Babson College

Consolidated Financial Statements
June 30, 2011 and 2010

Babson College
Index
June 30, 2011 and 2010

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, 2011 and 2010 and the related consolidated statement of activities for the year ended June 30, 2011 and the related consolidated statements of cash flows for the years ended June 30, 2011 and 2010, present fairly, in all material respects, the financial position of Babson College (the "College") at June 30, 2011 and 2010, and the changes in their net assets for the year ended June 30, 2011 and their cash flows for the years ended June 30, 2011 and 2010 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 2010 financial statements, and in our report dated October 16, 2010, 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 15, 2011

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Babson College
Consolidated Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 30,750,624	$ 34,574,342
Short-term investments	7,967,628	9,011,031
Accounts receivable, net of allowance of $683,808 and $622,573 at June 30, 2011 and 2010, respectively	5,997,038	5,694,079
Prepaid expenses and other assets	4,379,162	4,067,390
Contributions receivable, net	30,633,359	26,564,238
Loans receivable, net of allowance of $403,000 and $308,890 at June 30, 2011 and 2010	3,979,654	4,425,514
Bond deposits with trustee	2,496,881	2,442,415
Investments, at fair value	243,252,672	197,005,749
Land, buildings and equipment, net	131,067,405	131,021,049
Total assets	$ 460,524,423	$ 414,805,807
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 16,497,553	$ 14,527,978
Deposits and advance payments	13,730,042	12,027,925
Government advances for student loans	3,020,403	2,998,901
Interest rate swap liability	13,718,846	16,198,807
Bonds payable, net	114,832,896	118,970,996
Total liabilities	161,799,740	164,724,607
Net assets		
Unrestricted	116,568,787	97,707,481
Temporarily restricted	91,218,598	68,619,836
Permanently restricted	90,937,298	83,753,883
Total net assets	298,724,683	250,081,200
Total liabilities and net assets	$ 460,524,423	$ 414,805,807

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

Babson College
Consolidated Statement of Activities
Year Ended June 30, 2011, with Summarized Financial Information for the Year Ended June 30, 2010

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Operating revenues and support					
Tuition and fees	$ 129,198,421	$ -	$ -	$ 129,198,421	$ 122,907,286
Less: Student aid	(28,697,352)	-	-	(28,697,352)	(27,117,868)
Net tuition and fees	100,501,069	-	-	100,501,069	95,789,418
Room and board	21,033,832	-	-	21,033,832	20,132,258
Educational programs	3,040,801	-	-	3,040,801	4,944,479
Noneducation programs and auxiliary activities	19,692,736	-	-	19,692,736	15,893,495
Total program service fees	144,268,438	-	-	144,268,438	136,759,650
Contributions and grants	3,894,699	-	-	3,894,699	3,774,955
Investment income used in operations	304,637	-	-	304,637	460,654
Endowment spending used in operations	9,336,255	-	-	9,336,255	8,533,336
Net assets released from restrictions	7,386,289	-	-	7,386,289	3,402,714
Total operating revenues and support	165,190,318	-	-	165,190,318	152,931,309
Operating expenses					
Instruction	46,781,314	-	-	46,781,314	43,881,267
Academic support	26,791,284	-	-	26,791,284	24,998,926
Student services	21,197,030	-	-	21,197,030	19,785,453
Auxiliary activities	40,451,518	-	-	40,451,518	35,945,475
Institutional support	24,762,472	-	-	24,762,472	23,548,701
Total operating expenses	159,983,618	-	-	159,983,618	148,159,822
Increase in net assets from operations	5,206,700	-	-	5,206,700	4,771,487
Nonoperating activities					
Contributions and grants	-	12,914,794	7,081,121	19,995,915	4,936,995
Net assets released from restrictions	5,404,477	(12,149,843)	(640,923)	(7,386,289)	(3,402,714)
Reclassifications	-	(191,000)	191,000	-	-
Unrealized gains/ (losses) on interest rate swap agreements	2,479,961	-	-	2,479,961	(3,304,116)
Other nonoperating net revenue	305,641	-	-	305,641	159,266
	8,190,079	573,951	6,631,198	15,395,228	(1,610,569)
Investment return					
Realized and unrealized net gains	14,243,224	21,161,594	552,217	35,957,035	19,312,914
Interest and dividend income	793,620	863,217	-	1,656,837	1,494,530
Investment consultant fees	(236,062)	-	-	(236,062)	(222,929)
Net total investment return	14,800,782	22,024,811	552,217	37,377,810	20,584,515
Less: Endowment spending used in operations	(9,336,255)	-	-	(9,336,255)	(8,533,336)
Total nonoperating activities	13,654,606	22,598,762	7,183,415	43,436,783	10,440,610
Total increase in net assets	18,861,306	22,598,762	7,183,415	48,643,483	15,212,097
Net assets at beginning of year	97,707,481	68,619,836	83,753,883	250,081,200	234,869,103
Net assets at end of year	$ 116,568,787	$ 91,218,598	$ 90,937,298	$ 298,724,683	$ 250,081,200

