Babson College

Financial Statements
June 30, 2008 and 2007

Babson College
Index
June 30, 2008 and 2007

PRICEWATERHOUSECOOPERS

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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 at June 30, 2008 and 2007 and the related statement of activities for the year ended June 30, 2008 and the related statements of cash flows for the years ended June 30, 2008 and 2007, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2008 and 2007, and the changes in its net assets for the year ended June 30, 2008 and its cash flows for the years ended June 30, 2008 and 2007, 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 2007 financial statements, and in our report dated September 10, 2007, 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. Those standards 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 17, 2008, except for Note 17,
as to which the date is October 14, 2008.

Babson College
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents (Notes 2 and 7)	$ 34,955,254	$ 30,324,211
Accounts receivable, net of allowance of $394,107 and $344,398 at June 30, 2008 and 2007, respectively	6,583,573	5,411,201
Prepaid expenses and other assets	2,996,867	3,226,252
Contributions receivable, net (Note 3)	22,716,880	20,987,484
Loans receivable, net of allowance of $311,050 and $322,950 at June 30, 2008 and 2007, respectively (Note 12)	3,910,189	3,636,005
Bond deposits with trustee (Note 6)	3,331,242	2,849,877
Investments, at fair value (Note 4)	216,376,522	220,062,121
Land, buildings and equipment, net (Note 5)	141,783,852	147,845,056
Total assets	$ 432,654,379	$ 434,342,207
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 14,824,398	$ 13,601,753
Deposits and advance payments	12,188,283	10,417,383
Government advances for student loans (Note 12)	2,816,256	2,763,548
Interest rate swap liability (Notes 6 and 7)	8,862,644	3,640,079
Bonds payable, net (Note 6)	124,882,195	124,523,117
Total liabilities	163,573,776	154,945,880
Net assets		
Unrestricted	111,325,956	121,389,621
Temporarily restricted (Note 8)	77,894,715	85,966,605
Permanently restricted (Note 8)	79,859,932	72,040,101
Total net assets	269,080,603	279,396,327
Total liabilities and net assets	$ 432,654,379	$ 434,342,207

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

Babson College
Statements of Activities
Year Ended June 30, 2008, with Summarized Financial Information for the Year Ended June 30, 2007

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 110,134,390	$ -	$ -	$ 110,134,390	$ 100,843,653
Less: Student aid	(22,879,115)	-	-	(22,879,115)	(20,633,776)
Net tuition and fees	87,255,275	-	-	87,255,275	80,209,877
Room and board	17,711,152	-	-	17,711,152	17,062,697
Educational programs	3,982,588	-	-	3,982,588	3,366,445
Noneducation programs and auxiliary activities	20,027,292	-	-	20,027,292	18,978,769
Total program service fees	128,976,307	-	-	128,976,307	119,617,788
Contributions and grants	2,959,737	-	-	2,959,737	3,143,702
Investment income used in operations	1,386,390	-	-	1,386,390	1,913,640
Endowment spending used in operations	9,530,220	-	-	9,530,220	8,771,702
Net assets released from restrictions	4,497,098	-	-	4,497,098	2,572,491
Total operating revenues and support	147,349,752	-	-	147,349,752	136,019,323
Operating expenses					
Instruction	41,924,357	-	-	41,924,357	39,777,155
Academic support	21,774,417	-	-	21,774,417	21,692,385
Student services	18,166,496	-	-	18,166,496	17,225,675
Auxiliary activities	38,199,819	-	-	38,199,819	36,958,475
Institutional support	23,223,467	-	-	23,223,467	19,040,580
Total operating expenses	143,288,556	-	-	143,288,556	134,694,270
Increase (decrease) in net assets from operations	4,061,196	-	-	4,061,196	1,325,053
Nonoperating activities					
Contributions and grants	-	4,209,716	7,636,349	11,846,065	11,926,479
Net assets released from restrictions (Note 9)	5,466,679	(9,510,821)	(452,956)	(4,497,098)	(2,572,491)
Reclassifications (Note 8)	16,042	(423,172)	407,130	-	-
Unrealized losses on interest rate swap agreements	(5,222,566)	-	-	(5,222,566)	(411,526)
Costs of extinguishment of bonds (Note 6)	(3,085,135)	-	-	(3,085,135)	-
Other nonoperating revenue (expense)	(83,333)	-	-	(83,333)	166,667
	(2,908,313)	(5,724,277)	7,590,523	(1,042,067)	9,109,129
Investment return					
Realized and unrealized net (losses) gains	(2,471,673)	(4,026,895)	229,308	(6,269,260)	30,659,940
Interest and dividend income	1,020,524	1,212,949	-	2,233,473	2,555,760
Investment consultant fees	(235,179)	-	-	(235,179)	(227,708)
Net total investment return	(1,686,328)	(2,813,946)	229,308	(4,270,966)	32,987,992
Less: Endowment spending used in operations	(9,530,220)	-	-	(9,530,220)	(8,771,702)
Total nonoperating activities	(14,124,861)	(8,538,223)	7,819,831	(14,843,253)	33,325,419
Total increase in net assets before adjustment to beginning net assets	(10,063,665)	(8,538,223)	7,819,831	(10,782,057)	34,650,472
Adjustment to beginning net assets (Note 16)	-	466,333	-	466,333	-
Total increase in net assets	(10,063,665)	(8,071,890)	7,819,831	(10,315,724)	34,650,472
Net assets at beginning of year	121,389,621	85,966,605	72,040,101	279,396,327	244,745,855
Net assets at end of year	$ 111,325,956	$ 77,894,715	$ 79,859,932	$ 269,080,603	$ 279,396,327

