Babson College

Consolidated Financial Statements
June 30, 2012 and 2011

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June 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
Babson College

In our opinion, the accompanying consolidated statements of financial position at June 30, 2012 and 2011 and the related consolidated statement of activities for the year ended June 30, 2012 and the related consolidated statements of cash flows for the years ended June 30, 2012 and 2011, present fairly, in all material respects, the financial position of Babson College (the “College”) at June 30, 2012 and 2011, and the changes in their net assets for the year ended June 30, 2012 and their cash flows for the years ended June 30, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the College’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information on the consolidated statement of activities has been derived from Babson College’s 2011 financial statements, and in our report dated October 15, 2011, we expressed an unqualified opinion on those financial statements. We conducted our audits of these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 20, 2012

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Babson College
Consolidated Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 37,165,785	$ 30,750,624
Short-term investments	12,450,000	7,967,628
Accounts receivable, net of allowance of $780,347 and $683,808 at June 30, 2012 and 2011, respectively	4,758,432	5,997,038
Prepaid expenses and other assets	4,615,678	4,259,848
Contributions receivable, net	31,203,356	30,633,359
Loans receivable, net of allowance of $541,000 and $403,000 at June 30, 2012 and 2011, respectively	3,729,104	3,979,654
Bond deposits with trustee	2,572,168	2,496,881
Investments, at fair value	239,492,137	243,252,672
Land, buildings, equipment and software, net	128,614,498	131,067,405
Total assets	$ 464,601,158	$ 460,405,109
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 14,832,616	$ 16,497,553
Deposits and advance payments	12,720,677	13,610,728
Government advances for student loans	3,038,036	3,020,403
Interest rate swap liability	20,101,581	13,718,846
Bonds payable, net	110,992,663	114,832,896
Total liabilities	161,685,573	161,680,426
Net assets		
Unrestricted	116,409,426	116,568,787
Temporarily restricted	89,183,536	91,218,598
Permanently restricted	97,322,623	90,937,298
Total net assets	302,915,585	298,724,683
Total liabilities and net assets	$ 464,601,158	$ 460,405,109

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

Babson College
Consolidated Statement of Activities
Year Ended June 30, 2012
(With Summarized Financial Information for the Year Ended June 30, 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 135,853,003	$ -	$ -	$ 135,853,003	$ 129,198,421
Less: Student aid	(30,121,300)	-	-	(30,121,300)	(28,697,352)
Net tuition and fees	105,731,703	-	-	105,731,703	100,501,069
Room and board	22,429,729	-	-	22,429,729	21,033,832
Educational programs	2,535,233	-	-	2,535,233	3,040,538
Noneducation programs and auxiliary activities	21,475,060	-	-	21,475,060	19,692,999
Total program service fees	152,171,725	-	-	152,171,725	144,268,438
Contributions and grants	3,379,407	-	-	3,379,407	3,894,699
Investment income used in operations	228,416	-	-	228,416	304,637
Endowment spending used in operations	6,804,025	-	-	6,804,025	9,336,255
Net assets released from restrictions	7,507,816	-	-	7,507,816	7,386,289
Total operating revenues and support	170,091,389	-	-	170,091,389	165,190,318
Operating expenses					
Instruction	46,333,179	-	-	46,333,179	46,781,314
Academic support	26,897,843	-	-	26,897,843	26,791,284
Student services	22,462,912	-	-	22,462,912	21,197,030
Auxiliary activities	41,522,929	-	-	41,522,929	40,451,518
Institutional support	24,070,169	-	-	24,070,169	24,762,472
Total operating expenses	161,287,032	-	-	161,287,032	159,983,618
Increase in net assets from operations	8,804,357	-	-	8,804,357	5,206,700
Nonoperating activities					
Contributions and grants	-	13,266,781	5,401,870	18,668,651	19,995,915
Net assets released from restrictions	5,861,178	(13,584,469)	215,475	(7,507,816)	(7,386,289)
Reclassifications	-	(509,511)	509,511	-	-
Unrealized (losses) gains on interest rate swap agreements	(6,382,735)	-	-	(6,382,735)	2,479,961
Endowment spending available for capital projects	2,892,000	-	-	2,892,000	-
Net loss on financing activities	(352,251)	-	-	(352,251)	-
Other nonoperating net (expense) revenue	(391,146)	-	-	(391,146)	305,641
	1,627,046	(827,199)	6,126,856	6,926,703	15,395,228
Investment return					
Realized and unrealized net (losses) gains	(1,713,337)	(2,427,185)	258,469	(3,882,053)	35,957,035
Interest and dividend income	1,083,863	1,219,322	-	2,303,185	1,656,837
Investment consultant fees	(265,265)	-	-	(265,265)	(236,062)
Net total investment return	(894,739)	(1,207,863)	258,469	(1,844,133)	37,377,810
Less: Endowment spending draw	(9,696,025)	-	-	(9,696,025)	(9,336,255)
Total nonoperating activities	(8,963,718)	(2,035,062)	6,385,325	(4,613,455)	43,436,783
Total (decrease) increase in net assets	(159,361)	(2,035,062)	6,385,325	4,190,902	48,643,483
Net assets					
Beginning of year	116,568,787	91,218,598	90,937,298	298,724,683	250,081,200
End of year	$ 116,409,426	$ 89,183,536	$ 97,322,623	$ 302,915,585	$ 298,724,683

