

The Corporation of Haverford College

**Financial Statements
June 30, 2006 and 2005**

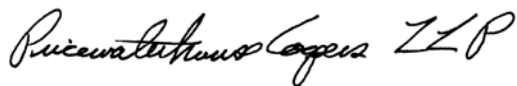
The Corporation of Haverford College
Index
June 30, 2006 and 2005

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets	3-4
Statements of Cash Flows	5
Notes to Financial Statements.....	6-15

Report of Independent Auditors

To the Board of Managers
The Corporation of Haverford College

In our opinion, the accompany 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, 2006 and 2005, 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.



September 22, 2006

The Corporation of Haverford College
Statements of Financial Position
June 30, 2006 and 2005

(dollars in thousands)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 734	\$ 592
Temporary investments	9,235	9,822
Accounts receivable, net (Note 1)	5,181	4,650
Inventories, prepaid expenses and other assets	2,075	998
Total current assets	<u>17,225</u>	<u>16,062</u>
Student loans receivable, net (Note 1)	1,010	1,143
Contributions receivable, net (Note 2)	22,009	23,321
Long-term investments (Note 3)	471,451	409,343
Assets held in trust by others	2,746	2,666
Funds held for investment in plant (Note 4)	2,353	6,977
Plant and equipment, net (Note 5)	128,997	124,907
Total assets	<u>\$ 645,791</u>	<u>\$ 584,419</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,169	\$ 2,680
Student deposits and deferred revenues	1,058	1,214
Current portion of long-term debt	1,775	1,700
Total current liabilities	<u>6,002</u>	<u>5,594</u>
Federal student loan advances	1,018	1,012
Accrued postretirement liabilities	247	250
Liabilities under planned giving agreements (Notes 1 and 3)	8,705	7,070
Long-term debt (Note 6)	98,191	99,867
Interest rate swaption liability (Note 6)	3,594	5,928
Other liabilities	719	745
Total liabilities	<u>118,476</u>	<u>120,466</u>
Net assets (Note 7)		
Unrestricted	205,297	182,227
Temporarily restricted	183,145	153,100
Permanently restricted	138,873	128,626
Total net assets	<u>527,315</u>	<u>463,953</u>
Total liabilities and net assets	<u>\$ 645,791</u>	<u>\$ 584,419</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, 2006 and 2005

(dollars in thousands)

	Unrestricted	Restricted		2006 Total	2005 Total
		Temporarily	Permanently		
Operating revenues					
Tuition and fees	\$ 36,573	\$ -	\$ -	\$ 36,573	\$ 34,058
Room and board	10,276	-	-	10,276	9,560
Less: Student aid	(10,285)	-	-	(10,285)	(9,408)
Student revenues, net	36,564	-	-	36,564	34,210
Endowment payout (Notes 1 and 3)	17,980	800	-	18,780	15,794
Gifts	5,490	2,892	-	8,382	6,642
Government grants and contracts	903	-	-	903	1,287
Bookstore, rents and other income	6,306	55	-	6,361	5,737
Net assets released from restrictions	2,929	(2,929)	-	-	-
Total operating revenues	70,172	818	-	70,990	63,670
Operating expenses (Note 9)					
Program services					
Instruction	24,085	-	-	24,085	21,961
Research	1,828	-	-	1,828	1,777
Library and academic support	7,154	-	-	7,154	6,887
Student services	9,422	-	-	9,422	8,683
Auxiliary enterprises	14,892	-	-	14,892	13,680
Supporting services					
Management, general and fundraising	10,933	-	-	10,933	10,481
Total operating expenses	68,314	-	-	68,314	63,469
Change in net assets from operating activities	1,858	818	-	2,676	201
Nonoperating activities					
Gifts for endowment, planned gifts and gifts-in-kind	3,923	236	7,484	11,643	4,265
Net change in pledges receivable (Note 1)	-	(52)	(1,451)	(1,503)	(4,812)
Net realized and unrealized gains	24,175	31,382	4,172	59,729	39,927
Withdrawn for endowment payout (Notes 1 and 3)	(6,830)	(2,353)	-	(9,183)	(5,728)
Net assets released from restrictions	(56)	14	42	-	-
Change in net assets from nonoperating activities	21,212	29,227	10,247	60,686	33,652
Increase in net assets	23,070	30,045	10,247	63,362	33,853
Net assets					
Beginning of year	182,227	153,100	128,626	463,953	430,100
End of year	\$ 205,297	\$ 183,145	\$ 138,873	\$ 527,315	\$ 463,953

