



SMITH COLLEGE

Financial Report 2002-03



Office of the Vice President for Finance and Administration
College Hall 4
Smith College
Northampton, Massachusetts 01063

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Notice of Nondiscrimination

Smith College is committed to maintaining a diverse community in an atmosphere of mutual respect and appreciation of differences.

Smith College does not discriminate in its educational and employment policies on the bases of race, color, creed, religion, national/ethnic origin, sex, sexual orientation, age, or with regard to the bases outlined in the Veterans Readjustment Act and the Americans with Disabilities Act.

Smith's admission policies and practices are guided by the same principle, concerning women applying to the undergraduate program and all applicants to the graduate programs.

For more information, please contact the Office of Institutional Diversity, (413) 585-2141.

Financial Report 2002–03

Ruth H. Constantine

Vice President for Finance and Administration

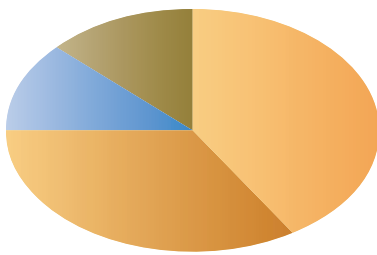
I am pleased to present the financial report of Smith College for the fiscal year ended June 30, 2003. Financial highlights of the year included:

- ▶ The Smith community celebrated the openings of the Brown Fine Arts Center and the Lyman Conservatory. The new Campus Center opened to student use shortly after the end of the fiscal year, with a grand opening scheduled for October. Renovations of Lilly Hall and the Mendenhall Center for the Performing Arts were also completed.
- ▶ As investment markets continued to decline, the college's endowment reached a low of \$758 million before rebounding to \$824 million at year-end.
- ▶ Enrollment levels were higher than planned, and the excess income was fully dedicated to meeting students' growing financial aid needs because of the weakening economy.
- ▶ In its financial planning, the college prepared for a reduced level of spending to adjust to an expected decline in revenues over the next few years.

Financial Highlights

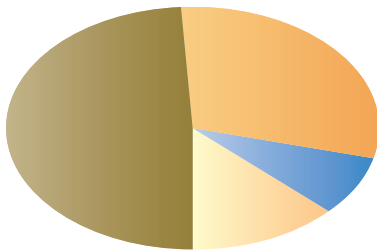
	2003	2002	2001	2000	1999
Budget Results (000s)					
Revenues	\$148,087	\$144,325	\$140,479	\$128,408	\$116,024
Expenses	148,087	144,226	138,584	124,386	115,908
Budget Surplus	\$ 0	\$ 99	\$ 1,895	\$ 4,022	\$ 116
Endowment (000s)					
Market Value	\$823,915	\$851,253	\$917,254	\$906,944	\$884,782
Total Return on Endowment	1.8%	-3.7%	4.1%	5.3%	12.5%
Spending from Endowment	5.7%	5.2%	4.8%	4.3%	4.0%
Facilities (000s)					
New Construction	\$25,632	\$26,115	\$16,406	\$8,877	\$681
Renovations and Alterations	\$7,743	\$17,291	\$20,820	\$20,570	\$6,465
Debt (000s)					
Long-Term Debt	\$75,299	\$76,185	\$74,017	\$72,324	\$34,180
Undergraduate Student Enrollment and Fees					
Scholarships as Percent of Comprehensive Fee	35.0%	32.0%	30.9%	29.7%	29.8%
Comprehensive Fee	\$34,936	\$33,110	\$31,560	\$30,260	\$29,240
Enrollment FTE	2,743	2,743	2,707	2,575	2,548
Gifts (000s)					
Unrestricted Alumnae Fund	\$9,011	\$9,373	\$10,396	\$11,468	\$10,014
Total Giving	\$34,752	\$42,096	\$65,696	\$48,049	\$53,861

**Operating Budget
Income**



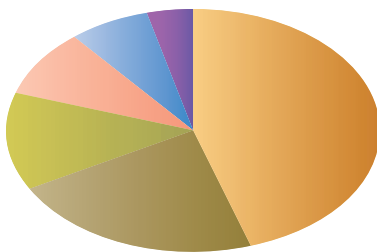
- Comprehensive Fee 41%
- Investments 34%
- Gifts and Grants 12%
- Other Income 13%

**Operating Budget
Expense**



- Salaries and Wages 49%
- Benefits 13%
- Physical Plant 8%
- Other Expenses 30%

**Average Financial Aid Award
for 2002-03**



- Smith Grants 45%
- Parent Contribution 22%
- Loan Awards 13%
- Student Summer Earnings and Savings Contribution 7%
- Work Study Awards 4%
- Federal, State, Other Grants 9%