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

Babson College
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net tuition and fees received	$ 131,084,374	$ 121,810,713
Other educational and noneducational receipts	21,480,370	24,290,900
Contributions and grants received, net of amounts restricted for long-term purposes	10,355,608	9,333,789
Interest and dividends received	2,240,733	1,707,961
Payments to employees and suppliers	(148,662,392)	(143,979,970)
Interest paid	(2,430,391)	(2,562,998)
Net cash provided by operating activities	14,068,302	10,600,395
Cash flows from investing activities		
Purchases of investments	(109,334,051)	(67,553,362)
Sales of investments	108,135,855	60,863,840
Transfers from bond deposits with trustee, net	(75,287)	(54,466)
Acquisition and construction of property and equipment	(7,222,170)	(8,311,837)
Student loans repaid	692,337	845,695
Student loans issued	(584,039)	(501,800)
Net cash used in investing activities	(8,387,355)	(14,711,930)
Cash flows from financing activities		
Payment of bond issuance costs	(259,205)	(26,000)
Repayments of bonds and notes	(18,259,407)	(4,099,944)
Proceeds from bonds payable	14,518,050	109,395
Payments on split interest agreements	(306,651)	(249,816)
Increase for refundable U.S. government grants	17,633	21,502
Permanently restricted contributions	7,981,762	7,555,197
Payments on interest rate swap contracts	(2,957,968)	(3,022,517)
Net cash provided by financing activities	734,214	287,817
Net increase (decrease) in cash and cash equivalents	6,415,161	(3,823,718)
Cash and cash equivalents		
Beginning of year	30,750,624	34,574,342
End of year	$ 37,165,785	$ 30,750,624
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 4,190,902	$ 48,643,483
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net losses (gains) on investments	3,848,755	(35,404,139)
Depreciation and amortization	9,946,175	9,520,433
Permanently restricted contributions	(7,981,762)	(7,555,197)
Increase in contributions receivable	(758,997)	(3,404,120)
Increase (decrease) in allowance for uncollectible pledges	189,000	(665,001)
Increase (decrease) in interest rate swap liability	6,382,735	(2,479,961)
Payments on interest rate swap contracts	2,957,968	3,022,517
Changes in working capital assets and liabilities, net	(4,706,474)	(1,077,620)
Net cash provided by operating activities	$ 14,068,302	$ 10,600,395

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

1. Organization

Founded in 1919 and located in Wellesley, Massachusetts, Babson College (the "College") enrolls approximately 2,000 undergraduate and 1,300 graduate students from the United States and more than 70 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 the College. Additionally, the College offers distinct executive education programs to help companies reach their strategic goals.

