Babson College

Financial Statements

June 30, 2005 and 2004

Babson College
Index
June 30, 2005 and 2004

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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, 2005 and 2004 and the related statement of activities for the year ended June 30, 2005 and the related statements of cash flows for the years ended June 30, 2005 and 2004, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2005 and 2004, and the changes in its net assets for the year ended June 30, 2005 and its cash flows for the years ended June 30, 2005 and 2004, 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 2004 financial statements, and in our report dated August 12, 2004, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 7, 2005

Babson College
Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents	$ 20,340,441	$ 16,232,476
Accounts receivable, net of allowance of $432,452 and $432,452 at June 30, 2005 and 2004, respectively	5,761,861	5,172,812
Prepaid expenses and other assets	3,074,744	3,591,222
Contributions receivable, net (Note 3)	19,297,080	11,421,237
Loans receivable, net of allowance of $314,327 and $310,577 at June 30, 2005 and 2004, respectively (Note 12)	3,567,214	3,314,760
Bond deposits with trustee (Note 6)	2,070,540	4,409,085
Investments, at fair value (Note 4)	179,152,232	167,784,355
Land, buildings and equipment, net (Note 5)	143,858,332	148,801,715
Total assets	$ 377,122,444	$ 360,727,662
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 13,046,787	$ 11,158,067
Deposits and advance payments	8,452,424	7,719,801
Government advances for student loans (Note 12)	2,739,891	2,732,121
Note payable (Note 6)	125,000	225,000
Interest rate swap liability (Notes 6 and 7)	8,584,747	1,204,321
Bonds payable, net (Note 6)	113,014,335	114,902,578
Total liabilities	145,963,184	137,941,888
Net assets		
Unrestricted	104,587,213	112,775,576
Temporarily restricted (Note 8)	53,509,535	50,174,365
Permanently restricted (Note 8)	73,062,512	59,835,833
Total net assets	231,159,260	222,785,774
Total liabilities and net assets	$ 377,122,444	$ 360,727,662

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

Babson College
Statements of Activities
Year Ended June 30, 2005, with Summarized Financial Information for the year ended June 30, 2004

	2005				2004
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 86,569,326	$ -	$ -	$ 86,569,326	$ 81,667,508
Less: Student aid	(17,836,437)	-	-	(17,836,437)	(16,038,831)
Net tuition and fees	68,732,889			68,732,889	65,628,677
Room and board	15,020,447	-	-	15,020,447	14,201,128
Educational programs	3,447,041	-	-	3,447,041	3,815,086
Noneducation program and auxiliary activities	19,017,694	-	-	19,017,694	17,262,093
Total program service fees	106,218,071	-	-	106,218,071	100,906,984
Contributions and grants	3,640,775	-	-	3,640,775	2,751,845
Investment income used in operations	585,285	-	-	585,285	335,281
Endowment spending used in operations	7,333,508	-	-	7,333,508	7,262,042
Net assets released from restrictions	4,900,186	-	-	4,900,186	4,366,410
Total operating revenues and support	122,677,825	-	-	122,677,825	115,622,562
Operating expenses					
Instruction	35,980,546	-	-	35,980,546	34,189,583
Academic support	21,766,830	-	-	21,766,830	20,801,888
Student services	15,607,947	-	-	15,607,947	14,679,266
Auxiliary activities	33,703,066	-	-	33,703,066	30,890,325
Institutional support	19,564,327	-	-	19,564,327	18,033,380
Total operating expenses	126,622,716	-	-	126,622,716	118,594,442
Decrease in net assets from operations	(3,944,891)	-	-	(3,944,891)	(2,971,880)
Nonoperating activities					
Contributions and grants	-	3,991,210	11,109,891	15,101,101	4,671,495
Net assets released from restrictions and reclassifications	3,673,214	(10,586,185)	2,012,785	(4,900,186)	(4,366,410)
Change in value of interest rate swap agreements	(7,380,426)	-	-	(7,380,426)	(1,204,321)
Other nonoperating revenue	166,667	-	-	166,667	-
	(3,540,545)	(6,594,975)	13,122,676	2,987,156	(899,236)
Investment return					
Realized and unrealized net gains	5,783,129	7,940,774	104,003	13,827,906	18,944,811
Interest and dividend income	1,062,322	1,989,371	-	3,051,693	2,595,733
Investment consultant fees	(214,870)	-	-	(214,870)	(201,923)
Net total investment return	6,630,581	9,930,145	104,003	16,664,729	21,338,621
Less: Endowment spending used in operations	(7,333,508)	-	-	(7,333,508)	(7,262,042)
Total nonoperating activities	(4,243,472)	3,335,170	13,226,679	12,318,377	13,177,343
Total (decrease) increase in net assets	(8,188,363)	3,335,170	13,226,679	8,373,486	10,205,463
Net assets at beginning of year	112,775,576	50,174,365	59,835,833	222,785,774	212,580,311
Net assets at end of year	$ 104,587,213	$ 53,509,535	$ 73,062,512	$ 231,159,260	$ 222,785,774