2002-03 and 2001-02 Operating Budget Results

	2002-03	2001-02	Change	
Income				
Comprehensive Fees, net	\$61,144,427	\$ 60,965,509	\$ 178,918	0.3%
Investments	50,224,975	48,264,948	1,960,027	4.1%
Gifts and Grants	17,234,749	16,622,927	611,822	3.7%
Other Income	19,482,643	18,471,894	1,010,749	5.5%
Total Income	148,086,794	144,325,278	3,761,516	2.6%
Expense				
Salaries and Wages	71,846,880	67,734,926	4,111,954	6.1%
Benefits	19,548,179	18,042,477	1,505,702	8.3%
Physical Plant, Utilities and Debt	12,069,324	12,248,683	(179,359)	-1.5%
Other Expense	44,622,411	46,199,963	(1,577,552)	-3.4%
Total Expense	148,086,794	144,226,049	3,860,745	2.7%
Surplus	\$ 0	\$ 99,229	\$ (99,229)	N/A

Operating Budget Results

Smith's results from operations for 2002-03 were positive. The college had a larger entering class and higher returning student levels than planned, and as a result enrolled 49 students above the anticipated level. Due to difficult economic conditions, students' financial aid needs were relatively high and aid levels rose to fulfill the college's commitment to meet the full need of enrolled students. A total of 1,875 undergraduate students received grants totaling \$32.7 million from college funds, including generous corporate and foundation support for engineering and international students. Income from endowed scholarships and restricted scholarship gifts totaled \$18.1 million, covering 55.3 percent of the funds awarded.

Smith's investment revenues funded 33.9 percent of operations for the year, with endowment alone providing \$46.3 million in support. Income from current fund investments was 9.8 percent above the prior year's income, an increase of \$310 thousand, while annual Alumnae Fund gifts were lower than budgeted.

Operating expenses were just 2.7 percent above the prior year, as the college began to

adjust spending levels in response to changing economic conditions. Compensation expenses grew with salary increases as well as a 20 percent increase in health care costs. The college held equipment, facility and discretionary spending to tighter standards as part of the move to reduce expenditures over the next few years.

The college's endowment spending formula smoothes the effect of changing market conditions by basing the annual payout on average endowment market values over the past three years. Due to investment market declines during that period, the endowment's market value fell from a high of \$927 million in March 2000 to \$824 million in June 2003.

With other revenue streams also softening as a result of economic conditions, financial planning during the year focused on the need to reduce expenditure levels. The college began reducing staffing levels by offering an enhanced severance program to long-time staff in four departments, including physical plant and dining services. Thirty-one employees participated in the program, and most left their positions in July 2003. The college also prepared early retirement options for faculty, which will be offered over the next year. With a large number of faculty hired in 2001-02, Smith plans to reduce hiring of short-term faculty. Department budgets will be reduced by an average of 2.4 percent for the upcoming fiscal year.

Gifts

Smith's alumnae and friends continued to provide strong support for the college's needs in 2002–03, though the nation's challenging economic conditions were reflected in total giving levels. Gifts and pledges of \$34.8 million were received during the year, including government grants of \$3.1 million. Budget support from unrestricted gifts, primarily the Alumnae Fund, was 4 percent lower than in the prior year. Alumnae participation in giving again exceeded 50 percent for the year, the record high set last year.

Investments

The market value of the college's endowment was \$824 million at year-end, down \$27 million, or 3 percent from the prior year. Gifts and transfers to the endowment during 2002–03 totaled \$7.4 million. The endowment portfolio earned a positive total return, net of fees, of 1.8 percent for the year. For the first time in three years, Smith's return fell short of its benchmark, which was 3.4 percent for 2002–03. The college's returns were negatively affected by the poor performance of several of its U.S. equity managers.

Smith's annualized rate of return over the past three years was 0.8 percent. Although barely positive, this return surpassed by wide margins Smith's benchmark for the period of –4.4 percent and the median college and university return of –2.1 percent.

In fiscal year 2002–03, the college's U.S. equity managers earned a disappointing –3.1 percent vs. 0.8 percent for the Russell 3000 (a broad U.S. stock market index). Smith's international managers dropped 7.7 percent vs. the benchmark's decline of 10.0 percent. Emerging markets managers earned a return of 9.8 percent. Write-downs in the private capital sector slowed, resulting in a loss of 6.6 percent. The allocation to absolute return strategies, implemented in July 2001, has paid off handsomely, earning an 8.8 percent return for the year. U.S. bonds, the most successful asset class for the second consecutive year, earned 14.0 percent.

The endowment spending rate remained at 5.25 percent of the average market value over a three-year period. This approach smooths the year-to-year changes in spending. Despite very modest returns recently, the endowment's contribution to the operating budget has risen 70 percent over the past five years, from \$27

million in 1997–98 to over \$46 million this past year. The share of the total budget provided by endowment income rose from 24 percent to 31 percent over this five-year period.

Life income funds managed by the college and Mellon Trust totaled \$43 million at year-end, up from \$41 million on June 30, 2002. Short- and intermediate-term investments of operating funds, which averaged \$54 million during 2002–03, earned a return of 5.2 percent for the year.

