

Babson College
Financial Statements
June 30, 2007 and 2006

Babson College
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June 30, 2007 and 2006

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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, 2007 and 2006 and the related statement of activities for the year ended June 30, 2007 and the related statements of cash flows for the years ended June 30, 2007 and 2006, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2007 and 2006, and the changes in its net assets for the year ended June 30, 2007 and its cash flows for the years ended June 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information on the statement of activities has been derived from Babson College's 2006 financial statements, and in our report dated September 5, 2006, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Price Waterhouse Coopers LLP

September 10, 2007

Babson College
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 30,324,211	\$ 19,346,899
Accounts receivable, net of allowance of \$344,398 and \$440,000 at June 30, 2007 and 2006, respectively	5,411,201	5,664,937
Prepaid expenses and other assets	3,226,252	3,129,086
Contributions receivable, net (Note 3)	20,987,484	16,777,214
Loans receivable, net of allowance of \$322,950 and \$309,092 at June 30, 2007 and 2006, respectively (Note 12)	3,636,005	3,573,392
Bond deposits with trustee (Note 6)	2,849,877	7,702,672
Investments, at fair value (Note 4)	220,062,121	193,138,548
Land, buildings and equipment, net (Note 5)	<u>147,845,056</u>	<u>150,598,595</u>
Total assets	<u>\$ 434,342,207</u>	<u>\$ 399,931,343</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 13,601,753	\$ 13,286,411
Deposits and advance payments	10,417,383	8,881,577
Government advances for student loans (Note 12)	2,763,548	2,711,862
Interest rate swap liability (Notes 6 and 7)	3,640,079	3,228,553
Bonds payable, net (Note 6)	<u>124,523,117</u>	<u>127,077,085</u>
Total liabilities	<u>154,945,880</u>	<u>155,185,488</u>
Net assets		
Unrestricted	121,389,621	111,128,116
Temporarily restricted (Note 8)	85,966,605	67,807,912
Permanently restricted (Note 8)	<u>72,040,101</u>	<u>65,809,827</u>
Total net assets	<u>279,396,327</u>	<u>244,745,855</u>
Total liabilities and net assets	<u>\$ 434,342,207</u>	<u>\$ 399,931,343</u>

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

Babson College
Statements of Activities
Year Ended June 30, 2007, with Summarized Financial Information for the Year Ended
June 30, 2006

