Smith College

Financial Report 2009–10

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

Board of Trustees, 2009–10

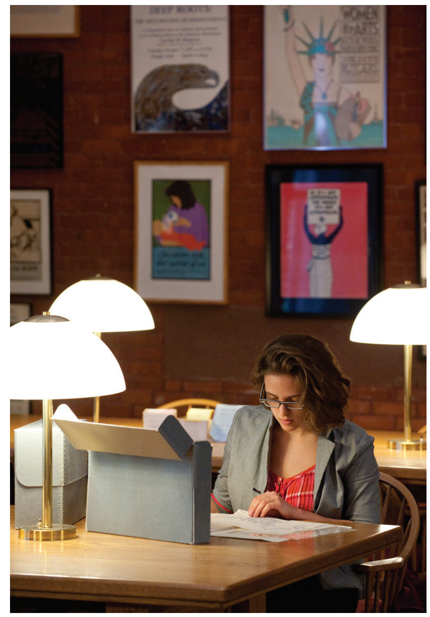
Financial Report 2009–10

Ruth Constantine
Vice President for Finance and Administration and Treasurer

Laura Smiarowski
Controller and Associate Treasurer

This annual report presents the audited financial statements for the year ended June 30, 2010.

Smith's financial condition continues to be strong due to the number and strength of applications for admission, the recovery in endowment market value, and the discipline exercised in managing through the financial downturn. Smith received a record 4,015 applications for admission for the fall 2010 entering class and student retention remains high. The market value of the endowment made a substantial recovery, with fiscal year investment returns of 16.3 percent. During 2009–10, Smith implemented most of the remaining elements of its $22 million budget reduction plan, a sequence of cost-saving strategies developed the previous year to responsibly manage college finances given the global economic downturn. The adverse economic conditions increased students' and families' financial need, and Smith increased aid accordingly.



The college's total net assets increased $139 million from the prior year to $1.6 billion as of June 30, 2010, primarily due to the recovery of the financial markets.

Statement of Financial Position

The college's total net assets increased $139 million from the prior year to $1.6 billion as of June 30, 2010, primarily due to the recovery of the financial markets. Following the 2009–10 investment performance, by June 30 the endowment market value recovered to 86 percent of its prior peak. The investment pool earned a return of 16.3 percent for the fiscal year, which was in the top quartile of the college's peer group. The college benefitted from some large bequests that were held in short-term investments at year-end

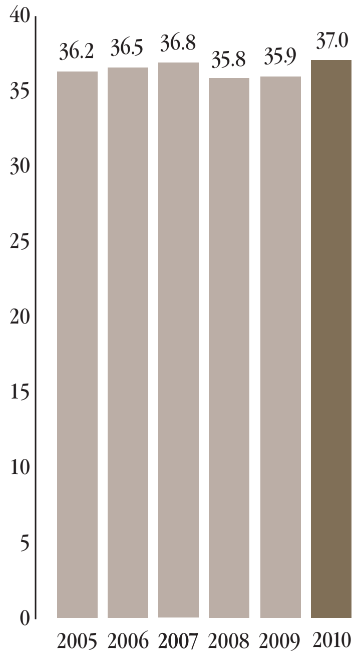
Proceeds for construction and renovation from the college's Series 2007 bond issue were fully expended by June 30, 2010. The underlying standby bond purchase agreement associated with those bonds expired on September 15, 2010, and a new agreement was in place by that date.

Statement of Activities

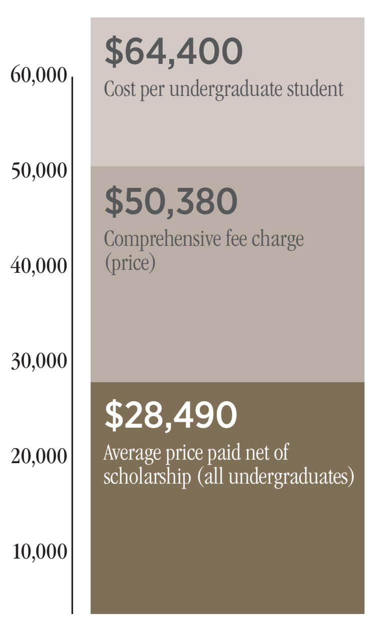
Because of Smith's response to the economic downturn the college's financial condition remains strong, as evidenced by positive operating margins, diversified revenue sources, and continued investment in critical priorities including student access, faculty recruitment, international study and internship experiences for students, and facilities renovation.

Smith's operating revenues totaled $224 million in 2010, an increase of 5.3 percent over last year. Net student income increased by 2.3 percent to $94.5 million for 2009–10. The 4.7 percent increase in the comprehensive fee

Undergraduate Discount Rate
Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education
2009–10



(tuition, room, board and student activity fee) and slight growth in enrollment were offset by a 7.7 percent increase in financial aid from institutional and other sources. The increase in financial aid reflects the impact of the recession on family income and asset values, which are at the core of the methodology for determining a student's financial need.