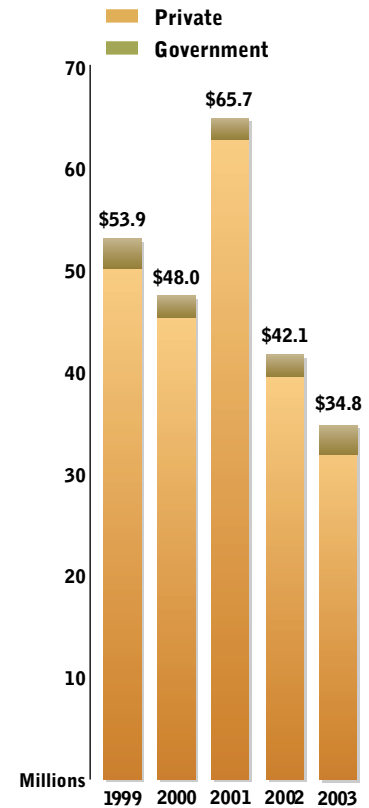
The college made two significant changes in its investment portfolio during the year. The first inflation-hedging investments—including real estate, timber, and Treasury Inflation-Protected Securities (TIPS)—were made. At fiscal year-end these investments totaled 4 percent of the portfolio, with an ultimate target of 10 percent. In May, the Investment Committee agreed to increase the policy target for absolute return strategies from 10 percent to 15 percent, while reducing the fixed income target from 20 percent to 15 percent.

Facilities

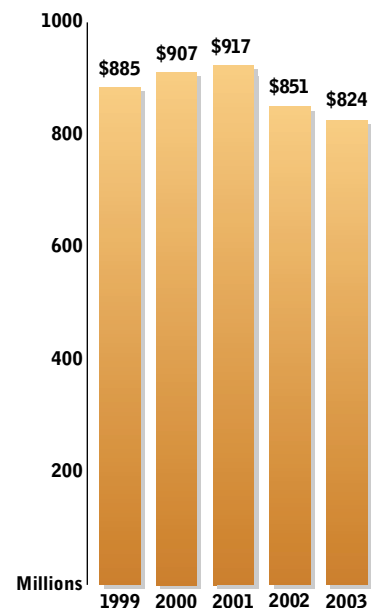
Smith opened three new or renovated facilities between September 2002 and August 2003, including the Brown Fine Arts Center, the Lyman Conservatory and the Campus Center. Following completion of a two-year, \$35 million renovation and expansion, two components of the Brown Fine Arts Center—the Art Department and Art Library in Hillyer Hall—reopened in September. The Museum of Art opened its doors in April to great acclaim. The museum's collection includes some 25,000 works of art, with 600 works added to the collection while the museum was closed. Polshek Partnership Architects of New York designed the expansion of the Brown Fine Arts Center, which is now 164,000 square feet and includes a 7,000-square-foot digital imaging center, a new 109-seat auditorium (Graham Hall) and an entire new floor of galleries in the museum.

The reopening of the Lyman Conservatory in May celebrated the completion of a two-year \$5 million renovation that expanded the public and teaching spaces and provided access for persons with disabilities. Designed by the Boston firm of Perry Dean Rogers and Partners, the project restored the century-old conservatory building, added a new exhibition gallery, expanded the administrative and academic wings and restored the conservatory's historic greenhouses.

Total Giving



Endowment Market Value



The new Smith College Campus Center opened its doors in August 2003. The contemporary, 56,000-square-foot building is the campus's first structure designed expressly as a common gathering space for students, faculty, staff and visitors. The center incorporates a café, lounges, performance space and meeting rooms, as well as the bookstore and mail facilities. Designed by the New York firm of Weiss/Manfredi, the three-story, \$23 million center features a light-filled central atrium that forms a curve from Chapin lawn to Elm Street.

In addition to the three major projects noted above, in mid-April the School for Social Work moved back into Lilly Hall after a full renovation was completed. The building's occupants had been relocated in September to allow for façade refurbishment, roof replacement, addition of an elevator, and modernization of mechanical and electrical systems. Reconfiguration of the interior layout better accommodates the program needs of the School for Social Work and the Graduate Office.

A \$6.2 million renovation of the Mendenhall Center for the Performing Arts was completed in August 2003. The focus of the renovation was to improve both the efficiency and quality of the heating, ventilation and air conditioning systems throughout the building and to repair the building's exterior. A new classroom was incorporated into the building in place of the former upper student lounge, providing additional teaching space for the theatre and

dance departments. New life safety systems were installed and accessibility was improved throughout the building, including the addition of a new elevator.

Construction began in March on a new 7,200-square-foot fitness and exercise facility located between Ainsworth and Scott gymnasi-

ums. The project is scheduled for completion in December. Large expanses of glass in the facility will provide westerly views of the Mill River and Paradise Pond. The new facility will enhance circulation between Ainsworth and Scott and will provide access to the lower level of Scott for persons with disabilities.



