Smith College

Financial Report 2005–06

Office of the Vice President for Finance and Administration
College Hall 204
Smith College
Northampton, Massachusetts 01063

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 2005–06

Ruth H. Constantine
Vice President for Finance and Administration and Treasurer

We are pleased to present the financial report of Smith College for the year ended June 30, 2006. Highlights of the year included:

- The market value of the endowment rose to nearly $1.2 billion due to generous gifts and a strong investment return of 14.2 percent.
- The Alumnae Fund exceeded its goal by $500,000.
- A surplus from budgeted operations of $2.9 million contributed to a 7 percent increase in unrestricted net assets.

Statement of Financial Position

Smith's total assets on June 30, 2006 were $1.7 billion. The market value of investments represented 74 percent of total assets, an increase in invested assets of 14 percent over the prior year. New gifts and additions to endowment totaled one percent and market appreciation, net of income allowed for spending, added the balance.

Total liabilities on June 30, 2006 were $257.5 million, an increase of 1.8 percent over the prior year. The liability associated with securities lending agreements decreased by $27.4 million as the college reduced its securities lending program. At the beginning of the year the college issued long-term debt of $33,065,000, accounting for much of the 46 percent increase in bonds payable.

Smith's assets increased by $132.9 million, or 8.4 percent, for the year largely due to the increase in endowment market value.

Statement of Activities

Operations for the year produced positive results and a surplus of $2.9 million from budgeted operations added to the college's unrestricted net assets. Total net assets increased by $128.5 million, well above the increase of $109.8 million in the previous year.

Operating Revenues

Operating revenues were $175.1 million for 2005–06, an increase of 6.8 percent over the prior year. Net comprehensive fee income increased 3.4 percent due largely to an increase in the comprehensive fee. The student aid "discount rate," representing student aid divided by total student income, held steady at 34.6 percent. The college's net student income represented 46.4 percent of operating revenues.

A total of 1,899 undergraduate students received grants of $39.5 million from college funds. Endowment income for scholarships and restricted scholarship gifts and grants totaled $18.3 million, covering 46 percent of the financial aid grants awarded.

Total gifts and pledges of $42.2 million were received during the year, an increase of 9.1 percent over the prior year. Giving to the Alumnae Fund exceeded its goal by 3.9 percent.

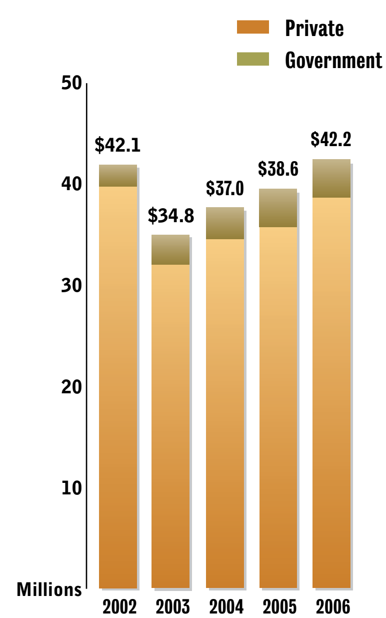
The standard format of the statement of activities does not provide a full understanding of the level of support for college operations provided by investment return. In 2005–06, the college used $48.8 million in investment return to support budgeted operations. Effective July 1, 2005, the Board of Trustees adopted a new spending methodology for the use of endowment revenues to support operations. The previous methodology applied a 5.25 percent spending formula to the average endowment market value for the previous three years (12 quarters). The new methodology used as a starting point an amount equal to 4.75 percent of the December 31, 2004 endowment market value. Going forward, the college expects normal increases in annual endowment spending to be four percent per year, as long as the resulting spending falls within four and six percent of the market value of the endowment.

Operating Expenses

Operating expenses totaled $162.2 million in 2005–06, an increase of 3.3 percent for the year. Plant expenses including utilities are reflected in each of the expense categories, and the price of heating oil and natural gas skyrocketed during the year so utilities spending was well above budget. Unfortunately, further utility increases are anticipated next year because the college's three-year contract for electricity expired on June 30, 2006 and rates have risen significantly. Partially offsetting the effect of expected rate increases, the college implemented a number of conservation measures this year that resulted in a five percent decline in electricity consumption. We also anticipate some relief when the college's co-generation facility goes online in 2007–08, however for the first six years the resulting savings will be used to offset the construction costs.

