Babson College

Financial Statements
June 30, 2009 and 2008

Babson College
Index
June 30, 2009 and 2008

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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, 2009 and 2008 and the related statement of activities for the year ended June 30, 2009 and the related statements of cash flows for the years ended June 30, 2009 and 2008, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2009 and 2008, and the changes in its net assets for the year ended June 30, 2009 and its cash flows for the years ended June 30, 2009 and 2008 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 audits. The prior year summarized comparative information on the statement of activities has been derived from Babson College's 2008 financial statements, and in our report dated September 17, 2008, except for Note 17 which is dated October 14, 2008. We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Notes 2 and 4 to the financial statements, the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* as of July 1, 2008.

PricewaterhouseCoopers LLP

September 25, 2009

Babson College
Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents (Notes 2 and 7)	$ 39,547,649	$ 10,951,848
Short-term investments (Note 2)	3,210,796	24,003,406
Accounts receivable, net of allowance of $539,427 and $394,107 at June 30, 2009 and 2008, respectively	5,194,488	6,583,573
Prepaid expenses and other assets	3,616,382	2,996,867
Contributions receivable, net (Note 3)	31,896,263	22,716,880
Loans receivable, net of allowance of $308,890 and $311,050 at June 30, 2009 and 2008, respectively (Note 12)	4,007,522	3,910,189
Bond deposits with trustee (Note 6)	2,585,043	3,331,242
Investments, at fair value (Note 4)	172,265,640	216,376,522
Land, buildings and equipment, net (Note 5)	136,361,408	141,783,852
Total assets	$ 398,685,191	$ 432,654,379
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 14,041,217	$ 14,824,398
Deposits and advance payments	12,021,396	12,188,283
Government advances for student loans (Note 12)	2,934,689	2,816,256
Interest rate swap liability (Notes 6 and 7)	12,894,691	8,862,644
Bonds payable, net (Note 6)	121,924,095	124,882,195
Total liabilities	163,816,088	163,573,776
Net assets		
Unrestricted	91,503,125	111,325,956
Temporarily restricted (Note 8)	52,335,951	77,894,715
Permanently restricted (Note 8)	91,030,027	79,859,932
Total net assets	234,869,103	269,080,603
Total liabilities and net assets	$ 398,685,191	$ 432,654,379

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

Babson College
Statements of Activities
Year Ended June 30, 2009, with Summarized Financial Information for the Year Ended June 30, 2008