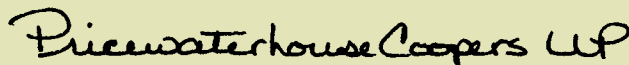
A number of major construction and renovation projects drew to a close in 2002–03. Lyman Conservatory, parts of which date to the 1890s, has undergone a complete renovation (top), including restoration of glass and supports in the greenhouses and expansion of teaching, public, office and research spaces. A major renovation and expansion project at the Brown Fine Arts Center (above) has resulted in dramatic new space for the art department, art library and the Museum of Art. A campus center (left), located on Elm Street, opened in fall 2003; it is Smith's first building designed expressly as a common gathering space for students, faculty, staff and visitors.

Report of Independent Auditors

To the Trustees of Smith College

Northampton, Massachusetts

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Smith College (the "college") at June 30, 2003 and 2002, and the changes in its 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 audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

**PricewaterhouseCoopers**

Boston, Massachusetts

September 19, 2003

Statements of Financial Position

June 30, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	\$ 48,295,550	\$ 58,791,208
Collateral held for loaned securities	189,451,113	170,526,726
Contributions and accounts receivable, net	36,213,619	42,107,066
Other assets	7,437,312	8,278,185
Loans receivable, net	9,547,574	9,864,434
Investments	882,936,287	922,580,584
Land, buildings, equipment and collections, net	266,391,625	239,395,978
 Total assets	 \$ 1,440,273,080	 \$ 1,451,544,181
Liabilities		
Accounts payable and accrued liabilities	\$ 15,922,953	\$ 14,270,995
Payable under securities loan agreements	189,451,113	170,526,726
Life income obligation	16,938,763	15,436,720
Deferred income	3,618,381	4,043,987
Deposits and agency funds	16,315,386	16,732,338
Bonds payable	75,299,113	76,184,833
 Total liabilities	 \$ 317,545,709	 \$ 297,195,599
Net Assets		
Unrestricted	427,537,704	440,967,869
Temporarily restricted	434,393,247	459,346,687
Permanently restricted	260,796,420	254,034,026
 Total net assets	 \$ 1,122,727,371	 \$ 1,154,348,582
 Total liabilities and net assets	 \$ 1,440,273,080	 \$ 1,451,544,181

See accompanying notes to financial statements.

Statements of Activities

For the years ended June 30, 2003
and 2002

	2003	2002
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	\$ 81,293,283	\$ 77,134,447
Room and board fees	24,969,054	24,196,986
	<u>106,262,337</u>	<u>101,331,433</u>
Student aid	(35,385,814)	(31,243,518)
Student income, net	<u>70,876,523</u>	<u>70,087,915</u>
Gifts	22,771,542	23,396,526
Investment return supporting operations	27,719,856	29,726,088
Other income	9,271,536	8,079,330
Net assets released from restrictions	<u>33,478,423</u>	<u>39,614,879</u>
Total operating revenues	<u>\$ 164,117,880</u>	<u>\$ 170,904,738</u>
Operating Expenses		
Instruction	64,327,370	62,030,879
Academic support	25,480,898	20,844,701
Student services	18,281,861	18,781,256
Auxiliary enterprises	29,240,382	28,600,882
General and administrative	<u>29,082,289</u>	<u>23,574,067</u>
Total expenses	<u>\$ 166,412,800</u>	<u>\$ 153,831,785</u>
Operating subtotal	<u>\$ (2,294,920)</u>	<u>17,072,953</u>
Non-Operating Revenues and Other Changes		
Investment return reducing long-term investment	(11,135,245)	(24,104,827)
Loss on long-term debt refinancing		(2,736,801)
Non-operating revenues and other changes subtotal	<u>\$ (11,135,245)</u>	<u>\$ (26,841,628)</u>
Decrease in unrestricted net assets	<u>\$ (13,430,165)</u>	<u>\$ (9,768,675)</u>
Changes in Temporarily Restricted Net Assets		
Gifts	6,149,123	7,923,261
Investment return	682,477	(36,024,168)
Change in life income funds	1,693,383	(1,343,190)
Net assets released from restrictions	<u>(33,478,423)</u>	<u>(39,614,879)</u>
Decrease in temporarily restricted net assets	<u>\$ (24,953,440)</u>	<u>\$ (69,058,976)</u>
Changes in Permanently Restricted Net Assets		
Gifts	5,831,191	10,776,327
Investment return	241,315	(990,899)
Change in life income funds	<u>689,888</u>	<u>(1,996,775)</u>
Increase in permanently restricted net assets	<u>\$ 6,762,394</u>	<u>\$ 7,788,653</u>
Total decrease in net assets	<u>\$ (31,621,211)</u>	<u>\$ (71,038,998)</u>
Net assets, beginning of year	<u>1,154,348,582</u>	<u>1,225,387,580</u>
Net assets, end of year	<u>\$ 1,122,727,371</u>	<u>\$ 1,154,348,582</u>

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended June 30,
2003 and 2002