	2007			2006	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	\$ 100,843,653	\$ -	\$ -	\$ 100,843,653	\$ 93,154,030
Less: Student aid	(20,633,776)	-	-	(20,633,776)	(19,147,069)
Net tuition and fees	80,209,877	-	-	80,209,877	74,006,961
Room and board	17,062,697	-	-	17,062,697	15,561,077
Educational programs	3,366,445	-	-	3,366,445	3,391,105
Noneducation programs and auxiliary activities	18,978,769	-	-	18,978,769	19,287,195
Total program service fees	119,617,788	-	-	119,617,788	112,246,338
Contributions and grants	3,143,702	-	-	3,143,702	2,720,127
Investment income used in operations	1,913,640	-	-	1,913,640	1,573,940
Endowment spending used in operations	8,771,702	-	-	8,771,702	8,023,739
Net assets released from restrictions	2,572,491	-	-	2,572,491	6,086,442
Total operating revenues and support	136,019,323	-	-	136,019,323	130,650,586
Operating expenses					
Instruction	38,755,835	-	-	38,755,835	36,703,594
Academic support	22,713,705	-	-	22,713,705	23,042,459
Student services	17,225,675	-	-	17,225,675	16,477,094
Auxiliary activities	36,958,475	-	-	36,958,475	34,848,962
Institutional support	19,040,580	-	-	19,040,580	22,988,486
Total operating expenses	134,694,270	-	-	134,694,270	134,060,595
Increase (decrease) in net assets from operations	1,325,053	-	-	1,325,053	(3,410,009)
Nonoperating activities					
Contributions and grants	-	7,174,287	4,752,192	11,926,479	7,248,087
Net assets released from restrictions (Note 9)	5,773,148	(9,029,311)	683,672	(2,572,491)	(6,086,442)
Reclassifications (Note 8)	(1,125,000)	634,515	490,485	-	-
Unrealized (losses) gains on interest rate swap agreements	(411,526)	-	-	(411,526)	5,356,194
Other nonoperating revenue	166,667	-	-	166,667	287,741
	4,403,289	(1,220,509)	5,926,349	9,109,129	6,805,580
Investment return					
Realized and unrealized net gains	12,377,024	17,978,991	303,925	30,659,940	16,117,839
Interest and dividend income	1,155,549	1,400,211	-	2,555,760	3,023,016
Investment consultant fees	(227,708)	-	-	(227,708)	(252,755)
Net total investment return	13,304,865	19,379,202	303,925	32,987,992	18,888,100
Less: Endowment spending used in operations	(8,771,702)	-	-	(8,771,702)	(8,023,739)
Total nonoperating activities	8,936,452	18,158,693	6,230,274	33,325,419	17,669,941
Total increase in net assets before cumulative effect of change in accounting principle	10,261,505	18,158,693	6,230,274	34,650,472	14,259,932
Cumulative effect of change in accounting principle (Note 2)	-	-	-	-	(673,337)
Total increase in net assets	10,261,505	18,158,693	6,230,274	34,650,472	13,586,595
Net assets at beginning of year	111,128,116	67,807,912	65,809,827	244,745,855	231,159,260
Net assets at end of year	\$ 121,389,621	\$ 85,966,605	\$ 72,040,101	\$ 279,396,327	\$ 244,745,855

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Net tuition and fees received	\$ 98,212,553	\$ 89,147,432
Other educational and noneducational receipts	22,856,920	23,769,837
Contributions and grants received, net of amounts restricted for long-term purposes	5,009,783	6,318,476
Interest and dividends received	4,910,915	4,945,100
Payments to employees and suppliers	(119,576,205)	(117,237,866)
Interest paid	(5,692,182)	(5,258,917)
Net cash provided by operating activities	<u>5,721,784</u>	<u>1,684,062</u>
Cash flows from investing activities		
Purchases of investments	(59,586,078)	(97,921,658)
Sales of investments	65,210,449	100,033,758
Transfers from (to) bond deposits with trustee, net	4,852,795	(5,632,132)
Acquisition and construction of property and equipment	(7,379,905)	(15,432,595)
Proceeds from sale of equipment	30,000	-
Student loans repaid	941,229	984,429
Student loans issued	(1,017,700)	(985,372)
Net cash provided by (used in) investing activities	<u>3,050,790</u>	<u>(18,953,570)</u>
Cash flows from financing activities		
Receipts from bond issuance	-	22,996,717
Payment of bond issuance costs	-	(657,142)
Repayments of bonds	(2,605,000)	(9,110,000)
Payments on split interest agreements	(225,836)	(199,203)
Increase (decrease) for refundable U.S. government grants	51,686	(28,029)
Permanently restricted contributions	4,517,691	3,273,623
Transfer from Alumni Association Merger	466,197	-
Net cash provided by financing activities	<u>2,204,738</u>	<u>16,275,966</u>
Net increase (decrease) in cash and cash equivalents	10,977,312	(993,542)
Cash and cash equivalents at beginning of year	<u>19,346,899</u>	<u>20,340,441</u>
Cash and cash equivalents at end of year	<u>\$ 30,324,211</u>	<u>\$ 19,346,899</u>
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	\$ 34,650,472	\$ 13,586,595
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized (net gains) on investments	(30,659,940)	(16,117,839)
Depreciation and amortization	9,708,878	9,783,056
Cumulative effect of change in accounting principle	-	673,337
Permanently restricted contributions	(4,517,691)	(3,273,623)
(Increase) decrease in contributions receivable	(3,308,138)	731,189
(Decrease) increase in allowance for uncollectible pledges	(902,132)	1,788,677
Changes in the values of interest rate swaps	411,526	(5,356,194)
Changes in working capital assets and liabilities, net	338,809	(131,136)
Net cash provided by operating activities	<u>\$ 5,721,784</u>	<u>\$ 1,684,062</u>