Babson Global, Inc. ("Babson Global") is a 501(c)3 supporting organization of the College. Babson Global was created to carry out certain educational purposes of the College and to advance and support the educational objectives of the College by providing consulting, technical services and educational products to organizations.

2. Summary of Significant Accounting Policies

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of the College and its wholly owned subsidiary, Babson Global. All significant inter-entity balances and transactions have been eliminated in consolidation.

Basis of Presentation
The accompanying consolidated 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 the 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, endowment spending for capital projects, and net loss on financing activities.

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 released from restriction. 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 are recognized as revenues in the period received or when an unconditional promise to give has been made. 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 released 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 the gift. Contributions scheduled to be received after one year are discounted at rates commensurate with the risks involved. 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 Net (Losses) Gains
Dividends, interest and net (losses) gains on investments are reported as follows:

- As decreases or 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 decreases or 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 decreases or 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 20 quarter average market value of the Endowment Fund as of June 30 of the preceding year, plus additional spending for endowment management. The approved spending rates were 4.75% for fiscal years ending June 30, 2012 and 2011. 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.

During fiscal year 2012, the College's Board voted to designate the unrestricted portion of the endowment draw for future capital expenditure. This $2,892,000 is included within the endowment spending available for capital projects in the consolidated statement of activities for the year ended June 30, 2012.

Cash and Cash Equivalents
Operating cash invested with original maturities of less than three months 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). A total of $2,101,348 and $0 was posted as collateral as of June 30, 2012 and 2011, respectively.

Short-Term Investments
Operating cash invested with original maturities of three months or greater at the date of purchase are classified as short-term investments. At June 30, 2012 and 2011, the balance represents certificate of deposits held with financial institutions.

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, fixed income or alternative investments 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.

See Note 16 for endowment disclosure in accordance with an act providing for the Uniform Prudent Management of Institutional Funds ("UPMIFA").

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 the College 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 consolidated statements of financial position. Changes in the estimated fair values are recorded in the consolidated statement of activities.

Land, Buildings, Equipment and Software
Land, buildings, equipment and software 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 and software	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/premiums and origination costs are capitalized in the period of issuance and amortized over the period of the related debt. The College uses the straight-line method to amortize the bond discounts/premiums 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 consolidated 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 ("GAAP") 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 consolidated 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 GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2011, from which the summarized information is derived.

Reclassifications
Certain 2011 financial information has been reclassified to conform with the 2012 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, 2012, $42,011 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $912,201 of conditional retirement asset obligations are included within accounts payable and accrued expenses in the consolidated statements of financial position.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2012 and 2011:

	2012			2011		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 169,516	$ 400,873	$ 570,389	$ 212,593	$ 521,856	$ 734,449
Scholarships and fellowships	6,908,489	3,231,760	10,140,249	6,684,586	3,408,099	10,092,685
Instruction and academic support	14,904,004	1,765,704	16,669,708	14,394,597	2,734,903	17,129,500
Student programs	261,883	2,670,890	2,932,773	701,333	2,387,720	3,089,053
Other	5,174,926	3,535,683	8,710,609	4,152,741	3,700,543	7,853,284
	$ 27,418,818	$ 11,604,910	$ 39,023,728	$ 26,145,850	$ 12,753,121	$ 38,898,971