	2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 116,260,956	$ -	$ -	$ 116,260,956	$ 110,134,390
Less: Student aid	(25,562,877)	-	-	(25,562,877)	(22,879,115)
Net tuition and fees	90,698,079	-	-	90,698,079	87,255,275
Room and board	18,974,519	-	-	18,974,519	17,711,152
Educational programs	3,404,174	-	-	3,404,174	3,982,588
Noneducation programs and auxiliary activities	17,085,491	-	-	17,085,491	20,027,292
Total program service fees	130,162,263	-	-	130,162,263	128,976,307
Contributions and grants	2,878,498	-	-	2,878,498	2,959,737
Investment income used in operations	395,673	-	-	395,673	1,386,390
Endowment spending used in operations	10,296,515	-	-	10,296,515	9,530,220
Net assets released from restrictions	5,332,890	-	-	5,332,890	4,497,098
Total operating revenues and support	149,065,839	-	-	149,065,839	147,349,752
Operating expenses					
Instruction	43,489,856	-	-	43,489,856	41,924,357
Academic support	23,396,877	-	-	23,396,877	21,774,417
Student services	19,158,723	-	-	19,158,723	18,166,496
Auxiliary activities	36,274,179	-	-	36,274,179	38,199,819
Institutional support	24,124,535	-	-	24,124,535	23,223,467
Total operating expenses	146,444,170	-	-	146,444,170	143,288,556
Increase in net assets from operations	2,621,669	-	-	2,621,669	4,061,196
Nonoperating activities					
Contributions and grants	-	7,641,861	12,877,330	20,519,191	11,846,065
Net assets released from restrictions (Note 9)	6,058,161	(9,897,051)	(1,494,000)	(5,332,890)	(4,497,098)
Reclassifications (Note 8)	-	-	-	-	-
Unrealized losses on interest rate swap agreements	(4,032,046)	-	-	(4,032,046)	(5,222,566)
Net gain (loss) from financing activities (Notes 6 and 7)	741,198	-	-	741,198	(3,085,135)
Other nonoperating revenue (expense)	271,605	-	-	271,605	(83,333)
	3,038,918	(2,255,190)	11,383,330	12,167,058	(1,042,067)
Investment return					
Realized and unrealized net losses	(15,844,254)	(24,335,184)	(213,235)	(40,392,673)	(6,269,260)
Interest and dividend income	871,271	1,031,610	-	1,902,881	2,233,473
Investment consultant fees	(213,920)	-	-	(213,920)	(235,179)
Net total investment return	(15,186,903)	(23,303,574)	(213,235)	(38,703,712)	(4,270,966)
Less: Endowment spending used in operations	(10,296,515)	-	-	(10,296,515)	(9,530,220)
Total nonoperating activities	(22,444,500)	(25,558,764)	11,170,095	(36,833,169)	(14,843,253)
Total (decrease) increase in net assets before adjustment to beginning net assets	(19,822,831)	(25,558,764)	11,170,095	(34,211,500)	(10,782,057)
Adjustment to beginning net assets (Note 1)	-	-	-	-	466,333
Total (decrease) increase in net assets	(19,822,831)	(25,558,764)	11,170,095	(34,211,500)	(10,315,724)
Net assets at beginning of year	111,325,956	77,894,715	79,859,932	269,080,603	279,396,327
Net assets at end of year	$ 91,503,125	$ 52,335,951	$ 91,030,027	$ 234,869,103	$ 269,080,603

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net tuition and fees received	$ 110,502,016	$ 104,293,976
Other educational and noneducational receipts	20,684,806	24,625,047
Contributions and grants received, net of amounts restricted for long-term purposes	6,174,740	5,592,278
Interest and dividends received	2,254,212	3,663,482
Payments to employees and suppliers	(130,137,519)	(126,394,388)
Interest paid	(6,330,180)	(5,673,926)
Net cash provided by operating activities before swap activity	3,148,075	6,106,469
Payment on swap termination	(15,662,949)	-
Net cash (used in) provided by operating activities	(12,514,874)	6,106,469
Cash flows from investing activities		
Purchases of investments	(48,878,296)	(104,765,870)
Sales of investments	76,259,996	98,726,536
Transfers from (to) bond deposits with trustee, net	746,199	(481,365)
Acquisition and construction of property and equipment	(4,088,072)	(3,117,006)
Proceeds from sale of equipment	-	500
Student loans repaid	481,055	615,735
Student loans issued	(576,228)	(908,019)
Net cash provided by (used in) investing activities	23,944,654	(9,929,489)
Cash flows from financing activities		
Receipts from bond issuance	-	87,651,830
Payment of bond issuance costs	(44,321)	(1,029,597)
Repayments of bonds	(2,915,000)	(88,305,000)
Payments on split interest agreements	(223,871)	(231,054)
Increase for refundable U.S. government grants	118,433	52,708
Permanently restricted contributions	3,693,780	4,473,535
Proceeds from swap contract reissue	16,537,000	-
Net cash provided by financing activities	17,166,021	2,612,422
Net increase (decrease) in cash and cash equivalents	28,595,801	(1,210,598)
Cash and cash equivalents at beginning of year	10,951,848	12,162,446
Cash and cash equivalents at end of year	$ 39,547,649	$ 10,951,848
Reconciliation of decrease in net assets to net cash provided by operating activities		
Cash flows from operating activities		
(Decrease) in net assets	$ (34,211,500)	$ (10,315,724)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Realized and unrealized net losses on investments	40,430,068	6,269,260
Net loss from bond refinancings	460,952	3,085,125
Depreciation and amortization	9,659,715	9,636,575
Permanently restricted contributions	(3,693,780)	(4,473,535)
Increase in contributions receivable	(10,926,733)	(1,789,851)
Increase in allowance for uncollectible pledges	1,747,350	60,455
Changes in the values of interest rate swaps	3,157,996	5,222,565
Payment on swap termination	(15,662,949)	-
Changes in working capital assets and liabilities, net	(3,475,993)	(1,588,401)
Net cash provided by operating activities	$ (12,514,874)	$ 6,106,469

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.