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

Babson College
Notes to Financial Statements
June 30, 2007 and 2006

1. Organization

Founded in 1919 and located in Wellesley, Massachusetts, Babson College (the "College") enrolls approximately 1,700 undergraduate and 1,600 graduate students from the United States and more than 75 countries worldwide. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree through its undergraduate program. The College also grants Master of Business Administration degrees and custom Master of Science degrees through the F.W. Olin Graduate School of Business at Babson College. Additionally, Babson offers distinct executive education programs to help companies reach their strategic goals.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting with net assets, revenues, gains and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the College. The donors of these assets permit the College to use all or part of the related investment income and appreciation earned for general or specific purposes.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations, or law, that may or will be met by actions of the College and/or the passage of time.

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations which the College may use at its discretion.

The College has defined its primary activities as operating and nonoperating. Operating activities consist primarily of activities supporting the educational mission and purpose of Babson College. Nonoperating activities represent transactions of a capital nature including realized and unrealized gains on investments that are invested by the College to generate a return that will support operations, endowment gifts, gifts restricted to future periods and capital grants.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. Expirations of temporary restrictions occur when donor-imposed stipulated purposes have been accomplished and/or the stipulated time period has elapsed. If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue. Changes or clarifications to donor-imposed restrictions subsequent to the period of contribution are reported as reclassifications within the appropriate net asset classes.

Babson College
Notes to Financial Statements
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Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions and investment income subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenues. Unconditional promises to give with due dates scheduled after the statement of financial position date are shown as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions involved. Temporarily restricted net assets are reclassified to unrestricted net assets when the related purpose and/or time restrictions are met. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted at rates commensurate with the risks involved, net of any allowance for uncollectible amounts. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, past due amounts and the nature of fund-raising activity.

The College reports contributions of land, buildings or equipment as unrestricted support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire or construct long-lived assets are reported as unrestricted support to the extent the funds have been expended for the stipulated acquisition or construction; otherwise, the contributions are reported as temporarily restricted support.

Dividends, Interest and Gains

Dividends, interest and net gains on investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the underlying gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the underlying gift or relevant state law impose restrictions on the current use of the income or net gains. The College has relied on the Massachusetts Attorney General's June 1995 Statement of Position regarding relevant state law that unappropriated endowment gains should generally be classified as temporarily restricted net assets until appropriated by the Board; and
- as increases in unrestricted net assets in all other cases.

The College employs an endowment spending policy that establishes the amount of investment return made available for expenditure each year. This amount is up to 5% of the previous 12 quarter average market value of the Endowment Fund as of June 30 of the preceding year, plus additional spending for capital management. Investment return earned in excess of the amount distributed annually is reinvested in the fund, but can be distributed in future years in accordance with the endowment spending policy.

Babson College
Notes to Financial Statements
June 30, 2007 and 2006

Net assets of the College at June 30, 2007 and 2006 consisted of the following:

2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	\$ 14,344,695	\$ 16,523,951	\$ -	\$ 30,868,646
Funding for facilities	19,115,258	329,479	-	19,444,737
Endowment and other funds				
Board designated	87,929,668	-	-	87,929,668
Donor restricted	-	69,113,175	72,040,101	141,153,276
Total net assets	<u>\$ 121,389,621</u>	<u>\$ 85,966,605</u>	<u>\$ 72,040,101</u>	<u>\$ 279,396,327</u>
2006	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	\$ 8,585,886	\$ 13,225,849	\$ -	\$ 21,811,735
Funding for facilities	24,411,883	406,915	-	24,818,798
Endowment and other funds				
Board designated	78,130,347	-	-	78,130,347
Donor restricted	-	54,175,148	65,809,827	119,984,975
Total net assets	<u>\$ 111,128,116</u>	<u>\$ 67,807,912</u>	<u>\$ 65,809,827</u>	<u>\$ 244,745,855</u>

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

See Note 8 for reclassifications within net assets.