	2012			2011		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 6,966,975	$ 3,005,865	$ 9,972,840	$ 5,957,005	$ 3,822,721	$ 9,779,726
One year to five years	12,942,669	3,928,855	16,871,524	11,974,697	4,198,680	16,173,377
More than five years	7,509,174	4,670,190	12,179,364	8,214,148	4,731,720	12,945,868
	27,418,818	11,604,910	39,023,728	26,145,850	12,753,121	38,898,971
Less						
Unamortized discount	(3,295,360)	(1,344,012)	(4,639,372)	(3,814,051)	(1,459,561)	(5,273,612)
Allowance for uncollectibles	(1,388,000)	(1,793,000)	(3,181,000)	(968,000)	(2,024,000)	(2,992,000)
	$ 22,735,458	$ 8,467,898	$ 31,203,356	$ 21,363,799	$ 9,269,560	$ 30,633,359

See Note 8 for rationale behind movement from permanently to temporarily restricted net assets in 2012 and 2011.

In addition, at June 30, 2012 and 2011, the College had $4,204,195 and $5,712,631, respectively, of conditional promises from donors that are not recognized as assets in the consolidated statements of financial position. These conditional promises consisted of pledges and matching pledges for scholarships, professorships, endowment and other purposes.

Also, at June 30, 2012, the College is named the beneficiary of several charitable remainder trusts which, because of their terms, have not been recognized as assets in the consolidated 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:

	2012	2011
Equity securities and funds	$ 107,823,442	$ 119,511,345
Fixed income securities and funds	55,721,713	54,357,283
Alternative investments		
Hedge funds	51,030,329	52,356,484
Private equity and venture capital funds	22,056,265	14,424,361
Real estate funds	2,860,388	2,603,199
	$ 239,492,137	$ 243,252,672

Equity securities and funds includes $0 and $215,717 of unsettled trades at June 30, 2012 and 2011, respectively.

The College incurred investment management fees of $2,032,783 and $1,954,529 during the years ended June 30, 2012 and 2011, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $265,265 and $236,062 during the years ended June 30, 2012 and 2011, 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 tables present the financial instruments carried at fair value as of June 30, 2012 and 2011, by caption on the consolidated statement of financial position and by the fair value valuation hierarchy defined above:

	Fair Value as of June 30, 2012			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 35,129,290	$ 72,694,152	$ -	$ 107,823,442
Fixed income securities and funds	43,849,659	11,850,054	22,000	55,721,713
Hedge funds	-	37,143,778	13,886,551	51,030,329
Private equity and venture capital funds	-	-	22,056,265	22,056,265
Real estate funds	-	2,860,388	-	2,860,388
Investment totals	$ 78,978,949	$ 124,548,372	$ 35,964,816	$ 239,492,137
Liabilities				
Interest rate swaps	$ -	$ 20,101,581	$ -	$ 20,101,581

	Fair Value as of June 30, 2011			
Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Equity securities and funds	$ 30,140,494	$ 89,370,851	$ -	$ 119,511,345
Fixed income securities and funds	35,677,692	18,655,591	24,000	54,357,283
Hedge funds	-	44,197,276	8,159,208	52,356,484
Private equity and venture capital funds	-	-	14,424,361	14,424,361
Real estate funds	-	2,603,199	-	2,603,199
Investment totals	$ 65,818,186	$ 154,826,917	$ 22,607,569	$ 243,252,672
Liabilities				
Interest rate swaps	$ -	$ 13,718,846	$ -	$ 13,718,846

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the year.

The tables below present rollforwards of investments classified by the College within Level 3 of the fair value hierarchy at June 30, 2012 and 2011:

	Rollforward of Investments Classified as Level 3 as of June 30, 2012						
	Value at July 1, 2011	**Realized Gains**	**Unrealized Gains (Losses)**	**Interest & Dividends Net**	**Purchases**	**Sales**	**Value at June 30, 2012**
Fixed income securities and funds	$ 24,000	$ -	$ -	$ -	$ -	$ (2,000)	$ 22,000
Hedge funds	8,159,208	-	385,582	(158,239)	5,500,000	-	13,886,551
Private equity and venture capital funds	14,424,361	410,051	462,158	(113,901)	9,730,959	(2,857,363)	22,056,265
Real estate funds	-	-	-	-	-	-	-
	$ 22,607,569	$ 410,051	$ 847,740	$ (272,140)	$ 15,230,959	$ (2,859,363)	$ 35,964,816