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

Babson College
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net tuition and fees received	$ 121,810,713	$ 114,060,836
Other educational and noneducational receipts	24,290,900	22,522,688
Contributions and grants received, net of amounts restricted for long-term purposes	9,333,789	7,409,624
Interest and dividends received	1,707,961	1,801,797
Payments to employees and suppliers	(143,979,970)	(132,349,127)
Interest paid	(2,562,998)	(2,813,990)
Net cash provided by operating activities	10,600,395	10,631,828
Cash flows from investing activities		
Purchases of investments	(67,553,362)	(46,677,999)
Sales of investments	60,863,840	36,299,849
Transfers from bond deposits with trustee, net	(54,466)	142,628
Acquisition and construction of property and equipment	(8,311,837)	(3,715,523)
Student loans repaid	845,695	583,330
Student loans issued	(501,800)	(1,001,322)
Net cash used in investing activities	(14,711,930)	(14,369,037)
Cash flows from financing activities		
Payment of bond issuance costs	(26,000)	(219,075)
Repayments of bonds and notes	(4,099,944)	(2,910,000)
Proceeds from loan payable	109,395	-
Payments on split interest agreements	(249,816)	(251,324)
Increase for refundable U.S. government grants	21,502	64,212
Permanently restricted contributions	7,555,197	5,167,179
Payments on swap contracts	(3,022,517)	(3,087,090)
Net cash provided by (used in) financing activities	287,817	(1,236,098)
Net decrease in cash and cash equivalents	(3,823,718)	(4,973,307)
Cash and cash equivalents at beginning of year	34,574,342	39,547,649
Cash and cash equivalents at end of year	$ 30,750,624	$ 34,574,342
Reconciliation of decrease in net assets to net cash provided by operating activities		
Cash flows from operating activities		
Increase in net assets	$ 48,643,483	$ 15,212,097
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Realized and unrealized net gains on investments	(35,404,139)	(19,442,295)
Depreciation and amortization	9,520,433	9,107,945
Permanently restricted contributions	(7,555,197)	(5,167,179)
(Increase)/decrease in contributions receivable	(3,404,120)	6,687,375
Decrease in allowance for uncollectible pledges	(665,001)	(1,355,350)
Changes in the values of interest rate swaps	(2,479,961)	3,304,116
Payments on swap contracts	3,022,517	3,087,090
Changes in working capital assets and liabilities, net	(1,077,620)	(801,971)
Net cash provided by operating activities	$ 10,600,395	$ 10,631,828

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 1,900 undergraduate and 1,600 graduate students from the United States and more than 60 countries worldwide. The College offers education in business and liberal arts, and it grants the Bachelor of Science degree through its undergraduate program. The College also grants Master of Business Administration degrees and custom Master of Science degrees through the F.W. Olin Graduate School of Business at the College. Additionally, the College offers distinct executive education programs to help companies reach their strategic goals.