Effective July 1, 2007, the Babson College Alumni Association (the "Association") a previously independent corporation, merged with Babson College. 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 for the year ended June 30, 2008.

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; 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.

Cash and Cash Equivalents
For financial statement purposes operating cash invested 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).

Short-Term Investments

Operating cash invested with original maturities greater than three months at the date of purchase are classified as short-term investments. At June 30, 2009 and 2008, the balance represents the College's investment with the Common Fund – Short-Term Investment Fund (Common Fund STIF). The College's investment in the Common Fund STIF was previously classified as cash and cash equivalents but was reclassified to Short-term investments based upon updated redemption provisions. To conform with the 2009 presentation, the 2008 balances have also been reclassified.

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 funds are reported as equity or fixed income funds 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.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). The adoption of SFAS 157 did not have a material impact on the College's financial statements. See Note 4 for fair value disclosure.

The College's Board of Trustees has relied on the Massachusetts' Attorney General's June 1995 Statement of Position regarding relevant state law that prohibits the erosion of the endowment corpus and unappropriated endowment gains should generally be classified as temporarily restricted net assets until appropriated by the Board. In accordance with UMIFA, the College considers several factors when making the determination to appropriate or accumulate endowment funds: (1) how long the fund has been in existence, (2) purpose of endowment fund, (3) total return from income and appreciation of investments, (4) investment policies of the organization and (5) other College resources.

The Commonwealth of Massachusetts adopted "An Act Providing for the Uniform Prudent Management of Institutional Funds" in July 2009 (UPMIFA), which amended and replaced Chapter 180A, Massachusetts Attorney General's June 1995 Statement of Position as of June 30, 2009. UPMIFA applies to new funds and decisions made on existing funds, and has provided additional guidance for the standard of conduct in managing and investing institutional funds, appropriation for expenditure of accumulation of endowment funds, delegation of management and investment functions, and the release or modifications of restrictions on management, investment, duration or purpose.

In August 2008, the FASB issued FSP FAS 117-1 *Endowments of Not-for-Profit Organizations* (FSP 117-1), which provides guidance concerning the disclosures that not-for-profit organizations should make with regard to their endowments as well as the effect of a state's adoption of a Uniform Prudent Management of Institutional Funds Act (UPMIFA) on the classification of net assets related to donor-restricted endowment funds of not-for-profit organizations within that state. The College adopted FSP 117-1 as of July 1, 2008. FSP 117-1 did not have any impact on the way that the College classifies donor-restricted endowment funds but does require additional financial statement disclosures about the College's endowment funds. See Note 16 for endowment disclosure.

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 the date of acquisition or fair value at the date of donation in the case of gifts. For assets placed in service, depreciation is provided using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend its estimatable useful life is not capitalized.

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

	Years
Buildings	40 to 50
Building improvements	10 to 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, either as unrestricted College financial aid, reductions from endowment funds, restricted specific-purpose gifts, or government grants awarded to students by the College.

Fair Value of Financial Instruments
The estimated fair values of the College's financial instruments have been determined, where practicable, by using appropriate valuation methodologies. The College has further determined that the carrying values of its financial assets and liabilities approximate fair value.

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, 2008, from which the summarized information was derived.

