Babson College

Financial Statements
June 30, 2010 and 2009

Babson College
Index
June 30, 2010 and 2009

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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, 2010 and 2009 and the related statement of activities for the year ended June 30, 2010 and the related statements of cash flows for the years ended June 30, 2010 and 2009, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2010 and 2009, and the changes in its net assets for the year ended June 30, 2010 and its cash flows for the years ended June 30, 2010 and 2009 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 2009 financial statements, and in our report dated September 25, 2009, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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.

PricewaterhouseCoopers LLP

October 16, 2010

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Babson College
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	$ 34,574,342	$ 39,547,649
Short-term investments	9,011,031	3,210,796
Accounts receivable, net of allowance of $622,573 and $539,427 at June 30, 2010 and 2009, respectively	5,694,079	5,194,488
Prepaid expenses and other assets	4,052,850	3,616,382
Contributions receivable, net	26,564,238	31,896,263
Loans receivable, net of allowance of $308,890 at June 30, 2010 and 2009	4,425,514	4,007,522
Bond deposits with trustee	2,442,415	2,585,043
Investments, at fair value	197,005,749	172,265,640
Land, buildings and equipment, net	131,021,049	136,361,408
Total assets	$ 414,791,267	$ 398,685,191
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 14,527,978	$ 14,041,217
Deposits and advance payments	12,013,385	12,021,396
Government advances for student loans	2,998,901	2,934,689
Interest rate swap liability	16,198,807	12,894,691
Bonds payable, net	118,970,996	121,924,095
Total liabilities	164,710,067	163,816,088
Net assets		
Unrestricted	97,707,481	91,503,125
Temporarily restricted	68,619,836	52,335,951
Permanently restricted	83,753,883	91,030,027
Total net assets	250,081,200	234,869,103
Total liabilities and net assets	$ 414,791,267	$ 398,685,191

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

Babson College
Statement of Activities
Year Ended June 30, 2010, with Summarized Financial Information for the Year Ended June 30, 2009

	2010				2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 122,907,286	$ -	$ -	$ 122,907,286	$ 116,260,956
Less: Student aid	(27,117,868)	-	-	(27,117,868)	(25,562,877)
Net tuition and fees	95,789,418	-	-	95,789,418	90,698,079
Room and board	20,132,258	-	-	20,132,258	18,974,519
Educational programs	4,944,479	-	-	4,944,479	3,319,811
Noneducation programs and auxiliary activities	15,893,495	-	-	15,893,495	17,169,854
Total program service fees	136,759,650	-	-	136,759,650	130,162,263
Contributions and grants	3,774,955	-	-	3,774,955	2,878,498
Investment income used in operations	460,654	-	-	460,654	395,673
Endowment spending used in operations	8,533,336	-	-	8,533,336	10,296,515
Net assets released from restrictions	3,402,714	-	-	3,402,714	5,332,890
Total operating revenues and support	152,931,309	-	-	152,931,309	149,065,839
Operating expenses					
Instruction	43,881,267	-	-	43,881,267	43,489,856
Academic support	24,998,926	-	-	24,998,926	23,396,877
Student services	19,785,453	-	-	19,785,453	19,158,723
Auxiliary activities	35,945,475	-	-	35,945,475	36,274,179
Institutional support	23,548,701	-	-	23,548,701	24,124,535
Total operating expenses	148,159,822	-	-	148,159,822	146,444,170
Increase in net assets from operations	4,771,487	-	-	4,771,487	2,621,669
Nonoperating activities					
Contributions and grants	-	3,379,228	1,557,767	4,936,995	20,519,191
Net assets released from restrictions	5,196,084	(9,689,838)	1,091,040	(3,402,714)	(5,332,890)
Reclassifications	-	9,962,770	(9,962,770)	-	-
Unrealized losses on interest rate swap agreements	(3,304,116)	-	-	(3,304,116)	(4,032,046)
Net gain from financing activities	-	-	-	-	741,198
Other nonoperating net revenue	159,266	-	-	159,266	271,605
	2,051,234	3,652,160	(7,313,963)	(1,610,569)	12,167,058
Investment return					
Realized and unrealized net gains and (losses)	7,395,899	11,879,196	37,819	19,312,914	(40,392,673)
Interest and dividend income, net	742,001	752,529	-	1,494,530	1,902,881
Investment consultant fees	(222,929)	-	-	(222,929)	(213,920)
Net total investment return	7,914,971	12,631,725	37,819	20,584,515	(38,703,712)
Less: Endowment spending used in operations	(8,533,336)	-	-	(8,533,336)	(10,296,515)
Total nonoperating activities	1,432,869	16,283,885	(7,276,144)	10,440,610	(36,833,169)
Total increase (decrease) in net assets	6,204,356	16,283,885	(7,276,144)	15,212,097	(34,211,500)
Net assets at beginning of year	91,503,125	52,335,951	91,030,027	234,869,103	269,080,603
Net assets at end of year	$ 97,707,481	$ 68,619,836	$ 83,753,883	$ 250,081,200	$ 234,869,103