On January 7, 2010, Babson Global, Inc. ("Babson Global") was formed as a 501(c)3 supporting organization of 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 and costs of extinguishment of bonds.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, including time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as 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, 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 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 Gains

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

- as increases in permanently restricted net assets if the terms of the underlying gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the underlying gift or relevant state law impose restrictions on the current use of the income or net gains; and
- as increases in unrestricted net assets in all other cases.

The College employs an endowment spending policy that establishes the amount of investment return made available for expenditure each year. This amount is up to 5% of the previous 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% and 5.00% for fiscal years ending June 30, 2011 and 2010, respectively. Investment return earned in excess of the amount distributed annually is reinvested in the fund, but can be distributed in future years in accordance with the endowment spending policy.

Cash and Cash Equivalents

Operating cash invested with original maturities of 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). As of June 30, 2011 and 2010, no collateral was posted.

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, 2011 and 2010, 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 and Equipment

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

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

	Years
Buildings	40 to 50
Building improvements	10 to 25
Land improvements	10 to 50
Equipment 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 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 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, 2010, from which the summarized information is derived.

Reclassifications

Certain 2010 financial information has been reclassified to conform with the 2011 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, 2011, $45,012 of asset retirement costs, net of accumulated depreciation, has been included in property, plant and equipment and $868,763 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, 2011 and 2010:

	2011			2010		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-imposed restrictions						
Capital construction and maintenance	$ 212,593	$ 521,856	$ 734,449	$ 257,612	$ 636,735	$ 894,347
Scholarships and fellowships	6,684,586	3,408,099	10,092,685	4,687,489	1,772,575	6,460,064
Instruction and academic support	14,394,597	2,734,903	17,129,500	14,262,217	4,597,783	18,860,000
Student programs	701,333	2,387,720	3,089,053	545,983	1,763,547	2,309,530
Other	4,152,741	3,700,543	7,853,284	2,787,407	3,516,187	6,303,594
	$ 26,145,850	$ 12,753,121	$ 38,898,971	$ 22,540,708	$ 12,286,827	$ 34,827,535

	2011			2010		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Unconditional promises due within						
Less than one year	$ 5,957,005	$ 3,822,721	$ 9,779,726	$ 4,857,685	$ 4,889,319	$ 9,747,004
One year to five years	11,974,697	4,198,680	16,173,377	9,260,147	5,809,671	15,069,818
More than five years	8,214,148	4,731,720	12,945,868	8,422,876	1,587,837	10,010,713
	26,145,850	12,753,121	38,898,971	22,540,708	12,286,827	34,827,535
Less						
Unamortized discount	(3,814,051)	(1,459,561)	(5,273,612)	(3,942,432)	(663,865)	(4,606,297)
Allowance for uncollectibles	(968,000)	(2,024,000)	(2,992,000)	(1,026,000)	(2,631,000)	(3,657,000)
	$ 21,363,799	$ 9,269,560	$ 30,633,359	$ 17,572,276	$ 8,991,962	$ 26,564,238

See Note 8 for rationale behind movement from permanently to temporarily restricted net assets in 2011 and 2010.

In addition, at June 30, 2011 and 2010, the College had approximately $5,712,631 and $229,000, 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, 2011, 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:

	2011	2010
Equity securities and funds	$ 119,511,345	$ 93,842,324
Fixed income securities and funds	54,357,283	41,168,204
Alternative investments		
Hedge funds	52,356,484	48,635,754
Private equity funds	13,982,591	10,450,469
Real estate funds	2,603,199	2,075,269
Venture capital funds	441,770	833,729
	$ 243,252,672	$ 197,005,749

Equity securities and funds includes $215,717 and $7,319 of unsettled trades at June 30, 2011 and 2010, respectively.