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

The Corporation of Haverford College
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2005

(dollars in thousands)

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

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

The Corporation of Haverford College
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

(dollars in thousands)

	2006	2005
Cash flows from operating activities		
Increase in net assets	\$ 63,362	\$ 33,853
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	5,603	5,267
Net realized and unrealized gains	(59,729)	(39,927)
Contributions restricted for endowment, planned gifts and plant facilities	(12,363)	(3,756)
Present value of new planned giving liabilities	2,167	241
Gifts in kind and other adjustments, net	149	105
Changes in operating assets and liabilities		
Accounts receivable, inventories, prepaid expenses and other assets	(1,608)	79
Accounts payable and accrued expenses, student deposits and deferred revenues, and accrued postretirement liabilities	330	223
Contributions receivable, net	1,312	4,570
Net cash (used in) provided by operating activities	<u>(777)</u>	<u>655</u>
Cash flows from investing activities		
Purchases of investments, including deposits with trustee	(125,362)	(65,609)
Sales of investments, including deposits with trustee	127,402	82,390
Purchases of plant and equipment, net	(11,365)	(25,636)
Student loan disbursements	(146)	(123)
Student loan repayments	270	311
Net cash used in investing activities	<u>(9,201)</u>	<u>(8,667)</u>
Cash flows from financing activities		
Contributions restricted for endowment, planned gifts and plant facilities	12,363	3,756
Repayment of long-term debt	(1,700)	(850)
Payments to planned gift beneficiaries, net of related income	(549)	(562)
Swaption premium received (Note 6)	-	5,275
Federal student loan advances	6	4
Advance lease payments for renovation project	-	367
Net cash provided by financing activities	<u>10,120</u>	<u>7,990</u>
Net increase (decrease) in cash and cash equivalents	142	(22)
Cash and cash equivalents		
Beginning of year	592	614
End of year	<u>\$ 734</u>	<u>\$ 592</u>
Supplemental disclosure of cash flow information		
Interest paid, net of interest capitalized of \$413 and \$567	\$ 3,867	\$ 3,176
Supplemental disclosure of noncash investing and financing activities		
Stock distributions from donor advised fund	392	783

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

The Corporation of Haverford College

Notes to Financial Statements

June 30, 2006 and 2005

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 1,200 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, the net change in annual giving and certain other pledges was recorded with operating revenues.

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 \$1,058,000 in 2006 and \$733,000 in 2005 is included in 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 \$131,000 in 2006 and \$130,000 in 2005. Student loans receivable are reported at cost, less allowances for doubtful accounts of \$70,000 in 2006 and \$81,000 in 2005.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

Fair Value of Investments and Endowment Payout

Investments in marketable equity 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 the 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, 2006 and 2005.

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 nonoperating section of the Statement of Activities. For the years 2006 and 2005, the payout amount exceeded endowment income by \$9,183,000 and \$5,728,000, 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 and 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, 2006 and 2005

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.

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 statement 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.

The New Authoritive Pronouncement

In 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), which was effective for the College as of and for the year ended June 20, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 142, *Accounting for Asset Retirement Obligations*. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based on the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this interpretation. The liability incurred date is the date upon which the legal requirement to perform the asset retirement activity was enacted. Conditions that lead to obligation include the existence of asbestos in College owned buildings and the future cost of fuel tank removal.

Upon initial application of FIN 47, the College has elected not to record estimated conditional asset retirement obligations of \$114,000.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

2. Contributions Receivable

Contributions receivable represent unconditional promises to give from donors collectible 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 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>(in thousands)</i>	2006	2005
In one year or less	\$ 8,093	\$ 8,489
Between one and five years	16,342	17,654
In more than five years	4,397	4,559
	<u>28,832</u>	<u>30,702</u>
Less: Discount	(4,294)	(4,625)
Less: Allowance	(1,189)	(1,225)
Less: Amount included in current accounts receivable	(1,340)	(1,531)
Contributions receivable, net	<u>\$ 22,009</u>	<u>\$ 23,321</u>

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

<i>(in thousands)</i>	2006	2005
Contributions, operating	\$ 8,382	\$ 6,642
Contributions, nonoperating	11,643	4,265
	<u>20,025</u>	<u>10,907</u>
Present value of new planned giving liabilities	2,167	241
Gifts received	<u>\$ 22,192</u>	<u>\$ 11,148</u>

3. Long-Term Investments

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

<i>(in thousands)</i>	2006	2005
Domestic equities and equity funds	\$ 111,464	\$ 98,883
International equity funds	138,359	107,769
Fixed income	56,460	57,433
Hedge funds	31,213	26,579
Real estate and commodities fund	35,381	20,582
Venture capital, private equity, cash and other	98,574	98,097
	<u>\$ 471,451</u>	<u>\$ 409,343</u>

At June 30, 2006 and 2005, approximately 49% and 45% of the College’s investments were invested in equity funds managed by one index investment manager.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

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 \$40,701,000 and \$36,654,000 at June 30, 2006 and 2005, respectively.