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net tuition and fees received	$ 114,060,836	$ 110,502,016
Other educational and noneducational receipts	22,522,688	20,684,806
Contributions and grants received, net of amounts restricted for long-term purposes	7,409,624	6,174,740
Interest and dividends received	1,801,797	2,254,212
Payments to employees and suppliers	(132,349,127)	(130,137,519)
Interest paid	(2,813,990)	(6,330,180)
Net cash provided by operating activities before swap activity	10,631,828	3,148,075
Payment on swap termination	-	(15,662,949)
Net cash provided by (used in) operating activities	10,631,828	(12,514,874)
Cash flows from investing activities		
Purchases of investments	(46,677,999)	(48,878,296)
Sales of investments	36,299,849	76,259,996
Transfers from bond deposits with trustee, net	142,628	746,199
Acquisition and construction of property and equipment	(3,715,523)	(4,088,072)
Student loans repaid	583,330	481,055
Student loans issued	(1,001,322)	(576,228)
Net cash (used in) provided by investing activities	(14,369,037)	23,944,654
Cash flows from financing activities		
Payment of bond issuance costs	(219,075)	(44,321)
Repayments of bonds	(2,910,000)	(2,915,000)
Payments on split interest agreements	(251,324)	(223,871)
Increase for refundable U.S. government grants	64,212	118,433
Permanently restricted contributions	5,167,179	3,693,780
(Payments on)/proceeds from swap contracts	(3,087,090)	16,537,000
Net cash (used in) provided by financing activities	(1,236,098)	17,166,021
Net (decrease) increase in cash and cash equivalents	(4,973,307)	28,595,801
Cash and cash equivalents at beginning of year	39,547,649	10,951,848
Cash and cash equivalents at end of year	$ 34,574,342	$ 39,547,649
Reconciliation of decrease in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase/(decrease) in net assets	$ 15,212,097	$ (34,211,500)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net (gains) losses on investments	(19,442,295)	40,430,068
Net loss from bond refinancings	-	460,952
Depreciation and amortization	9,107,945	9,659,715
Permanently restricted contributions	(5,167,179)	(3,693,780)
Decrease/(increase) in contributions receivable	6,118,411	(10,926,733)
(Decrease)/increase in allowance for uncollectible pledges	(786,386)	1,747,350
Changes in the values of interest rate swaps	3,304,116	3,157,996
Payments on (proceeds from) swap contracts	3,087,090	(15,662,949)
Changes in working capital assets and liabilities, net	(801,971)	(3,475,993)
Net cash provided by (used in) operating activities	$ 10,631,828	$ (12,514,874)

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 1,900 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.

On January 7, 2010, Babson Global, Inc. ("Babson Global") was formed as a 501(c)3 supporting organization of Babson College. Babson Global was created to carry out certain educational purposes of Babson College and to advance and support the educational objectives of Babson by providing consulting, technical services and educational products to organizations. Babson Global will commence activities on July 1, 2010. There have been no financial transactions recorded within Babson Global, Inc. as of June 30, 2010.

