Smith College

Consolidated Financial Statements

June 30, 2019 and 2018

Smith College
Index
June 30, 2019 and 2018

Page(s)

Report of Independent Auditors

To the Board of Trustees
Smith College

We have audited the accompanying consolidated financial statements of Smith College (the "College"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statement of activities and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 185 Asylum Street, Suite 2400, Hartford, CT 06103-3404
T: (860) 241 7000, F: (860) 241-7590, www.pwc.com/us

Other Matter

The consolidated financial statements of the College as of June 30, 2018 and for the year then ended were audited by other auditors whose report, dated November 15, 2018, expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

Hartford, Connecticut
October 31, 2019

Smith College
Consolidated Statements of Financial Position
June 30, 2019 and 2018

(in thousands)	2019	2018
Assets		
Cash and cash equivalents	$ 45,207	$ 37,261
Short-term investments	66,442	93,663
Receivables, net and other assets	58,902	40,374
Long-term investments	2,063,289	2,020,236
Property, plant and equipment, net	504,172	480,098
Total assets	$ 2,738,012	$ 2,671,632
Liabilities		
Accounts payable and accrued liabilities	$ 21,184	$ 20,622
Deferred income, deposits, and agency funds	25,026	25,933
Interest rate swap agreements	15,625	9,508
Liability for split interest agreements	20,396	20,826
Asset retirement obligations	20,630	19,838
Bonds and mortgages payable	265,210	265,203
Total liabilities	368,071	361,930
Net assets		
Without donor restrictions	731,416	718,088
With donor restrictions	1,638,525	1,591,614
Total net assets	2,369,941	2,309,702
Total liabilities and net assets	$ 2,738,012	$ 2,671,632

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

Smith College
Consolidated Statement of Activities
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

(in thousands)	Without Restriction	With Donor Restriction	Total 2019	Total 2018
Operating revenues and other additions				
Student income				
Tuition and other fees	$ 153,179	$ -	$ 153,179	$ 147,347
Residence and dining fees	41,758	-	41,758	40,443
Student aid	(82,304)	-	(82,304)	(78,770)
Student income, net	112,633	-	112,633	109,020
Gifts and grants	23,698	-	23,698	25,961
Investment return supporting operations	8,623	-	8,623	7,716
Other income	10,071	-	10,071	11,057
Endowment return appropriated	89,281	2,698	91,979	86,860
Net assets released from restrictions	2,212	-	2,212	4,319
Total operating revenues and other additions	246,518	2,698	249,216	244,933
Operating expenses				
Salaries and wages	106,292	-	106,292	104,288
Employee benefits	31,567	-	31,567	32,859
Supplies, services, other	65,810	-	65,810	62,345
Depreciation and amortization	19,399	-	19,399	19,496
Interest	8,736	-	8,736	11,422
Utilities	6,234	-	6,234	5,887
Total expenses	238,038	-	238,038	236,297
Increase in net assets from operating activities	8,480	2,698	11,178	8,636
Nonoperating activities				
Gifts and grants	-	26,617	26,617	39,130
Net investment return increasing long-term investments	25,171	93,147	118,318	166,136
Endowment return appropriated	(19,120)	(72,859)	(91,979)	(86,860)
Realized and unrealized gains (losses) on interest rate swap agreements	(6,118)	-	(6,118)	4,519
Change in life income funds	127	4,308	4,435	3,930
Other income	-	-	-	1,175
Net assets released from restrictions	-	(2,212)	(2,212)	(4,319)
Change in net asset classification and transfers	4,788	(4,788)	-	-
Increase in net assets from nonoperating activities	4,848	44,213	49,061	123,711
Increase in net assets	13,328	46,911	60,239	132,347
Net assets				
Beginning of year	718,088	1,591,614	2,309,702	2,177,355
End of year	$ 731,416	$ 1,638,525	$ 2,369,941	$ 2,309,702

