

The Corporation of Haverford College

**Financial Statements
June 30, 2005 and 2004**

The Corporation of Haverford College
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June 30, 2005 and 2004

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Report of Independent Auditors

To the Board of Managers
The Corporation of Haverford College

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Corporation of Haverford College (the "College") as of June 30, 2005 and 2004, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 13, 2005

The Corporation of Haverford College
Statements of Financial Position
June 30, 2005 and 2004

<i>(dollars in thousands)</i>	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 592	\$ 614
Temporary investments	9,822	9,518
Accounts receivable, net (Note 1)	4,650	4,750
Inventories, prepaid expenses, and other assets	998	977
Total current assets	<u>16,062</u>	<u>15,859</u>
Student loans receivable, net (Note 1)	1,143	1,362
Contributions receivable, net (Note 2)	23,321	27,891
Long-term investments (Note 3)	409,343	364,331
Assets held in trust by others	2,666	2,603
Funds held for investment in plant (Note 4)	6,977	30,525
Plant and equipment, net (Note 5)	<u>124,907</u>	<u>104,135</u>
Total assets	<u>\$ 584,419</u>	<u>\$ 546,706</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,680	\$ 2,460
Student deposits and deferred revenues	1,214	1,121
Current portion of long-term debt	<u>1,700</u>	<u>850</u>
Total current liabilities	5,594	4,431
Federal student loan advances	1,012	1,008
Accrued postretirement liabilities	250	340
Liabilities under planned giving agreements (Notes 1 and 3)	7,070	8,940
Long-term debt (Note 6)	99,867	101,487
Interest rate swaption liability (Note 6)	5,928	-
Other liabilities	<u>745</u>	<u>400</u>
Total liabilities	<u>120,466</u>	<u>116,606</u>
Net assets (Note 7)		
Unrestricted	182,227	170,315
Temporarily restricted	153,100	137,273
Permanently restricted	<u>128,626</u>	<u>122,512</u>
Total net assets	<u>463,953</u>	<u>430,100</u>
Total liabilities and net assets	<u>\$ 584,419</u>	<u>\$ 546,706</u>

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

The Corporation of Haverford College
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2005 with 2004 Comparative Information

(dollars in thousands)

	Unrestricted	Restricted		2005 Total	2004 Total
		Temporarily	Permanently		
Operating revenues					
Tuition and fees	\$ 34,058	\$ -	\$ -	\$ 34,058	\$ 32,949
Room and board	9,560	-	-	9,560	9,276
Less: Student aid	(9,408)	-	-	(9,408)	(9,255)
Student revenues, net	34,210	-	-	34,210	32,970
Endowment payout (Notes 1 and 3)	14,996	798	-	15,794	16,457
Gifts	5,119	1,523	-	6,642	6,125
Government grants and contracts	1,287	-	-	1,287	1,478
Bookstore, rents and other income	5,700	37	-	5,737	5,904
Net assets released from restrictions	2,532	(2,532)	-	-	-
Total operating revenues	63,844	(174)	-	63,670	62,934
Operating expenses (Note 9)					
Program services					
Instruction	21,961	-	-	21,961	20,988
Research	1,777	-	-	1,777	2,244
Library and academic support	6,887	-	-	6,887	6,878
Student services	8,683	-	-	8,683	8,352
Auxiliary enterprises	13,680	-	-	13,680	13,162
Supporting services					
Management, general and fundraising	10,481	-	-	10,481	10,244
Total operating expenses	63,469	-	-	63,469	61,868
Change in net assets from operating activities	375	(174)	-	201	1,066
Nonoperating activities					
Gifts for endowment, planned gifts and gifts-in-kind	800	202	3,263	4,265	9,538
Net change in pledges receivable	-	(3,654)	(1,158)	(4,812)	10,005
Net realized and unrealized gains	14,492	21,426	4,009	39,927	47,221
Withdrawn for endowment payout (Notes 1 and 3)	(3,806)	(1,922)	-	(5,728)	(8,151)
Net assets released from restrictions	51	(51)	-	-	-
Change in net assets from nonoperating activities	11,537	16,001	6,114	33,652	58,613
Increase in net assets	11,912	15,827	6,114	33,853	59,679
Net assets					
Beginning of year	170,315	137,273	122,512	430,100	370,421
End of year	\$ 182,227	\$ 153,100	\$ 128,626	\$ 463,953	\$ 430,100