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

Babson College
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Net tuition and fees received	$ 83,691,665	$ 79,489,066
Other educational and noneducational receipts	22,938,976	21,127,178
Contributions and grants received, net of amounts restricted for long-term purposes	7,290,855	7,336,255
Interest and dividends received	4,061,340	2,925,028
Payments to employees and suppliers	(110,546,466)	(107,275,724)
Interest paid	(3,929,360)	(3,223,695)
Net cash provided by operating activities	3,507,010	378,108
Cash flows from investing activities		
Purchases of investments	(26,237,729)	(112,694,033)
Sales of investments	28,937,727	114,350,547
Transfers to bond deposits with trustee, net	2,338,545	12,811,159
Acquisition and construction of property and equipment	(4,286,434)	(10,756,511)
Student loans repaid	857,412	959,631
Student loans issued	(1,109,866)	(908,353)
Net cash provided by investing activities	499,655	3,762,440
Cash flows from financing activities		
Repayments of bonds and note payable	(2,050,000)	(2,200,000)
Increase in refundable U.S. government grants	7,770	29,314
Permanently restricted contributions	2,143,530	2,608,975
Net cash provided by financing activities	101,300	438,289
Net increase in cash and equivalents	4,107,965	4,578,837
Cash and cash equivalents at beginning of year	16,232,476	11,653,639
Cash and cash equivalents at end of year	$ 20,340,441	$ 16,232,476
Reconciliation of increase in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 8,373,486	$ 10,205,463
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized (net gains) on investments	(13,827,906)	(18,944,811)
Depreciation and amortization	9,998,233	9,554,715
Permanently restricted contributions	(2,143,530)	(2,608,975)
(Increase) decrease in contributions receivable	(7,875,843)	2,419,931
Changes in the values of interest rate swaps	7,380,426	1,204,321
Changes in working capital assets and liabilities	1,602,144	(1,452,536)
Net cash provided by operating activities	$ 3,507,010	$ 378,108

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

1. Organization

Founded in 1919 and located in Wellesley, Massachusetts, Babson College (the "College") enrolls approximately 1,700 undergraduate and 1,600 graduate students from most of the 50 states, U.S. territories, and more than 60 countries. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree and the Master of Business Administration degree.

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 to be invested by the College to generate a return that will support operations, endowment gifts 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.

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

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

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

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

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

Net assets of the College at June 30, 2005 and 2004 consisted of the following:

2005	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 7,185,649	$ 6,470,637	$ -	$ 13,656,286
Funding for facilities	24,266,835	336,021	-	24,602,856
Endowment and other funds				
Board designated	73,134,729	-	-	73,134,729
Donor restricted	-	46,702,877	73,062,512	119,765,389
Total net assets	$ 104,587,213	$ 53,509,535	$ 73,062,512	$ 231,159,260

2004	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating funds	$ 4,794,908	$ 8,750,644	$ -	$ 13,545,552
Funding for facilities	37,502,364	43,553	-	37,545,917
Endowment and other funds				
Board designated	70,478,304	-	-	70,478,304
Donor restricted	-	41,380,168	59,835,833	101,216,001
Total net assets	$ 112,775,576	$ 50,174,365	$ 59,835,833	$ 222,785,774

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

Cash and Cash Equivalents
For the purposes of the statements of cash flows, 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.

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. Market or fair value for trading-related instruments is determined by pricing models maintained by the counterparty to the swap agreement. Pricing models utilize a series of market inputs to determine the present value of future cash flows, with adjustments, as required for credit and liquidity risk. 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 the asset or materially extend asset life is not capitalized.

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

	Years
Buildings	40
Building improvements	15 to 25
Land improvements	10 to 25
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.

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.

Employee Severance and Termination Costs
Employee severance and termination payments are accrued based on previously contracted amounts and are included as a component of accrued liabilities.

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, 2004, from which the summarized information was derived.