Rollforward of Investments Classified as Level 3 as of June 30, 2011

	Value at July 1, 2010	Realized Gains	Unrealized Gains	Interest & Dividends Net	Purchases	Sales	Value at June 30, 2011
Fixed income securities and funds	$ 42,000	$ -	$ -	$ 3,502	$ -	$ (21,502)	$ 24,000
Hedge funds	6,303,569	-	1,992,619	(136,980)	-	-	8,159,208
Private equity and venture capital funds	11,284,198	653,086	1,539,919	47,329	3,669,005	(2,769,176)	14,424,361
Real estate funds	-	-	-	-	-	-	-
	$ 17,629,767	$ 653,086	$ 3,532,538	$ (86,149)	$ 3,669,005	$ (2,790,678)	$ 22,607,569

The net unrealized gain on Level 3 investments held at June 30, 2012 that were also held at June 30, 2011 was $801,068.

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 tables present liquidity information for the investments carried at fair value at June 30, 2012 and 2011, respectively:

Investments Asset Value as of June 30, 2012

	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 107,823,442	$ -	Daily - Quarterly	3-60 Days
Fixed income securities and funds	55,721,713	-	Daily - Monthly	3-30 Days
Hedge funds	51,030,329	-	Quarterly - Annually	45-180 Days
Private equity and venture capital funds	22,056,265	29,074,513	N/A	N/A
Real estate funds	2,860,388	-	Quarterly	90 Days
	$ 239,492,137	$ 29,074,513		

Included within Hedge Funds are approximately $5.5 million of investments with a 3 year "lockup" expiring July 31, 2014.

	Investments Asset Value as of June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Investment type				
Equity securities and funds	$ 119,511,345	$ -	Daily - Quarterly	3-90 Days
Fixed income securities and funds	54,357,283	-	Daily - Monthly	3-30 Days
Hedge funds	52,356,484	-	Quarterly - Annually	45-60 Days
Private equity and venture capital funds	14,424,361	21,315,765	N/A	N/A
Real estate funds	2,603,199	-	Quarterly	90 Days
	$ 243,252,672	$ 21,315,765		

5. Land, Buildings, Equipment and Software

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

	2012	2011
Land	$ 489,673	$ 489,673
Land improvements	31,664,611	28,698,389
Buildings and improvements	252,783,603	249,246,739
Equipment and software	33,209,394	32,105,537
Construction in progress	1,152,540	1,154,780
	319,299,821	311,695,118
Less: Accumulated depreciation	(190,685,323)	(180,627,713)
	$ 128,614,498	$ 131,067,405

Depreciation expense was $10,057,610 and $9,563,532 for the years ended June 30, 2012 and 2011, respectively.

During the years ended June 30, 2012 and 2011, the College capitalized interest of $52,366 and $54,747, respectively.

At June 30, 2012 and 2011, construction costs of $393,974 and $1,243,305, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2012	2011
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1998A, bearing interest at fixed rates ranging from 4.60% to 5.00% and due through 2028	$ -	$ 14,045,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2005A, bearing interest at a fixed rate of 4.00% to 5.00% and due through 2035	17,130,000	18,140,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2007A, bearing interest at a fixed rate of 4.25% to 5.00% and due through 2027	17,745,000	18,460,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (0.16% at June 30, 2012) and due through 2032	34,500,000	35,575,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (0.18% at June 30, 2012) and due through 2031	27,230,000	27,845,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2011, bearing interest at fixed rate of 3.00% to 5.00% and due through 2025	12,675,000	-
	109,280,000	114,065,000
Unamortized premium	1,712,663	767,896
	$ 110,992,663	$ 114,832,896

During fiscal year 2012, the College completed a refunding, at par, of the entire outstanding amount of the MIFA, Series 1998A bonds, with a new issue MDFA, Series 2011 bonds. Management estimates that the refinancing resulted in a present value savings of approximately $990,000, however, did not materially change the scheduled bond maturities from the previous bond issue. The College recorded a loss on reissue of this debt of $352,251 related to unamortized discount and bond issue costs. This loss is included within the net loss on financing activities in the consolidated statement of activities for the year ended June 30, 2012.