Cash and Cash Equivalents

For financial statement purposes, investments with original maturities of three months or less at the date of purchase are considered cash equivalents.

Investments

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

Fair values for certain private equity investments held through limited partnerships and alternative investments are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the College's Investment Committee. Because the investments in private equity investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a market for such investments existed.

Purchases and sales of investments are recorded on the trade date. The gain or loss on the sale of investments is determined using average cost.

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Notes to Financial Statements
June 30, 2007 and 2006

Derivative Instruments

The College accounts for its interest rate swap agreements in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). Fair values of interest rate swap agreements are the estimated amounts that Babson would have received or paid, including accrued interest, to terminate the agreements on the date of the statements of financial position, taking into account the creditworthiness of the underlying party. The estimated fair values of the agreements are recorded as assets or liabilities within the statements of position. Changes in the estimated fair values are recorded in the statement of activities.

Land, Buildings and Equipment

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

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

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

Deposits and Advance Payments

Student reservation deposits, along with advance payments for tuition, room and board and certain expenditures related to the College's Summer II and Fall sessions, have been deferred and will be recorded as revenues and expenses in the year in which the sessions are completed.

Bond Discounts and Origination Costs

Bond discounts and origination costs are capitalized in the period of issuance and amortized over the period of the related debt. Babson College uses the straight-line method to amortize the bond discounts and origination costs. This approximates the effective interest method.

Functional Reporting of Expenses

The costs of providing the College's activities have been summarized on a functional basis in the statements of activities. Expenses associated with the College's land, buildings and equipment, including interest, depreciation, and operations and maintenance expenses, are functionally allocated based on square footage utilization.

Student Aid

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students, whether as unrestricted College financial aid, reductions from endowment funds, restricted specific-purpose gifts, or government grants awarded to students by the College.

Fair Value of Financial Instruments

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

Babson College

Notes to Financial Statements

June 30, 2007 and 2006

Related Parties

The College may procure from time to time certain banking, legal, investment management and human resources services from business organizations that employ individuals that are also members of the College's Board of Trustees. The procurement of these services is performed in accordance with the College's established policies and procedures, and management and the Board of Trustees report and monitor related party transactions in accordance with a formally adopted Conflict of Interest Policy.

Income Tax Status

The College is an organization described under Internal Revenue Code ("IRC") section 501(c)(3) and is generally exempt from federal and state income taxes under the provisions of IRC section 501(a).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Reclassifications

Certain 2006 financial information has been reclassified to conform with the 2007 presentation.

Conditional Asset Retirement Obligations

In March of 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), which was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143 *Accounting for Asset Retirement Obligations*. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of certain known retirement obligations.

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

Upon initial application of FIN 47 in June 2006, the College recognized \$673,337 as the cumulative effect of a change in accounting principle in the statement of operations. As of June 30, 2007, \$75,778 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and \$839,821 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:

	2007			2006		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	\$ 214,804	\$ 900,000	\$ 1,114,804	\$ 564,651	\$ -	\$ 564,651
Scholarships and fellowships	6,477,279	1,596,684	8,073,963	7,650,186	626,420	8,276,606
Instruction and academic support	4,758,248	4,423,123	9,181,371	1,855,907	5,048,123	6,904,030
Student programs	582,458	2,322,608	2,905,066	102,542	2,440,159	2,542,701
President's Initiative	10,000	-	10,000	10,000	-	10,000
Other	2,675,105	3,443,249	6,118,354	2,818,821	2,297,195	5,116,016
	<u>\$ 14,717,894</u>	<u>\$ 12,685,664</u>	<u>\$ 27,403,558</u>	<u>\$ 13,002,107</u>	<u>\$ 10,411,897</u>	<u>\$ 23,414,004</u>
Unconditional promises due within						
Less than one year	\$ 3,448,872	\$ 4,753,253	\$ 8,202,125	\$ 3,295,577	\$ 3,609,910	\$ 6,905,487
One year to five years	9,473,043	5,346,800	14,819,843	7,887,247	5,591,967	13,479,214
More than five years	1,795,979	2,585,611	4,381,590	1,819,283	1,210,020	3,029,303
	<u>14,717,894</u>	<u>12,685,664</u>	<u>27,403,558</u>	<u>13,002,107</u>	<u>10,411,897</u>	<u>23,414,004</u>
Less						
Unamortized discount	(2,073,553)	(1,137,976)	(3,211,529)	(1,731,293)	(798,820)	(2,530,113)
Allowance for uncollectibles	(481,355)	(2,723,190)	(3,204,545)	(669,315)	(3,437,362)	(4,106,677)
	<u>\$ 12,162,986</u>	<u>\$ 8,824,498</u>	<u>\$ 20,987,484</u>	<u>\$ 10,601,499</u>	<u>\$ 6,175,715</u>	<u>\$ 16,777,214</u>

In addition, at June 30, 2007 and 2006, the College had approximately \$309,000 and \$365,000, respectively, of conditional promises from donors that are not recognized as assets in the statement of financial position. These conditional promises consisted of pledges and matching pledges for scholarships, professorships, endowment and other purposes.

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Also, at June 30, 2007, the College is named the beneficiary of several charitable remainder trusts which, because of their terms, have not been recognized as assets in the statement of financial position. As the benefits from these trusts are shared with the donor or a designated beneficiary, the College will recognize gift revenue only after the trusts' obligations to other beneficiaries have been satisfied.

See Note 8 for reclassifications within net assets.

4. Investments

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

	2007	2006
Equity securities	\$ 123,136,808	\$ 84,502,480
Fixed income securities	33,740,863	41,036,733
Short-term investments	1,456,245	28,744,835
Alternative investments	61,728,205	38,854,500
	<u>\$ 220,062,121</u>	<u>\$ 193,138,548</u>

Alternative investments consist primarily of venture capital and hedge fund holdings. The College is obligated under certain venture capital contracts to periodically contribute additional funding up to contractual levels. At June 30, 2007 and 2006, the College had an unfunded commitment of \$8,775,715 and \$2,011,202, respectively, callable upon demand.

The College incurred investment management fees of \$1,904,865 and \$1,420,004 during the years ended June 30, 2007 and 2006, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of \$227,708 and \$252,755 during the years ended June 30, 2007 and 2006, respectively, that are reported as a separate component of expenses.

5. Land, Buildings and Equipment

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

	2007	2006
Land	\$ 489,673	\$ 489,673
Land improvements	26,868,082	26,630,563
Buildings and improvements	234,848,424	216,604,397
Equipment	27,844,276	27,632,354
Construction in progress	701,011	12,671,167
	<u>290,751,466</u>	<u>284,028,154</u>
Less: Accumulated depreciation	<u>(142,906,410)</u>	<u>(133,429,559)</u>
	<u>\$ 147,845,056</u>	<u>\$ 150,598,595</u>

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June 30, 2007 and 2006

Depreciation expense was \$9,528,993 and \$9,383,094 for the years ended June 30, 2007 and 2006, respectively.

During 2007 and 2006, the College capitalized interest of \$117,953 and \$300,373, respectively.

During 2007, the College disposed of equipment with accumulated depreciation of \$52,142.