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

The Corporation of Haverford College
Statements of Activities and Changes in Net Assets
Year Ended June 30, 2004

(dollars in thousands)

	Unrestricted	Restricted		2004 Total
		Temporarily	Permanently	
Operating revenues				
Tuition and fees	\$ 32,949	\$ -	\$ -	\$ 32,949
Room and board	9,276	-	-	9,276
Less: Student aid	<u>(9,255)</u>	<u>-</u>	<u>-</u>	<u>(9,255)</u>
Student revenues, net	32,970	-	-	32,970
Endowment payout (Notes 1 and 3)	15,766	691	-	16,457
Gifts	4,475	1,650	-	6,125
Government grants and contracts	1,478	-	-	1,478
Bookstore, rents and other income	5,883	21	-	5,904
Net assets released from restrictions	<u>2,237</u>	<u>(2,237)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>62,809</u>	<u>125</u>	<u>-</u>	<u>62,934</u>
Operating expenses (Note 9)				
Program services				
Instruction	20,988	-	-	20,988
Research	2,244	-	-	2,244
Library and academic support	6,878	-	-	6,878
Student services	8,352	-	-	8,352
Auxiliary enterprises	13,162	-	-	13,162
Supporting services				
Management, general and fundraising	<u>10,244</u>	<u>-</u>	<u>-</u>	<u>10,244</u>
Total operating expenses	<u>61,868</u>	<u>-</u>	<u>-</u>	<u>61,868</u>
Change in net assets from operating activities	<u>941</u>	<u>125</u>	<u>-</u>	<u>1,066</u>
Nonoperating activities				
Gifts for endowment, planned gifts and gifts-in-kind	4,155	407	4,976	9,538
Net change in pledges receivable	-	11,824	(1,819)	10,005
Net realized and unrealized gains	15,930	26,306	4,985	47,221
Withdrawn for endowment payout (Notes 1 and 3)	<u>(6,247)</u>	<u>(1,904)</u>	<u>-</u>	<u>(8,151)</u>
Net assets released from restrictions	<u>12,770</u>	<u>(13,176)</u>	<u>406</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>26,608</u>	<u>23,457</u>	<u>8,548</u>	<u>58,613</u>
Increase in net assets	27,549	23,582	8,548	59,679
Net assets				
Beginning of year	<u>142,766</u>	<u>113,691</u>	<u>113,964</u>	<u>370,421</u>
End of year	<u>\$ 170,315</u>	<u>\$ 137,273</u>	<u>\$ 122,512</u>	<u>\$ 430,100</u>

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

The Corporation of Haverford College
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

<i>(dollars in thousands)</i>	2005	2004
Cash flows from operating activities		
Increase in net assets	\$ 33,853	\$ 59,679
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	5,267	4,976
Net realized and unrealized gains	(39,927)	(47,221)
Contributions restricted for endowment, planned gifts and plant facilities	(3,756)	(6,354)
Present value of new planned giving liabilities	241	747
Gifts in kind and other adjustments, net	105	(76)
Changes in operating assets and liabilities		
Accounts receivable, inventories, prepaid expenses and other assets	79	(1,357)
Accounts payable and accrued expenses, student deposits and deferred revenues and accrued post retirement liabilities	223	(55)
Contributions receivable	4,570	(8,613)
Net cash provided by operating activities	<u>655</u>	<u>1,726</u>
Cash flows from investing activities		
Purchases of investments	(65,609)	(155,940)
Sales of investments	82,390	113,627
Purchases of plant and equipment	(25,636)	(6,311)
Student loan disbursements	(123)	(153)
Student loan repayments	311	243
Net cash used in investing activities	<u>(8,667)</u>	<u>(48,534)</u>
Cash flows from financing activities		
Contributions restricted for endowment, planned gifts and plant facilities	3,756	6,354
Proceeds from issuance of long-term debt	-	58,285
Repayment of long-term debt	(850)	(20,242)
Payments to planned gift beneficiaries, net of related income	(562)	(450)
Swaption premium received (Note 6)	5,275	-
Federal student loan advances	4	13
Repayment of federal student loan advances	-	(244)
Advance lease payments for renovation project	367	400
Net cash provided by financing activities	<u>7,990</u>	<u>44,116</u>
Net decrease in cash and cash equivalents	(22)	(2,692)
Cash and cash equivalents		
Beginning of year	614	3,306
End of year	<u>\$ 592</u>	<u>\$ 614</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 3,176	\$ 3,322
Supplemental disclosure of noncash investing and financing activities		
Stock distributions from donor advised fund	\$ 783	\$ 16,111

