18,658,427	23,694,618
Less						
Unamortized discount	(1,731,293)	(798,820)	(2,530,113)	(276,133)	(1,803,405)	(2,079,538)
Allowance for uncollectibles	(669,315)	(3,437,362)	(4,106,677)	(552,000)	(1,766,000)	(2,318,000)
	$ 10,601,499	$ 6,175,715	$ 16,777,214	$ 4,208,058	$ 15,089,022	$ 19,297,080

In addition, at June 30, 2006 and 2005, the College had approximately $365,000 and $1,083,500, 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 scholarships, professorships, endowment and other purposes.

Also, at June 30, 2006, the College is named the beneficiary of several 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.

See Note 8 for reclassifications within net assets.

4. Investments

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

	2006	2005
Equity securities	$ 84,502,480	$ 96,193,842
Fixed income securities	41,036,733	47,314,645
Short-term investments	28,744,835	5,248,167
Alternative investments	38,854,500	30,395,578
	$ 193,138,548	$ 179,152,232

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, 2006 and 2005, the College had an unfunded commitment of $2,011,202 and $2,049,379, respectively, callable upon demand.

The College incurred investment management fees of $1,424,991 and $1,277,088 during the years ended June 30, 2006 and 2005, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $252,755 and $214,870 during the years ended June 30, 2006 and 2005, respectively, that are reported as a separate component of expenses.

5. Land, Buildings and Equipment

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

	2006	2005
Land	$ 489,673	$ 489,673
Land improvements	26,630,563	26,335,767
Buildings and improvements	216,604,397	212,221,690
Equipment	27,632,354	27,443,156
Construction in progress	12,671,167	1,306,389
	284,028,154	267,796,675
Less: Accumulated depreciation	(133,429,559)	(123,938,343)
	$ 150,598,595	$ 143,858,332

Depreciation expense was $9,383,094 and $9,846,155 in 2005 for the years ended June 30, 2006 and 2005, respectively.

During 2006 and 2005, the College capitalized interest of $300,373 and $74,663, respectively.

At June 30, 2006 and 2005, construction costs of $874,007 and $541,675, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds and Note Payable

During fiscal year 2006, the College issued $22,675,000 in Massachusetts Development Financing Agency ("MDFA") Series 2005A bonds to construct an undergraduate residence hall. In addition, a portion of the proceeds were used to refund the outstanding principal amount of the Massachusetts Industrial Finance Authority ("MIFA") Revenue Bonds, Babson College Issue, Series 1995A.

Bonds payable consisted of the following at June 30:

	2006	2005
Revenue bonds payable to Massachusetts Industrial Finance Authority ("MIFA"), Series 1995A, bearing interest at fixed rates between 5.4% and 5.8% and due through 2015	$ -	$ 7,275,000
Revenue bonds payable to MIFA, Series 1997A, bearing interest at fixed rates ranging from 4.5% to 5.75% and due through 2027	21,385,000	21,880,000
Revenue bonds payable to MIFA, Series 1998A, bearing interest at fixed rates ranging from 4.0% to 5.0% and due through 2028	17,580,000	18,195,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2001A, bearing interest at variable auction rates (5.0% and 3.23% at June 30, 2006 and 2005, respectively) and due through 2031	30,500,000	31,100,000
Revenue bonds payable to MDFA, Series 2002A, bearing interest at variable auction rates (3.5% and 1.99% at June 30, 2006 and 2005, respectively) and due through 2032	36,000,000	36,000,000
Revenue bonds payable to MDFA, Series 2005A bearing interest at a fixed rate of 3.0% to 5.0% and due through 2035	22,675,000	-
	128,140,000	114,450,000
Less: Unamortized discount	(1,062,915)	(1,435,665)
	$ 127,077,085	$ 113,014,335

The estimated fair value of the College's debt was $129,440,717 and $119,083,403 at June 30, 2006 and 2005, 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.

Bond deposits with trustee as of June 30, 2006 and 2005 were $7,702,672 and $2,070,540, respectively. Of the total bond deposits with the trustee as of June 30, 2006 and 2005, $2,203,421 and $2,070,540, respectively, represents funds held to pay debt service. The remaining balance at June 30, 2006 and 2005 of $5,499,251 and $0, 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
2007	$ 2,605,000	$ 5,683,978
2008	2,545,000	5,567,346
2009	2,850,000	6,079,784
2010	2,850,000	6,001,171
2011	4,025,000	5,840,079
Thereafter	113,265,000	65,379,088
	$ 128,140,000	$ 94,551,446

Interest expense was $5,199,981 in 2006 and $3,854,695 in 2005.