Other expense increases were modest, and in selected areas expenses decreased below anticipated levels. Faculty compensation expenses were slightly higher than anticipated, as the pace of retirements was a little slower than expected. However, these expenses are partially offset by a five percent decline in employee health insurance rates for 2006. Fewer students studied abroad in other colleges' programs this year, resulting in savings in program expenses. Sponsored grant activity totaled $6.4 million for the year, an increase of 16 percent from the prior year.

Total Giving



Investments

Smith's endowment supports the breadth of the college's activities and programs, from general operations to specific needs such as scholarships and professorships. Investment return from the endowment also is critically important in funding initiatives and emerging needs. Spending from the endowment represents 29 percent of the college's operating budget.

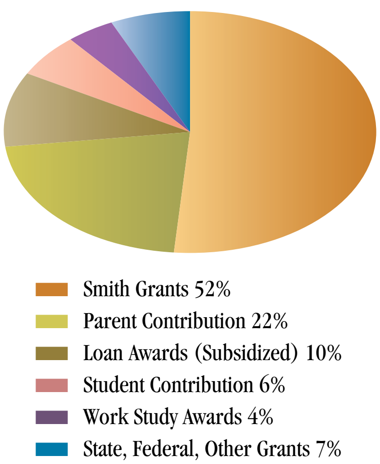
The endowment is managed by the investment committee of the Board of Trustees with the assistance of Smith's outsourced investment office, Investure, LLC. Smith is a member of several consortia of colleges and universities that provide services more effectively than Smith can do on its own. Investure is one such consortium, overseeing the investments of six endowment and foundation clients.

Smith maintains a widely diversified portfolio of global equities and fixed income with significant commitments to alternative equities, including hedge funds and private equity. As of June 30, 2006, 39 percent of the portfolio was invested in alternative equities (primarily hedge funds), 18 percent in U.S. equities, 20 percent in international equities including emerging markets, 14 percent in private equity and real assets, and 9 percent in fixed income.

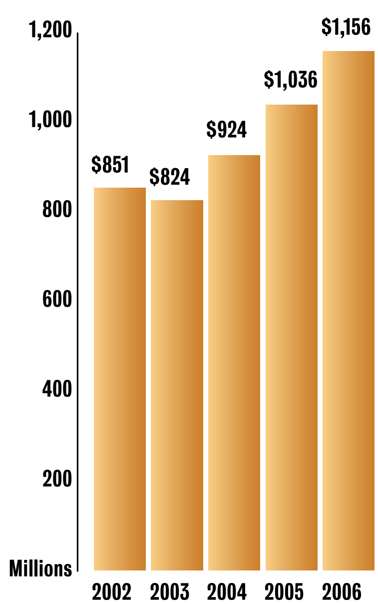
The value of the college's endowment increased $120.8 million in 2005–06 to a total market value of nearly $1.2 billion. The endowment ranks among the largest for small private colleges. The increase in market value includes $157.4 million in investment return, consisting of appreciation and yield, and $12.2 million in gifts and other additions to the endowment, less $48.8 million in distributions to support operations.

During fiscal year 2005–06, the traditional U.S. markets produced an adequate but unsatisfying return of 9.6 percent for equities (Russell 3000 Index) and -3.4 percent for bonds (Merrill Lynch U.S. Treasury 7–10 Year Index). The college's endowment's return was 14.2 percent for the same period. Investments in international equities and a significant allocation to alternative equities boosted returns above those available in the domestic markets. Returns of 15.4 percent for three years and 10.0 percent for ten years have assured that the college has met its primary return objective of matching college spending plus annual inflation over rolling five year periods.

Financing a Smith Education:
Students Receiving Need-Based Aid



Endowment Market Value



Facilities

During the year, Smith completed construction on a number of important facilities projects and planning continued on other key projects.

The new building for the Center for Early Childhood Education was completed in August 2005. This new 10,500 square foot facility on the grounds of Smith's Fort Hill property replaces the program's former location in the Lyman estate house and three apartment units on the property. CECE serves more than 100 infants, toddlers and preschoolers each weekday.