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

The Corporation of Haverford College

Notes to Financial Statements

June 30, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies

Description of Organization

The corporation of Haverford College (the "College"), founded in 1833, is a coeducational, private, highly selective, liberal arts college located in Haverford, Pennsylvania. A diverse student body of approximately 1,100 full-time undergraduates is drawn from independent and public schools across the United States, Puerto Rico and more than 20 foreign countries. The College is a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation

The financial statements of the College have been prepared in conformity with accounting principles generally accepted in the United States of America for not-for-profit organizations. Not-for-profit accounting requires that net assets and revenues, expenses, gains and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the board of managers or may otherwise be limited by contractual agreements with outside parties. Temporarily restricted net assets include contributions restricted by donors for specific purposes and/or future years, and gains on permanent endowment, which are restricted by Pennsylvania law on the amount that may be expended in a given year. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the College. Such assets primarily include the original gifts to the College's permanent endowment funds.

In 2005, the College modified its measure of operations such that the net change in all contributions (pledges) receivable is reflected in nonoperating activities. Previously, pledges for annual giving and certain other pledges were recorded in operating revenues. The 2004 Statement of Activities and Changes in Net Assets has been reclassified to conform with the 2005 presentation.

Cash and Temporary Investments

Operating cash invested in short term, highly liquid investments is reported as cash and cash equivalents. Temporary investments are investments in fixed income mutual funds, including the Vanguard GNMA Fund, whose underlying investments have longer maturities. Cash and temporary investments held for long term purposes are classified with noncurrent assets. Investment income earned on cash and temporary investments (other than endowment) of \$733,000 in 2005 and \$629,000 in 2004 is included in bookstore, rents and other income.

Accounts Receivable and Student Loans Receivable

Accounts receivable include accrued investment income, amounts due from students and federal and other grants and contracts, the current portion of contributions receivable, and other miscellaneous receivables. Accounts receivable are reported net of allowances for doubtful accounts of \$130,000 in 2005 and \$133,000 in 2004. Student loans receivable are reported at cost, less allowances for doubtful accounts of \$81,000 in 2005 and \$86,000 in 2004.

The Corporation of Haverford College

Notes to Financial Statements

June 30, 2005 and 2004

Fair Value of Investments and Endowment Payout

Investments in marketable securities and debt securities are valued at quoted market prices from major securities exchanges. Private equity, venture capital, real estate, hedge funds and other alternative investments include investments for which quoted market prices are not readily available. The fair values of these investments are based upon the most recent estimates provided by the respective general partners. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. The College believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2005 and 2004.

Most of the College's endowment and similar funds are subject to a spending policy that determines the amount available for operations each year. The policy provides for increasing the prior year's payout amount by 5%, plus 5% of new endowment gifts, subject to a limitation between 4.75% and 5.75% of the average market value of the funds' investments. The amount by which the endowment payout exceeds actual endowment income is reported as withdrawn for endowment payout in the statement of activities. For the years 2005 and 2004, the payout amount exceeded endowment income by \$5,728,000 and \$8,151,000, respectively.

Planned Giving Agreements

Planned giving agreements (planned gifts) are life income and other split-interest agreements with donors in which the College serves as trustee or otherwise controls the assets. Assets are invested and distributions are made to beneficiaries and the College in accordance with the respective agreements. Liabilities under planned giving agreements represent the present value of the estimated future distributions to beneficiaries over the terms of the agreements. Investment gains and losses, and gains and losses associated with changes in the estimates of future distributions to beneficiaries, are included in net realized and unrealized gains and losses.