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 generally 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 endowment 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

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, 2010, the balance represents investments in certificate of deposits held with financial institutions. At June 30, 2009, the balance represents an investment with the Common Fund-Short-Term Investment Fund. The Common Fund was redeemed in full during fiscal year 2010.

Investments
The College's investments are recorded at fair value. The fair value of publicly-traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. In addition, the College invests in certain limited partnerships where the value of the investment is based on the fair value of the underlying investments within these partnerships. The funds are reported as equity 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.

See Note 4 for additional fair value disclosures.

The College's Board of Trustees had historically 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 July 2009, the Commonwealth of Massachusetts adopted *An Act Providing for the Uniform Prudent Management of Institutional Funds* (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. See Note 16 for endowment disclosure.

Derivative Instruments
The College accounts for its interest rate swap agreements in accordance with *Accounting for Derivative Instruments and Hedging Activities*. 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 expenses and other assets.

Functional Reporting of Expenses
The costs of providing the College's activities have been summarized on a functional basis in the statement 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, other than bonds payable, approximate fair value. See Note 6.

Related Parties
The College may procure 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, 2009, from which the summarized information is derived.

Reclassifications

Certain 2009 financial information has been reclassified to conform with the 2010 presentation.

Conditional Asset Retirement Obligations

Accounting for Conditional Asset Retirement Obligations defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the 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, 2010, $48,013 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $827,393 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:

	2010			2009		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 257,612	$ 636,735	$ 894,347	$ 303,532	$ 1,356,879	$ 1,660,411
Scholarships and fellowships	4,687,489	1,772,575	6,460,064	5,099,936	3,198,914	8,298,850
Instruction and academic support	14,262,217	4,597,783	18,860,000	4,739,668	14,807,772	19,547,440
Student programs	545,983	1,763,547	2,309,530	540,433	2,141,317	2,681,750
Other	2,787,407	3,516,187	6,303,594	4,098,100	3,933,156	8,031,256
	$ 22,540,708	$ 12,286,827	$ 34,827,535	$ 14,781,669	$ 25,438,038	$ 40,219,707

	2010			2009		
	Temporarily Restricted	**Permanently Restricted**	**Total**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Unconditional promises due within						
Less than one year	$ 4,857,685	$ 4,889,319	$ 9,747,004	$ 4,857,931	$ 7,057,910	$ 11,915,841
One year to five years	9,260,147	5,809,671	15,069,818	8,219,566	16,538,444	24,758,010
More than five years	8,422,876	1,587,837	10,010,713	1,704,172	1,841,684	3,545,856
	22,540,708	12,286,827	34,827,535	14,781,669	25,438,038	40,219,707
Less						
Unamortized discount	(3,942,432)	(663,865)	(4,606,297)	(1,377,794)	(1,933,300)	(3,311,094)
Allowance for uncollectibles	(1,026,000)	(2,631,000)	(3,657,000)	(810,350)	(4,202,000)	(5,012,350)
	$ 17,572,276	$ 8,991,962	$ 26,564,238	$ 12,593,525	$ 19,302,738	$ 31,896,263

See Note 8 for rationale behind significant movement from permanently to temporarily restricted net assets.

In addition, at June 30, 2010 and 2009, the College had approximately $229,000 and $342,000, respectively, of conditional promises from donors that are not recognized as assets in the statements of financial position. These conditional promises consisted of pledges and matching pledges for scholarships, professorships, endowment and other purposes.

Also, at June 30, 2010, 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 amount of beneficial interest is known and estimable after considering the trusts' obligations to other beneficiaries.

4. Investments

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

	2010	**2009**
Equity securities and funds	$ 93,842,324	$ 76,805,563
Fixed income securities and funds	41,168,204	35,928,610
Alternative investments		
Hedge funds	48,635,754	46,328,510
Private equity funds	10,450,469	7,936,719
Real estate funds	2,075,269	4,275,636
Venture capital funds	833,729	990,602
	$ 197,005,749	$ 172,265,640

Equity securities and funds includes $7,319 and $1,233,048 of unsettled trades at June 30, 2010 and 2009, respectively.