The estimated fair value of the College's debt was $112,892,365 and $114,012,369 at June 30, 2012 and 2011, respectively.

The bond agreements contain certain restrictive covenants which, among other restrictions, require the pledge of certain revenues as collateral for repayment, the maintenance of a minimum level of aggregate expendable funds and a maximum level of debt service. In addition, for certain bonds, the College is required to maintain deposits with an outside trustee for the purpose of meeting scheduled debt service requirements of the respective outstanding bonds until they become due.

Bond deposits with trustee as of June 30, 2012 and 2011 were $2,572,168 and $2,496,881, respectively, which represent funds held to pay debt service. Scheduled aggregate principal payments on bonds payable are as follows:

Fiscal Years	**Principal Amount**
2013	$ 4,640,000
2014	4,730,000
2015	4,945,000
2016	5,195,000
2017	4,510,000
Thereafter	85,260,000
	$ 109,280,000

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 $61,730,000. 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 on March 1, 2016.

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: $4,629,750 in fiscal year 2013, $6,173,000 in 2014, $6,173,000 in 2015, $6,173,000 in 2016, $6,173,000 in 2017 and $32,408,250 thereafter.

Interest expense was $5,263,378 and $5,518,574 for the years ended June 30, 2012 and 2011, respectively.

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 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, 2012. The College entered into these agreements to manage the cash flows attributable to interest payments and does not use such instruments for speculative purposes.

The swap agreement's fair value and changes therein, are reported in the consolidated 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, 2012 a total of $2,101,348 was posted. At June 30, 2011, no collateral was required to be posted.

The following tables summarize the College's derivative activity as presented in the consolidated financial statements as of June 30:

Fair Values of Derivative Instruments on the Consolidated Statements of Financial Position

Derivatives not designated as hedging instruments	Consolidated Statements of Position Location	Fair Value of Derivatives 2012	Fair Value of Derivatives 2011
Interest rate swap contracts	Interest rate swap liability	$ 20,101,581	$ 13,718,846

Effect of Derivative Instruments on the Consolidated Statement of Activities

Derivatives not designated as hedging instruments	Consolidated Statement of Activities Location	Fair Value of Derivatives 2012	Fair Value of Derivatives 2011
Interest rate swap contracts	Unrealized (losses) gains on interest rate swap agreements	$ (6,382,735)	$ 2,479,961
	Less: Operating expenses	(2,957,968)	(3,022,517)
	Net impact	$ (9,340,703)	$ (542,556)

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, 2012 and 2011 accounted for all swap activity for the year.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2012		2011	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
Donor stipulations				
Capital construction and maintenance	$ 7,319,972	$ 7,400,407	$ 6,046,198	$ 7,274,414
Instruction and academic support	30,159,608	46,684,874	35,127,189	42,230,654
Scholarships and fellowships	23,110,985	22,165,060	22,812,379	21,743,428
Other	5,856,804	12,510,914	5,791,038	10,325,772
Annuity	709	93,470	77,995	93,470
	66,448,078	88,854,725	69,854,799	81,667,738
Contributions receivable, net (Note 3)	22,735,458	8,467,898	21,363,799	9,269,560
	$ 89,183,536	$ 97,322,623	$ 91,218,598	$ 90,937,298

For the years ended June 30, 2012 and 2011, there were reclassifications between temporarily and permanently restricted net assets resulting from donor changes to original restrictions. The net impact of these changes was a decrease in temporarily restricted net assets of ($509,511) and an increase in permanently restricted net assets of $509,511 at June 30, 2012. The net impact of these changes was a decrease in temporarily restricted net assets of ($191,000) and an increase in permanently restricted net assets of $191,000 at June 30, 2011.