McConnell Hall, originally constructed in 1967, was renovated over the summer of 2005. Air handling systems were updated and the lecture hall, first floor classrooms and several laboratories were renovated.

Last fall, a new kosher/halal kitchen opened in the dining area of Cutter-Ziskind. The new kitchen resulted from a campus-wide dining review that aimed to provide students with more diverse dining options. Renovations included the construction of separate meat and dairy kitchens and new serving stations.

Projects underway in the summer of 2006 include a new residence for Ada Comstock Scholars that houses 10 apartments for students with families. The new building, to be dedicated in October, is named Conway House in honor of former president Jill Ker Conway and her husband John J. Conway.

Substantial renovations are also underway in Baldwin House, College Hall and Neilson Library. In Baldwin, mechanical systems are being updated and the college is adding nine residential suites consisting of small lounges, private baths, and single and/or double bedrooms. College Hall, which was built in 1875, has undergone numerous space reconfigurations and interior redecoration projects over the years. As part of the current project, mechanical and electrical systems are being updated and the class deans' office is moving to the first floor where other offices with a high volume of student contact are located. Neilson is undergoing a phased mechanical system upgrade and replacement, with phase one of the project to be completed at the end of the summer. The primary work in the first phase upgrades heating, cooling and fresh air for much of the south wing of Neilson and the three levels of Alumnae Gym.

Smith's planning continued this year for a new engineering and sciences building to be constructed across Green Street beginning in 2007. As part of the college's commitment to replace apartments that will be removed for that building, the college selected a local developer to build 26 apartments at the corner of Bedford Terrace and State Street. Planning also continues on a new co-generation facility to be constructed in 2007 at the central heating plant on West Street.

Debt

In July 2005, the college issued long-term fixed rate debt of $33,065,000 in revenue bonds. The bonds were issued at a premium for an effective interest rate of 4.2 percent. Proceeds from the bonds are being used to finance a variety of capital projects on campus.

Ten Years in Review

	2006	2005	2004	2001	1996
Assets, Liabilities and Net Assets (000s)					
Total Assets	$1,718,579	$1,585,630	$1,462,974	$1,353,320	$834,568
Total Plant Assets	283,634	271,862	270,627	200,312	135,526
Endowment Funds Market Value	1,156,349	1,035,542	924,464	917,254	583,163
Life Income Funds Market Value	52,450	49,271	45,306	44,079	28,321
Long-Term Debt	106,140	72,916	74,493	74,017	39,495
Net Assets	1,461,119	1,332,637	1,222,805	1,225,388	758,545
Income and Expense (000s)					
Undergraduate Comprehensive Fees	$108,678	$105,577	$99,159	$83,688	$66,289
Undergraduate Scholarships	39,416	38,209	35,618	25,872	18,498
Net	69,262	67,368	63,541	67,816	47,791
Unrestricted Gifts and Grants	24,076	20,823	19,264	20,910	15,360
Restricted Gifts and Grants	16,282	17,826	17,783	44,786	8,899
Total Operating Expenses	162,217	157,007	157,619	140,268	97,298
Salaries and Wages	77,630	75,537	76,343	67,731	49,685
Staff Benefits	22,356	21,503	20,836	16,700	13,389
Other Statistics					
Undergraduate FTE	2,708	2,776	2,738	2,707*	2,566
Faculty FTE	292.0	294.0	304.0	266.0	264.6
Student-Faculty Ratio	8.8	8.8	8.5	9.5	9.7
Comprehensive Fee	$41,024	$38,886	$37,034	$31,560	$26,320
Net Cost Per Student	$53,100	$50,500	$52,100	$47,000	$32,800
Fee as Percent of Cost Per Student	77.3%	77.0%	71.1%	67.1%	80.2%
Students Receiving Scholarships	66.2%	65.4%	64.5%	61.3%	53.8%
Operations Supported by Endowment	29.1%	28.7%	28.6%	29.5%	23.5%
Endowment Per Student	$407,362	$355,955	$321,615	$324,710	$219,795
Endowment Spending as Percent of Market Value	4.4%	4.7%	5.3%	4.8%	4.4%

* Starting in July 2000, students attending independent study-abroad programs have paid comprehensive fees to the college, increasing enrolled FTEs.