The College had a note payable with an outstanding balance of $125,000 at June 30, 2005. The note was paid in its entirety as of June 30, 2006.

7. Interest Rate Swaps

During fiscal year 2004, 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. 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, 2006 and 2005, the valuation does not exceed these thresholds. The College recorded an unrealized gain of $5,356,194 and an unrealized loss of $7,380,426 for the years ended June 30, 2006 and 2005, respectively, on the forward swap agreements.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2006		2005	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 5,242,005	$ 3,758,712	$ 4,654,438	$ 3,753,712
Instruction and academic support	31,919,226	35,149,385	28,585,760	33,785,278
Scholarships and fellowships	16,825,898	15,921,550	13,246,289	15,084,774
Other	2,610,158	4,804,465	2,157,933	5,349,726
Annuity	609,126	-	657,057	-
	57,206,413	59,634,112	49,301,477	57,973,490
Contributions receivable, net (Note 3)	10,601,499	6,175,715	4,208,058	15,089,022
	$ 67,807,912	$ 65,809,827	$ 53,509,535	$ 73,062,512

For the year ended June 30, 2006, there were reclassifications between permanently and temporarily restricted net assets resulting from donor-imposed changes to original restrictions. The net impact of these changes was an increase in temporarily restricted net assets of $9,445,000.

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:

	2006	2005
Capital construction and maintenance	$ 363,609	$ 757,622
Instruction and academic support	4,844,393	5,411,578
Scholarships and fellowships	1,738,180	1,593,477
Other	1,846,262	2,823,508
	$ 8,792,444	$ 10,586,185

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:

	2006	2005
Fund-raising	$ 3,767,642	$ 4,146,844
Alumni relations	1,717,720	1,686,070
	$ 5,485,362	$ 5,832,914

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was $2,990,348 and $1,338,609 for the years ended June 30, 2006 and 2005, respectively.

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. The College's expense under the Plan in 2006 and 2005 was $4,289,768 and $4,122,192, 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 provisions of Section 457 of the Internal Revenue Code. This plan allows participants to defer a portion of their compensation until after employment termination. The 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 $193,336 and $138,556 as of June 30, 2006 and 2005, respectively.

12. Loans Receivable

Loans receivable are the result of loans to students of funds advanced to the College by the U.S. government under the Federal Perkins Loan Program (the "Program"). Such funds are reloaned by the College after collection, but in the event that the College no longer participates in the Program, the amounts are generally refundable to the federal government. The federal government's portion of these student loans at June 30, 2006 and 2005 was $2,711,862 and $2,739,891, respectively. Loans receivable under the Program are subject to significant restrictions. Accordingly, it is not practicable to determine fair value of such amounts. Loans receivable also includes employee loans with interest rates ranging from 5% to 6.85% in the amount of $197,129 and $204,433 as of June 30, 2006 and 2005, respectively.

13. Leases Commitments

During 2006, the College entered into operating lease arrangements for the purpose of providing laptop computers to students and certain office equipment. The College is committed to minimum annual rent payments under these operating leases as follows:

Fiscal Year	
2007	$ 2,111,061
2008	1,432,886
2009	1,139,081
2010	542,766

Rent expense for all leased computers and equipment amounted to $2,645,183 and $2,528,103 for the years ended June 30, 2006 and 2005, respectively.

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

Fiscal Year	
2007	$ 1,033,014
2008	1,071,752
2009	1,111,943
2010	1,153,641
2011	1,196,902
Thereafter	6,692,389

Rental income for building leases amounted to $973,000 and $959,687 for the years ended June 30, 2006 and 2005, respectively.

14. Natural Classification of Expenses

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

	2006	2005
Salaries	$ 56,908,405	$ 55,017,833
Benefits	13,949,642	13,185,397
Depreciation	9,383,094	9,846,155
Food and beverage services	6,296,714	6,085,389
Utilities and other facility services	7,834,023	7,138,188
Communication and information	4,864,311	4,535,102
Other expenses	5,414,428	3,894,121
Consumable expenses	3,712,450	3,775,992
Travel/training/entertainment	5,423,121	5,363,242
Debt and finance expenses	6,161,694	4,568,303
Purchased services	3,843,034	3,270,101
BECC room, conference and administration	2,678,412	2,857,040
Advertising and media	2,741,688	1,856,410
Materials and supplies	2,401,478	2,415,987
Professional and consulting	2,448,101	2,813,456
	$ 134,060,595	$ 126,622,716

15. Commitments

As of June 30, 2006, the College has commitments on open construction contracts and acquisitions in the amount of $2,410,117. Should these contracts be canceled, the College may be obligated to pay the costs associated with labor and materials incurred as of the termination date plus any additional overhead and profit.