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

Smith College
Consolidated Statement of Activities
Year Ended June 30, 2018

(in thousands)	Without Restriction	With Donor Restriction	Total
Operating revenues and other additions			
Student income			
Tuition and other fees	$ 147,347	$ -	$ 147,347
Residence and dining fees	40,443	-	40,443
Student aid	(78,770)	-	(78,770)
Student income, net	109,020	-	109,020
Gifts and grants	25,961	-	25,961
Investment return supporting operations	7,716	-	7,716
Other income	11,057	-	11,057
Endowment return appropriated	86,860	-	86,860
Net assets released from restrictions	4,319	-	4,319
Total operating revenues and other additions	244,933	-	244,933
Operating expenses			
Salaries and wages	104,288	-	104,288
Employee benefits	32,859	-	32,859
Supplies, services, other	62,345	-	62,345
Depreciation and amortization	19,496	-	19,496
Interest	11,422	-	11,422
Utilities	5,887	-	5,887
Total expenses	236,297	-	236,297
Increase in net assets from operating activities	8,636	-	8,636
Nonoperating activities			
Gifts and grants	-	39,130	39,130
Net investment return increasing long-term investments	36,281	129,855	166,136
Endowment return appropriated	(18,391)	(68,469)	(86,860)
Realized and unrealized gains on interest rate swap agreements	4,519	-	4,519
Change in life income funds	679	3,251	3,930
Other income	1,175	-	1,175
Net assets released from restrictions	-	(4,319)	(4,319)
Change in net asset classification and transfers	1,778	(1,778)	-
Increase in net assets from nonoperating activities	26,041	97,670	123,711
Increase in net assets	34,677	97,670	132,347
Net assets			
Beginning of year	683,411	1,493,944	2,177,355
End of year	$ 718,088	$ 1,591,614	$ 2,309,702

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

Smith College
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

(in thousands)	2019	2018
Cash flows from operating activities		
Increase in net assets	$ 60,239	$ 132,347
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation and amortization	18,669	19,280
Unrealized gain in market value on interest rate swap agreements	6,118	(4,519)
Net unrealized and realized gains on investments	(127,396)	(170,980)
Actuarial change in life income obligations	(430)	(51)
Contributions restricted for long-term investment	(15,043)	(27,169)
Contributions of property and securities	(4,793)	(11,303)
Net change in operating assets and liabilities		
Receivables, net and other assets	(18,742)	2,669
Accounts payable, accrued liabilities, and asset retirement obligations	1,354	(525)
Deferred income, deposits and agency funds	(907)	488
Net cash used in operating activities	(80,931)	(59,763)
Cash flows from investing activities		
Purchases of property, plant and equipment	(42,681)	(35,483)
Proceeds from student and other loan collections	1,323	633
Student and other loans issued	(1,109)	(1,289)
Purchases of investments	(168,364)	(262,218)
Sales and maturities of investments	257,500	320,730
Change in short-term investments	27,221	22,080
Net cash provided by investing activities	73,890	44,453
Cash flows from financing activities		
Contributions restricted for long-term investment	15,043	27,169
Mortgages	(56)	(55)
Net cash provided by financing activities	14,987	27,114
Net change in cash and cash equivalents	7,946	11,804
Cash and cash equivalent		
Beginning of year	37,261	25,457
End of year	$ 45,207	$ 37,261
Supplemental disclosure		
Interest paid	$ 11,528	$ 11,423
Gifts in kind	399	2,637
Purchases of property and collections increasing payables	161	813

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The Trustees of the Smith College ("college") is a private liberal arts college providing women an education of uncompromising quality. Smith College educates women of promise for lives of distinction and purpose. A college of and for the world, Smith links the power of the liberal arts to excellence in research and scholarship, thereby developing engaged global citizens and leaders to address society's challenges. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP") for The Trustees of the Smith College and includes the Alumnae Association of Smith College.

Net Asset Classes

The accompanying consolidated financial statements present information regarding the college's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions: 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.

With donor restrictions: net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Changes in net assets are classified as operating and nonoperating. Nonoperating changes in net assets are: net realized and unrealized gains and losses on long-term investments, less amounts distributed for operating purposes; the change in the market value of interest rate swap agreements; and reclassifications of net assets received in prior periods and contributions with donor restrictions. All other unrestricted activity is reported as operating without donor restrictions.

Contributions

Contributions are recognized as revenues when received. Conditional pledges 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 with donor restrictions. Contributions restricted for the acquisition of property and collections are reported as with donor restrictions gifts and are reclassified to without donor restrictions net assets at the time the assets are acquired and placed in service.