Report of Independent Auditors

To the Board of Trustees of Smith College
Northampton, Massachusetts

We have audited the accompanying statement of financial position of Smith College (the college) as of June 30, 2006, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of Smith College as of June 30, 2005, were audited by other auditors whose report thereon dated September 18, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2006, and the changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

KPMG LLP

Hartford, Connecticut
October 3, 2006

Statements of Financial Position

June 30, 2006 and 2005

(In Thousands)

		2006		2005
Assets				
Cash and cash equivalents	$	33,348	$	38,223
Collateral held for loaned securities		78,984		106,420
Receivables, net		39,505		42,407
Other assets		6,367		5,719
Investments		1,276,741		1,120,999
Land, buildings, equipment and collections, net		283,634		271,862
Total assets	$	1,718,579	$	1,585,630
Liabilities				
Accounts payable and accrued liabilities	$	36,215	$	23,575
Payable under securities loan agreements		78,984		106,420
Life income obligation		23,849		23,772
Deferred income, deposits, agency funds		12,272		26,310
Bonds payable		106,140		72,916
Total liabilities	$	257,460	$	252,993
Net Assets				
Unrestricted		520,551		486,447
Temporarily restricted		642,640		559,916
Permanently restricted		297,928		286,274
Total net assets	$	1,461,119	$	1,332,637
Total liabilities and net assets	$	1,718,579	$	1,585,630

See accompanying notes to financial statements.

Statements of Activities

For the years ended June 30, 2006 and 2005

(In Thousands)

		2006		2005
Changes in Unrestricted Net Assets				
Operating Revenues and Other Additions				
Student income: Tuition and other fees	$	96,529	$	93,209
Room and board fees		27,813		27,011
Student aid		(43,007)		(41,525)
Student income, net		81,335		78,695
Gifts		24,109		20,823
Investment return supporting operations		21,230		21,580
Other income		9,018		9,445
Net assets released from restrictions		39,427		33,459
Total operating revenues	$	175,119	$	164,002
Operating Expenses				
Instruction		69,537		68,235
Academic support		23,621		23,307
Student services		19,165		18,576
Auxiliary enterprises		28,346		25,347
General and administrative		21,548		21,542
Total expenses		162,217	$	157,007
Income from operations	$	12,902		6,995
Non-Operating Revenues and Other Changes				
Realized and unrealized gain (loss) on interest-rate swap agreements		4,296		(5,077)
Investment return increasing long-term investment		31,055		26,156
Cumulative effect of a change in accounting principle		(14,150)		
Non-operating revenues and other changes	$	21,201	$	21,079
Increase in unrestricted net assets	$	34,103	$	28,074
Changes in Temporarily Restricted Net Assets				
Gifts		12,193		7,750
Investment return		108,453		98,508
Change in life income funds		1,505		(1,703)
Net assets released from restrictions		(39,427)		(33,459)
Increase in temporarily restricted net assets	$	82,724	$	71,096
Changes in Permanently Restricted Net Assets				
Gifts		5,872		10,076
Investment return		669		873
Change in life income funds		5,114		(287)
Increase in permanently restricted net assets	$	11,655	$	10,662
Total increase (decrease) in net assets	$	128,482	$	109,832
Net assets, beginning of year		1,332,637		1,222,805
Net assets, end of year	$	1,461,119	$	1,332,637

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended June 30, 2006 and 2005

(In Thousands)