The College incurred investment management fees of $1,779,964 and $1,656,855 during the years ended June 30, 2010 and 2009, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $222,929 and $213,920 during the years ended June 30, 2010 and 2009, respectively, that are reported as a separate component of expenses.

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

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

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

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

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

The following table presents the financial instruments carried at fair value as of June 30, 2010, by caption on the statement of financial position and by the fair value valuation hierarchy defined above:

	Fair Value as of June 30, 2010			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 21,421,165	$ 72,421,159	$ -	$ 93,842,324
Fixed income securities and funds	23,652,589	17,473,615	42,000	41,168,204
Hedge funds	-	42,332,185	6,303,569	48,635,754
Private equity funds	-	-	10,450,469	10,450,469
Real estate funds	-	2,075,269	-	2,075,269
Venture capital funds	-	-	833,729	833,729
Investment Totals	$ 45,073,754	$ 134,302,228	$ 17,629,767	$ 197,005,749
Liabilities				
Interest rate swaps	$ -	$ 16,198,807	$ -	$ 16,198,807

The tables below present rollforwards of investments classified by the College within Level 3 of the fair value hierarchy at June 30, 2010 and 2009:

	Rollforward of Investments Classified as Level 3							
	Value at July 1, 2009	**Reclassification to Level 2**	**Realized Gains (Losses)**	**Unrealized Gains (Losses)**	**Interest & Dividends Net**	**Purchases**	**Sales**	**Value at June 30, 2010**
Equity securities and funds	$ 53,694,358	$ (53,694,358)	$ -	$ -	$ -	$ -	$ -	$ -
Fixed income securities and funds	16,406,461	(16,364,461)	-	-	3,080	-	(3,080)	42,000
Hedge funds	46,328,510	(41,543,116)	-	1,715,097	(196,922)	-	-	6,303,569
Private equity funds	7,936,719	-	(247,370)	1,716,261	19,292	2,036,365	(1,010,798)	10,450,469
Real estate funds	4,275,636	(4,275,636)	-	-	-	-	-	-
Venture capital funds	990,602	-	-	(102,629)	-	72,074	(126,318)	833,729
	$ 129,632,286	$ (115,877,571)	$ (247,370)	$ 3,328,729	$ (174,550)	$ 2,108,439	$ (1,140,196)	$ 17,629,767

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

In October 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, the College is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The College's investments in certain hedge, private equity, real estate and venture capital funds are fair valued based on the most current NAV.

As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as Level 2 if the College has the ability to redeem within 90 days, which is based upon the year end recorded amounts.

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. 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. The College has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and existence of certain redemption restrictions at the measurement date.

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

The following table presents liquidity information for the financial instruments carried at fair value at June 30, 2010:

	Investments Asset Value as of June 30, 2010			
Investment Type	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Notice Period**
Equity securities & funds	$ 93,842,324	$ -	Daily - Quarterly	3-90 Days
Fixed income securities & funds	41,168,204	-	Daily - Monthly	3-30 Days
Hedge funds	48,635,754	-	Quarterly - Annually	45-60 Days
Private equity funds	10,450,469	13,023,475	N/A	N/A
Real estate funds	2,075,269	-	Quarterly	90 Days
Venture capital funds	833,729	44,034	N/A	N/A
	$ 197,005,749	$ 13,067,509		

5. Land, Buildings and Equipment

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

	2010	2009
Land	$ 489,673	$ 489,673
Land improvements	28,155,580	28,101,370
Buildings and improvements	243,144,045	239,175,289
Equipment	29,074,107	28,707,863
Construction in progress	1,251,501	1,853,611
	302,114,906	298,327,806
Less: Accumulated depreciation	(171,093,857)	(161,966,398)
	$ 131,021,049	$ 136,361,408

Depreciation expense was $9,154,045 and $9,582,137 for the years ended June 30, 2010 and 2009, respectively.

During 2010 and 2009, the College capitalized interest of $70,392 and $181,018, respectively.