Cash and Cash Equivalents

For purposes of the statements of cash flows, investments acquired with a maturity date of three months or less are reported as cash equivalents, unless they are part of short-term or long-term investment funds.

Short-Term Investments

Short-term investments include operating funds invested in equity securities, as well as funds identified for specific capital projects, with a maturity of more than three months but less than one year.

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 a portion of 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 may also hold 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.

Investments are reported at fair value. The values of publicly traded fixed income and equity securities are based on quoted market prices. 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. Nonmarketable securities, which include alternative investments in hedge funds and private equity funds, are valued using net asset value (NAV), or its equivalent, provided by fund managers as a practical expedient to estimate fair value, 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, 2019 and 2018, the college had no specific plans or intentions to sell investments at amounts different than NAV. These nonmarketable investments often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

Investments include beneficial interests in trusts. A beneficial interest in a limited-term or 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., the Smith College Club of New York City, and the Five College Consortium, which are not part of Smith College, are invested with the college's pooled investments.

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 value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The investments reported at NAV as practical expedient are not required to be categorized in the fair value hierarchy.

Property, Plant & Equipment
Property, which includes land, land improvements, buildings and equipment, and works of art are recorded at cost or fair value at date of donation. Smith discontinued the capitalization of library books in the period ended June 30, 2019. Library books capitalized in previous periods will be depreciated over their remaining useful lives. Depreciation is recognized using the straight-line method over the useful lives of the assets.

Asset Retirement Obligation
An asset retirement obligation (ARO) is a conditional legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the college records period-to-period changes in the ARO liability resulting from the passage of time, new laws and regulations, and revisions to either the timing or amounts of the original estimate of undiscounted cash flows. Upon settlement of the obligation, any difference between the cost to settle the ARO and the liability recorded will be recognized in the statement of activities as an expense.

Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The College's significant estimates include the fair valuation of its investments, its valuation of contributions receivable, recognition of its conditional fair asset retirement obligations, interest rate swap agreements, and other accruals for expenses incurred which will be settled in the future. Actual results could differ from estimates.

Tax Status
The college is an organization described under Internal Revenue Code (IRC) Section 501(c)(3) and is generally exempt from federal and state income taxes under the Section 501(a) of the Code and applicable state laws. The college believes it has taken no significant uncertain tax positions.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%.

For the tax year ended June 30, 2019, the College made a reasonable estimate of the effect of the net investment income excise tax on deferred tax balances. Regulatory guidance in connection with calculating the tax remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the College with calculating its liability. The College continues to evaluate the impact of tax reform on the organization.

Recent Accounting Pronouncements

ASU 2018-15: "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"
In August 2018 the FASB issued ASU 2018-15, that clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. *The College elected to early adopt this standard effective July 1, 2018. The adoption of this standard resulted in a $2.937 million charge to prepaid expenses related to the capitalization of Workday costs.*

ASU 2014-09 "Revenue from Contracts with Customers (ASC 606)"
In May 2014, the FASB issued ASU No. 2014-09, a principles-based standard to recognize revenue from customer contracts. The guidance applies to all contracts, but specifically excludes contribution income. *ASU No. 2015-14 defers the effective date by one year. This will be effective for the College's fiscal year 2020. The College is currently assessing the impact on its consolidated financial statements.*

ASU 2018-08: "Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made"
In June 2018 the FASB issued ASU 2018-08, that aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. *The guidance is applicable for the College's fiscal 2020 and will be implemented simultaneously with ASC 606. The College is currently assessing the impact on its consolidated financial statements.*

ASU 2016-02: "Leases (Topic 842)"
In February 2016, the FASB issued ASU 2016-02. The objective of this standard update is to provide a representation of an entity's leasing activities. This standard update requires that lease assets and lease liabilities be recognized on the balance sheet and all key information about leasing arrangements be disclosed. *This standard update is effective for the College's fiscal year 2021. The College is currently assessing the impact on its consolidated financial statements.*

2. Liquidity

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows (in thousands):

	2019	2018
Cash and cash equivalents	$ 45,207	$ 37,261
Contributions, notes, and accounts receivable, net	3,933	5,676
Working capital investments	60,203	58,562
Fiscal 2020 endowment appropriation	92,200	90,002
Total financial assets available within one year	$ 201,543	$ 191,501