Smith meets the full demonstrated financial need of all enrolled students and is committed to partnering with parents throughout the process of financing a daughter's education. The cost to educate a student was $64,400 for fiscal year 2009–10, which is $14,020 more than the comprehensive fee and is only $100 more than last year. Of the college's 2,688 undergraduate students, nearly two-thirds received need-based aid for the most recently completed academic year. Smith spent $48.9 million on institutional grant aid, excluding federal and state sources for undergraduates in 2009–10, an increase of 8.1 percent over the prior year. The college's discount rate (institutional grant expense/gross comprehensive fee revenue) has increased from 31.0 percent to 37.0 percent over the past decade. The average institutional grant among undergraduate students was $18,192 for the year. Income from the college's endowment funds designated for financial aid, as well as annual gifts of scholarship support, are crucial to enable full access to a Smith education.

With the improvement in the financial markets, the Smith Fund increased 4.1 percent over the prior year, while still short of the 2007–08 level. The college received significant bequests during the year, though the amount of unrestricted bequests was down versus the prior year. Overall giving remains strong. Unrestricted gifts, including bequests as well as gifts for current operations, accounted for $21.3 million, representing nearly 48 percent of total giving. Gifts to endowment totaled $6.3 million, while restricted gifts for current operations contributed an additional $6 million. Gifts to fund capital improvements of $6.9 million represented 15 percent of the total. Government grants contributed an additional $4 million to the total. The remaining gift revenue includes life income gifts and the effect of the accounting treatment for pledge payments.

Investments

Income from the endowment supports the breadth of the college's activities and programs, from student financial aid to support for the curriculum and facilities. In 2009–10, approximately 31 percent of the college's operations were funded through the use of investment return, down from 34 percent in the prior year. The college's approach to establishing an endowment spending rate sets a responsible annual contribution to operations while providing a measure of protection against periods of declining returns. The spending policy provides that the income distributed per share from the endowment will typically increase by 4 percent annually as long as the resulting amount is more than 4 percent and less than 6 percent of the preceding December 31 market value. While this policy provides long-term direction, the trustees review and approve the spending rate each year. The spending rate has averaged 5.0 percent over the past decade. For 2009–10, the rate was set at the maximum of 6 percent of the December 31, 2008, market value, effectively reducing allowed spending by 10 percent.

Smith maintains a diversified pooled investment portfolio of global equities, including significant commitments to alternative equities and private equity, and a moderate investment in fixed income. As of June 30, 2010, 24 percent of the portfolio was invested in alternative equities (primarily hedge funds), 31 percent in global equities, 34 percent in private equity and real assets, 4 percent in cash and cash equivalents, and 7 percent in fixed income. The market value of the portfolio recovered to $1.3 billion as of June 2010.

The college's 2009–10 investment return of 16.3 percent outpaced the composite benchmark used to measure endowment performance, which was 12.8 percent for the same period. Performance has outpaced the benchmark over the three-year (0.3 percent versus minus 4.3 percent), five-year (7.3 percent versus 3.1 percent) and ten-year (7.0 percent versus 3.0 percent) periods.

Facilities

Smith expended $29 million on campus facilities and equipment during 2009–10. Of special significance was the completion of Ford Hall, which was dedicated in October. The building, certified as a Leadership in Energy and Environmental Design (LEED) Gold facility, houses engineering and molecular sciences and serves as a teaching tool for sustainable design.

As part of the recent budget reduction plan, the college identified potential buildings for release in order to achieve a five percent reduction in the college's use of space over the next 10 years. Several factors, including the fact that Smith has more square feet per student in both residential and academic buildings than

Smith expended $29.0 million on facilities and equipment during 2009–10. Of special significance was the completion of Ford Hall, which was dedicated in October and certified as a Leadership in Energy and Environmental Design (LEED) Gold facility.

most of its peers, made this a reasonable place to seek savings. The buildings under discussion are on the periphery of the campus and include academic buildings, administrative buildings, student houses and college-owned rental buildings.

The college adopted a Sustainability and Climate Action Plan in spring 2010. The plan includes a 20-year goal to achieve the carbon neutrality called for in the American College and University Presidents' Climate Commitment, to which Smith was an early signatory. Smith is among a handful of colleges and universities that achieved significant declines in greenhouse gas emissions over the past decade. The college's 2009 emission levels trailed those of 1990 by more than 10 percent. Infrastructure investments, including the college's cogeneration facility, are contributing to the reduction in carbon footprint, as is a significant shift from fuel oil to natural gas. Utilities costs (fuel, electricity and water) decreased to $7.1 million for the year, a reduction of more than $910,000 from the prior year.

Signing the Presidents' Climate Commitment also dedicates Smith to ensuring that issues of climate neutrality and sustainability are part of every student's educational experience. Smith's new Center for the Environment, Ecological Design and Sustainability (CEEDS) is uniquely positioned as a nexus of faculty and student research initiatives and a link among such programs as environmental science and policy, landscape studies and engineering.