At June 30, 2010 and 2009, construction costs of $323,246 and $274,920, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2010	2009
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	$ 14,815,000	$ 15,555,000
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	19,115,000	20,060,000
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	19,145,000	19,805,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (0.24% at June 30, 2010) 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 (0.33% at June 30, 2010) and due through 2031	28,610,000	29,175,000
	118,160,000	121,070,000
Unamortized premium	810,996	854,095
	$ 118,970,996	$ 121,924,095

The estimated fair value of the College's debt was $120,413,000 and $121,486,000 at June 30, 2010 and 2009, 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, 2010 and 2009 were $2,442,415 and $2,585,043, respectively, which represent funds held to pay debt service. Scheduled aggregate principal payments on bonds payable are as follows:

Fiscal Year	Principal Amount
2011	$ 4,095,000
2012	4,225,000
2013	4,585,000
2014	4,685,000
2015	4,895,000
Thereafter	95,675,000
	$ 118,160,000

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: $6,716,392 in 2011, $6,716,392 in 2012, $6,716,392 in 2013, $6,716,392 in 2014, $6,716,392 in 2015 and $33,581,959 thereafter.

Interest expense was $5,822,288 in 2010 and $6,370,875 in 2009.

7. Interest Rate Swaps

The College has two interest rate swap agreements with financial institution counterparties. The purpose of the agreements is to effectively convert the variable rates on both the MDFA, Series 2008A and Series 2008B Revenue Bonds to fixed rates of 4.089% and 6.175%, respectively. The swap agreements expire at the maturity of each bond and the notional principal amount will decrease as the bonds mature.

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

Although these financial instruments involve counterparty credit exposure, the counterparties for the agreements are major financial institutions that meet the College's criteria for financial stability and creditworthiness at June 30, 2010. 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, 2010 and 2009, the amount of collateral posted was $0 and $3,897,279, respectively, which is included in cash and cash equivalents. No collateral was posted in 2010 as a result of the College's bond rating improving, which increased the threshold required for posting collateral.

Effective July 1, 2009, the College adopted the provisions of *Derivatives & Hedging*, which requires enhanced disclosures about the objectives and strategies for using derivatives and quantitative disclosures about the fair value amounts, and gains and losses on derivatives. The standard also requires tabular disclosure of derivative activity on the financial statements, which is as follows:

Fair Values of Derivative Instruments on the Statements of Financial Position

Derivatives not designated as hedging instruments	**Statements of Position Location**	**Fair Value of Derivatives**	
		2010	**2009**
Interest Rate Swap Contracts	Interest Rate Swap Liability	$ 16,198,807	$ 12,894,691

Effect of Derivative Instruments on the Statement of Activities

Derivatives not designated as hedging instruments	**Statement of Activities Location**	**Fair Value of Derivatives**	
		2010	**2009**
Interest Rate Swap Contracts	Unrealized losses on interest rate swap agreements	$ (3,304,116)	$ (4,032,046)
	Operating expenses	3,087,090	2,434,559

Activity reflected in operating expenses is monthly swap payments to counterparties. The payments are allocated across each operating expense line item.

Interest Rate Swap Contracts open at June 30, 2010 accounted for all swap activity for the year.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 4,511,387	$ 4,656,935	$ 3,790,194	$ 4,384,206
Instruction and academic support	26,572,828	41,407,999	21,532,382	40,304,829
Scholarships and fellowships	16,367,632	19,380,262	13,197,060	18,874,645
Other	3,693,535	9,316,725	1,350,556	6,963,609
Annuity	(97,822)	-	(127,766)	-
	51,047,560	74,761,921	39,742,426	70,527,289
Contributions receivable, net (Note 3)	17,572,276	8,991,962	12,593,525	19,302,738
Restricted property	-	-	-	1,200,000
	$ 68,619,836	$ 83,753,883	$ 52,335,951	$ 91,030,027

For the year ended June 30, 2010, there were reclassifications between unrestricted, permanently and temporarily restricted net assets resulting from donor changes to original restrictions. The net impact of these changes was an increase in temporarily restricted net assets of $9,962,770 and a decrease in permanently restricted net assets of $(9,962,770) at June 30, 2010.