The college's Board of Trustees approves the annual spending distribution per unit. Under the provision of the spending rule, for fiscal year 2019 and 2018 the Board approved an endowment appropriation of $383.76 and $381.84 annually per unit, for a total spending allocation (in thousands) of $91,979 and $86,860 respectively. For fiscal year 2020 the Board approved an endowment appropriation of $379.20 annually per unit, for a total spending allocation (in thousands) of $92,200. Additionally, the college has board-designated endowment funds of $418 million as of June 30, 2019. Although the college does not intend to spend from its board-designated endowment funds other than amounts appropriated for operation, amounts could be made available if necessary.

The college's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. To manage liquidity, the college maintains a working capital portfolio conservatively invested across three tiers, the amounts and duration of which correspond with the projected liquidity need. The first tier in cash and cash equivalents, tier two in mid-term high-quality fixed income, and tier three co-invested with the long-term investment portfolio.

3. Receivables, Net and Other Assets

Receivables, net and other assets consist of the following items at June 30 (in thousands):

	2019	2018
Contributions expected to be collected within		
One year	$ 6,052	$ 4,317
One to five years	8,120	9,314
Over five years	2,750	3,000
Less: Discount (0% to 3%)	(835)	(955)
Less: Allowance for uncollectibles	(761)	(862)
	15,326	14,814
Grants receivable	1,553	1,158
Charitable trusts	34,152	21,574
Less: Discount (1.75% to 5.00%)	(10,205)	(11,179)
	23,947	10,395
Students, employees, other receivables	2,378	2,888
Student loans	5,690	5,765
Employee loans and mortgages	3,855	3,911
Less: Allowance for uncollectibles	(2,404)	(2,389)
	9,519	10,175
Other assets	8,557	3,832
	$ 58,902	$ 40,374

4. Fair Value

The college's assets and liabilities as of June 30, 2019 that are measured at fair value on a recurring basis are summarized in the following table by their fair value hierarchy (in thousands):

		Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Assets						
Investments						
Cash and cash equivalents						
Cash and money market funds		$ 29,283	$ 29,283	$ -	$ -	$ -
Fixed income						
U.S. Treasuries and U.S. Treasury funds		77,175	77,175	-		-
Hedge fund	Fixed income	32,380	-	-	-	32,380
Global equities						
U.S. equity securities		205	205	-	-	-
Derivative	Long-short	20,800	20,800	-	-	-
Hedge fund	Long-short	623,670	-	-	-	623,670
Hedge fund	Multi-strategy	723	-	-	-	723
Private equity	Multi-strategy	7,035	-	-	-	7,035
Alternative equity						
Hedge fund	Multi-strategy	556,685	-	-	-	556,685
Hedge fund	Event driven	23,310	-	-	-	23,310
Private equity						
	Venture capital	2,702	-	-	-	2,702
	Buyout	982	-	-	-	982
	Multi-strategy	644,750	-	-	-	644,750
	Real asset investments	21,541	-	-	-	21,541
Third-party perpetual trusts		22,048	-	574	21,474	-
Total long-term investments		2,063,289	127,463	574	21,474	1,913,778
Short-term investments						
U.S. Treasuries and U.S. Treasury funds		40,988	40,988	-	-	-
Fixed income funds		25,454	25,454	-	-	-
Certificate of deposit		-	-	-	-	-
Total short-term investments		66,442	66,442	-	-	-
		$ 2,129,731	$ 193,905	$ 574	$ 21,474	$ 1,913,778
Liabilities						
Interest rate swap agreements		$ (15,625)	$ -	$ (15,625)	$ -	$ -
		$ (15,625)	$ -	$ (15,625)	$ -	$ -

The college's assets and liabilities as of June 30, 2018 that are measured at fair value on a recurring basis are summarized in the following table by their fair value hierarchy (in thousands):

		Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Assets						
Investments						
Cash and cash equivalents						
Cash and money market funds		$ 46,067	$ 46,067	$ -	$ -	$ -
Fixed income						
U.S. Treasuries and U.S. Treasury funds		58,415	58,415	-	-	-
Hedge fund	Fixed income	51,100	-	-	-	51,100
Global equities						
U.S. equity securities		186	186	-	-	-
Derivative	Long-short	25,501	25,501	-	-	-
Hedge fund	Long-short	621,469	-	-	-	621,469
Hedge fund	Multi-strategy	2,675	-	-	-	2,675
Private equity	Multi-strategy	3,320	-	-	-	3,320
Alternative equity						
Hedge fund	Multi-strategy	511,057	-	-	-	511,057
Hedge fund	Event driven	21,288	-	-	-	21,288
Private equity						
	Venture capital	4,542	-	-	-	4,542
	Buyout	2,941	-	-	-	2,941
	Multi-strategy	603,229	-	-	-	603,229
	Real asset investments	29,632	-		13,911	15,721
Third-party perpetual trusts		38,814	-	515	38,299	-
Total long-term investments		2,020,236	130,169	515	52,210	1,837,342
Short-term investments						
U.S. Treasuries and U.S. Treasury funds		66,310	66,310	-	-	-
Fixed income funds		24,316	24,316	-	-	-
Certificate of deposit		3,037	3,037	-	-	-
Total short-term investments		93,663	93,663	-	-	-
		$ 2,113,899	$ 223,832	$ 515	$ 52,210	$ 1,837,342
Liabilities						
Interest rate swap agreements		$ (9,508)	$ -	$ (9,508)	$ -	$ -
		$ (9,508)	$ -	$ (9,508)	$ -	$ -

The limitations and restrictions on the college's ability to redeem or sell investments vary by investment and range from none for publicly traded securities, to required notice periods (generally 30 to 90 days after initial lock-up periods) for certain hedge funds, to dependency on the disposition of portfolio positions and return of capital by the investment manager for private equity, venture capital, commodity fixed income related, and real estate limited partnership interests. Investments without restriction generally do not require any notice prior to withdrawal.

The "illiquid" category is related to private equity, real estate, and certain limited partnership investments, where the college cannot redeem the investment until it is sold and the monies are distributed by the fund manager.

Detailed redemption restrictions on the college's investments as of June 30, 2019 and June 30, 2018 are as follows (in thousands):

	2019					
	Daily	Monthly	Quarterly	Annually	Illiquid	Total
Cash and cash equivalents	$ 29,283	$ -	$ -	$ -	$ -	$ 29,283
Fixed income	77,175	-	32,380	-	-	109,555
Global equities	21,005	623,670	-	-	7,758	652,433
Alternative equity	-	-	556,685	23,310	-	579,995
Private equity	-	-	-	-	669,975	669,975
Third party perpetual trusts	-	-	-	-	22,048	22,048
	$ 127,463	$ 623,670	$ 589,065	$ 23,310	$ 699,781	$ 2,063,289

	2018					
	Daily	Monthly	Quarterly	Annually	Illiquid	Total
Cash and cash equivalents	$ 46,067	$ -	$ -	$ -	$ -	$ 46,067
Fixed income	58,415	-	51,100	-	-	109,515
Global equities	25,687	621,469	-	-	5,995	653,151
Alternative equity	-	-	511,057	21,288	-	532,345
Private equity	-	-	-	-	640,344	640,344
Third party perpetual trusts	-	-	-	-	38,814	38,814
	$ 130,169	$ 621,469	$ 562,157	$ 21,288	$ 685,153	$ 2,020,236

The following tables present the college's activity for the fiscal years ended June 30, 2019 and 2018, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2019	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains	Unrealized (Losses) Gains	Fair Value End of Year
Real asset investments	$ 13,911	$ -	$ (13,911)	$ -	$ -	$ -
Third-party trusts and other	38,299	4,793	(22,152)	52	482	21,474
	$ 52,210	$ 4,793	$ (36,063)	$ 52	$ 482	$ 21,474

2018	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains	Unrealized (Losses) Gains	Fair Value End of Year
Real asset investments	$ 16,237	$ -	$ (1,632)	$ 1,257	$ (1,951)	$ 13,911
Third-party trusts and other	38,318	8,667	(8,863)	-	177	38,299
	$ 54,555	$ 8,667	$ (10,495)	$ 1,257	$ (1,774)	$ 52,210

Within each asset class, the college achieves diversification through allocations to several investment strategies and market capitalizations. The college has outsourced its investment office. This outsourced investment office has established private fund vehicles to facilitate the management of its clients' accounts. These private fund investments represent 93% of the college's investments at June 30, 2019 (87.4% at June 30, 2018).