	2006	2005
Cash Flows From Operating Activities		
Increase in net assets	$ 128,482	$ 109,832
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	12,467	13,367
Net unrealized and realized gains on investments	(151,202)	(135,154)
Cumulative effect of change in accounting priciple	14,150	
Actuarial change in life income obligation	77	6,109
Decrease in operating assets	2,228	2,071
Increase (decrease) in operating liabilities	(19,291)	3,603
Contributions restricted for long-term investment	(14,748)	(14,632)
Loss on disposal	(143)	
Contributions of property	(611)	(698)
Net cash used in operating activities	$ (28,591)	$ (15,502)
Cash Flows From Investing Activities		
Purchases of plant and equipment	$ (19,699)	$ (12,921)
Proceeds from loan collections	2,228	2,238
Loans issued	(2,317)	(2,388)
Purchases of investments	(282,568)	(660,654)
Sales and maturities of investments	278,029	676,690
Net cash (used in) provided by investing activities	$ (24,327)	$ 2,965
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	$ 14,748	$ 14,632
Federal contribution Perkins loan funds		82
Proceeds from new long-term debt	35,196	
Payments on long-term debt	(1,901)	(1,577)
Net cash provided by financing activities	$ 48,043	$ 13,137
Net change in cash and cash equivalents	$ (4,875)	$ 600
Cash and cash equivalents, beginning of year	$ 38,223	$ 37,623
Cash and cash equivalents, end of year	$ 33,348	$ 38,223
Supplemental disclosures:		
Interest paid	$ 2,870	$ 1,544
Gifts in kind	611	698
Purchases of plant and equipment included in accounts payable	4,058	2,033
Collateral received for loaned securities	78,984	106,420

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 an organization described under Internal Revenue Code (IRC) Section 501(c)(3), and is generally exempt from income taxes under the provisions of IRC 501(a).

Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the college as a whole, including the Alumnae Association of Smith College as required by accounting rules governing the consolidation of related entities, and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles requires management to make estimates and judgments 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 non-marketable securities, useful lives, accrued compensation and benefits, and the actuarial assumptions regarding life income obligations.

Non-operating activities presented in the Statement of Activities consist of changes in the fair value of derivative instruments as well as net investment return increasing long-term investment.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted: Net assets 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 and capital gains, if any, on related investments for general or specific purposes.

Temporarily Restricted: Net assets subject to donor-imposed stipulations that may or will be met by actions of the college and/or the passage of time.

Unrestricted: Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. All expendable donor-restricted contributions are initially recognized as temporarily restricted revenue in the statement of activities.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the balance sheet date, or that are restricted by the donor to a specific purpose that has not been met as of the balance sheet date, are shown as increases in temporarily restricted net assets. This revenue is reclassified to unrestricted net assets when the time or purpose restrictions are met.

Dividends, interest and net gains or losses on investments of endowments and similar funds are reported as follows:

i as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;

ii as increases in temporarily restricted net assets if the terms of the gift or the college's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The college has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as temporarily restricted; and

iii as increases in unrestricted net assets in all other cases.

The college has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time. State law allows the Board to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the college's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The portion of total return on endowment investments available to spend is based upon restrictions placed upon the funds by the respective donors.

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. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. Private equities and certain other non-marketable securities are valued using current estimates of fair value by management based on information provided by the general partner or investment manager for the respective funds.

College management is responsible for the fair measurements of investments reported in the financial statements. The college has implemented policies and procedures to assess the reasonableness of the fair values provided. Because of the inherent uncertainty of valuation for these investments, the estimate of the investment manager or general partner may differ from the values that would have been used had a ready market existed, and the differences could be significant. The agreements underlying participation in nonmarketable investment funds may limit the college's ability to liquidate its interest in such investments for a period of time. The college believes that reported fair values of its nonmarketable securities at the balance sheet dates are reasonable.

One related group of limited partnership investments represents 38% and 35% of the college's investments as of June 30, 2006 and June 30, 2005, 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. 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. Assets of the Alumnae Association and the Smith Students' Aid Society, Inc. are invested with the college's pooled endowment.

As of June 30, 2006 and 2005, the college had loaned certain securities, returnable on demand, with a fair value of approximately $77,112,000 and $104,311,000 respectively, to several financial institutions that have deposited collateral with respect to such securities of $78,984,000 and $106,420,000 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, 2006 the college held no open positions on forward foreign exchange contracts, while on June 30, 2005, the notional amount of open positions on forward foreign exchange contracts was approximately $1,841,000, and on the same date, the fair value of the forward foreign exchange contracts, recorded as part of the college's investments, was $38,000. No S&P 500 futures were held at June 30, 2006 or June 30, 2005.

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% on the Series 2001 bonds and 4.66% 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, 2006 and 2005, the fair value of the interest rate swaps, recorded as part of the college's accounts payable and accrued liabilities, was $4,511,000 and $9,836,000 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. 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.