Reclassifications
Certain 2008 financial information has been reclassified to conform with the 2009 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, 2009, $67,360 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $925,902 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the statements of financial position.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2009			2008		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 303,532	$ 1,356,879	$ 1,660,411	$ 341,216	$ 1,598,069	$ 1,939,285
Scholarships and fellowships	5,099,936	3,198,914	8,298,850	5,544,913	2,493,302	8,038,215
Instruction and academic support	4,739,668	14,807,772	19,547,440	3,814,983	6,284,044	10,099,027
Student programs	540,433	2,141,317	2,681,750	451,169	2,415,777	2,866,946
Other	4,098,100	3,933,156	8,031,256	2,174,661	3,576,390	5,751,051
	$ 14,781,669	$ 25,438,038	$ 40,219,707	$ 12,326,942	$ 16,367,582	$ 28,694,524

	2009			2008		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 4,857,931	$ 7,057,910	$ 11,915,841	$ 3,343,929	$ 5,777,058	$ 9,120,987
One year to five years	8,219,566	16,538,444	24,758,010	7,394,254	8,155,604	15,549,858
More than five years	1,704,172	1,841,684	3,545,856	1,588,759	2,434,920	4,023,679
	14,781,669	25,438,038	40,219,707	12,326,942	16,367,582	28,694,524
Less						
Unamortized discount	(1,377,794)	(1,933,300)	(3,311,094)	(1,531,512)	(1,181,132)	(2,712,644)
Allowance for uncollectibles	(810,350)	(4,202,000)	(5,012,350)	(354,500)	(2,910,500)	(3,265,000)
	$ 12,593,525	$ 19,302,738	$ 31,896,263	$ 10,440,930	$ 12,275,950	$ 22,716,880

In addition, at June 30, 2009 and 2008, the College had approximately $342,000 and $354,000, 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, 2009, 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:

	2009	2008
Equity securities and funds	$ 76,805,563	$ 104,653,931
Fixed income securities and funds	35,928,610	40,936,947
Alternative investments		
Hedge funds	46,328,510	56,302,209
Private equity funds	7,936,719	6,672,955
Real estate funds	4,275,636	6,595,858
Venture capital funds	990,602	1,214,622
	$ 172,265,640	$ 216,376,522

Equity securities and funds includes $1,233,048 of unsettled trades at June 30, 2009.

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, 2009 and 2008, the College had an unfunded commitment of $11,048,897 and $11,278,458, respectively, callable upon demand.

The College incurred investment management fees of $1,650,255 and $2,005,734 during the years ended June 30, 2009 and 2008, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $213,920 and $235,179 during the years ended June 30, 2009 and 2008, respectively, that are reported as a separate component of expenses.

Effective July 1, 2008, the College adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data.

The provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) were effective July 1, 2008. SFAS No. 159 gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The College did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy measure fair value and the primary valuation methodologies used by the College for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the statement of financial position and by the SFAS 157 valuation hierarchy defined above:

	Fair Value as of June 30, 2009			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 23,111,205	$ -	$ 53,694,358	$ 76,805,563
Fixed income securities and funds	19,522,149	-	16,406,461	35,928,610
Hedge funds	-	-	46,328,510	46,328,510
Private equity funds	-	-	7,936,719	7,936,719
Real estate funds	-	-	4,275,636	4,275,636
Venture capital funds	-	-	990,602	990,602
Investment Totals	$ 42,633,354	$ -	$ 129,632,286	$ 172,265,640
Liabilities				
Interest rate swaps	$ -	$ 12,894,691	$ -	$ 12,894,691

Rollforward of Investments Classified as Level 3

	Value at July 1, 2008	Realized Gains (Losses)	Unrealized Gains (Losses)	Interest & Dividends Net	Transfers In (Out)	Value at June 30, 2009
Equity securities and funds	$ 71,539,409	$ (4,275,794)	$ (12,996,910)	$ 834,257	$ (1,406,604)	$ 53,694,358
Fixed income securities and funds	11,948,302	-	(521,241)	(2,520)	4,981,920	16,406,461
Hedge funds	56,302,209	-	(8,780,786)	(142,177)	(1,050,736)	46,328,510
Private equity funds	6,672,951	44,646	(1,517,396)	15,579	2,720,939	7,936,719
Real estate funds	6,595,858	23,638	(2,393,653)	49,793	-	4,275,636
Venture capital funds	1,214,622	-	(115,251)	-	(108,769)	990,602
	$ 154,273,351	$ (4,207,510)	$ (26,325,237)	$ 754,932	$ 5,136,750	$ 129,632,286