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net tuition and fees received	$ 104,293,976	$ 98,212,553
Other educational and noneducational receipts	24,625,047	22,856,920
Contributions and grants received, net of amounts restricted for long-term purposes	5,592,278	3,419,704
Interest and dividends received	3,663,482	4,910,915
Payments to employees and suppliers	(126,394,388)	(119,576,205)
Interest paid	(5,673,926)	(5,692,182)
Net cash provided by operating activities	6,106,469	4,131,705
Cash flows from investing activities		
Purchases of investments	(67,424,229)	(59,586,078)
Sales of investments	67,226,536	67,225,821
Transfers (to) from bond deposits with trustee, net	(481,365)	4,852,795
Acquisition and construction of property and equipment	(3,117,006)	(7,379,905)
Proceeds from sale of equipment	500	30,000
Student loans repaid	615,735	941,229
Student loans issued	(908,019)	(1,017,700)
Net cash (used in) provided by investing activities	(4,087,848)	5,066,162
Cash flows from financing activities		
Receipts from bond issuance	87,651,830	-
Payment of bond issuance costs	(1,029,597)	-
Repayments of bonds	(88,305,000)	(2,605,000)
Payments on split interest agreements	(231,054)	(225,836)
Increase for refundable U.S. government grants	52,708	51,686
Permanently restricted contributions	4,473,535	4,092,398
Transfer from Alumni Association Merger	-	466,197
Net cash provided by financing activities	2,612,422	1,779,445
Net increase in cash and cash equivalents	4,631,043	10,977,312
Cash and cash equivalents at beginning of year	30,324,211	19,346,899
Cash and cash equivalents at end of year	$ 34,955,254	$ 30,324,211
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
(Decrease) increase in net assets	$ (10,315,724)	$ 34,650,472
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net losses (gains) on investments	6,269,260	(30,659,940)
Depreciation and amortization	9,636,575	9,708,878
Permanently restricted contributions	(4,473,535)	(4,092,398)
Increase in contributions receivable	(1,789,851)	(3,308,138)
Increase (decrease) in allowance for uncollectible pledges	60,455	(902,132)
Changes in the values of interest rate swaps	5,222,565	411,526
Changes in working capital assets and liabilities, net	1,496,724	(1,676,563)
Net cash provided by operating activities	$ 6,106,469	$ 4,131,705

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 1,800 undergraduate and 1,600 graduate students from the United States and more than 60 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 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, unrealized gains and losses on interest rate swap agreements and costs of extinguishment of bonds.

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, 2008 and 2007 consisted of the following:

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 18,282,468	$ 15,327,463	$ -	$ 33,609,931
Funding for facilities	7,260,174	262,895	-	7,523,069
Endowment and other funds				
Board designated	85,783,314	-	-	85,783,314
Donor restricted	-	62,304,357	79,859,932	142,164,289
Total net assets	$ 111,325,956	$ 77,894,715	$ 79,859,932	$ 269,080,603

2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 14,344,695	$ 16,523,951	$ -	$ 30,868,646
Funding for facilities	19,115,258	329,479	-	19,444,737
Endowment and other funds				
Board designated	87,929,668	-	-	87,929,668
Donor restricted	-	69,113,175	72,040,101	141,153,276
Total net assets	$ 121,389,621	$ 85,966,605	$ 72,040,101	$ 279,396,327

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 financial statement purposes, investments with original maturities of three months or less 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).