The college enters into derivative instruments such as futures for trading purposes. The college may enter into equity or index option contracts to speculate on the price movements of the financial instrument or index underlying the option.

Index future contracts are included in long-term investments on the statement of financial position. At June 30, 2019 the college held certain index future contracts in a net liability position of $621,108 and US Treasury futures contracts in a net liability position of $1,304. At June 30, 2018 the college held certain index future contracts in a net liability position of $343,893. The college posted collateral on the index futures contracts of $15.8 million and $19.5 million at June 30, 2019 and June 30, 2018, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2019 and 2018, are summarized in the following table (in thousands):

	2019		
	Long Notional	**Short Notional**	**Unrealized Loss**
Instrument type			
US Treasury futures contracts	$ 16,626	$ -	$ 621
Index futures contracts	9,651	-	(1)
	$ 26,277	$ -	$ 620

	2018		
	Long Notional	**Short Notional**	**Unrealized Loss**
Instrument type			
Index futures contracts	$ 15,956	$ -	$ (344)
	$ 15,956	$ -	$ (344)

As of June 30, 2019 and 2018, there were 242 and 174 futures contracts open, respectively. The volume of futures is based on the quarterly number of contracts held during the year. For the years ended June 30, 2019 and 2018, the average number of contracts for futures was 190 and 150, respectively.

At June 30, 2019 and 2018, the college's remaining outstanding commitments to private equity partnerships totaled $399.6 million and $470.4 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.

The private equity partnerships have varying terms. As of June 30, 2019, the average remaining life of the private equity partnerships is approximately one year or until the partnership is dissolved or the underlying investments are liquidated.

Investment income and gains on the college's investments are summarized below (in thousands):

	2019	**2018**
Interest and Dividends, net of fees	$ (455)	$ 2,872
Realized and unrealized gains	127,396	170,980
	$ 126,941	$ 173,852

The total return as presented in the statements of activities is summarized below (in thousands):

	2019	2018
Without restrictions – operating	$ 8,623	$ 7,716
Without restrictions – nonoperating	25,171	36,281
With donor restriction – nonoperating	93,147	129,855
	$ 126,941	$ 173,852

5. Endowment Funds

The college's endowment consists of approximately 2,000 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 ten-year periods while adhering to stated risk parameters that seek to avoid greater than 25% 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 several benchmarks.

The college's board of trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter or 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 increase by 4.0% annually as long as the resulting amount is more than 4.0% and less than 6.0% of the preceding December 31 endowment market value. For the fiscal year ended June 30, 2019, the board of trustees decreased the distribution per unit by 0.5%.

The college has interpreted the Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the college to appropriate for expenditure or accumulate so much of an endowment fund as the college determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure. In accordance with UPMIFA, the college considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

- Duration and preservation of the endowment fund
- Purposes of the college and the endowed fund
- General economic conditions
- Possible effects of inflation or deflation
- Expected total return from income and the appreciation of investments

- Other resources of the college
- 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. As of June 30, 2019 and 2018, funds (in thousands) with an original gift value of $126 and $131 were under water by $18 and $19, respectively. These unrealized losses have been recorded as reductions in net assets with donor restriction. Future market gains will be used to restore this reduction in net assets.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment funds for the fiscal years ended June 30, 2019 and 2018 were as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Balances June 30, 2018	$ 398,663	$ 1,476,430	$ 1,875,093
Interest and dividends, net of fees	(1,523)	(1,876)	(3,399)
Realized and unrealized gains	25,946	95,000	120,946
Contributions and transfers	7,127	5,465	12,592
Distributions	(19,120)	(72,859)	(91,979)
Balances June 30, 2019	$ 411,093	$ 1,502,160	$ 1,913,253