At June 30, 2007 and 2006, construction costs of \$152,461 and \$874,007, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds and Note Payable

Bonds payable consisted of the following at June 30:

	2007	2006
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1997A, bearing interest at fixed rates ranging from 4.5% to 5.75% and due through 2027	20,865,000	21,385,000
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1998A, bearing interest at fixed rates ranging from 4.0% to 5.0% and due through 2028	16,935,000	17,580,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2001A, bearing interest at variable auction rates 5.23% and 5.0% at June 30, 2007 and 2006, respectively) and due through 2031	29,900,000	30,500,000
Revenue bonds payable to MDFA, Series 2002A, bearing interest at variable auction rates (3.75% and 3.5% at June 30, 2007 and 2006, respectively) and due through 2032	36,000,000	36,000,000
Revenue bonds payable to MDFA, Series 2005A bearing interest at a fixed rate of 3.00% to 5.00% and due through 2035	21,835,000	22,675,000
	<u>125,535,000</u>	<u>128,140,000</u>
Less: Unamortized discount	<u>(1,011,883)</u>	<u>(1,062,915)</u>
	<u>\$ 124,523,117</u>	<u>\$ 127,077,085</u>

The estimated fair value of the College's debt was \$127,434,345 and \$129,440,717 at June 30, 2007 and 2006, 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.

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Bond deposits with trustee as of June 30, 2007 and 2006 were \$2,849,877 and \$7,702,672, respectively. Of the total bond deposits with the trustee as of June 30, 2007 and 2006, \$2,849,877 and \$2,203,421, respectively, represents funds held to pay debt service. The remaining balance at June 30, 2007 and 2006 of \$0 and \$5,499,251, respectively, represents bond proceeds committed for use on authorized construction projects that are either recently completed, currently underway or planned for future completion. Scheduled aggregate principal and interest payments on bonds payable, using rates that are in effect as of June 30th, are as follows:

Fiscal Year	Principal Amount	Interest Amount
2008	\$ 2,545,000	\$ 5,567,346
2009	2,850,000	6,079,784
2010	2,850,000	6,001,171
2011	4,025,000	5,840,079
2012	4,160,000	5,645,872
Thereafter	<u>109,105,000</u>	<u>59,733,218</u>
	<u>\$ 125,535,000</u>	<u>\$ 88,867,470</u>

Interest expense was \$5,566,754 in 2007 and \$5,199,981 in 2006.

7. Interest Rate Swaps

During fiscal year 2004, the College entered into two interest rate forward swap agreements with a financial institution counterparty. The purpose of the agreements was to effectively convert the variable rates on both the MDFA, Series 2001A and Series 2002A Revenue Bonds to fixed rates of 6.175% and 4.489%, respectively, effective May 2008. The swap agreements expire at the maturity of each bond and the notional principal amount will decrease as the bonds mature.

Although this financial instrument involves counterparty credit exposure, the counterparty for the agreements is a major financial institution that meets the College's criteria for financial stability and creditworthiness. The College entered into these agreements to manage the cash flows attributable to interest payments and does not use such instruments for speculative purposes.

The swap agreement's fair value, and changes therein, are reported in the statement of activities. The fair value of the swap agreements represent the estimated cost to the College to cancel the agreement as of the reporting date, and is based on option pricing models that consider risks and other market factors. If the valuation of the swap agreements exceeds certain thresholds, the College is required to post collateral for the amount of the excess. At June 30, 2007 and 2006, the valuation does not exceed these thresholds. The College recorded an unrealized loss of (\$411,526) and an unrealized gain of \$5,356,194 for the years ended June 30, 2007 and 2006, respectively, on the forward swap agreements.

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8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2007		2006	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	\$ 6,412,633	\$ 3,863,911	\$ 5,242,005	\$ 3,758,712
Instruction and academic support	41,651,500	37,693,134	32,263,698	35,694,176
Scholarships and fellowships	21,999,983	16,528,531	16,892,554	15,685,279
Other	2,994,605	5,130,027	2,199,030	4,495,945
Annuity	744,898	-	609,126	-
	<u>73,803,619</u>	<u>63,215,603</u>	<u>57,206,413</u>	<u>59,634,112</u>
Contributions receivable, net (Note 3)	<u>12,162,986</u>	<u>8,824,498</u>	<u>10,601,499</u>	<u>6,175,715</u>
	<u>\$ 85,966,605</u>	<u>\$ 72,040,101</u>	<u>\$ 67,807,912</u>	<u>\$ 65,809,827</u>

For the years ended June 30, 2007 and 2006, there were reclassifications between unrestricted, permanently and temporarily restricted net assets resulting from donor-imposed changes to original restrictions. The net impact of these changes was a (decrease) increase in temporarily restricted net assets of (\$634,515) and \$9,445,000, respectively.

9. Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows for the years ended June 30:

	2007	2006
Capital construction and maintenance	\$ 696,917	\$ 363,609
Instruction and academic support	4,796,409	4,692,457
Scholarships and fellowships	2,212,698	1,725,617
Other	1,323,287	2,010,761
	<u>\$ 9,029,311</u>	<u>\$ 8,792,444</u>

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:

	2007	2006
Fund-raising	\$ 3,951,449	\$ 3,767,642
Alumni relations	1,748,543	1,717,720
	<u>\$ 5,699,992</u>	<u>\$ 5,485,362</u>

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In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was (\$599,888) and \$2,990,348 for the years ended June 30, 2007 and 2006, respectively. The negative amount reported as of June 30, 2007 represents a net recovery on pledges previously reserved.

11. Retirement Plans

Defined Contribution Plan

The College has a defined contribution retirement plan (the "Plan") for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. The College's expense under the Plan in 2007 and 2006 was \$4,352,730 and \$4,289,768, 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 \$277,401 and \$193,336 as of June 30, 2007 and 2006, 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, 2007 and 2006 was \$2,763,548 and \$2,711,862, respectively. Loans receivable under the Program are subject to significant restrictions. Accordingly, it is not practicable to determine fair value of such amounts. Loans receivable also includes employee loans with interest rates ranging from 5% to 8% in the amount of \$6,828 and \$197,129 as of June 30, 2007 and 2006, respectively.

13. Leases Commitments

During 2007, 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

2008	\$	2,024,766
2009		1,471,085
2010		590,970
2011		48,204

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Rent expense for all leased computers and equipment amounted to \$2,922,667 and \$2,645,183 for the years ended June 30, 2007 and 2006, respectively.

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

Fiscal Year

2008	\$ 1,071,752
2009	1,111,943
2010	1,153,641
2011	1,196,902
2012	1,241,786
Thereafter	5,450,606

Rental income for building leases amounted to \$1,055,689 and \$973,000 for the years ended June 30, 2007 and 2006, respectively.

14. Natural Classification of Expenses

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

	2007	2006
Salaries	\$ 58,324,821	\$ 56,908,405
Benefits	14,660,412	13,949,642
Depreciation	9,528,993	9,383,094
Food and beverage services	6,995,855	6,296,714
Utilities and other facility services	8,330,902	7,834,023
Communication and information	4,490,370	4,864,311
Other expenses	1,767,875	5,414,428
Consumable expenses	4,692,626	3,712,450
Travel/training/entertainment	5,672,555	5,423,121
Debt and finance expenses	6,376,180	6,161,694
Purchased services	2,441,399	3,843,034
BECC room, conference and administration	2,985,305	2,678,412
Advertising and media	2,675,127	2,741,688
Materials and supplies	2,497,471	2,401,478
Professional and consulting	3,254,379	2,448,101
	<u>\$ 134,694,270</u>	<u>\$ 134,060,595</u>

15. Commitments

As of June 30, 2007, the College has no commitments on open construction contracts and acquisitions.

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16. Subsequent Events

Effective July 1, 2007, the Babson College Alumni Association (the "Association"), a previously independent association, merged with Babson College. As of that date, the Association became part of the College structure and does not have independent legal existence apart from the College. The Association will be subject to oversight by the College's Board of Trustees and its President. Prior to July 1, 2007, the net assets of the Association, \$466,197, were transferred to the College prior to the effective date and are included in Deposits and advance payments on the College's statement of financial position at June 30, 2007.