The College incurred investment management fees of $1,951,996 and $1,751,363 during the years ended June 30, 2011 and 2010, respectively. These fees are reported as a reduction of investment earnings. In addition, the College incurred investment consulting fees of $236,062 and $222,929 during the years ended June 30, 2011 and 2010, 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, 2011 and 2010, by caption on the consolidated statement of financial position and by the fair value valuation hierarchy defined above:

	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 funds	-	-	13,982,591	13,982,591
Real estate funds	-	2,603,199	-	2,603,199
Venture capital funds	-	-	441,770	441,770
Investment Totals	$ 65,818,186	$ 154,826,917	$ 22,607,569	$ 243,252,672
Liabilities				
Interest rate swaps	$ -	$ 13,718,846	$ -	$ 13,718,846

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

The tables below present rollforwards of investments classified by the College within Level 3 of the fair value hierarchy at June 30, 2011 and 2010:

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

	Value at July 1, 2010	Reclassification to Level 2	Realized Gains	Unrealized Gains	Interest & Dividends Net	Purchases	Sales	Value at June 30, 2011
Equity securities and funds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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 funds	10,450,469	-	115,488	1,447,620	47,329	3,646,374	(1,724,689)	13,982,591
Real estate funds	-	-	-	-	-	-	-	-
Venture capital funds	833,729	-	537,598	92,299	-	22,631	(1,044,487)	441,770
	$ 17,629,767	$ -	$ 653,086	$ 3,532,538	$ (86,149)	$ 3,669,005	$ (2,790,678)	$ 22,607,569

Rollforward of Investments Classified as Level 3 as of June 30, 2010

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

During fiscal year 2010, as a result of adopting new guidance related to the fair value measurement standard, certain investments were reclassified as Level 2.

The net unrealized gain on level 3 investments held at June 30, 2011 that were also held at June 30, 2010 was approximately $3,268,000.

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, 2011 and 2010, respectively:

	Investments Asset Value as of June 30, 2011			
Investment Type	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Notice Period**
Equity securities & funds	$ 119,511,345	$ -	Daily - Quarterly	3-90 Days
Fixed income securities & funds	54,357,283	-	Daily - Monthly	3-30 Days
Hedge funds	52,356,484	-	Quarterly - Annually	45-60 Days
Private equity funds	13,982,591	21,294,402	N/A	N/A
Real estate funds	2,603,199	-	Quarterly	90 Days
Venture capital funds	441,770	21,363	N/A	N/A
	$ 243,252,672	$ 21,315,765		

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

5. Land, Buildings and Equipment

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

	2011	2010
Land	$ 489,673	$ 489,673
Land improvements	28,698,389	28,155,580
Buildings and improvements	249,246,739	243,144,045
Equipment and software	32,105,537	29,074,107
Construction in progress	1,154,780	1,251,501
	311,695,118	302,114,906
Less: Accumulated depreciation	(180,627,713)	(171,093,857)
	$ 131,067,405	$ 131,021,049

Depreciation expense was $9,563,532 and $9,154,045 for the years ended June 30, 2011 and 2010, respectively.

During 2011, the College disposed of equipment with accumulated depreciation of $29,676.

During 2011 and 2010, the College capitalized interest of $54,747 and $70,392, respectively.

At June 30, 2011 and 2010, construction costs of $1,243,305 and $323,246, respectively, were included in the accounts payable and accrued expenses balance.