Certain reclassifications have been made to 2005 accounts to conform with the 2006 presentation.

2. Receivables

Contributions, accounts, and loans receivable consist of the following items at June 30 (in thousands):

	2006	2005
Students, employees, other receivables	$ 1,202	$ 2,930
Contributions expected to be collected		
within: One year	13,379	13,687
One to five years	3,341	6,532
Over five years	26,413	23,311
Student loans	7,353	7,647
Employee loans and mortgages	3,816	3,245
Less: Discount (3.03% to 6.00%) on contributions	(13,443)	(12,215)
Less: Allowance for uncollectible	(2,556)	(2,730)
	$39,505	$42,407

3. Investments

Investments are composed of the following at June 30 (in thousands):

	2006 Total	2005 Total
Cash and cash equivalents	$ 24,189	$ 28,354
Fixed Income Securities	89,740	96,117
Equity Securities	358,377	374,572
Limited Partnerships/ Other	744,954	571,040
Funds Held by Bond Trustee	25,205	916
Life Income Funds	17,847	18,103
Interest in the Net Assets of the Alumnae Association		15,958
Beneficial Interests	16,450	15,682
Due to Brokers	(49)	(2,381)
Due from Brokers	28	2,638
Total Investments	$1,276,741	$1,120,999

Included in the above table of investments are approximately $ 228 million of investments whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Investment return is comprised of the following for the years ended June 30 (in thousands):

	2006 Total	2005 Total
Dividends and Interest	$ 14,906	$ 16,041
Realized Gains (Losses)	73,037	101,758
Unrealized Gains (Losses)	78,165	33,396
Fees	(4,701)	(4,078)
	$ 161,407	$ 147,117

Under the spending formula, investment return is used as follows for the years ended June 30 (in thousands):

	2006		2005	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Supporting operations	$21,230	$29,128	$21,580	$25,738
Increasing long-term investments	31,055	79,325	26,156	72,770
	$52,285	$108,453	$47,736	$98,508

Outstanding commitments to limited partnerships were $271,270,000 and $232,629,000 at June 30, 2006 and 2005, respectively. These commitments are scheduled to be funded over a number of years.

4. Land, Buildings, Equipment and Collections

Land, buildings, equipment and collections are as follows at June 30 (in thousands):

	Useful Lives	2006	2005
Land		$ 4,742	$ 4,878
Land improvements	10-30 years	5,107	5,099
Buildings	40-70 years	335,879	321,095
Works of art	100 years	30,350	29,382
Library books	15 years	41,161	38,632
Equipment	5-12 years	17,450	19,586
		434,689	418,672
Accumulated depreciation		(162,852)	(152,338)
		271,837	266,334
Construction in progress		11,797	5,528
		$283,634	$271,862
Depreciation Expense		$ 11,749	$ 13,365
Capitalized Interest		$ 304	$ 0

5. Cumulative Effect of a Change in Accounting Principle

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations." This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an assets retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. Statement of Financial Accounting Standard 143, "Accounting for Asset Retirement Obligations," requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

The college adopted FIN 47 for the year ended June 30, 2006 and recorded a liability of $15,867,321 as of July 1, 2005 of which $14,150,187 was recorded as a cumulative effect of a change in accounting principle.

The following table summarizes the impact as of adoption as of July 1, 2005 (in thousands).

Increase in PPE, net	$ 1,717
Increase in liability	$15,867
Cumulative effect	$14,150

Substantially all of the impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos that is contained within the college's facilities. If the college had adopted FIN 47 effective June 30, 2005, it would have decreased unrestricted net assets in 2005 by less than $15,201,000. The college expects the additional depreciation and accretion costs to be approximately $748,000 in 2007.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following items at June 30 (in thousands):

	2006	2005
General payables	$ 3,235	$ 3,836
Interest Rate Swaps	4,511	9,836
Facilities, construction, repairs	22,847	3,131
Payroll related	1,716	1,793
Compensated absences	3,158	3,183
Early retirement and separation plans	748	1,796
	$36,215	$23,575

7. Life Income Assets, Obligations and Net Assets

Life income funds consist of the following items at June 30 (in thousands):