Assets Held in Trust by Others

The college is the income beneficiary of certain perpetual trusts held and administered by others. The fair value of the College's interest in the trusts is recorded as an asset, which approximates the present value of the estimated future cash receipts from the trusts. Changes in fair value of the trusts are included in net realized and unrealized gains and losses.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (15 to 20 years for land improvements, 20 to 50 years for buildings, 4 to 15 years for equipment, and 30 years for library books). Expenditures for new construction and major renewals and replacements and equipment are capitalized. The College owns approximately 204 acres of land that are carried on the books at no cost. Works of art, historical treasures and similar assets have been recognized at their estimated fair value based upon appraisals or similar valuations. Works of art, historical treasures and similar assets are not subject to depreciation.

Contributions and Net Assets Released from Restrictions

Contributions, including unconditional promises to give, are recorded as revenue in the period that the College receives the contribution or promise. Conditional promises to give are not recorded 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.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2005 and 2004

Contributions and other revenues with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted revenues. Otherwise, expirations of donor-imposed restrictions are reported in the statement of activities as net assets released from restrictions. Restrictions on contributions for the acquisition of plant and equipment expire upon acquisition of the related asset.

Nonoperating Activities

In the statement of activities, nonoperating activities primarily reflect increases and decreases in net assets associated with long-term investments, and contributions (pledges) to be received in the future. Net assets released from restrictions in the nonoperating section include matured planned giving agreements and other reclassifications. During fiscal year 2004, \$10,978,000 in gifts received in prior years for support of the Douglas B. Gardner integrated athletic initiative were reclassified, with the approval of the donors, to quasi-endowment in support of the athletic initiative.

Use of Estimates

The preparation of the College's financial statements in conformity with accounting principles generally accepted in the United States of America 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. Such estimates and assumptions affect, in particular, the reported amounts of contributions receivable, liabilities under planned giving agreements and valuation of alternative investments.

Actual results could differ from those estimates.

2. Contributions Receivable

Contributions receivable represent unconditional promises to give from donors collectable in future years. Contributions receivable are recorded after discounting to the present value of the expected future cash flows. The discount is computed using an estimated "risk-free" interest rate. An allowance for uncollectible contributions receivable is provided based upon management's judgment of the collectibility of outstanding pledges.

Contributions receivable at June 30 are expected to be realized and have been recorded as follows:

<i>(dollars in thousands)</i>	2005	2004
In one year or less	\$ 8,489	\$ 8,896
Between one and five years	17,654	20,342
In more than five years	4,559	7,262
	<u>30,702</u>	<u>36,500</u>
Less: Discount	(4,625)	(5,419)
Less: Allowance	(1,225)	(1,417)
Less: Amount included in current accounts receivable	(1,531)	(1,773)
Contributions receivable, net	<u>\$ 23,321</u>	<u>\$ 27,891</u>

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2005 and 2004

Most of the College's contributions receivable are restricted or designated for endowment and similar funds.

A reconciliation of contributions recorded in the financial statements with gifts received by the College (excluding pledges) is as follows:

<i>(dollars in thousands)</i>	2005	2004
Contributions, operating	\$ 6,642	\$ 6,125
Contributions, nonoperating	4,265	9,538
	<u>10,907</u>	<u>15,663</u>
Present value of new planned giving liabilities	241	747
Gifts received	<u>\$ 11,148</u>	<u>\$ 16,410</u>

3. Long-Term Investments

The fair value of the College's long-term investments at June 30 were as follows:

<i>(dollars in thousands)</i>	2005	2004
Domestic equities and equity funds	\$ 98,883	\$ 94,282
International equity funds	107,769	90,950
Fixed income	57,433	53,829
Hedge funds	26,579	29,820
Real estate	20,582	16,694
Venture capital, private equity, cash and other	98,097	78,756
	<u>\$ 409,343</u>	<u>\$ 364,331</u>

At June 30, 2005 and 2004, approximately 45% of the College's investments were invested in equity funds managed by one index investment manager.