	Without Donor Restrictions	With Donor Restrictions	Total
Balances June 30, 2017	$ 381,234	$ 1,386,232	$ 1,767,466
Interest and dividends, net of fees	282	1,023	1,305
Realized and unrealized gains	34,825	128,244	163,069
Contributions and transfers	713	29,400	30,113
Distributions	(18,391)	(68,469)	(86,860)
Balances June 30, 2018	$ 398,663	$ 1,476,430	$ 1,875,093

6. Property and Collections

Property and collections at June 30, 2019 and 2018 (in thousands):

	Useful Lives	2019	2018
Land	—	$ 8,003	$ 8,003
Land improvements	10–30 years	18,214	17,948
Buildings and building improvements	5-50 years	618,275	613,840
Works of art	100 years	65,360	64,800
Library books	15 years	60,166	60,305
Equipment	5–12 years	24,323	23,572
		794,341	788,468
Accumulated depreciation		(368,954)	(351,633)
		425,387	436,835
Construction in progress		78,785	43,263
		$ 504,172	$ 480,098
Depreciation expense		$ 18,607	$ 19,217
Capitalized interest		2,792	506

7. Accounts Payable and Accrued Liabilities

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

	2019	2018
General payables	$ 11,614	$ 11,030
Facilities, construction, repairs	3,280	3,119
Payroll related	1,872	2,006
Compensated absences	4,418	4,467
	$ 21,184	$ 20,622

8. Split Interest Agreements

Split interest agreements consist of the following at June 30 (in thousands):

	Annuities (Held by College)		Split Interest (College Trustee)		Split Interest (Outside Trustee)	
	2019	2018	2019	2018	2019	2018
Assets						
Cash/investments	$ 36,673	$ 36,469	$ 9,939	$ 11,218	$ -	$ -
Contributions receivable (net)	-	-	-	-	23,946	10,395
Obligation	(16,191)	(16,093)	(4,205)	(4,733)	-	-
	$ 20,482	$ 20,376	$ 5,734	$ 6,485	$ 23,946	$ 10,395
Net assets						
Without donor restrictions	$ 6,373	$ 5,058	$ -	$ -	$ -	$ -
With donor restrictions	14,109	15,318	5,734	6,485	23,946	10,395
	$ 20,482	$ 20,376	$ 5,734	$ 6,485	$ 23,946	$ 10,395

Split interest assets, obligations and net assets result from annuity and split interest agreements, which are primarily irrevocable charitable remainder agreements. The college holds the assets for those classified as annuities and split interest 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 split interest 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):

	2019	2018
Deferred income	$ 7,412	$ 8,461
Lease liability	7,290	7,515
Smith Students' Aid Society	5,359	5,280
Perkins loan program	1,022	1,006
Student deposits	1,182	1,178
Other deposits	2,761	2,493
	$ 25,026	$ 25,933

10. Bonds and Mortgages Payable and Interest Rate Swap Agreements

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

Bond Series	Final Year of Maturity	Interest Rates	2019	2018
Massachusetts development Finance agency				
2007A	2037	Variable	$ 25,460	$ 25,460
2007B	2037	Variable	47,500	47,500
The Trustees of the Smith College				
2015	2035	4.47 %	40,000	40,000
2015	2045	4.62 %	152,000	152,000
			264,960	264,960
Unamortized discount			(1,032)	(1,076)
Unamortized debt issuance cost			(410)	(430)
Bonds payable			263,518	263,454
Mortgages payable	2040	3.00 %	1,692	1,749
			$ 265,210	$ 265,203

On July 1, 2015, the college issued taxable bonds in the amount of $192 million. The proceeds were utilized to redeem prior borrowings and related interest rate swap agreements. In addition, remaining proceeds of $100.9 million were intended to finance various capital projects, operating costs, investments and other activities.

On January 29, 2016, the college converted its Series 2007 bonds to direct bank loans (Series 2007A with TD Bank, National Association, and Series 2007B with Century Subsidiary Investments, Inc. III) from variable rate demand obligations with a weekly tender feature.

In connection with the issuance of the 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. The interest rate swap agreement on the Series 2007 bond issue has a notional amount and termination date equal to the principal amount and maturity date of the Series 2007 bond. The continued effectiveness of the 2007 Series swap will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements.