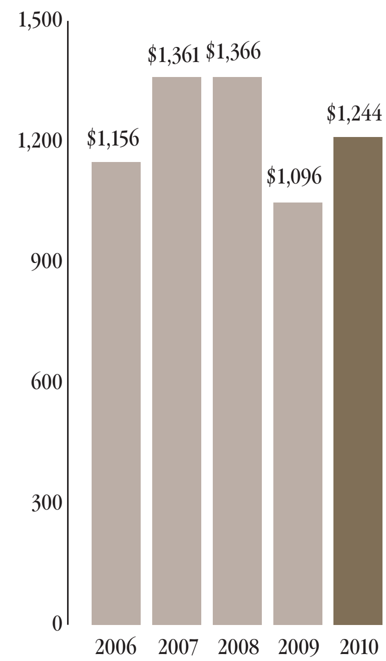
The college continued a multiyear plan for renovation of student houses in 2009–10. Substantial renovations of Lawrence and Morris Houses were underway at year-end. Renovation of Wright Hall, including faculty offices and homes for CEEDS, the Global Studies Center and the Center for Community Collaboration, will be completed in the fall. A multiyear renovation of the Clark Science Center is well underway and is scheduled for completion in 2011. Smith's first artificial turf field was dedicated in mid-September, in time for full use for the fall athletic season.

Endowment Spending Rate

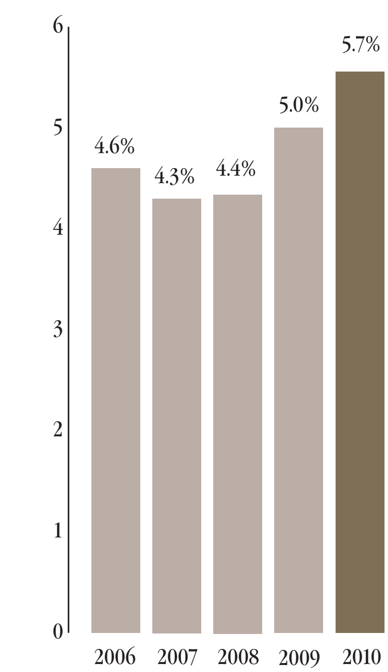
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2000–01	$906.9	$44.1	4.9%	15.0%
2001–02	$917.6	$47.0	5.1%	6.4%
2002–03	$851.2	$48.4	5.7%	3.1%
2003–04	$823.9	$46.5	5.6%	-3.9%
2004–05	$924.5	$46.0	5.0%	-1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	-8.7%
Ten-year totals		$558.0	5.0%	40.5%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2010	2009	2008	2005	2000
Assets, Liabilities and Net Assets (000's)					
Total assets	$1,833,836	$1,691,744	$2,021,816	$1,585,630	$1,286,750
Total plant assets	$385,929	$372,423	$339,283	$271,862	$167,386
Endowment funds market value	$1,243,560	$1,096,322	$1,365,792	$1,035,542	$906,944
Life income funds market value	$41,281	$38,534	$55,932	$49,271	$43,811
Long-term debt	$170,288	$172,644	$174,890	$72,916	$72,324
Net assets	$1,577,397	$1,438,509	$1,701,940	$1,332,637	$1,176,865
Income and Expense (000's)					
Undergraduate comprehensive fees	$132,927	$126,616	$120,379	$105,577	$77,099
Undergraduate scholarships	48,964	45,324	42,776	38,209	22,914
Net	83,963	81,292	77,603	67,368	54,185
Unrestricted gifts and grants	30,891	31,642	30,856	20,823	24,938
Restricted gifts and grants	14,009	25,804	13,568	17,826	23,110
Total operating expenses	191,787	191,596	189,267	157,007	126,275
Salaries and wages	86,099	88,109	84,533	75,537	62,306
Staff benefits	26,043	26,612	25,174	21,503	15,259
Other Statistics					
Undergraduate:					
Student FTE	2,688	2,683	2,696	2,776	2,575
Faculty FTE	289	289	290	294	264
Student-faculty ratio	8.8	8.8	8.7	8.8	9.7
Comprehensive fee	50,380	48,108	45,606	38,886	30,260
Cost per undergraduate student	64,400	64,300	62,700	50,500	44,500
Comprehensive fee as percent of cost per student	78.2%	74.8%	72.7%	77.0%	68.0%
Students receiving scholarships	64.7%	63.8%	65.8%	65.4%	58.0%
Operations supported by endowment	31.0%	33.9%	30.7%	28.7%	29.8%
Total student FTE	3,154	3,099	3,132	3,229	3,045
Endowment per student	394,334	353,794	436,086	320,731	297,845
Endowment spending as percent of beginning market value	5.7%	5.0%	4.4%	5.0%	4.3%

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

Independent Auditors' Report

KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
Smith College:

We have audited the accompanying statements of financial position of Smith College (the College) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 18, 2010

Statements of Financial Position

June 30, 2010 and 2009

(In Thousands)

See accompanying notes to financial statements.

		2010		2009
Assets				
Cash and cash equivalents	$	13,237	$	18,716
Short-term investments		89,201		57,884
Receivables, net		39,530		44,216
Other assets		4,106		18,463
Funds held by bond trustee		1,487		16,211
Long-term investments		1,300,346		1,163,831
Land, buildings, equipment and collections, net		385,929		372,423
Total assets	$	1,833,836	$	1,691,744
Liabilities				
Accounts payable and accrued liabilities	$	53,884	$	47,068
Life income obligations		19,356		19,507
Deferred income, deposits, agency funds		12,911		14,016
Bonds payable		170,288		172,644
Total liabilities		256,439		253,235
Net Assets				
Unrestricted		604,556		548,598
Temporarily restricted		642,064		568,817
Permanently restricted		330,777		321,094
Total net assets	$	1,577,397	$	1,438,509
Total liabilities and net assets	$	1,833,836	$	1,691,744

Statements of Activities

For the years ended June 30, 2010 and 2009

(In Thousands)

See accompanying notes to financial statements.