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:

	2012	2011
Capital construction and maintenance	$ 248,529	$ 172,298
Instruction and academic support	5,147,313	6,950,223
Scholarships and fellowships	2,853,353	2,356,319
Other	5,335,274	2,671,003
	$ 13,584,469	$ 12,149,843

10. Fund-Raising and Alumni Relations Expenses

Fund-raising and alumni relations expenses, which are included in institutional support expenses, and other nonoperating net (expense) revenue were as follows for the years ended June 30:

	2012	2011
Fund-raising	$ 3,058,193	$ 3,551,773
Alumni relations	1,931,582	1,777,374
	$ 4,989,775	$ 5,329,147

In addition to the direct fundraising costs shown above, bad debt expense for the uncollectible pledges was $286,375 and $860,377 for the years ended June 30, 2012 and 2011, respectively.

11. Retirement Plans

Defined Contribution Plan

The College has a defined contribution retirement plan for eligible full-time academic, administrative and service personnel. This plan is designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. The College's expense under this plan was $5,052,091 and $5,050,678 as of June 30, 2012 and 2011, respectively. The College has no liability for benefits paid under this 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. This 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 $692,289 and $578,006 as of June 30, 2012 and 2011, respectively.

12. Loans Receivable and Credit Loss Disclosures

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, 2012 and 2011 was $3,038,036 and $3,020,403, respectively. Loans receivable under the Program are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts. Loans receivable also includes employee loans with interest rates of 5% in the amount of $0 and $2,515 as of June 30, 2012 and 2011, respectively.

The College records an allowance for doubtful accounts (credit losses) for the following loans receivable:

	June 30, 2012		June 30, 2011	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins loans	$ 2,900,099	$ (41,000)	$ 3,103,541	$ (41,000)
Other student loans	1,370,005	(500,000)	1,276,598	(362,000)
Other loans	-	-	2,515	-
	$ 4,270,104	$ (541,000)	$ 4,382,654	$ (403,000)

The College's Perkins Loan receivable represents the amounts due from current and former students under the Federal Perkins Loan program. The loans disbursed under the Federal Perkins Loan Program are able to be assigned to the Federal Government in certain nonpayment situations. In these situations, the Federal portion of the loan balance is guaranteed.

Management performs on-going reviews to assess the adequacy of the allowance for credit losses. This includes evaluating the student loan portfolio, including economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which borrowers operate, and the level of delinquent loans. Also included in the evaluation is a detailed review of the aging of student loans and a review of the default rate by loan category in comparison to prior years.

In accordance with the College's policy, the loan allowance is adjusted at the end of each fiscal year based on a review of loan balances delinquent in excess of 120 days and/or currently in collections.

Changes in the allowance for credit losses for the year ended June 30, 2012 were as follows:

	Perkin Loans	Other Student Loans
Beginning Balances June 30, 2011	$ (41,000)	$ (362,000)
Provisions for credit losses	-	(138,000)
Net charge-offs	-	-
Recoveries	-	-
Ending Balances June 30, 2012	$ (41,000)	$ (500,000)

Management considers the allowance for credit losses at June 30, 2012 to be prudent and reasonable.

13. Lease Commitments

As of June 30, 2012, the College had 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 Years	
2013	$ 1,871,614
2014	1,495,410
2015	756,148
2016	99,915

Rent expense for all leased computers and equipment amounted to $1,901,658 and $2,094,354 for the years ended June 30, 2012 and 2011, 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 Years	
2013	$ 1,288,353
2014	1,336,666
2015	1,386,791
2016	1,438,796

Rental income for building leases amounted to $1,300,451 and $1,234,497 for the years ended June 30, 2012 and 2011, respectively.