6. Bonds Payable

Bonds payable consisted of the following at June 30:

	2011	2010
Revenue bonds payable to Massachusetts Industrial Finance Agency ("MIFA"), Series 1998A, bearing interest at fixed rates ranging from 4.6% to 5.00% and due through 2028	$ 14,045,000	$ 14,815,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2005A, bearing interest at a fixed rate of 4.0% to 5.00% and due through 2035	18,140,000	19,115,000
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	18,460,000	19,145,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008A, bearing interest at variable rates (0.04% at June 30, 2011) and due through 2032	35,575,000	36,475,000
Revenue bonds payable to Massachusetts Development Finance Agency ("MDFA"), Series 2008B, bearing interest at variable rates (0.14% at June 30, 2011) and due through 2031	27,845,000	28,610,000
	114,065,000	118,160,000
Unamortized premium	767,896	810,996
	$ 114,832,896	$ 118,970,996

The estimated fair value of the College's debt was $114,012,369 and $120,413,000 at June 30, 2011 and 2010, 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, 2011 and 2010 were $2,496,881 and $2,442,415, respectively, which represent funds held to pay debt service. Scheduled aggregate principal payments on bonds payable are as follows:

Fiscal Year	Principal Amount
2012	$ 4,225,000
2013	4,585,000
2014	4,685,000
2015	4,895,000
2016	5,155,000
Thereafter	90,520,000
	$ 114,065,000

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 $63,420,000. 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: $6,342,000 in 2012, $6,342,000 in 2013, $6,342,000 in 2014, $6,342,000 in 2015, $6,342,000 in 2016 and $31,710,000 thereafter.

Interest expense was $5,518,574 and $5,822,288 for the years ended June 30, 2011 and 2010, 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 of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain of the interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Although these financial instruments involve counterparty credit exposure, the counterparties for the agreements are major financial institutions that meet the College's criteria for financial stability and creditworthiness at June 30, 2011. 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 both June 30, 2011 and 2010, no collateral was required.

The following tables summarize the College’s derivative activity as presented in the consolidated financial statements:

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 2011	Fair Value of Derivatives 2010
Interest Rate Swap Contracts	Interest Rate Swap Liability	$ 13,718,846	$ 16,198,807

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 2011	Fair Value of Derivatives 2010
Interest Rate Swap Contracts	Unrealized gains/ (losses) on interest rate swap agreements	$ 2,479,961	$ (3,304,116)
	Operating expenses	3,022,517	3,087,090
	Net impact	$ (542,556)	$ (6,391,206)

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, 2011 and 2010 accounted for all swap activity for the year.

8. Restricted Net Assets

Restricted net assets consisted of the following at June 30:

	2011		2010	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
Donor stipulations				
Capital construction and maintenance	$ 6,046,198	$ 7,274,414	$ 4,511,387	$ 4,656,935
Instruction and academic support	35,127,189	42,230,654	26,572,828	41,407,999
Scholarships and fellowships	22,812,379	21,743,428	16,367,632	19,380,262
Other	5,791,038	10,325,772	3,693,535	9,316,725
Annuity	77,995	93,470	(97,822)	-
	69,854,799	81,667,738	51,047,560	74,761,921
Contributions receivable, net (Note 3)	21,363,799	9,269,560	17,572,276	8,991,962
	$ 91,218,598	$ 90,937,298	$ 68,619,836	$ 83,753,883

For the years ended June 30, 2011 and 2010, 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 ($191,000) and an increase in permanently restricted net assets of $191,000 at June 30, 2011. The net impact of these changes was an increase in temporarily restricted net assets of $9,962,770 and a decrease in permanently restricted net assets of ($9,962,770) at June 30, 2010.

9. Net Assets Released from Restrictions

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

	2011	**2010**
Capital construction and maintenance	$ 172,298	$ 294,146
Instruction and academic support	6,950,223	5,704,150
Scholarships and fellowships	2,356,319	2,322,259
Other	2,671,003	1,369,283
	$ 12,149,843	$ 9,689,838

10. Fund-Raising and Alumni Relations Expenses

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

	2011	2010
Fund-raising	$ 3,551,773	$ 4,231,650
Alumni relations	1,777,374	2,422,576
	$ 5,329,147	$ 6,654,226

In addition to the direct fundraising costs shown above, bad debt expense/(recoveries) for the uncollectible pledges was $860,377 and ($786,386) for the years ended June 30, 2011 and 2010, 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 $5,050,678 and $5,104,132 as of June 30, 2011 and 2010, 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 $578,006 and $460,203 as of June 30, 2011 and 2010, 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, 2011 and 2010 was $3,020,403 and $2,998,901, 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 $2,515 and $0 as of June 30, 2011 and 2010, respectively.