	2003	2002
Cash Flows From Operating Activities		
Decrease in net assets	\$ (31,621,211)	\$ (71,038,998)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Loss on long-term debt refinancing		2,736,801
Depreciation and amortization	12,063,187	10,361,817
Net unrealized and realized (gains) losses on investments	(751,329)	51,113,094
Actuarial change in life income obligation	1,502,043	(99,729)
Decrease (increase) in assets:		
Contributions and accounts receivable, net	5,893,447	5,436,094
Other assets	840,873	(1,777,848)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	2,299,336	614,552
Deferred income	(425,606)	(1,332,532)
Deposits and agency funds	(497,163)	(1,831,893)
Capital gifts	(8,470,922)	(12,527,441)
Contributions of property	(1,852,798)	(983,344)
Net cash used in operating activities	\$ (21,020,143)	\$ (19,329,427)
Cash Flows From Investing Activities		
Purchases of plant and equipment	\$ (37,854,134)	\$ (49,091,054)
Proceeds from loan collections	2,447,291	2,145,152
Loans issued	(2,130,431)	(2,019,464)
Purchases of investments	(381,276,766)	(1,196,971,938)
Sales and maturities of investments	421,672,392	1,242,279,525
Net cash provided by (used in) investing activities	\$ 2,858,352	\$ (3,657,779)
Cash Flows From Financing Activities		
Contributions to endowment	\$ 6,325,500	\$ 11,589,403
Contributions to life income agreements	2,145,422	938,038
Federal contribution Perkins loan funds	80,211	60,286
Proceeds from long-term debt	-	35,015,000
Defeasance of outstanding bonds	-	(34,753,298)
Payments for debt financing costs	-	(267,064)
Payments on long-term debt	(885,000)	(747,000)
Net cash provided by financing activities	\$ 7,666,133	\$ 11,835,365
Net change in cash and cash equivalents	\$ (10,495,658)	\$ (11,151,841)
Cash and cash equivalents, beginning of year	\$ 58,791,208	\$ 69,943,049
Cash and cash equivalents, end of year	\$ 48,295,550	\$ 58,791,208
Supplemental disclosures:		
Interest paid	\$ 3,276,385	\$ 3,432,207
Gifts in kind	1,852,798	983,344
Purchases of plant and equipment included in accounts payable	4,540,900	5,188,278
Collateral received for loaned securities	189,451,113	170,526,726

See accompanying notes to financial statements.

Notes to Financial Statements

1. Accounting Policies

Organization

Smith College is a private liberal arts college for women providing academic, residential and other services to a diverse student population. The college is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3).

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues, gains and expenses recognized during the reporting periods. Actual results may differ from those estimates. Significant estimates include the allowance for uncollectible contributions and accounts receivable, the allowance for uncollectible loans receivable, the valuation of nonmarketable securities, accrued compensation and benefits, and the actuarial assumptions regarding life income obligations.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined as follows:

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the college. Generally, the donors of these assets permit the college to use all or part of the income earned on these assets. Such assets primarily include the college's permanent endowment funds.

Temporarily Restricted: Net assets whose use by the college is subject to donor-imposed stipulations or limitations by law that can be fulfilled by actions of the college or that expire by the passage of time.

Unrestricted: Net assets that are not subject to donor-imposed stipulations or limitations by law. Net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Contributions are reported as increases in the appropriate category of net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Revenues from other sources are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Items where the restriction is met in the same year are shown as unrestricted activities rather than initially reported in temporarily restricted. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received with donor-imposed restrictions are reported as permanently or temporarily restricted revenues depending on the specific restriction. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one

year are discounted at a risk-free rate appropriate for the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. Allowance is made for uncollectible contributions based upon management's judgement and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets of endowment and similar funds and life income funds are included in long-term investments. Cash and cash equivalents are reported at cost which approximates fair value.

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Private equities and certain other nonmarketable securities are valued using current estimates of fair value provided by the general partner or investment manager for the respective funds. These securities represented 20 percent and 16 percent of the college's investments as of June 30, 2003, and June 30, 2002, respectively. Purchases and sales of investments are recorded at the trade date of the transaction. Realized investment gains and losses are recorded utilizing the average cost method for all investments except where specific identification is required by law. Investments include the beneficial interests in perpetual trusts and interest in the net assets of the Alumnae Association. Beneficial interest in a perpetual trust represents resources neither in the possession of, nor under the control of the college, but held and administered by an outside fiscal agent, with the college deriving income from the trust.

The college uses the Total Return Concept. Under this concept, substantially all of the college's investments are pooled for investing purposes. Yield (interest and dividends) and a prudent portion of appreciation are distributed for operating purposes. Temporarily restricted appreciation so utilized is released to unrestricted revenues as expenses are incurred.

As of June 30, 2003 and 2002, the college had loaned certain securities, returnable on demand, with a fair value of approximately \$184,823,000 and \$166,792,000 respectively, to several financial institutions that have deposited collateral with respect to such securities of \$189,451,113 and \$170,526,726 respectively. The college receives income on the invested collateral, and also continues to receive interest and dividends from the securities on loan.