The College includes 60% of the William Maul Measey Trust (the "Trust") in its endowment and similar funds. The Trust is maintained and controlled by the College, with 50% of the Trust's interest and dividends expended for student financial aid and 10% for administration of the Trust. The remaining 40% of the Trust's income must be disbursed to qualified secondary schools to be utilized for student financial aid. The College's portion of the fair value of the Trust was \$36,654,000 and \$32,730,000 at June 30, 2005 and 2004, respectively.

Pursuant to Commonwealth of Pennsylvania law and at the direction of the board of managers, \$1,899,000 and \$1,877,000 of endowment funds' gains were transferred to quasi-endowment during fiscal 2005 and 2004, respectively, for ultimate use in the operations of the College.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2005 and 2004

Long-term investment activity for 2005 and 2004 was as follows:

<i>(dollars in thousands)</i>	Endowment and Similar Funds	Planned Giving Agreements	Total 2005	Total 2004
Investments, beginning of year	<u>\$ 348,523</u>	<u>\$ 15,808</u>	<u>\$ 364,331</u>	<u>\$ 308,021</u>
Contributions	4,136	328	4,464	10,134
Transfers from (to) other funds	8,190	(56)	8,134	21,734
Contributions and other additions	<u>12,326</u>	<u>272</u>	<u>12,598</u>	<u>31,868</u>
Net realized and unrealized investment gains (losses)	<u>39,607</u>	<u>(120)</u>	<u>39,487</u>	<u>49,154</u>
Dividends and interest available, net of expenses of \$1,008 and \$844	10,066	-	10,066	8,306
Endowment spending payout	<u>(15,794)</u>	<u>-</u>	<u>(15,794)</u>	<u>(16,457)</u>
Withdrawn for endowment payout	<u>(5,728)</u>	<u>-</u>	<u>(5,728)</u>	<u>(8,151)</u>
Payments to beneficiaries, net of related income	<u>(13)</u>	<u>(1,332)</u>	<u>(1,345)</u>	<u>(16,561)</u>
Investments, end of year	<u>\$ 394,715</u>	<u>\$ 14,628</u>	<u>\$ 409,343</u>	<u>\$ 364,331</u>

The total return of the College's endowment and similar funds (consisting of investment gains and losses and dividends and interest, net of expenses) was 14.3% and 19.8% for the fiscal years ending June 30, 2005 and 2004, respectively.

Planned giving agreements included The Lutnick-Cantor Fitzgerald Fund, a donor-advised fund with a fair value of \$443,000 and a related liability of \$443,000 at June 30, 2005 and, at June 30, 2004, a fair value of \$2,124,000 and a related liability of \$2,124,000. The College is entitled to a minimum of 10% of the distributions from this fund, with the balance distributed to other charitable organizations. Stock distributions of \$783,000 were made during fiscal year 2005, including \$600,000 to the College. Stock distributions of \$16,111,000 were made during fiscal 2004, including \$4,631,000 to the College.

4. Funds Held for Investment in Plant

Funds held for investment in plant at June 30 consisted of:

<i>(dollars in thousands)</i>	2005	2004
Domestic common stock	\$ 94	\$ 27
Cash and temporary investments	<u>6,883</u>	<u>30,498</u>
	<u>\$ 6,977</u>	<u>\$ 30,525</u>

Cash and temporary investments at June 30, 2005 and 2004 represent unexpended bond proceeds (Note 6) held by a trustee bank which are invested in a collateralized repurchase agreement and must be used for purposes in accordance with the bond agreement.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2005 and 2004

5. Plant and Equipment

The components of plant and equipment at June 30 were as follows:

<i>(dollars in thousands)</i>	2005	2004
Land improvements	\$ 5,876	\$ 5,474
Buildings	135,970	128,721
Equipment	13,917	12,966
Library books	8,246	7,908
Works of art, historical treasures, and similar assets	4,189	4,149
Construction-in-progress	24,215	7,351
	<u>192,413</u>	<u>166,569</u>
Accumulated depreciation	<u>(67,506)</u>	<u>(62,434)</u>
	<u>\$ 124,907</u>	<u>\$ 104,135</u>