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 an asset or materially extend its estimatable useful life is not capitalized.

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

	Years
Buildings	40 to 50
Building improvements	10 to 25
Land improvements	10 to 50
Equipment	3 to 10

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

Bond Discounts/Premiums and Origination Costs
Bond discounts and origination costs are capitalized in the period of issuance and amortized over the period of the related debt. Babson College uses the straight-line method to amortize the bond discounts and origination costs. This approximates the effective interest method. Unamortized bond discounts/premiums are included in Bonds payable and unamortized origination costs are included in prepaid expense and other assets.

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.

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, 2007, from which the summarized information was derived.

Reclassifications

Certain 2007 financial information has been reclassified to conform with the 2008 presentation.

Conditional Asset Retirement Obligations

FASB Interpretation No. 47, *Accounting for Conditional 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. Management provides reasonable estimates of certain known retirement obligations.

As of June 30, 2008, $71,569 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $881,812 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the statements of financial position.

New Authoritative Pronouncements

Effective January 1, 2007, the College adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS No. 109, Accounting for Income Taxes*. The adoption did not have a material effect on the College's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is presently evaluating the impact of this pronouncement but does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). The standard permits entities to choose to measure many financial instruments and certain other items at fair value. The standard is effective for fiscal years beginning after November 15, 2007. Management is presently evaluating the Impact of this pronouncement but does not believe adoption of SFAS 159 will have a material impact on the financial statements.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2008			2007		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 341,216	$ 1,598,069	$ 1,939,285	$ 214,804	$ 900,000	$ 1,114,804
Scholarships and fellowships	5,544,913	2,493,302	8,038,215	6,477,279	2,371,684	8,848,963
Instruction and academic support	3,814,983	6,284,044	10,099,027	4,758,248	5,494,790	10,253,038
Student programs	451,169	2,415,777	2,866,946	590,458	2,322,608	2,913,066
President's Initiative	-	-	-	10,000	-	10,000
Other	2,174,661	3,576,390	5,751,051	2,667,105	1,596,582	4,263,687
	$ 12,326,942	$ 16,367,582	$ 28,694,524	$ 14,717,894	$ 12,685,664	$ 27,403,558

	2008			2007		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 3,343,929	$ 5,777,058	$ 9,120,987	$ 3,448,872	$ 4,753,253	$ 8,202,125
One year to five years	7,394,254	8,155,604	15,549,858	9,473,043	5,346,800	14,819,843
More than five years	1,588,759	2,434,920	4,023,679	1,795,979	2,585,611	4,381,590
	12,326,942	16,367,582	28,694,524	14,717,894	12,685,664	27,403,558
Less						
Unamortized discount	(1,531,512)	(1,181,132)	(2,712,644)	(2,073,553)	(1,137,976)	(3,211,529)
Allowance for uncollectibles	(354,500)	(2,910,500)	(3,265,000)	(481,355)	(2,723,190)	(3,204,545)
	$ 10,440,930	$ 12,275,950	$ 22,716,880	$ 12,162,986	$ 8,824,498	$ 20,987,484

In addition, at June 30, 2008 and 2007, the College had approximately $354,000 and $309,000, 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 scholarships, professorships, endowment and other purposes.

Also, at June 30, 2008, 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.

4. Investments

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

	2008	2007
Equity securities	$ 111,249,789	$ 123,136,808
Fixed income securities	37,290,291	33,740,863
Short-term investments	3,646,656	1,456,245
Alternative investments		
Hedge funds	56,302,209	54,177,829
Private equity	6,672,955	5,918,252
Venture capital	1,214,622	1,632,124
	$ 216,376,522	$ 220,062,121

Alternative investments consist primarily of private equity, venture capital and hedge fund holdings. The College is obligated under certain venture capital contracts to periodically contribute additional funding up to contractual levels. At June 30, 2008 and 2007, the College had an unfunded commitment of $11,278,458 and $8,775,715, respectively, callable upon demand.