Future principal payments on bonds and mortgage payable are summarized as follows (in thousands):

	Principal Payments
Fiscal Year	
2020	$ 58
2021	60
2022	62
2023	64
2024	66
Thereafter	266,342
	$ 266,652

The swaps are summarized as follows (in thousands):

	2019		
Series	**Swap Fair Value**	**Average Interest Rate**	**Swap Fixed Rate**
2007	$ (15,625)	2.30 %	2.86 %
	$ (15,625)		

	2018		
Series	**Swap Fair Value**	**Average Interest Rate**	**Swap Fixed Rate**
2007	$ (9,508)	1.61 %	2.86 %
	$ (9,508)		

The swaps' fair values are indicative values based on midmarket levels as of the close of business on June 30, 2019 and 2018, derived from models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. The valuations do not represent the actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated.

11. Net Assets

Net assets at June 30, 2019, are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment	$ 411,093	$ 1,502,160	$ 1,913,253
Split interest agreements	6,373	43,789	50,162
Plant funds	232,964	-	232,964
Loan funds	-	11,160	11,160
Other funds	80,986	81,416	162,402
	$ 731,416	$ 1,638,525	$ 2,369,941

Net assets at June 30, 2018, are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment	$ 398,663	$ 1,476,430	$ 1,875,093
Split interest agreements	5,058	32,198	37,256
Plant funds	245,230	-	245,230
Loan funds	-	10,697	10,697
Other funds	69,137	72,289	141,426
	$ 718,088	$ 1,591,614	$ 2,309,702

Endowment return appropriated and net assets released were as follows (in thousands):

	2019	2018
Scholarship	$ 33,297	$ 33,500
Instruction	19,419	21,472
General operating	20,482	18,437
Program support	12,953	12,321
Arts and library	5,342	5,449
	$ 91,493	$ 91,179

12. Functional Expenses

The statements of activities present expenses by natural classification. The college also summarizes its expenses by functional classification. The college's primary program service is academic instruction and research. Expenses reported as student services and auxiliary enterprises are incurred in support of this primary program activity.

Operation and maintenance of plant and depreciation expense for land improvements and buildings are allocated based on square footage. Depreciation expense for equipment is allocated to functional classifications based on the functional classifications of the departments in which the equipment is located, and depreciation expense for collections is allocated to the academic support functional classification.

Functional expenses for the year ended June 30, 2019, are as follows (in thousands):

	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total
Salaries and wages	$ 49,815	$ 14,814	$ 12,958	$ 10,066	$ 18,639	$ 106,292
Employee benefits	16,394	4,815	3,768	3,679	2,911	31,567
Supplies, services, other	19,073	12,283	9,406	8,254	16,794	65,810
Depreciation and amortization	4,786	5,640	2,554	5,492	927	19,399
Interest	2,372	1,413	1,138	3,398	415	8,736
Utilities	1,637	974	785	2,551	287	6,234
	$ 94,077	$ 39,939	$ 30,609	$ 33,440	$ 39,973	$ 238,038

Functional expenses for the year ended June 30, 2018, are as follows (in thousands):

	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total
Salaries and wages	$ 49,591	$ 14,159	$ 12,879	$ 10,031	$ 17,628	$ 104,288
Employee benefits	16,156	4,498	3,545	3,334	5,326	32,859
Supplies, services, other	15,037	13,005	8,229	10,200	15,874	62,345
Depreciation and amortization	5,081	5,180	2,307	5,665	1,263	19,496
Interest	3,105	1,849	1,490	4,435	543	11,422
Utilities	1,541	915	738	2,424	269	5,887
	$ 90,511	$ 39,606	$ 29,188	$ 36,089	$ 40,903	$ 236,297

13. Retirement Plan

The college has a defined contribution retirement plan for substantially all of its employees who are eligible to participate after meeting certain eligibility requirements. The college's contributions to the plan are based upon a percentage of salaries. The college's contributions to the plan for the fiscal year ended June 30, 2019, amounted to $9.3 million (year ended June 30, 2018 was $9.1 million). The college also provides health and dental insurance benefits for eligible retired employees between the ages of 62 and 65. The college recognized an accrued postretirement benefit obligation of $2.0 million at both June 30, 2019 and 2018.

14. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through October 31, 2019, the date on which the consolidated financial statements were issued.