	2010	2009
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 115,801	$ 111,265
Residence and dining fees	32,490	31,067
Student aid	(53,829)	(49,997)
Student income, net	94,462	92,335
Gifts	30,891	31,642
Investment return supporting operations	23,542	24,891
Other income	13,172	12,372
Net assets released from restrictions	62,386	51,959
Total operating revenues	224,453	213,199
Operating Expenses		
Instruction	82,648	82,107
Academic support	27,525	28,095
Student services	21,039	21,428
Auxiliary enterprises	33,390	34,615
General and administrative	27,185	25,351
Total expenses	191,787	191,596
Income from operations	32,666	21,603
Non-Operating Revenues and Other Changes		
Realized and unrealized gain (loss) on interest-rate swap agreements	(10,318)	6,695
Investment return increasing (decreasing) long-term investments	33,610	(87,311)
Non-operating revenues and other changes subtotal	23,292	(80,616)
Increase (decrease) in unrestricted net assets	55,958	(59,013)
Changes in Temporarily Restricted Net Assets		
Gifts	8,258	9,394
Investment return	125,662	(167,048)
Change in life income funds	1,714	643
Net assets released from restrictions	(62,386)	(51,959)
Increase (decrease) in temporarily restricted net assets	73,248	(208,970)
Changes in Permanently Restricted Net Assets		
Gifts	5,751	16,410
Investment return	795	(3,301)
Change in life income funds	3,136	(8,557)
Increase in permanently restricted net assets	9,682	4,552
Total increase (decrease) in net assets	138,888	(263,431)
Net assets, beginning of year	1,438,509	1,701,940
Net assets, end of year	$ 1,577,397	$ 1,438,509

Statements of Cash Flows

For the years ended June 30, 2010 and 2009

(In Thousands)

See accompanying notes to financial statements.

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	$ 138,888	$ (263,431)
Depreciation and amortization	15,626	13,345
Net unrealized and realized (gains) losses on investments	(178,133)	240,547
Actuarial change in life income obligation	(150)	(3,610)
Net change in operating assets and liabilities		
Short-term investments	(31,317)	612
Receivables, net	4,873	(7,156)
Other assets	14,303	(12,066)
Funds held by bond trustee	14,723	31,832
Accounts payable and accrued liabilities	6,816	4,790
Deferred income, deposits, and agency funds	(1,106)	(256)
Contributions restricted for long-term investment	(5,098)	(7,355)
Contributions of property and securities	(8,874)	(3,247)
Net cash used in operating activities	(29,449)	(5,995)
Cash Flows From Investing Activities		
Purchases of plant and equipment	(22,401)	(47,032)
Proceeds from loan collections	1,514	1,576
Loans issued	(1,701)	(1,197)
Purchases of investments	(402,457)	(697,138)
Sales and maturities of investments	446,202	760,501
Net cash provided by investing activities	21,157	16,710
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	5,098	7,355
Payments on long-term debt	(2,285)	(2,175)
Net cash provided by financing activities	2,813	5,180
Net change in cash and cash equivalents	(5,479)	15,895
Cash and cash equivalents, beginning of year	18,716	2,821
Cash and cash equivalents, end of year	$ 13,237	$ 18,716
Supplemental disclosure:		
Interest paid	$ 2,109	$ 3,751
Gifts in kind	6,746	2,067
Purchases of plant and equipment included in accounts payable	4,177	4,177

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation
The accompanying financial statements have been prepared using accrual accounting and include the accounts of the Trustees of the Smith College (college), as well as the Alumnae Association of Smith College as required by accounting rules governing the consolidation of related entities.

(b) Net Asset Classes
The accompanying financial statements present information regarding the college's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by the college or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations.

Permanently restricted net assets are subject to donor stipulations requiring that they be maintained permanently.

(c) Contributions
Contributions, including unconditional promises to give, are recognized as revenues when donors' commitments are received. Conditional pledges become unconditional and are recognized as revenues when conditions are substantially met. Unconditional pledges, net of an allowance for uncollectible amounts, are reported at their estimated net present values, and are classified as either permanently restricted or temporarily restricted. Gifts whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenues.

(d) Cash and Cash Equivalents
Investments acquired with a maturity date of three months or less are reported as cash equivalents, unless they are part of long-term investment funds.

(e) Investments
Investments are reported at fair value and the college believes the carrying amounts of these financial instruments are reasonable estimates of fair value. The values of publicly traded fixed income and equity securities are based on quoted market prices and exchange rates. Nonmarketable securities, which include alternative investments in hedge funds and private equity funds, are valued using current estimates of fair value in the absence of readily determinable public market values. Those valuations consider variables such as financial performance of investments, including comparisons of comparable companies' earnings multiples, cash flow analyses, recent sales prices of investments, and other pertinent information. The estimates of fair values, because of the inherent uncertainty of valuations for these investments, may differ from the values that would have been used had ready markets existed. 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 of Smith College, the Smith Students' Aid Society, Inc., and the Smith College Club of New York City are invested with the college's pooled investments.