Investments included in Level 3 consist primarily of investments held through limited partnerships. The value of these investments represent the ownership interest in net asset value (NAV) of the respective partnership. Approximately 90% of the underlying investments held by the partnerships consist of marketable securities and 10% are securities that do not have readily determinable fair values. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The College has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain of the interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

5. Land, Buildings and Equipment

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

	2009	2008
Land	$ 489,673	$ 489,673
Land improvements	28,101,370	27,439,848
Buildings and improvements	239,175,289	236,371,168
Equipment	28,707,863	28,358,007
Construction in progress	1,853,611	1,509,417
	298,327,806	294,168,113
Less: Accumulated depreciation	(161,966,398)	(152,384,261)
	$ 136,361,408	$ 141,783,852

Depreciation expense was $9,582,137 and $9,508,364 for the years ended June 30, 2009 and 2008, respectively.

During 2009 and 2008, the College capitalized interest of $181,018 and $98,297, respectively.

At June 30, 2009 and 2008, construction costs of $274,920 and $384,319, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2009	2008
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1998A, bearing interest at fixed rates ranging from 4.5% to 5.00% and due through 2028	$ 15,555,000	$ 16,260,000
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	20,060,000	20,970,000
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	19,805,000	20,440,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (0.4% at June 30, 2009) and due through 2032	36,475,000	36,475,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (0.5% at June 30, 2009) and due through 2031	29,175,000	29,840,000
	121,070,000	123,985,000
Unamortized premium	854,095	897,195
	$ 121,924,095	$ 124,882,195

The estimated fair value of the College's debt was $121,486,000 and $122,520,446 at June 30, 2009 and 2008, 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 2009, the College reissued the Series 2008A and 2008B revenue bonds with a credit enhancement. The College recorded a loss on reissue of this debt of $(460,952) related to unamortized bond issuance costs on this debt. On the statement of activities, this loss is netted against a $1,202,150 gain on the reissue of interest rate swaps (Note 7). 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, 2009 and 2008 were $2,585,043 and $3,331,242, respectively, which represent funds held to pay debt service. Scheduled aggregate principal payments on bonds payable, are as follows:

Fiscal Year	Principal Amount
2010	$ 2,910,000
2011	4,095,000
2012	4,225,000
2013	4,585,000
2014	4,685,000
Thereafter	100,570,000
	$ 121,070,000

In the event that the College receives notice of any optional tender on its Series 2008A and 2008B variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the College will be obligated to purchase the bonds tendered and has secured a standby letter-of-credit for an amount up to an aggregate of $67,163,919. The repayment schedule under the letter-of-credit commences on the first day of the quarter subsequent to the borrowing and requires 40 quarterly equal payments. The amounts noted above in the schedule of maturities would be adjusted if the maximum amount of the letter of credit were utilized. The letter of credit expires in April 2011.

Drawings on the letter of credit for bonds tendered that are not remarketed are payable in 40 equal, quarterly principal installments over a period ending no later than the letter of credit expiration date, which may be extended from time to time. Based on the existing repayment and maturity terms of the underlying letters of credit, the maximum principal payments under the variable-rate bonds related letters of credit, given 40 quarterly payments, would be as follows: $5,037,294 in 2010, $6,716,392 in 2011, $6,716,392 in 2012, $6,716,392 in 2013, $6,716,392 in 2014 and $35,261,057 thereafter.

Interest expense was $6,370,875 in 2009 and $5,903,999 in 2008. 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 has two interest rate swap agreements with financial institution counterparties. The purpose of the agreements is to effectively convert the variable rates on both the MDFA, Series 2008A and Series 2008B Revenue Bonds to fixed rates of 4.089% and 6.175%, respectively. The swap agreements expire at the maturity of each bond and the notional principal amount will decrease as the bonds mature.

Although these financial instruments involve counterparty credit exposure, the counterparties for the agreements are major financial institutions that meet the College's criteria for financial stability and creditworthiness at June 30, 2009. The College entered into these agreements to manage the cash flows attributable to interest payments and does not use such instruments for speculative purposes.