Derivative financial instruments are utilized by the college to equitize cash held by investment managers and to manage currency exchange risks arising from investments in nonderivative foreign assets in proportion to the asset at risk. Such instruments consist of S&P 500 futures and forward foreign exchange contracts entered into as part of the investment portfolio of the college's endowment fund. On June 30, 2003, the notional amount of open positions on S&P 500 futures and forward foreign exchange contracts was approximately \$3,650,000 and \$27,449,000 respectively, and on the same date, the fair value of the S&P 500 futures and the forward foreign exchange contracts, recorded as part of the college's investments, was \$0 and \$(203,657), respectively.

In connection with the issuance of the Series 2001 and Series 2002 revenue bonds, the college entered into interest rate swap agreements that effectively changed the interest rate exposure on the issues from a variable rate to a fixed rate of 4.39 percent on the Series 2001 bonds and 4.66 percent on the Series 2002 bonds. The interest rate swap agreements have a notional amount and termination date equal to the principal amount and maturity date of the respective Series 2001 and Series 2002 bonds. On June 30, 2003 and 2002, the fair value of the interest rate swaps, recorded as part of the college's investments, was \$(10,436,995) and \$(4,506,423) respectively.

Land, buildings, equipment and collections are recorded at cost. Depreciation is calculated on a straight line basis over the estimated useful

life of the assets. Equipment, works of art and other assets contributed to the college are capitalized at fair value at the date of the gift. Collection purchases are recorded at cost. The Museum of Art maintains a collection of art for educational purposes.

Life income obligation results from annuity and life income agreements which are primarily irrevocable charitable remainder agreements. The college holds the assets for those classified as annuities and outside trustees hold the assets for those classified as life income agreements in pooled income funds. The assets are reported as investments at their fair value. The college records contribution revenue for the gift portion and a liability for the present value of the estimated future payments to be made to the beneficiaries. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

Endowment and similar funds represent resources that have been restricted by the donor or designated by the Trustees that will be invested to provide future revenue to the college to support its programs and activities.

Certain reclassifications have been made to 2002 accounts to conform with the 2003 presentation.

2. Contributions and Accounts Receivable

Contributions and accounts receivable consist of the following items at June 30:

	2003	2002
Students, employees, other	\$ 1,738,193	\$ 1,642,708
Contributions expected to be collected within:		
One year	13,327,011	17,753,954
One to five years	10,241,823	12,834,840
Over five years	26,355,936	26,982,850
Less: Allowance for uncollectible accounts and unamortized discount	(15,449,344)	(17,107,286)
	<u>\$ 36,213,619</u>	<u>\$ 42,107,066</u>

3. Loans Receivable

Loans receivable consists of the following items at June 30:

	2003	2002
Student loans	\$ 7,804,445	\$ 7,761,526
Employee loans and mortgages	2,971,020	3,428,311
Less: Allowance for uncollectible loans	(1,227,891)	(1,325,403)
	<u>\$ 9,547,574</u>	<u>\$ 9,864,434</u>

4. Investments

Investments are composed of the following at June 30:

	Pooled	Other	Outside Trustees	2003 Total	2002 Total
Cash and cash equivalents	\$ 15,454,163	\$ 6,000	\$	\$ 15,460,163	\$ 25,387,752
Fixed Income Securities	169,153,619	2,060,398		171,214,017	202,970,607
Equity Securities	461,547,836			461,547,836	498,419,480
Limited Partnerships/ Other Funds Held by Bond Trustee	200,396,704	261,098		200,657,802	144,657,537
Life Income Funds			744,376	744,376	8,541,572
Interest In the Net Assets of the Alumnae Association			19,175,982	19,175,982	20,282,984
Beneficial Interests			12,931,736	12,931,736	13,359,633
Interest Rate Swaps			12,742,158	12,742,158	13,213,082
Due to Brokers	(34,181,944)	(10,436,995)		(10,436,995)	(4,506,423)
Due from Brokers	33,081,156			33,081,156	(31,998,566)
Total Investments	<u>\$845,451,534</u>	<u>\$ (8,109,499)</u>	<u>\$ 45,594,252</u>	<u>\$ 882,936,287</u>	<u>\$ 922,580,584</u>

Investment return is comprised of the following for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total	2002 Total
Dividends and Interest	\$ 20,501,329	\$ 786,190	\$ 532,206	\$ 21,819,725	\$ 26,214,007
Realized Gains (Losses)	405	45,243	(15,230)	30,418	(14,502,350)
Unrealized Gains (Losses)	1,178,821	(148,956)	(308,954)	720,911	(36,610,744)
Fees	(5,095,944)		33,293	(5,062,651)	(6,494,719)
	<u>\$ 16,584,611</u>	<u>\$ 682,477</u>	<u>\$ 241,315</u>	<u>\$ 17,508,403</u>	<u>\$ (31,393,806)</u>

The total return appropriation on pooled endowment funds under the college's spending policy comprised the following for the years ended June 30:

	2003	2002
Dividends and interest	\$ 18,209,791	\$ 20,556,751
Investment fees	(4,962,628)	(5,966,291)
	13,247,163	14,590,460
Accumulated gains distributed:		
Unrestricted	10,174,768	9,468,220
Temporarily restricted	24,151,031	22,039,153
	34,325,799	31,507,373
	<u>\$ 47,572,962</u>	<u>\$ 46,097,833</u>

Outstanding commitments to limited partnerships:

\$121,760,443	\$106,586,329
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5. Land, Buildings, Equipment and Collections

Land, buildings, equipment and collections are as follows at June 30:

Cost	Useful Lives	2003	2002
Land		\$ 4,728,623	\$ 4,521,579
Land improvements	10–30 years	4,999,775	4,494,684
Buildings	40–70 years	281,185,312	227,039,614
Works of art	100 years	26,056,176	24,202,941
Library books	15 years	32,918,781	30,194,873
Equipment	5–12 years	23,568,924	24,074,233
		<u>373,457,591</u>	<u>314,527,924</u>
Accumulated depreciation		(133,245,153)	(124,282,116)
		<u>240,212,438</u>	<u>190,245,808</u>
Construction in progress		26,179,187	49,150,170
		<u>\$ 266,391,625</u>	<u>\$ 239,395,978</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following items at June 30:

	2003	2002
General payables	\$ 3,615,791	\$ 4,061,356
Facilities, construction, repairs	5,577,978	5,463,886
Payroll related	1,682,497	1,634,638
Compensated absences	3,087,672	2,957,309
Other	1,959,015	153,806
	<u>\$15,922,953</u>	<u>\$14,270,995</u>

7. Life Income Assets, Obligations, and Net Assets

Life income funds consist of the following items at June 30:

	Annuities (held by College)		Life Income (College Trustee)		Life Income (Individual Trustee)	
	2003	2002	2003	2002	2003	2002
Assets:						
Cash/Investments	\$23,921,744	\$20,719,789	\$19,175,982	\$20,282,984		
Contributions Receivable					\$ 26,355,936	\$26,982,850
Discount/Allowance					(11,874,869)	(13,499,211)
Obligation:						
Obligation	(9,963,516)	(7,948,340)	(6,975,247)	(7,488,380)		
	<u>\$13,958,228</u>	<u>\$12,771,449</u>	<u>\$12,200,735</u>	<u>\$12,794,604</u>	<u>\$ 14,481,067</u>	<u>\$13,483,639</u>
Net Assets:						
Temporary	\$ 6,363,077	\$ 6,276,062	\$ 4,858,710	\$ 5,169,106	\$ 7,842,416	\$ 7,886,947
Permanent	7,595,151	6,495,387	7,342,025	7,625,498	6,638,651	5,596,692
	<u>\$13,958,228</u>	<u>\$12,771,449</u>	<u>\$12,200,735</u>	<u>\$12,794,604</u>	<u>\$ 14,481,067</u>	<u>\$13,483,639</u>

8. Deposits and Agency Funds

Deposits and agency funds consist of the following items at June 30:

	2003	2002
Student deposits	\$ 703,779	\$ 707,040
Alumnae Association	13,129,633	13,558,394
Other deposits	155,675	36,476
Perkins loan program	2,326,299	2,430,428
	<u>\$16,315,386</u>	<u>\$16,732,338</u>

9. Bonds Payable

The college has the following general long-term obligations as of June 30:

With the Massachusetts Development Finance Agency:

Series	Year of Maturity	Interest Rates	Bonds Payable	
			2003	2002
2000	2002–2029	4.6%–5.75%	\$ 7,545,000	\$ 8,205,000
2001	2001–2024	variable	32,961,000	32,961,000
2002	2003–2029	variable	34,790,000	35,015,000
			75,296,000	76,181,000
	Unamortized premium		3,113	3,833
			<u>\$75,229,113</u>	<u>\$76,184,833</u>

The average interest rate on the Series 2001 and Series 2002 bond issues, during fiscal 2003, were 1.23 percent and 1.23 percent respectively, with June 30, 2003, rates of 1.0 percent and 1.0 percent respectively.

On February 7, 2002, the college utilized \$34,753,298 of the proceeds from the Series 2002 revenue bonds to advance refund a portion of the Series 2000 bond issue. The Refunding Trust Fund is invested in cash and government obligations and will provide for future payments of principal, redemption premium, and interest on the advance refunded Series 2000 bonds. In order to meet these obligations, the amount deposited in escrow was greater than the par value of the advance refunded Series 2000 bonds. The college incurred a loss for the refunding of \$2,736,801. The outstanding principal of the defeased Series 2000 bonds, at June 30, 2003, which is not reflected in the college's financial statements, was \$32,035,000.

On March 7, 2001, the college utilized \$33,482,020 of the proceeds from the Series 2001 revenue bonds and \$327,500 in the Series D Debt Service Fund to advance refund the Series D bond issue. The Refunding Trust Fund is invested in cash and Government obligations and will provide for future payments of principal, redemption premium, and interest on the Series D bonds. In order to meet these obligations, the amount deposited in escrow was greater than the

par value of the Series D bonds. The outstanding principal of the defeased Series D bonds, at June 30, 2003, which is not reflected in the college's financial statements, was \$30,440,000.