(f) Land, Land Improvements, Buildings, Equipment, and Collections
Land, land improvements, buildings, equipment and collections are recorded at cost or fair value at date of donation. Depreciation is recognized using the straight line method with useful lives of 10 to 30 years for land improvements, 40 to 70 years for buildings, five to 12 years for equipment, 15 years for library collections, and 100 years for art and library special collections. Depreciation expense for land improvements and buildings is allocated to functional classifications based on square footage. Depreciation expense for equipment is allocated to functional classifications based on the functional classifications of the departments in which equipment is located, and depreciation expense for collections is allocated to the academic support functional classification.

(g) Allocation of Certain Expenses
The statement of activities presents expenses by functional classification. Operation and maintenance of plant is allocated based on square footage, and interest expense is allocated based on the functional purpose for which the debt proceeds were used.

(h) Estimates
The preparation of financial statements in conformity 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 the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include valuation of investments at fair value, estimated net realizable value of receivables, asset retirement obligations, and actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from estimates.

(i) Tax Status
The Trustees of the 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 federal and state taxes under the Section 501(a) of the Code and applicable state laws.

(j) Reclassifications
Certain reclassifications have been made to 2009 accounts to conform with the 2010 presentation.

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

	2010	2009
Students, employees, other receivables	$3,337	$4,499
Contributions expected to be collected within:		
One year	16,203	21,975
One to five years	5,377	2,247
Over five years	16,140	16,046
Student loans	6,549	6,725
Employee loans and mortgages	4,319	4,122
Less: discount (2.50% to 6.00%) on contributions	(9,310)	(8,722)
Less: allowance for uncollectibles	(3,085)	(2,676)
	$39,530	$44,216

The college incurred fund-raising expenses of $5.5 million for the year ended June 30, 2010 ($4.8 million for the year ended June 30, 2009).

3. Other Assets

Other assets consist of the following at June 30 (in thousands):

	2010	2009
Inventories	$889	$1,085
Prepaid assets	1,035	2,449
Miscellaneous assets	988	1,043
Bond swap asset	-	12,719
Accrued income and dividends	1,194	1,167
	$4,106	$18,463

4. Investments and Fair Value

The college's investment objective is to invest its assets in a prudent manner in order to achieve a long-term rate of return sufficient to fund its spending and to increase investment value equal to or above inflation. The college uses a diversified investment approach incorporating multiple asset classes, strategies and managers. The college's Board of Trustees' Investment Committee oversees the college's investments and authorizes major investment decisions.

In addition to equity and fixed income investments, the college also holds shares or units in institutional funds and alternative investment funds involving hedged and private equity strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments. Private equity funds generally employ buyout, venture capital and debt-related strategies, often requiring the estimation of fair values by the fund managers in the absence of readily determinable market values.

Fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The college's interest in alternative investment funds is generally reported at net asset value (NAV) provided by the fund managers. NAV is used as a practical expedient to estimate the fair value of the college's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the college had no specific plans or intentions to sell investments at amounts different from NAV.

At June 30, 2010 and June 30, 2009, the carrying values of the college's cash and cash equivalents, receivables, accounts payable and deposits approximated their fair values.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.
Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.
Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Classification in Level 2 or 3 is based on the college's ability to redeem its interest at or near the date of the statement of financial position, and if the interest can be redeemed in the near term, the investment is classified in Level 2.

The college's assets and liabilities at June 30, 2010, that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Day's Notice
Assets:						
Investments:						
Cash and cash equivalents	$157	$ -	$ -	$157	Daily	1
Money market fund	27,837	-	-	27,837	Daily	1
Fixed income	2,488	42,196	-	44,684	Daily	1
Hedge fund						
Equity long/short	-	384,440	-	384,440	Daily/Monthly	1–30
Multi-strategy	-	288,414	-	288,414	Monthly	Not applicable
Credit/event driven	-	-	10,248	10,248	Annually	90
Credit/event driven	-	-	16,234	16,234	Annually	60
Fixed income strategies	-	-	8,687	8,687	Illiquid	Not applicable
Fixed income strategies	-	-	44,811	44,811	Every 2 years	90
Private equity investments	-	-	380,003	380,003	Illiquid	Not applicable
Real assets investments	-	-	66,101	66,101	Illiquid	Not applicable
Equity securities	12	-	1,461	1,473	Illiquid	Not applicable
Funds held or administered by others	-	27,001	256	27,257	Not applicable	Not applicable
Total investments	30,494	742,051	527,801	1,300,346		
Other assets:						
Funds held by bond trustee	-	1,487	-	1,487	Daily	1
Short-term investments	28,928	60,273	-	89,201	Daily	1
Total assets	$59,422	$803,811	$527,801	$1,391,034		
Liabilities:						
Interest rate swaps		$(17,793)				
		$(17,793)				