On September 18, 2008, Lehman Brothers Holdings, Inc. filed for bankruptcy protection. Its subsidiary, Lehman Brothers Special Financing, was the counterparty for the College's swap agreements. On December 4, 2008 under the terms of the Swap agreements, the College terminated the agreements with Lehman Brothers and re-issued the agreements with two different counterparties. The College recorded a gain of $1,202,150 on the termination and reissue. This gain is netted against a $(460,952) loss on debt reissue (Note 6).

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, 2009 and 2008, the amount of collateral posted was $3,897,279 and $2,638,715, respectively, which is included in cash and cash equivalents. The College recorded an unrealized loss of $(4,032,047) and $(5,222,566) for the years ended June 30, 2009 and 2008, respectively, on the forward swap agreements.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2009		2008	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
Donor stipulations				
Capital construction and maintenance	$ 3,790,194	$ 4,384,206	$ 5,719,861	$ 4,131,720
Instruction and academic support	21,532,382	40,304,829	37,904,267	39,410,647
Scholarships and fellowships	13,197,060	18,874,645	20,519,514	17,846,639
Other	1,350,556	6,963,609	3,042,173	6,194,976
Annuity	(127,766)	-	267,970	-
	39,742,426	70,527,289	67,453,785	67,583,982
Contributions receivable, net (Note 3)	12,593,525	19,302,738	10,440,930	12,275,950
Restricted property	-	1,200,000	-	-
	$ 52,335,951	$ 91,030,027	$ 77,894,715	$ 79,859,932

For the year ended June 30, 2008, 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 in temporarily restricted net assets of $(423,172). These changes resulted in an increase in permanently restricted net assets of $407,130 at June 30, 2008.

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:

	2009	2008
Capital construction and maintenance	$ 330,620	$ 601,398
Instruction and academic support	5,706,947	5,143,026
Scholarships and fellowships	2,358,469	2,363,432
Other	1,501,015	1,402,965
	$ 9,897,051	$ 9,510,821

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:

	2009	2008
Fund-raising	$ 4,173,355	$ 4,774,345
Alumni relations	2,175,202	2,031,356
	$ 6,348,557	$ 6,805,701

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was $1,816,086 and $669,744 for the years ended June 30, 2009 and 2008, 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 2009 and 2008 was $4,777,393 and $4,581,458, 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 $345,048 and $344,120 as of June 30, 2009 and 2008, 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, 2009 and 2008 was $2,934,689 and $2,816,256, 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 0% to 8% in the amount of $4,534 and $1,852 as of June 30, 2009 and 2008, respectively.

13. Leases Commitments

During 2009, 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	
2010	$ 1,723,939
2011	761,609

Rent expense for all leased computers and equipment amounted to $2,030,329 and $2,057,266 for the years ended June 30, 2009 and 2008, 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	
2010	$ 1,153,641
2011	1,196,902
2012	1,241,786
2013	1,288,353
2014	1,336,666
Thereafter	2,825,587

Rental income for building leases amounted to $1,111,942 and $1,071,752 for the years ended

June 30, 2009 and 2008, respectively.

14. Natural Classification of Expenses

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

	2009	2008
Salaries	$ 64,998,842	$ 61,363,384
Benefits	16,374,143	15,600,370
Depreciation	9,582,137	9,508,364
Food and beverage services	7,476,202	7,992,300
Utilities and other facility services	8,296,161	8,116,466
Communication and information	4,719,480	4,849,881
Other expenses	4,196,212	3,146,485
Consumable expenses	4,629,728	5,162,780
Travel/training/entertainment	6,220,225	6,962,803
Debt and finance expenses	7,208,646	6,415,235
Purchased services	1,975,760	2,280,848
BECC room, conference and administration	2,663,836	3,453,350
Advertising and media	2,412,899	2,590,020
Materials and supplies	2,629,882	2,576,561
Professional and consulting	3,060,017	3,269,709
	$ 146,444,170	$ 143,288,556

15. Commitments

As of June 30, 2009, the College has commitments on open construction contracts and acquisitions in the amount of $369,541. 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. Babson College Endowment Funds and Net Assets

Babson College's endowment consists of over 225 individual funds which have been established over time for various purposes, including scholarships, chairs and professorships, facilities, athletics and other educational services. The College's endowment consists of both donor-restricted funds as well as Board-designated endowment funds. The classification of funds is based on the existence or absence of donor-imposed restrictions.