14. Natural Classification of Expenses

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

	2012	**2011**
Salaries	$ 71,403,865	$ 69,801,968
Benefits	18,963,769	19,855,393
Depreciation	10,057,610	9,563,532
Travel/training/entertainment	7,808,543	7,196,855
Food and beverage services	7,263,489	7,625,613
Utilities and other facility services	6,945,348	7,341,017
Debt and finance expenses	6,320,787	6,846,610
Communication and information	5,465,355	5,192,012
Consumable expenses	5,358,531	5,631,203
Professional and consulting	5,289,684	5,730,898
Advertising and media	4,631,325	4,123,107
Materials and supplies	2,803,397	2,654,144
BECC room, conference and administration	2,706,815	2,499,926
Purchased services	2,343,299	2,384,011
Other expenses	3,925,215	3,537,329
	$ 161,287,032	$ 159,983,618

15. Commitments

As of June 30, 2012, the College has $1,464,336 in 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

The College's endowment consists of over 240 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 original gift amount "corpus". These deficiencies may be the result of significant market fluctuations in conjunction with prudent appropriations against the funds. As of June 30, 2012, there were four endowment funds that were deemed underwater, where the fair value had declined below the corpus by $28,462. As of June 30, 2011, there were no endowment funds that were deemed underwater, where the fair value had declined below the corpus. 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

The 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, 2012 and 2011, respectively:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2011	$ 99,914,876	$ 60,558,237	$ 81,667,738	$ 242,140,851
Contributions received July 1, 2011 - June 30, 2012	-	1,124,176	7,052,477	8,176,653
Investment return				
Investment income	818,600	1,219,322	-	2,037,922
Net appreciation (realized and unrealized)	(1,704,414)	(2,438,355)	-	(4,142,769)
Total investment return	(885,814)	(1,219,033)	-	(2,104,847)
Endowment spending policy allocation	(3,855,201)	(5,840,824)	-	(9,696,025)
Other changes				
Reclassifications and other adjustments	-	(9,511)	134,511	125,000
Total other changes	-	(9,511)	134,511	125,000
Endowment net assets at June 30, 2012	95,173,861	54,613,045	88,854,726	238,641,632
Operating funds	21,575,317	32,719,497	-	54,294,814
Funding for facilities	19,761,829	1,850,994	-	21,612,823
Interest rate swap valuation	(20,101,581)	-	-	(20,101,581)
Other funds	-	-	8,467,897	8,467,897
Total net assets at June 30, 2012	$ 116,409,426	$ 89,183,536	$ 97,322,623	$ 302,915,585

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2010	$ 79,071,048	$ 42,689,788	$ 74,761,921	$ 196,522,757
Contributions received July 1, 2010 - June 30, 2011	-	1,234,493	6,709,817	7,944,310
Investment return				
Investment income	557,558	863,217	-	1,420,775
Net appreciation (realized and unrealized)	14,197,485	21,143,465	-	35,340,950
Total investment return	14,755,043	22,006,682	-	36,761,725
Endowment spending policy allocation	(3,963,529)	(5,372,726)	-	(9,336,255)
Other changes				
Reclassifications and other adjustments	52,314	-	196,000	248,314
Transfers to board-designated funds	10,000,000	-	-	10,000,000
Total other changes	10,052,314	-	196,000	10,248,314
Endowment net assets at June 30, 2011	99,914,876	60,558,237	81,667,738	242,140,851
Operating funds	14,557,568	30,398,063	-	44,955,631
Funding for facilities	15,815,189	262,298	-	16,077,487
Interest rate swap valuation	(13,718,846)	-	-	(13,718,846)
Other funds	-	-	9,269,560	9,269,560
Total net assets at June 30, 2011	$ 116,568,787	$ 91,218,598	$ 90,937,298	$ 298,724,683

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

Subsequent events have been evaluated through October 20, 2012, the date the consolidated financial statements were available to be issued.