Pursuant to Commonwealth of Pennsylvania law and at the direction of the Board of Managers, \$2,324,000 and \$1,899,000 of endowment funds' gains were transferred to quasi-endowment during fiscal 2006 and 2005, respectively, for ultimate use in the operations of the College.

Long-term investment activity for 2006 and 2005 was as follows:

<i>(in thousands)</i>	Endowment and Similar Funds	Planned Giving Agreements	Total 2006	Total 2005
Investments, beginning of year	<u>\$ 394,715</u>	<u>\$ 14,628</u>	<u>\$ 409,343</u>	<u>\$ 364,331</u>
Contributions	9,501	4,309	13,810	4,464
Transfers (to) from other funds	<u>417</u>	<u>(323)</u>	<u>94</u>	<u>8,134</u>
Contributions and other additions	<u>9,918</u>	<u>3,986</u>	<u>13,904</u>	<u>12,598</u>
Net realized and unrealized investment gains	<u>57,496</u>	<u>832</u>	<u>58,328</u>	<u>39,487</u>
Dividends and interest available, net of expenses of \$1,620 and \$1,008	9,597	-	9,597	10,066
Endowment spending payout	<u>(18,780)</u>	<u>-</u>	<u>(18,780)</u>	<u>(15,794)</u>
Withdrawn for endowment payout	<u>(9,183)</u>	<u>-</u>	<u>(9,183)</u>	<u>(5,728)</u>
Distributions to beneficiaries, net of related income	<u>(13)</u>	<u>(928)</u>	<u>(941)</u>	<u>(1,345)</u>
Investments, end of year	<u>\$ 452,933</u>	<u>\$ 18,518</u>	<u>\$ 471,451</u>	<u>\$ 409,343</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 17.1% and 14.3% for the fiscal years ending June 30, 2006 and 2005, respectively.

Planned giving agreements included The Lutnick-Cantor Fitzgerald Fund, a donor-advised fund with a fair value and a related liability of \$6,000 at June 30, 2006, and a fair value and a related liability of \$443,000 at June 30, 2005. The College is entitled to a minimum of 10% of total distributions from this fund, with the balance distributed to other charitable organizations. Stock distributions of \$392,000 were made during fiscal 2006. Stock distributions of \$783,000 were made during fiscal 2005, including \$600,000 to the College.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

4. Funds Held for Investment in Plant

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

<i>(in thousands)</i>	2006	2005
Domestic common stock	\$ -	\$ 94
Cash and temporary investments	2,353	6,883
	<u>\$ 2,353</u>	<u>\$ 6,977</u>

5. Plant and Equipment

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

<i>(in thousands)</i>	2006	2005
Land improvements	\$ 6,318	\$ 5,876
Buildings	166,988	135,970
Equipment	14,688	13,917
Library books	8,560	8,246
Works of art, historical treasures and similar assets	4,189	4,189
Construction-in-progress	1,218	24,215
	<u>201,961</u>	<u>192,413</u>
Accumulated depreciation	<u>(72,964)</u>	<u>(67,506)</u>
	<u>\$ 128,997</u>	<u>\$ 124,907</u>

6. Long-Term Debt

Long-term debt at June 30 consisted of:

<i>(in thousands)</i>	2006	2005
Delaware County Authority Revenue Bonds, Series of 2004 (variable rate), net of unamortized discount of \$682 and \$707	\$ 38,518	\$ 39,294
Delaware County Authority Revenue Bonds, Series of 2003 (variable rate), net of unamortized discount of \$354 and \$379	17,695	18,572
Delaware County Authority Revenue Bonds, Series of 2000 (6.04% weighted average interest rate), net of unamortized discount of \$1,247 and \$1,299	43,753	43,701
	<u>99,966</u>	<u>101,567</u>
Less amounts due within one year	<u>(1,775)</u>	<u>(1,700)</u>
	<u>\$ 98,191</u>	<u>\$ 99,867</u>

The Corporation of Haverford College

Notes to Financial Statements

June 30, 2006 and 2005

The 2004 Bonds currently reset and pay interest weekly. The annualized interest rate ranged from 2.00% to 3.85% during fiscal 2006 and was 3.85% at June 30, 2006. 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.