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:

	2010	2009
Capital construction and maintenance	$ 294,146	$ 330,620
Instruction and academic support	5,704,150	5,706,947
Scholarships and fellowships	2,322,259	2,358,469
Other	1,369,283	1,501,015
	$ 9,689,838	$ 9,897,051

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:

	2010	2009
Fund-raising	$ 4,231,650	$ 4,173,355
Alumni relations	2,422,576	2,175,202
	$ 6,654,226	$ 6,348,557

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was $(786,386) and $1,816,086 for the years ended June 30, 2010 and 2009, 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 2010 and 2009 was $5,104,132 and $4,777,393, 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 $460,203 and $345,048 as of June 30, 2010 and 2009, 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, 2010 and 2009 was $2,998,901 and $2,934,689, 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 of 0% in the amount of $0 and $4,534 as of June 30, 2010 and 2009, respectively.

13. Lease Commitments

During 2010, 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	
2011	$ 770,969
2012	82,908
2013	82,908
2014	82,908
2015	73,548

Rent expense for all leased computers and equipment amounted to $2,258,137 and $2,030,329 for the years ended June 30, 2010 and 2009, 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 noncancellable lease are as follows:

Fiscal Year	
2011	$ 1,196,902
2012	1,241,786
2013	1,288,353
2014	1,336,666
2015	1,386,791
Thereafter	1,438,796

Rental income for building leases amounted to $1,153,640 and $1,111,942 for the years ended June 30, 2010 and 2009, respectively.

14. Natural Classification of Expenses

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

	2010	2009
Salaries	$ 66,697,368	$ 64,998,842
Benefits	18,463,642	16,374,143
Depreciation	9,154,045	9,582,137
Food and beverage services	7,059,699	7,476,202
Utilities and other facility services	7,464,844	8,296,161
Communication and information	4,742,066	4,719,480
Other expenses	1,709,150	4,196,212
Consumable expenses	5,207,157	4,629,728
Travel/training/entertainment	6,525,035	6,220,225
Debt and finance expenses	7,194,623	7,208,646
Purchased services	2,452,132	1,975,760
BECC room, conference and administration	2,243,905	2,663,836
Advertising and media	2,911,665	2,412,899
Materials and supplies	2,424,756	2,629,882
Professional and consulting	3,909,735	3,060,017
	$ 148,159,822	$ 146,444,170

15. Commitments

As of June 30, 2010, the College has no commitments on open construction contracts and acquisitions. From time to time, various claims and suits generally incident to the conduct of normal business are pending or may rise against the College. In the opinion of counsel and management of the College, losses, if any, from the resolution of pending litigation should not have a material effect on the College's financial position or results of operations.

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, 2010 there were 24 endowment funds that were deemed underwater, where the fair value had declined below historical book value by $400,266. As of June 30, 2009, there were 52 endowment funds that were underwater, amounting to $1,458,556. 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, 2010 and 2009, respectively.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 65,974,298	$ 34,165,124	$ 70,527,289	$ 170,666,711
Contributions received July 1, 2009 - June 30, 2010	-	1,051,058	4,255,857	5,306,915
Investment return				
Investment income	519,072	752,529	-	1,271,601
Net appreciation (realized and unrealized)	7,450,058	11,876,493	-	19,326,551
Total investment return	7,969,130	12,629,022	-	20,598,152
Endowment spending policy allocation	(3,400,635)	(5,132,701)	-	(8,533,336)
Other changes				
Reclassifications and other adjustments	(5,081)	(22,715)	(21,225)	(49,021)
Transfers to board-designated funds	8,533,336	-	-	8,533,336
Total other changes	8,528,255	(22,715)	(21,225)	8,484,315
Endowment net assets, end of year, June 30, 2010	79,071,048	42,689,788	74,761,921	196,522,757
Operating funds	23,515,777	25,665,862	-	49,181,639
Funding for facilities	(4,879,344)	264,186	-	(4,615,158)
Other funds	-	-	8,991,962	8,991,962
Total net assets	$ 97,707,481	$ 68,619,836	$ 83,753,883	$ 250,081,200

	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

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 *Subsequent Events* as of the year ended June 30, 2009. Subsequent Events 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 October 16, 2010, the date the financial statements were available to be issued.