Reclassifications
Certain 2004 financial information has been reclassified to conform with the 2005 presentation.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2005			2004		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 596,118	$ -	$ 596,118	$ 1,006,404	$ -	$ 1,006,404
Scholarships and fellowships	1,293,351	1,047,752	2,341,103	1,313,028	1,486,349	2,799,377
Instruction and academic support	1,509,329	5,673,123	7,182,452	1,831,324	1,488,123	3,319,447
Student programs	35,677	2,385,592	2,421,269	43,193	2,418,780	2,461,973
President's Initiative	220,309	-	220,309	232,809	-	232,809
Other	1,381,407	9,551,960	10,933,367	2,721,956	1,039,634	3,761,590
	$ 5,036,191	$ 18,658,427	$ 23,694,618	$ 7,148,714	$ 6,432,886	$ 13,581,600

	2005			2004		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 2,737,850	$ 4,831,427	$ 7,569,277	$ 4,382,066	$ 2,618,755	$ 7,000,821
One year to five years	1,571,403	10,665,467	12,236,870	2,009,235	2,831,600	4,840,835
More than five years	726,938	3,161,533	3,888,471	757,413	982,531	1,739,944
	5,036,191	18,658,427	23,694,618	7,148,714	6,432,886	13,581,600
Less						
Unamortized discount	(276,133)	(1,803,405)	(2,079,538)	(274,600)	(390,763)	(665,363)
Allowance for uncollectibles	(552,000)	(1,766,000)	(2,318,000)	(565,000)	(930,000)	(1,495,000)
	$ 4,208,058	$ 15,089,022	$ 19,297,080	$ 6,309,114	$ 5,112,123	$ 11,421,237

In addition, at June 30, 2005 and 2004, the College had approximately $1,083,500 and $2,405,500, 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 capital construction, endowment and other purposes.

Also, at June 30, 2005, the College is named the beneficiary of three charitable remainder trusts which, because of their terms, have not been recognized as assets in the statement of financial position. As the benefits from these trusts are shared with the donor or a designated beneficiary, the College will recognize gift revenue only after the trusts' obligations to other beneficiaries have been satisfied.

4. Investments

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

	2005	2004
Equity securities	$ 96,193,842	$ 89,270,415
Fixed income securities	47,314,645	45,251,930
Short-term investments	5,248,167	3,850,540
Alternative investments	30,395,578	29,411,470
	$ 179,152,232	$ 167,784,355

Alternative investments consist primarily of venture capital and hedge fund holdings. The College is obligated under certain venture capital contracts to periodically advance additional funding up to contractual levels. At June 30, 2005 and 2004, the College had an unfunded commitment of $2,049,379 and $3,290,375, respectively, callable upon demand.

The College incurred investment management fees of $1,257,979 and $1,198,798 during the years ended June 30, 2005 and 2004, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $214,870 and $201,293 during the years ended June 30, 2005 and 2004, 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:

	2005	2004
Land	$ 489,673	$ 489,673
Land improvements	26,335,767	24,921,429
Buildings and improvements	212,221,690	206,874,312
Equipment	27,443,156	27,226,424
Construction in progress	1,306,389	3,382,065
	267,796,675	262,893,903
Less: Accumulated depreciation	(123,938,343)	(114,092,188)
	$ 143,858,332	$ 148,801,715

Depreciation expense was $9,846,155 in 2005 and $9,402,637 in 2004.

During 2005 and 2004, the College capitalized interest of $74,663 and $70,967, respectively.

At June 30, 2005 and 2004, construction costs of $541,675 and $3,560, 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:

	2005	2004
Revenue bonds payable to Massachusetts Health and Educational Facilities Authority ("MHEFA"), Series A of 1974, bearing interest at a fixed rate of 6.1% and due through 2004. The bonds are collateralized by pledged tuition revenue and certain buildings	$ -	$ 20,000
Revenue bonds payable to Massachusetts Industrial Finance Authority ("MIFA"), Series 1995A, bearing interest at fixed rates between 5.4% and 5.8% and due through 2015	7,275,000	7,740,000
Revenue bonds payable to MIFA, Series 1997A, bearing interest at fixed rates ranging from 4.5% to 5.75% and due through 2027	21,880,000	22,350,000
Revenue bonds payable to MIFA, Series 1998A, bearing interest at fixed rates ranging from 4.0% to 5.0% and due through 2028	18,195,000	18,790,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2001A, bearing interest at variable auction rates (3.23% and 1.4% at June 30, 2005 and 2004, respectively) and due through 2031	31,100,000	31,500,000
Revenue bonds payable to MDFA, Series 2002A, bearing interest at variable auction rates (1.99% and 1.4% at June 30, 2005 and 2004, respectively) and due through 2032	36,000,000	36,000,000
	114,450,000	116,400,000
Less: Unamortized discount	(1,435,665)	(1,497,422)
	$ 113,014,335	$ 114,902,578

The estimated fair value of the College's debt was $119,083,403 and $118,196,773 at June 30, 2005 and 2004, 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, 2005 and 2004 were $2,070,540 and $4,409,085, respectively. Of the total bond deposits with the trustee as of June 30, 2005 and 2004, $2,070,540 and $1,816,072, respectively, represents funds held to pay debt service. The remaining balance at June 30, 2005 and 2004 of $0 and $2,593,013, respectively, represents bond proceeds committed for use on authorized construction projects recently completed, currently underway and planned for future completion. Scheduled aggregate principal and interest payments on bonds payable are as follows:

Fiscal Year	Principal Amount	Interest Amount
2006	$ 2,200,000	$ 4,869,720
2007	2,280,000	4,761,842
2008	2,225,000	4,647,782
2009	2,520,000	5,464,854
	2,520,000	5,414,046
Thereafter	102,705,000	61,525,441
	$ 114,450,000	$ 86,683,685

Interest expense was $3,854,695 in 2005 and $3,152,728 in 2004.