The fair value of the Series 2000 bonds payable as of June 30, 2003 is approximately \$9,280,592. The fair value of the Series 2001 and 2002 bonds payable as of June 30, 2002 approximates the total outstanding principal balance. Aggregate principal payments due on these bonds during each of the next five years, ending June 30, and thereafter are as follows:

2003–04	2004–05	2005–06	2006–07	2007–08	Thereafter	Total
\$805,000	\$1,577,000	\$1,901,000	\$1,988,000	\$2,135,000	\$66,890,000	\$75,296,000

10. Net Assets

Net assets at June 30 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2003	Total 2002
Endowment					
Permanent Endowment			\$229,538,531	\$ 229,538,531	\$ 223,449,839
Net Appreciation on Permanent Endowment		\$349,960,579		349,960,579	373,191,606
Term Endowment		4,872,873		4,872,873	5,208,491
Quasi-endowment	\$232,393,350	7,150,016		239,543,366	249,403,530
	\$232,393,350	361,983,468	229,538,531	823,915,349	851,253,466
Life Income Funds		19,064,203	21,575,827	40,640,030	39,049,692
Plant Funds	\$165,836,987	3,913,917		169,750,904	169,344,312
Loan Funds			5,812,255	5,812,255	5,229,896
Other Funds	29,307,367	49,431,659	3,869,807	86,608,833	89,471,216
	\$427,537,704	\$434,393,247	\$260,796,420	\$1,122,727,371	\$1,154,348,582

Included in unrestricted, temporarily restricted and permanently restricted net assets are the college's endowment and similar funds and life income funds. The per share market value of the college's pooled endowment fund at June 30, 2003 was \$4,394 (\$4,584 at June 30, 2002). The total endowment shares in the endowment fund (including annuity funds) were 192,482 at June 30, 2003 (189,736 at June 30, 2002).

As a result of market declines, the fair value of certain donor-restricted endowments was less than the historical book value of such funds by \$3,517,840 at June 30, 2003 (\$2,660,285 at June 30, 2002). These unrealized losses have been recorded as reductions of unrestricted net assets. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the historical book value of such funds increases temporarily restricted net assets.

Temporarily restricted net assets released to unrestricted net assets were as follows:

	2002–03	2001–02
Total return distribution	\$23,854,956	\$20,655,328
Program services	9,623,467	18,959,551
	\$33,478,423	\$39,614,879

11. Pension Plan

The college has a defined contribution retirement plan for substantially all its employees. The plan is administered by independent trustees to whom all funds are transferred for investment purposes and benefit payments. All employees are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contribution to the retirement plan amounted to approximately \$6,683,000 in 2002–03 (\$6,092,000 in 2001–02).

Ten Years in Review

	2003	2002	2001	1998	1993
Assets, Liabilities and Net Assets (000s)					
Total Assets	\$1,440,273	\$1,451,544	\$1,353,320	\$1,096,561	\$620,925
Total Plant Assets	266,392	239,396	200,312	145,971	120,656
Endowment Funds Market Value	823,915	851,253	917,254	793,214	435,565
Life Income Funds Market Value	43,098	41,003	44,079	38,247	23,049
Long-Term Debt	75,299	76,185	74,017	35,801	14,583
Net Assets	1,122,727	1,154,349	1,225,388	1,020,166	569,390
Income and Expense (000s)					
Undergraduate Comprehensive Fees	\$93,435	\$89,176	\$83,688	\$71,181	\$56,763
Undergraduate Scholarships	32,730	28,572	25,872	20,800	15,452
Net	60,705	60,604	57,816	50,381	41,311
Unrestricted Gifts and Grants	22,772	23,396	20,910	15,607	8,788
Restricted Gifts and Grants	11,980	18,700	44,786	39,561	17,859
Total Operating Expenses	166,413	153,832	140,268	111,262	84,507
Salaries and Wages	77,923	71,283	67,731	56,390	45,779
Staff Benefits	21,271	18,665	16,700	13,978	11,486
Other Statistics					
Undergraduate FTE	2,743	2,743	2,707	2,562	2,521
Faculty FTE	295.0	289.3	266.0	262.9	263.5
Student-Faculty Ratio	8.7	8.9	9.5	9.7	9.6
Comprehensive Fee	\$34,936	\$33,110	\$31,560	\$28,610	\$22,950
Net Cost Per Student	\$53,000	\$49,400	\$47,000	\$38,900	\$27,600
Fee as Percent of Cost Per Student	65.9%	67.0%	67.1%	73.5%	83.2%
Students Receiving Scholarships	64.1%	62.8%	61.3%	56.9%	53.1%
Operations Supported by Endowment	28.8%	30.1%	29.5%	25.7%	19.5%
Endowment Per Student	\$286,900	\$296,870	\$324,710	\$299,280	\$165,980
Endowment Spending as Percent of Market Value	5.7%	5.2%	4.8%	3.9%	4.9%

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