The college's assets and liabilities at June 30, 2009, that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Day's Notice
Assets:						
Investments:						
Cash and cash equivalents	$29	$ -	$ -	$29	Daily	1
Money market fund	24,485	-	-	24,485	Daily	1
Fixed income	2,281	58,213	-	60,494	Daily	1
Hedge fund						
Equity long/short	-	-	301,968	301,968	Daily/Monthly	1–30
Multi-strategy	-	-	315,323	315,323	Monthly	Not applicable
Credit/event driven	-	-	9,800	9,800	Annually	90
Credit/event driven	-	-	14,746	14,746	Annually	60
Fixed income strategies	-	-	6,653	6,653	Illiquid	Not applicable
Fixed income strategies	-	-	36,615	36,615	Every 2 years	90
Private equity investments	-	-	297,009	297,009	Illiquid	Not applicable
Real assets investments	-	-	68,582	68,582	Illiquid	Not applicable
Equity securities	22	-	1,484	1,506	Illiquid	Not applicable
Funds held or administered by others	-	26,042	579	26,621	Not applicable	Not applicable
Total investments	26,817	84,255	1,052,759	1,163,831		
Other assets:						
Interest rate swap	-	12,719	-	12,719		
Funds held by bond trustee	-	16,211	-	16,211	Daily	1
Short-term investments	20,747	37,137	-	57,884	Daily	1
Total assets	$47,564	$150,322	$1,052,759	$1,250,645		
Liabilities:						
Interest rate swaps		$(11,409)				
		$(11,409)				

The following tables present the college's activity for the fiscal years ended June 30, 2010, and June 30, 2009, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Global Equity	Alternative Investment	Private Partnerships	Equities & Fixed Income	Funds Held by Others	Total
Fair value as of June 30, 2009	$311,767	$330,070	$365,590	$44,752	$580	$1,052,759
Transfers	(301,968)	(315,324)	-	-	-	(617,292)
Acquistions	-	-	56,874	4,140	-	61,014
Dispositions	-	-	(42,952)	(2,879)	(5)	(45,836)
Investment return	-	-	10,535	-	-	10,535
Unrealized gains (losses) on investments	449	1,488	56,057	8,946	(319)	66,621
Fair value as of June 30, 2010	$10,248	$16,234	$446,104	$54,959	$256	$527,801

	Global Equity	Alternative Equity	Private Partnerships	Equities & Fixed Income	Funds Held by Others	Total
Fair value June 30, 2008	$176,740	$438,353	$538,858	$41,661	$898	$1,196,510
Transfers	-	-	-	14	-	14
Acquisitions	200,552	-	91,536	4,399	-	296,487
Dispositions	(153,151)	(23,885)	(13,583)	(1,194)	-	(191,813)
Investment return	(988)	-	(35,271)	-	-	(36,259)
Unrealized gains (losses)	88,614	(84,398)	(215,950)	(128)	(318)	(212,180)
Fair value June 30, 2009	$311,767	$330,070	$365,590	$44,752	$580	$1,052,759

Current accounting standards allow for investments redeemable at net asset value (NAV) on or near the date of the statement of financial position to be classified as Level 2. Three investment funds ($617,292,000) were transferred from Level 3 to Level 2 during 2009–10 because of this accounting change.

Included in the above tables are $1,200.6 million at June 30, 2010 ($1,052.8 million at June 30, 2009) of investments for which the college has utilized the net asset value (NAV) reported by each of the underlying funds as a practical expedient to estimate the fair value of the investment.

Within each asset class, the college achieves diversification through allocations to several investment strategies and market capitalizations. The college has contracted with Investure, LLC to serve as its investment office. This outsourced office has established limited partnership vehicles to assist in the management of its client's accounts. These limited partnership investments represent 74 percent of the college's investments at June 30, 2010 (70 percent at June 30, 2009).

At June 30, 2010, and June 30, 2009, the college's outstanding commitments to private equity partnerships totaled $188.5 million and $268.8 million, respectively, based on the provisions of the individual agreements, with adjustments as to amounts and timing based on prior actions of the partnerships and expectations as to future opportunities. There can be no assurance that the timing or amounts of the capital calls will materialize as indicated. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below (in thousands):

Fiscal Year	Projected Capital Calls
2011	$65,990
2012	55,149
2013	30,332
2014	16,683
2015	9,175
Thereafter	11,214
Total	$188,543

The private equity partnerships have 10-year terms, with extensions of one to four years. As of June 30, 2010, the average remaining life of the private equity partnerships is approximately five years.

The college had alternative equity and fixed income investments of $846.9 million at June 30, 2010 ($481.2 million at June 30, 2009) restricted from redemption for lock-up periods. Some of the alternative equity and fixed income investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, with the majority requiring 30 to 180 days notice after the initial lock up period. The expirations of redemption lock up periods are summarized in the table below (in thousands):

Fiscal Year	Amount
Less than one year	$34,028
Between one and three years	35,542
Greater than three years	10,248
Total	$79,818

Investment income and realized gains (losses) on the college's investments are summarized in the table below (in thousands of dollars):

	2010	2009
Dividends and interest	$6,799	$10,118
Realized gains (losses)	36,344	(6,637)
Unrealized gains (losses)	141,789	(233,910)
Fees	(1,323)	(2,340)
	$183,609	$(232,769)

5. Endowment Funds

The college's endowment consists of 1,975 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the college to function as endowments (quasi-endowment).