The College has a note payable of $125,000 and $225,000 at June 30, 2005 and 2004, respectively. This note is payable in equal installments over the next two years.

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, 2005 and 2004, the valuation does not exceed these thresholds. The College recorded an unrealized loss of $7,380,426 and $1,204,321 for the years ended June 30, 2005 and 2004, respectively, on the forward swap agreements.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2005		2004	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor stipulations				
Capital construction and maintenance	$ 4,654,438	$ 3,753,712	$ 4,016,831	$ 3,748,712
Instruction and academic support	28,585,760	33,785,278	25,770,944	31,558,336
Scholarships and fellowships	13,246,289	15,084,774	11,395,957	14,212,079
Other	2,157,933	5,349,726	1,973,503	5,204,583
Annuity	657,057	-	708,016	-
	49,301,477	57,973,490	43,865,251	54,723,710
Contributions receivable, net (Note 3)	4,208,058	15,089,022	6,309,114	5,112,123
	$ 53,509,535	$ 73,062,512	$ 50,174,365	$ 59,835,833

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:

	2005	2004
Capital construction and maintenance	$ 757,622	$ 590,507
Instruction and academic support	5,411,578	5,777,387
Scholarships and fellowships	1,593,477	1,727,054
Other	2,823,508	742,238
	$ 10,586,185	$ 8,837,186

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:

	2005	2004
Fund-raising	$ 4,146,844	$ 3,571,336
Alumni relations	1,686,070	1,987,838
	$ 5,832,914	$ 5,559,174

In addition to the direct fund-raising costs shown above, bad debt expense for uncollectible pledges was $1,338,609 and $36,259 for the years ended June 30, 2005 and 2004, respectively.

11. Retirement Plans

Defined Contribution Plan
The College has a defined contribution retirement plan (the "Plan") for eligible full-time academic, administrative and service personnel. The Plan is designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. The College's expense under the Plan in 2005 and 2004 was $4,122,192 and $4,069,262, 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 provision of Section 457 of the Internal Revenue Code.

12. Loans Receivable

Loans receivable include 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, 2005 and 2004 was $2,739,891 and $2,732,121, 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 in the amount of $204,433 with interest rates ranging from 5% to 6.85%.

13. Leases Commitments

During 2005, 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		
2006	$	1,884,622
2007		1,183,291
2008		989,775
2009		970,812
2010		481,122

Rent expense for all leased computers and equipment amounted to $2,528,103 and $2,702,438 for the years ended June 30, 2005 and 2004, 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 rentals to be received by the College under this noncancelable lease are as follows:

Fiscal Year	
2006	$ 995,675
2007	995,675
2008	995,675
2009	995,675
2010	995,675
Thereafter	5,974,050

Rental income for building leases amounted to $959,687 and $925,000 for the years ended June 30, 2005 and 2004, respectively.

14. Natural Classification of Expenses

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

	2005	**2004**
Salaries	$ 55,017,833	$ 51,492,637
Benefits	13,185,397	12,820,077
Depreciation	9,846,155	9,402,637
Food and beverage services	6,085,389	5,666,106
Utilities and other facility services	7,138,188	6,480,269
Communication and information	4,535,102	4,343,167
Other expenses	3,894,121	2,539,882
Consumable expenses	3,775,992	4,039,356
Travel/training/entertainment	5,363,242	4,455,454
Debt and finance expenses	4,568,303	3,864,686
Purchased services	3,270,101	3,101,277
CEE room, conference and administration	2,857,040	2,408,861
Advertising and media	1,856,410	1,565,701
Materials and supplies	2,415,987	2,809,507
Professional and consulting	2,813,456	3,604,825
	$ 126,622,716	$ 118,594,442

15. Commitments

As of June 30, 2005, the College has commitments on open construction contracts and acquisitions in the amount of $1,483,551. Should these contracts be canceled, the College may be obligated to pay the costs associated with labor and materials incurred as of the termination date plus any additional overhead and profit.

16. Subsequent Events

On August 31, 2005, the College issued $22,675,000 aggregate principal balance of the Massachusetts Development Finance Agency Tax-Exempt Revenue Bonds, Babson College Issue, Series 2005A (the "2005 Bonds"). The 2005 Bonds mature in October 2035 and are not collateralized by a mortgage lien or security interest in any real or personal property or revenues of the College.