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

	June 30, 2011		June 30, 2010	
	Receivable Balance	**Related Allowance**	**Receivable Balance**	**Related Allowance**
Perkins loans	$ 3,103,541	$ (41,000)	$ 3,247,530	$ (41,000)
Other student loans	1,276,598	(362,000)	1,486,874	(267,890)
Other loans	2,515	-	-	-
Total	$ 4,382,654	$ (403,000)	$ 4,734,404	$ (308,890)

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 non-payment 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, 2011 were as follows:

	Perkin Loans	**Other Student Loans**	**Other Loans**
Beginning Balance July 1, 2010	$ (41,000)	$ (267,890)	$ -
Provisions for credit losses	-	(94,110)	-
Net charge-offs	-	-	-
Recoveries	-	-	-
Ending Balance June 30, 2011	$ (41,000)	$ (362,000)	$ -

Management considers the allowance for credit losses at June 30, 2011 to be prudent and reasonable.

13. Lease Commitments

During 2011, 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	
2012	$ 2,024,757
2013	1,458,512
2014	713,498
2015	595,715
2016	97,333

Rent expense for all leased computers and equipment amounted to $2,094,354 and $2,258,137 for the years ended June 30, 2011 and 2010, 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	
2012	$ 1,241,786
2013	1,288,353
2014	1,336,666
2015	1,386,791
2016	1,438,796

Rental income for building leases amounted to $1,234,497 and $1,153,640 for the years ended June 30, 2011 and 2010, respectively.

14. Natural Classification of Expenses

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

	2011	2010
Salaries	$ 69,801,968	$ 66,697,368
Benefits	19,855,393	18,463,642
Depreciation	9,563,532	9,154,045
Food and beverage services	7,625,613	7,059,699
Utilities and other facility services	7,341,017	7,464,844
Communication and information	5,192,012	4,742,066
Other expenses	3,537,329	1,709,150
Consumable expenses	5,631,203	5,207,157
Travel/training/entertainment	7,196,855	6,525,035
Debt and finance expenses	6,846,610	7,194,623
Purchased services	2,384,011	2,452,132
BECC room, conference and administration	2,499,926	2,243,905
Advertising and media	4,123,107	2,911,665
Materials and supplies	2,654,144	2,424,756
Professional and consulting	5,730,898	3,909,735
	$ 159,983,618	$ 148,159,822

15. Commitments

As of June 30, 2011, the College has $1,639,845 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 230 individual funds which have been established over time for various purposes, including scholarships, chairs and professorships, facilities, athletics and other educational services. The College's endowment consists of both donor-restricted funds as well as Board-designated endowment funds. The classification of funds is based on the existence or absence of donor-imposed restrictions.

Underwater Endowment Funds
Periodically, the fair value of individual endowment funds may fall below the corpus. These deficiencies may be the result of significant market fluctuations in conjunction with prudent appropriations against the funds. As of June 30, 2011, there were no endowment funds that were deemed underwater, where the fair value had declined below historical book value. As of June 30, 2010, there were 24 endowment funds that were deemed underwater, where the fair value had declined below historical book value by $400,266. 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, 2011 and 2010, respectively.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 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, end of year, 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	2,096,343	262,298	-	2,358,641
Other funds	-	-	9,269,560	9,269,560
Total net assets	$ 116,568,787	$ 91,218,598	$ 90,937,298	$ 298,724,683

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

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 15, 2011, the date the consolidated financial statements were available to be issued. Effective July 7, 2011, the College completed a refunding, at par, of the entire outstanding amount of the MIFA, Series 1998A bonds, with a new issue MIFA, Series 2011 bonds. 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.