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 2006, the College increased the basis of its plant assets by \$360,000 for interest expense capitalized, which is net of interest income on bond proceeds of \$53,000. 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 2.00% to 3.85% during fiscal 2006 and was 3.85% at June 30, 2006. 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 2004, 2003 and 2000 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 \$102,945,000 and \$106,000,000 net of current maturities at June 30, 2006 and 2005, 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
2010	1,950,000

Swap Agreements

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

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

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. The swaption had a fair value (representing a liability) of \$5,928,000 at June 30, 2005 and \$3,594,000 at June 30, 2006, respectively. The unrealized loss of \$653,000 for fiscal 2005 and the unrealized gain of \$2,334,000 in fiscal 2006 are included in net unrealized and realized gains in the Statement of Activities.

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 exchange interest payments. The College pays UBS the weekly BMA Municipal Swap Index rate and UBS pays the College 67% of the monthly London Interbank Offered Rate (“LIBOR”) plus 29 basis points (0.29%) through May 15, 2006 and 67% of the 5-year LIBOR less 4 basis points (0.04%) thereafter. The interest rate swap payments are 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. During fiscal 2006, the College received net payments of \$98,000 from UBS. At June 30, 2006, the fair value of this swap agreement was \$41,000 in favor of the College and is included in other assets.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

7. Net Assets

Net assets at June 30, 2006 and 2005, consisted of the following:

<i>(in thousands)</i>	2006	2005
Unrestricted		
Unallocated	\$ 1,194	\$ 1,660
Designated for operations and student loans	5,599	4,950
Designated for the acquisition of plant and equipment	2,268	-
Designated for quasi-endowments	167,837	150,211
Gift annuities	4,139	2,210
Net investment in plant and equipment	24,260	23,196
	<u>205,297</u>	<u>182,227</u>
Temporarily restricted		
Contributions and income for specific operations	4,896	4,248
Contributions for the acquisition of plant and equipment	257	108
Quasi-endowments for specific purposes	15,038	12,957
Realized and unrealized endowment gains	139,608	112,659
Contributions receivable and planned giving agreements	23,346	23,128
	<u>183,145</u>	<u>153,100</u>
Permanently restricted		
Endowment funds	130,199	118,625
Contributions receivable and planned giving agreements for permanent endowment	5,928	7,335
Funds held in trust by others	2,746	2,666
	<u>138,873</u>	<u>128,626</u>
Total net assets	<u>\$ 527,315</u>	<u>\$ 463,953</u>

8. Retirement Plans

The College has a defined contribution pension 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 \$2,860,000 and \$2,676,000 in 2006 and 2005, respectively.

Beginning July 1, 2005, the College implemented a defined contribution postretirement healthcare plan for eligible faculty, administration and staff employees whom are at least 40 years of age. This plan is also fully funded, however, College contributions are forfeited back to the College for employees who leave without having seven years' service with the College. The College's contributions to this plan were \$215,000 in 2006.

Both the pension plan and the healthcare plan permit additional employee contributions.

The Corporation of Haverford College
Notes to Financial Statements
June 30, 2006 and 2005

9. Expenses by Natural Classification

Operating expenses were incurred for the following:

<i>(in thousands)</i>	2006	2005
Salaries and wages	\$ 28,050	\$ 26,837
Benefits	10,053	9,327
Total compensation	<u>38,103</u>	<u>36,164</u>
Services and contracting	7,821	7,028
Supplies and minor equipment	4,161	3,720
Auxiliaries, cost of sales	2,796	2,661
Utilities	2,925	2,442
Travel and training	1,492	1,296
Insurance and taxes	835	921
Depreciation	5,603	5,267
Interest	3,945	3,270
Other	633	700
Total expenses	<u>\$ 68,314</u>	<u>\$ 63,469</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 \$2,529,000 and \$2,931,000 in 2006 and 2005, respectively.

10. Commitments

The College is obligated under certain endowment limited partnership agreements to advance additional funding in the amount of \$80,200,000 at June 30, 2006. This funding will likely be called over the next four years.

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.