The College incurred investment management fees of $2,001,324 and $1,912,828 during the years ended June 30, 2008 and 2007, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $235,179 and $227,708 during the years ended June 30, 2008 and 2007, 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:

	2008	2007
Land	$ 489,673	$ 489,673
Land improvements	27,439,848	26,868,082
Buildings and improvements	236,371,168	234,848,424
Equipment	28,358,007	27,844,276
Construction in progress	1,509,417	701,011
	294,168,113	290,751,466
Less: Accumulated depreciation	(152,384,261)	(142,906,410)
	$ 141,783,852	$ 147,845,056

Depreciation expense was $9,508,364 and $9,528,993 for the years ended June 30, 2008 and 2007, respectively.

During 2008 and 2007, the College capitalized interest of $98,297 and $117,953, respectively.

During 2008, the College disposed of equipment with accumulated depreciation of $30,513.

At June 30, 2008 and 2007, construction costs of $384,319 and $152,461, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds and Note Payable

Bonds payable consisted of the following at June 30:

	2008	2007
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1997A, bearing interest at fixed rates ranging from 4.5% to 5.75% and due through 2027	$ -	$ 20,865,000
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1998A, bearing interest at fixed rates ranging from 4.4% to 5.00% and due through 2028	16,260,000	16,935,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2001A, bearing interest at variable auction rates (5.23% at June 30, 2007)	-	29,900,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2002A, bearing interest at variable auction rates (3.75% at June 30, 2007)	-	36,000,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2005A, bearing interest at a fixed rate of 3.5% to 5.00% and due through 2035	20,970,000	21,835,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2007A, bearing interest at a fixed rate of 4.0% to 5.00% and due through 2027	20,440,000	-
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (1.45% at June 30, 2008) and due through 2032	36,475,000	-
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (2.75% at June 30, 2008) and due through 2031	29,840,000	-
	123,985,000	125,535,000
Unamortized premium (discount)	897,195	(1,011,883)
	$ 124,882,195	$ 124,523,117

The estimated fair value of the College's debt was $122,520,446 and $127,434,345 at June 30, 2008 and 2007, 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.

During fiscal year 2008, the College refunded the Series 1997A, 2001A and 2002A revenue bonds. The College recorded a loss on extinguishment of this debt of $3,085,135 related to the unamortized bond issuance costs on this debt and call premiums. The refunding reduced the College's debt service payments in future years and resulted in a net economic gain.

Bond deposits with trustee as of June 30, 2008 and 2007 were $3,331,242 and $2,849,877, respectively. Of the total bond deposits with the trustee as of June 30, 2008 and 2007, $3,331,242 and $2,849,877, respectively, represents funds held to pay debt service. Scheduled aggregate principal and interest payments on bonds payable, using rates that are in effect as of June 30th, are as follows:

Fiscal Year	Principal Amount	Interest Amount
2009	$ 2,915,000	$ 6,064,447
2010	2,910,000	5,933,198
2011	4,095,000	5,769,346
2012	4,225,000	5,580,072
2013	4,585,000	5,364,617
Thereafter	105,255,000	53,334,250
	$ 123,985,000	$ 82,045,930

Interest expense was $5,903,999 in 2008 and $5,566,754 in 2007. In 2008, $230,349 of interest expense was incurred related to the refinancing of the Series 2001A and 2002A bonds and is included in costs of extinguishment of bonds.

7. Interest Rate Swaps

The College entered into two interest rate swap agreements with a financial institution counterparty. The purpose of the agreements was to effectively convert the variable rates on both the MDFA, Series 2008A and Series 2008B Revenue Bonds to fixed rates of 4.489% and 6.175%, respectively. These agreements became effective in 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 at June 30, 2008. The College entered into these agreements to manage the cash flows attributable to interest payments and does not use such instruments for speculative purposes (Note 17).

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, 2008 and 2007, the amount of collateral posted was $2,638,715 and $0, respectively. The College recorded an unrealized loss of $(5,222,566) and $(411,526) for the years ended June 30, 2008 and 2007, respectively, on the forward swap agreements.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2008		2007	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 5,719,861	$ 4,131,720	$ 6,412,633	$ 3,863,911
Instruction and academic support	37,904,267	39,410,647	41,651,500	37,693,134
Scholarships and fellowships	20,519,514	17,846,639	21,999,983	16,528,531
Other	3,042,173	6,194,976	2,994,605	5,130,027
Annuity	267,970	-	744,898	-
	67,453,785	67,583,982	73,803,619	63,215,603
Contributions receivable, net (Note 3)	10,440,930	12,275,950	12,162,986	8,824,498
	$ 77,894,715	$ 79,859,932	$ 85,966,605	$ 72,040,101

For the years ended June 30, 2008 and 2007, there were reclassifications between unrestricted, permanently and temporarily restricted net assets resulting from donor-imposed changes to original restrictions. The net impact of these changes was a (decrease) increase in temporarily restricted net assets of $(423,172) and $634,515, respectively. These changes resulted in an increase in permanently restricted net assets of $407,130 and $490,485 at June 30, 2008 and 2007, respectively.