Underwater Endowment Funds
Periodically, the fair value of individual endowment funds may fall below the corpus. These deficiencies may be the result of significant market fluctuations in conjunction with prudent appropriations against the funds. As of June 30, 2009 there were 52 endowment funds that were deemed underwater, where the fair value had declined below historical book value by $1,458,556. As of June 30, 2008, there were 12 endowment funds that were underwater, amounting to $77,530. In most cases, the underwater status was a result of the significant market deterioration combined with the length of time funds have been in existence.

Return Objectives and Strategies for Achieving Objectives
Babson College has approved and adopted investment and endowment spending policies with the expectation of capital preservation and enhancement over time. The College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Total return with prudent investment management is the primary goal.

Net Asset Composition
The College had the following endowment activities and net assets during the fiscal years ended June 30, 2009 and 2008, respectively.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 85,783,314	$ 62,304,357	$ 67,583,982	$ 215,671,653
Contributions received July 1, 2008 - June 30, 2009		900,267	3,143,306	4,043,573
Investment return				
Investment income	657,353	1,031,610	-	1,688,963
Net appreciation (realized and unrealized)	(15,858,640)	(24,325,598)	-	(40,184,238)
Total investment return	(15,201,287)	(23,293,988)	-	(38,495,275)
Endowment spending policy allocation	(4,623,979)	(5,672,536)		(10,296,515)
Other changes				
Reclassifications and other adjustments	16,250	(72,976)	(199,999)	(256,725)
Transfers to board-designated funds	-	-	-	-
Total other changes	16,250	(72,976)	(199,999)	(256,725)
Endowment net assets, end of year, June 30, 2009	65,974,298	34,165,124	70,527,289	170,666,711
Operating funds	24,729,665	17,906,744	-	42,636,409
Funding for facilities	799,162	264,083	-	1,063,245
Other funds	-	-	20,502,738	20,502,738
Total net assets	$ 91,503,125	$ 52,335,951	$ 91,030,027	$ 234,869,103

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 87,929,668	$ 69,113,175	$ 63,215,603	$ 220,258,446
Contributions received July 1, 2007 - June 30, 2008		1,369,249	4,362,291	5,731,540
Investment return				
Investment income	785,345	1,212,949	-	1,998,294
Net appreciation (realized and unrealized)	(2,477,597)	(4,038,268)	-	(6,515,865)
Total investment return	(1,692,252)	(2,825,319)	-	(4,517,571)
Endowment spending policy allocation	(4,199,602)	(5,330,618)		(9,530,220)
Other changes				
Reclassifications and other adjustments	245,500	(22,130)	6,088	229,458
Transfers to board-designated funds	3,500,000	-	-	3,500,000
Total other changes	3,745,500	(22,130)	6,088	3,729,458
Endowment net assets, end of year, June 30, 2008	85,783,314	62,304,357	67,583,982	215,671,653
Operating funds	18,282,468	15,327,463	-	33,609,931
Funding for facilities	7,260,174	262,895	-	7,523,069
Other funds	-	-	12,275,950	12,275,950
Total net assets	$ 111,325,956	$ 77,894,715	$ 79,859,932	$ 269,080,603

The unrestricted endowment net assets amount represents the total board designated endowment funds. All other amounts represent donor restricted endowment funds.
Operating funds of the College consist primarily of unendowed pledge receivables, unspent restricted gifts related to instruction and academic support, and cumulative unrestricted surplus.

See Note 8 for reclassifications within net assets.

17. Subsequent Events

The College adopted SFAS No. 165, *Subsequent Events* ("SFAS 165"), as of the year ended June 30, 2009. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires disclosure of the date through which an entity has evaluated subsequent events. Subsequent events have been evaluated through the audit opinion date of September 25, 2009.