	Annuities (held by College)		Life Income (College Trustee)		Life Income (Individual Trustee)	
	2006	2005	2006	2005	2006	2005
Assets:						
Cash/Investments	$34,604	$31,168	$17,846	$18,103		
Contributions Receivable					$ 27,665	$ 23,284
Discount/Allowance					(13,271)	(11,876)
Obligation:						
Obligation	(14,797)	(14,752)	(9,052)	(9,020)		
	$19,807	$16,416	$8,794	$ 9,083	$14,394	$11,408
Net Assets:						
Temporary	$8,622	$7,297	$ 3,843	$ 3,392	$ 8,941	$ 8,267
Permanent	11,185	9,119	4,951	5,691	5,453	3,141
	$19,807	$16,416	$ 8,794	$ 9,083	$14,394	$11,408

8. Deposits and Agency Funds

Deposits and agency funds consist of the following items at June 30 (in thousands):

	2006	2005
Deferred income	$ 4,043	$ 3,983
Student deposits	708	686
Alumnae Association		16,148
Associated Kyoto Program	1,274	1
Smith Students' Aid Society	3,688	3,323
Other deposits	540	111
Perkins loan program	2,019	2,058
	$12,272	$26,310

9. Bonds Payable

The college has the following general long-term obligations at June 30 (in thousands):

Series	Final Year of Maturity	Interest Rates	2006	2005
Massachusetts Development Finance Agency:				
2000	2010	4.6%-5.75%	$ 5,380	$ 6,135
2001	2024	Variable	31,208	32,224
2002	2029	Variable	34,425	34,555
2005	2035	5.00%	33,065	
			104,078	72,914
Unamortized premium			2,062	2
			$106,140	$72,916

The average interest rate on the Series 2001 and Series 2002 bond issues, during fiscal 2006, were 2.91% and 2.90% respectively, with June 30, 2005 rates of 1.85% respectively.

The fair value of the Series 2000 bonds payable as of June 30, 2006 is approximately $5,645,000 and the fair value of the Series 2005 bonds payable as of June 30, 2006 is approximately $34,466,000. The fair value of the Series 2001 and 2002 bonds payable as of June 30, 2006 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 (in thousands):

2007	2008	2009	2010	2011	Thereafter	Total
$1,988	$2,079	$2,175	$2,285	$2,393	$93,158	$104,078

Funds Held by Bond Trustees were $25,204,000 at June 30, 2006 ($916,000 at June 30, 2005) and were held primarily for construction projects designated under the applicable bond agreements.

10. Net Assets

Net assets at June 30 are as follows (in thousands):

	2006 Unrestricted	2006 Temporarily Restricted	2006 Permanently Restricted	2006 Total	2005 Unrestricted	2005 Temporarily Restricted	2005 Permanently Restricted	2005 Total
Endowment								
Permanent Endowment			$267,263	$ 267,263			$258,358	$ 258,358
Net Appreciation on Permanent Endowment		$564,605		564,605		$487,685		487,685
Term Endowment		4,715		4,715		4,787		4,787
Quasi-endowment	$319,766			319,766	$284,712			284,712
	319,766	569,320	267,263	1,156,349	284,712	492,472	258,358	1,035,542
Life Income Funds		21,407	21,588	42,995		18,956	17,951	36,907
Plant Funds	176,420	6,492		182,912	182,692	5,147		187,839
Loan Funds			6,743	6,743			6,570	6,570
Other Funds	24,365	45,421	2,334	72,120	19,043	43,341	3,395	65,779
	$520,551	$642,640	$297,928	$1,461,119	$486,447	$559,916	$286,274	$1,332,637

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, 2006 was $5,896 ($5,338 at June 30, 2005). The total endowment shares in the endowment fund (including annuity funds) were 205,997 at June 30, 2006 (199,987 at June 30, 2005).

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 $3,000 at June 30, 2006 ($0 at June 30, 2005). 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 (in thousands):

	2005–06	2004–05
Total return distribution	$29,492	$25,738
Program services	9,935	7,721
	$39,427	$33,459

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 $6,930,000 in 2005–06 ($6,644,000 in 2004–05).

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