6. Long-Term Debt

Long-term debt at June 30 consisted of:

<i>(dollars in thousands)</i>	2005	2004
Delaware County Authority Revenue Bonds, Series of 2004 (variable rate), net of unamortized discount of \$706 and \$722	\$ 39,294	\$ 39,278
Delaware County Authority Revenue Bonds, Series of 2003 (variable rate), net of unamortized discount of \$378 and \$390	18,572	19,410
Delaware County Authority Revenue Bonds, Series of 2000 (6.04% weighted average interest rate), net of unamortized discount of \$1,299 and \$1,351	43,701	43,649
	<u>101,567</u>	<u>102,337</u>
Less: Amounts due within one year	<u>(1,700)</u>	<u>(850)</u>
	<u>\$ 99,867</u>	<u>\$ 101,487</u>

The 2004 Bonds currently reset and pay interest weekly. The annualized interest rate ranged from 0.76% to 2.85% during fiscal 2005 and was 2.13% at June 30, 2005. The bonds are subject to scheduled mandatory principal redemption beginning in fiscal 2006 through 2035, and may be redeemed at the option of the Authority, as directed by the College, on any interest payment date at a redemption price of 100% plus accrued interest. The 2004 Bonds are credit enhanced by an insurance policy issued by Ambac Assurance Corporation.

The 2004 Bonds were issued to finance the construction of the Douglas B. Gardner integrated athletic center and various other capital projects. In fiscal 2004, bond proceeds of \$5,790,000 for prior capital projects were reimbursed to the College.

The Corporation of Haverford College

Notes to Financial Statements

June 30, 2005 and 2004

The College capitalizes the interest cost on qualifying assets that are acquired with the proceeds of the 2004 Bonds. The amount of interest capitalized is all qualifying interest incurred on the bonds until the assets are ready for their intended use less related interest earned on the investments acquired with the proceeds of the bonds. In fiscal 2005, the College increased the basis of its plant assets by \$165,000 for interest expense capitalized, which is net of interest income on bond proceeds of \$402,000.

The 2003 Bonds currently reset and pay interest weekly. The annualized interest rate ranged from 0.76% to 2.85% during fiscal 2005 and was 2.13% at June 30, 2005. The bonds are subject to scheduled mandatory principal redemption beginning in fiscal 2005 through 2021, and may be redeemed at the option of the Authority, as directed by the College, on any interest payment date at a redemption price of 100% plus accrued interest. The 2003 Bonds are credit enhanced by an insurance policy issued by XL Capital Assurance Inc.

The Delaware County Authority Revenue Bonds, Series of 2000 ("2000 Bonds") mature in varying principal amounts beginning in 2021 through 2031. The 2000 Bonds are subject to optional redemption by the Authority, as directed by the College, on or after November 15, 2010, at an initial redemption price of 101% plus accrued interest.

The 2000, 2003 and 2004 Bonds are collateralized by a general pledge of unrestricted college revenues.

The fair value of the College's long-term debt, based upon current interest rates for similar obligations, was approximately \$106,000,000 and \$106,200,000, net of current maturities at June 30, 2005 and 2004, respectively.

Aggregate principal payments on long-term debt for each of the next five fiscal years are as follows: 2006 – \$1,700,000, 2007 – \$1,775,000, 2008 – \$1,850,000, 2009 – \$1,900,000 and 2010 – \$1,950,000.