The college manages the endowment to maximize annualized returns net of all costs over rolling 10-year periods while adhering to stated risk parameters that seek to avoid greater than 25 percent peak-to-trough declines in the inflation-adjusted endowment unit value. Asset allocation parameters are established for investments with lock-up periods. The strategy allows for a significant allocation to equity-oriented investments offering long-term capital appreciation, diversified across asset classes and managers. The college compares the performance of its investments against key benchmarks.

The college's Board of Trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter/exit the investment pool, based on the then-market value of a unit in the pool. The pool is valued monthly. The endowment spending policy provides that the income distributed per unit will normally increase by 4 percent annually as long as the resulting amount is more than 4 percent and less than 6 percent of the preceding December 31 endowment market value. For fiscal year 2009–10 the Board of Trustees set the spending rate at 6 percent of the December 31, 2008 endowment market value.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Massachusetts became effective June 30, 2009. The college has prepared these financial statements on the basis of the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the college classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the college in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the college considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

a) Duration and preservation of the endowment fund
b) Purposes of the college and the endowed fund
c) General economic conditions
d) Possible effects of inflation or deflation
e) Expected total return from income and the appreciation of investments
f) Other resources of the college
g) Investment policy of the college

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. At June 30, 2010, this dollar amount was $1.4 million ($3 million as of June 30, 2009). 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 UPMIFA or donor required value of such funds increases temporarily restricted net assets.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor restricted amounts reported below include term endowments reported as temporarily restricted net assets, and appreciation, reported as temporarily restricted net assets.

Endowment funds consisted of the following at June 30, 2010, and June 30, 2009 (in thousands):

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(1,401)	$581,560	$302,126	$882,285
Quasi (board designated)	361,275	-	-	361,275
Total	$359,874	$581,560	$302,126	$1,243,560

2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(3,049)	$501,751	$294,304	$793,006
Quasi (board designated)	303,316	-	-	303,316
Total	$300,267	$501,751	$294,304	$1,096,322

Changes in endowment funds for the fiscal years ended June 30, 2010, and June 30, 2009 were as follows (in thousands):

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2009	$300,267	$501,751	$294,304	$1,096,322
Yield	3,529	461	14	4,004
Realized/unrealized gains	47,932	123,080	1,017	172,029
Contributions	1,286	2	5,008	6,296
Distributions	(19,886)	(42,085)	(219)	(62,190)
Transfers	26,746	(1,649)	2,002	27,099
Balance June 30, 2010	$359,874	$581,560	$302,126	$1,243,560

2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2008	$380,518	$706,114	$279,160	$1,365,792
Yield	5,776	97	22	5,895
Realized/unrealized losses	(64,547)	(162,993)	(3,229)	(230,769)
Contributions	1,130	16	6,182	7,328
Distributions	(23,273)	(45,625)	(21)	(68,919)
Transfers	663	4,142	12,190	16,995
Balance June 30, 2009	$300,267	$501,751	$294,304	$1,096,322

6. Land, Land Improvements, Buildings, Equipment, and Collections

Land, land improvements, buildings, equipment and collections at June 30, 2010, and June 30, 2009 (in thousands):

	Useful Lives	2010	2009
Land		$6,784	$6,785
Land improvements	10–30 years	5,977	5,471
Buildings	40–70 years	459,561	376,613
Works of art	100 years	43,698	36,791
Library books	15 years	51,243	49,293
Equipment	5–12 years	12,012	12,957
		579,275	487,910
Accumulated depreciation		(202,252)	(189,673)
		377,023	298,237
Construction in progress		8,906	74,186
		$385,929	$372,423
Depreciation expense		$15,642	$13,360
Capitalized interest		$71	$250

7. Accounts Payable and Accrued Liabilities

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

	2010	2009
General payables	$4,643	$4,669
Interest rate swaps	17,793	11,409
Facilities, construction, repairs	24,485	23,967
Payroll related	3,555	3,575
Compensated absences	3,408	3,448
	$53,884	$47,068

8. Life Income Assets, Obligations, and Net Assets

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

	Annuities (held by College) 2010	2009	Life Income (College Trustee) 2010	2009	Life Income (Individual Trustee) 2010	2009
Assets:						
Cash/investments	$28,314	$25,779	$12,967	$12,755		
Contributions receivable					$16,233	$19,064
Discount/allowance					(8,649)	(8,178)
Obligation:						
Obligation	(13,470)	(13,706)	(5,886)	(5,801)		
	$14,844	$12,073	$7,081	$6,954	$7,584	$10,886
Net assets:						
Temporary	$6,445	$5,066	$2,943	$3,007	$3,326	$6,257
Permanent	8,399	7,007	4,138	3,947	4,258	4,629
	$14,844	$12,073	$7,081	$6,954	$7,584	$10,886

Life income assets, obligations and net assets result from annuity and life income agreements, which are primarily irrevocable charitable remainder agreements. The college holds the assets for those classified as annuities and life income agreements for which the college is trustee. 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. For life income agreements held by outside trustees, the college recognizes the net realizable value as a contribution receivable. Adjustments during the term of the agreements are made for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