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:

	2008	2007
Capital construction and maintenance	$ 601,398	$ 696,917
Instruction and academic support	5,143,026	4,796,409
Scholarships and fellowships	2,363,432	2,212,698
Other	1,402,965	1,323,287
	$ 9,510,821	$ 9,029,311

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:

	2008	2007
Fund-raising	$ 4,774,345	$ 3,951,449
Alumni relations	2,031,356	1,748,543
	$ 6,805,701	$ 5,699,992

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was $669,744 and ($599,888) for the years ended June 30, 2008 and 2007, respectively. The negative amount reported as of June 30, 2007 represents a net recovery on pledges previously reserved.

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 2008 and 2007 was $4,581,458 and $4,352,730, 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 $344,120 and $277,401 as of June 30, 2008 and 2007, 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, 2008 and 2007 was $2,816,256 and $2,763,548, 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 7.5% to 8% in the amount of $1,852 and $6,828 as of June 30, 2008 and 2007, respectively.

13. Leases Commitments

During 2008, 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	
2009	$ 2,030,329
2010	1,203,767
2011	241,437

Rent expense for all leased computers and equipment amounted to $2,057,266 and $2,922,667 for the years ended June 30, 2008 and 2007, 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	
2009	$ 1,111,943
2010	1,153,641
2011	1,196,902
2012	1,241,786
2013	1,288,353
Thereafter	4,162,253

Rental income for building leases amounted to $1,071,752 and $1,055,689 for the years ended June 30, 2008 and 2007, respectively.

14. Natural Classification of Expenses

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

	2008	**2007**
Salaries	$ 61,363,384	$ 58,324,821
Benefits	15,600,370	14,660,412
Depreciation	9,508,364	9,528,993
Food and beverage services	7,992,300	6,995,855
Utilities and other facility services	7,785,010	8,330,902
Communication and information	4,849,881	4,490,370
Other expenses	3,477,941	1,767,875
Consumable expenses	5,162,780	4,692,626
Travel/training/entertainment	6,962,803	5,672,555
Debt and finance expenses	6,415,235	6,376,180
Purchased services	2,280,848	2,441,399
BECC room, conference and administration	3,453,350	2,985,305
Advertising and media	2,590,020	2,675,127
Materials and supplies	2,576,561	2,497,471
Professional and consulting	3,269,709	3,254,379
	$ 143,288,556	$ 134,694,270

15. Commitments

As of June 30, 2008, the College has commitments on open construction contracts and acquisitions in the amount of $212,093. 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.

16. Alumni Association Merger

Effective July 1, 2007, the Babson College Alumni Association (the "Association"), a previously independent association, merged with Babson College. As of that date, the Association became part of the College structure and does not have independent legal existence apart from the College. The Association will be subject to oversight by the College's Board of Trustees and its President. The net assets of the Association, $466,333, were transferred to the College and are reflected on the statement of activities as an adjustment to beginning net assets.

17. Subsequent Events

On September 15, 2008, Lehman Brothers Holdings, Inc. filed for bankruptcy protection. Its subsidiary, Lehman Brothers Special Financing, is the counterparty for the College's swap agreement. Babson is currently evaluating options to mitigate its exposure should there be an early termination of the swap.

Babson College invests excess cash with Commonfund for Short Term Investments ("STF"), a bank commingled fund using Wachovia Bank N.A. as trustee, and sponsored by the Commonfund for Nonprofits. On September 27, 2008, the Trustee terminated the STF and restricted redemptions pending an orderly liquidation of its assets. As of October 8, 2008, Babson College has received distributions in the amount of $8,600,000 and has an additional $3,000,000 available for withdrawal. The timing of future distributions is dependent on the sale or maturity of the STF's underlying investments, and the liquidity of markets into which these investments may be sold. Babson College at June 30, 2008 classified its investment in STF as a cash equivalent; subsequent to September 27, 2008, management has reclassified its STF balance as an investment.