Swap Agreement

Effective June 29, 2005, the College sold an interest rate swap option ("swaption") to UBS, AG ("UBS"). UBS paid Haverford \$5,275,000 for the swaption. The purpose of the swaption transaction was to enable the College to lock in the present value of the call option on the 2000 Bonds, based on interest rate levels as of June 29, 2005. The swaption may be exercised by UBS on semiannual dates beginning November 15, 2010 through November 15, 2013. If exercised, the College will pay UBS a fixed rate of 5.797% (the coupon rate on the existing 2000 Bonds) through November 15, 2030 on certain notional principal amounts related to the 2000 Bonds, and will receive a variable interest rate from UBS, on the same principal amounts, based on the Bond Market Association (BMA) Municipal Swap Index plus 26 basis points (0.26%). If UBS exercises the swaption, it is expected that the College would cause variable rate tax-exempt bonds to be issued on its behalf (at an expected variable rate of approximately the BMA Municipal Swap Index plus 26 basis points) and utilize the proceeds to retire the 2000 Bonds. At June 30, 2005, the fair value of the option was \$5,928,000 and is recorded as a liability by the College. The unrealized loss of \$653,000 for fiscal 2005 is included in net unrealized and realized gains in the Statement of Activities.

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7. Net Assets

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

<i>(dollars in thousands)</i>	2005	2004
Unrestricted		
Unallocated	\$ 1,660	\$ 1,453
Designated for operations and student loans	4,950	4,973
Designated for the acquisition of plant and equipment	-	-
Designated for quasi-endowments	150,211	130,342
Gift annuities	2,210	1,994
Invested in plant and equipment	23,196	31,553
	<u>182,227</u>	<u>170,315</u>
Temporarily restricted		
Contributions and income for specific operations	4,248	4,424
Contributions for the acquisition of plant and equipment	108	39
Quasi-endowments for specific purposes	12,957	11,630
Realized and unrealized endowment gains	112,659	94,998
Contributions receivable and planned giving agreements	23,128	26,182
	<u>153,100</u>	<u>137,273</u>
Permanently restricted		
Endowment funds	118,625	111,553
Contributions receivable and planned giving agreements for permanent endowment	7,335	8,356
Funds held in trust by others	2,666	2,603
	<u>128,626</u>	<u>122,512</u>
Total net assets	<u>\$463,953</u>	<u>\$430,100</u>

8. Retirement Plan

The College has a defined contribution retirement plan for eligible faculty, administration and staff employees. The plan is fully funded, and the participants' interests are fully vested. The College's contributions to the plan, based on 12% of eligible salaries, were \$2,676,000 and \$2,650,000 in 2005 and 2004, respectively.

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9. Operating Expenses

Operating expenses were incurred for the following:

<i>(dollars in thousands)</i>	2005	2004
Salaries and wages	\$ 26,837	\$ 26,172
Benefits	9,327	8,765
Total compensation	<u>36,164</u>	<u>34,937</u>
Services and contracting	7,028	6,933
Supplies and minor equipment	3,720	3,780
Auxiliaries, cost of sales	2,661	3,012
Utilities	2,442	2,109
Travel and training	1,296	1,328
Insurance and taxes	921	855
Depreciation	5,267	4,976
Interest	3,270	3,280
Other	700	658
	<u>\$ 63,469</u>	<u>\$ 61,868</u>

The Statement of Activities presents operating expenses by functional classification. Depreciation, interest and certain expenses associated with the operation and maintenance of plant facilities are allocated to each function based principally upon square footage of facilities.

Direct fund-raising expenses were \$2,931,000 and \$3,064,000 in 2005 and 2004, respectively.

10. Commitments

The College is obligated under certain endowment limited partnership agreements to advance additional funding in the amount of \$89,600,000 at June 30, 2005. This funding will likely be called over the next four years. The College is also obligated under construction contracts in the amount of \$8,000,000 at June 30, 2005.

The College leases certain copier equipment and purchases related supplies under a noncancelable operating lease that expires July 31, 2009. Future minimum payments under this lease are \$261,000 annually during fiscal 2006-2009 and \$22,000 during fiscal 2010.

11. Subsequent Event

On July 19, 2005, the College entered into an interest rate swap agreement with UBS (the "basis swap") with an effective date of July 21, 2005 and a termination date of November 15, 2010. During the term of this basis swap, the College and UBS will exchange interest payments, with the College paying UBS the weekly BMA Municipal Swap Index Rate and UBS paying the College 67% of the monthly London Interbank Offered Rate (LIBOR) plus 29 basis points (0.29%). The interest rate swap payments will be calculated on a \$45,000,000 notional amount. The purpose of this basis swap agreement is to diversify the College's interest rate exposure related to its debt.