9. Deferred Income, Deposits and Agency Funds

Deferred income, deposits and agency funds consist of the following items at June 30 (in thousands):

	2010	2009
Deferred income	$4,157	$4,783
Student deposits	683	718
Associated Kyoto Program	942	1,796
Smith Students' Aid Society	3,823	3,442
Other deposits	1,447	1,360
Perkins loan program	1,859	1,917
	$12,911	$14,016

10. Bonds Payable

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

Series	Final Year of Maturity	Interest Rates	2010	2009
Massachusetts Development Finance Agency:				
2000	2010	4.60%–5.75%	$1,975	$2,890
2001	2024	Variable	26,661	27,876
2002	2029	Variable	33,850	34,005
2005	2035	5.00%	33,065	33,065
2007	2037	Variable	72,960	72,960
			168,511	170,796
Unamortized premium			1,777	1,848
			$170,288	$172,644

The average interest rates on the Series 2001 and Series 2002 bond issues were 0.19 percent during fiscal year 2010, 1.02 percent during fiscal year 2009. The average interest rate on the Series 2007 bond issue during fiscal year 2010 was 0.29 percent, 1.84 percent during fiscal year 2009.

The fair value of the Series 2000 bonds as of June 30, 2010, is $2.0 million and the fair value of the Series 2005 bonds as of June 30, 2010, is $34.3 million. The fair value of the Series 2001, 2002 and 2007 bonds as of June 30, 2010 approximates the total outstanding principal balance. Aggregate principal payments due on the bonds during each of the next five years, ending June 30 and thereafter are as follows (in thousands):

Principal

2011	2012	2013	2014	2015	Thereafter	Total
$2,393	$2,510	$2,635	$2,754	$2,882	$155,337	$168,511

There are no funds held by bond trustees for construction purposes at June 30, 2010 ($16.2 million at June 30, 2009).

In connection with the issuance of the Series 2001, Series 2002 and Series 2007 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, 4.66 percent on the Series 2002 bonds, and 2.86 percent on the Series 2007 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, Series 2002 and Series 2007 bonds. On June 30, 2010 and 2009, the fair value of the interest rate swaps for the 2001 and 2002 Series Bonds, recorded as part of the college's accounts payable and accrued liabilities, was $12.1 million and $11.4 million, respectively. On June 30, 2009, the fair value of the interest rate swap for the 2007 Series Bond, recorded as part of the college's other assets, was $12.7 million. On June 30, 2010, the fair value of the interest rate swaps for the 2007 Series Bond, recorded as part of the college's accounts payable and accrued liabilities, was $5.6 million. This change was due in part to a change in the terms of the swap which reduced the percent of LIBOR used in determining the amount due the college. This September 2009 change in the agreement included a one-time payment to the college of $13.3 million by the counterparty. The continued effectiveness of these swaps will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements. The Series 2001, 2002 and 2007 revenue bonds are variable rate. The rate is set weekly. The college is obligated to repurchase any bonds tendered when the rate is reset if the college's remarketing agents fail to find a buyer. The college has secured liquidity through a standby liquidity support agreement for the 2001 and 2002 Bonds Series, and a standby bond purchase agreement for the 2007 Bond Series.

11. Net Assets

Net assets at June 30, 2010, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
Permanent endowment	$(1,401)	$ -	$302,126	$300,725
Net appreciation on permanent endowment	-	578,180	-	578,180
Term endowment	-	3,380	-	3,380
Quasi-endowment	361,275	-	-	361,275
	359,874	581,560	302,126	1,243,560
Life income funds	-	12,715	16,795	29,510
Plant funds	196,000	495	-	196,495
Loan funds	-	-	7,974	- 7,974
Other funds	48,682	47,294	3,882	99,858
	$604,556	$642,064	$330,777	$1,577,397

And net assets at June 30, 2009, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
Permanent endowment	$(3,049)	$ -	$294,304	$291,255
Net appreciation on permanent endowment	-	498,131	-	498,131
Term endowment	-	3,620	-	3,620
Quasi-endowment	303,316	-	-	303,316
	300,267	501,751	294,304	1,096,322
Life income funds	-	14,330	15,583	29,913
Plant funds	199,006	264	-	199,270
Loan funds	-	-	7,711	7,711
Other funds	49,325	52,472	3,496	105,293
	$548,598	$568,817	$321,094	$1,438,509

Temporarily restricted net assets released to unrestricted net assets were as follows (in thousands):

	2010	2009
Total return distribution	$40,908	$43,742
Program services	21,478	8,217
	$62,386	$51,959

12. Retirement Plans

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 $7.7 million in fiscal 2010 ($8.0 million in fiscal 2009).

13. Subsequent Event

On September 15, 2010, the college tendered and reissued Massachusetts Development Finance Authority Series 2007 bonds. The college entered into this transaction in order to substitute the financial institution which issued the original underlying standby bond purchase agreement. The college evaluated subsequent events for potential recognition or disclosure through October 18, 2010, the date on which the financial statements were issued.

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 adviser for equity complaints, College Hall 103, (413) 585-2141, or visit www.smith.edu/diversity.

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