



Financial Report 2017–18



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

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Financial Report 2017–18

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Thanks to a strong fiscal year 2017–18, Smith College is well positioned to support its new strategic plan—the blueprint for a 21st-century liberal arts education for women. The annual return on the college’s pooled long-term investments was 9.5 percent. The total net assets were \$2.31 billion, an increase of 6.1 percent over the prior fiscal year. Smith’s strong and prudent financial management ensures the purchasing power of the endowment for generations to come.

Admissions

Smith’s reputation as a leader in liberal arts education for women continues with improved national survey rankings and a record number of applications for the 11th year in a row. The college received 5,780 applications for admission to the Class of 2022, an increase of 6 percent over the prior year. The Class of 2022 is academically accomplished, notably diverse, and includes students from 42 states and 45 countries. Fourteen percent of the class are the first in their family to attend college, while 16 percent are international citizens and 35 percent are domestic students of color. Eighteen percent are federal Pell Grant recipients.

Academic Program: Faculty and Student Achievements

Smith faculty members produced more than 400 scholarly and creative works during the 2017–18 academic year. Approximately 27 percent of their refereed work included student co-authors. Work by 37 faculty members received 140 media mentions.

Eleven students and alumnae received Fulbright Awards in 2017–18, making Smith one of the top producers among liberal arts colleges.

In 2017–18, Smith students took part in approximately 1,100 independent research opportunities. The college’s Celebrating Collaborations event showcased more than 200 projects in which students and faculty members worked

together in a variety of departmental, programmatic and interdisciplinary collaborations.

Fundraising

Fiscal year 2017–18, the first full year following the record-setting Women for the World campaign, alumnae, families and friends contributed new gift commitments totaling \$69.3 million. This is 56 percent higher than funds raised in the year prior to the campaign (2008) and a clear testament to the ongoing value of a comprehensive campaign. Support for the Smith Fund, which is an important component of the college’s annual operating budget, totaled \$12.5 million. Other gifts supported the college’s strategic plan and had a direct impact on the overall Smith student experience.

A total of \$31 million was directed to scholarship aid, the Neilson Library renovation and academic and co-curricular programming. With \$34.7 million in life income gifts, realized bequests and bequest intentions, Smith’s gift planning program remains a leader among peer institutions.

Statement of Financial Position

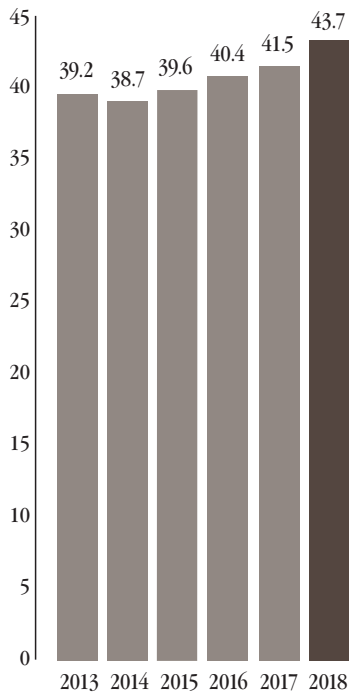
The college’s total net assets on June 30, 2018, were \$2.31 billion, an increase of \$132.3 million from the prior year. This is primarily due to an increase in the market value of long-term investments to \$2.02 billion, including endowment assets and external perpetual



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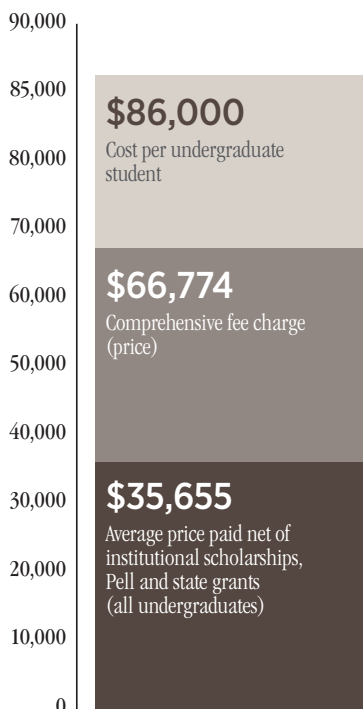
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education

2017–18



Neilson Library architectural designer Maya Lin returned to Smith for the project groundbreaking in October.

trusts. Short-term investments of \$93.6 million include operating reserves and bond proceeds earmarked for the Neilson Library renovation and other major capital projects.

Statement of Activities

Operating revenue was slightly higher in 2018 at \$244.9 million, an increase of 0.4 percent, while operating expenses increased by 0.6 percent to \$236.3 million, resulting in an \$8.6 million operating surplus for the year. Smith derives its operating revenue from a variety of sources, including student income net of financial aid (45 percent), endowment return appropriated (35 percent), gifts and grants (11 percent), investment return and net assets released (5 percent), and other income (4 percent).

Student income net of financial aid grew by 1.4 percent. This is primarily the result of a 4.5 percent increase in undergraduate tuition, room and board, coupled with an increase in aid for the undergraduate enrollment of 2,550 students. Smith spent \$72.7 million on institutional grant aid, excluding federal and state sources, for undergraduates in 2017–18—an increase of 11 percent over the prior year.

Smith is an established leader in education access and affordability and meets the full demonstrated financial need of all enrolled students. Sixty-six percent of students receive need-based aid; 24.3 percent receive Pell grants. Smith's undergraduate financial aid as a

percentage of tuition, room and board revenue is 43.6 percent. In 2017–18, the average institutional grant awarded to undergraduate students receiving aid was \$42,300. While the annual cost to educate a Smith student has risen to \$86,000, this cost exceeds the comprehensive fee by \$19,226. The cost in excess of the comprehensive fee and additional aid is made possible through the income from endowments designated for financial aid and other contributions.

Investments

Smith's endowment supports the full range of college activities and programs through its more than 2,200 endowed funds. This critical funding source supports financial aid, assists in shaping the composition of the faculty, contributes to the maintenance of college facilities, provides funding for curricular and programmatic initiatives and allows the college to keep pace with expanding technological needs. The endowment has grown to provide more than 35 percent of the college's operating budget support. Smith's endowment spending policy, approved annually by the board of trustees, provides that the income distributed per share from the endowment will result in spending that is between 4 and 6 percent of the preceding calendar year-end market value. Over the past 10 years, the college's endowment spending rate has averaged 4.9 percent.

The investment committee oversees Smith's endowment through an outsourced investment office, with the endowment portfolio directly managed by Investure LLC. The long-term investing horizon for the endowment allows for a large allocation to equity-oriented strategies to maximize long-term capital appreciation. Volatility and risk are reduced through diversification and hedging strategies. As of June 30, 2018, the endowment was invested 34 percent in global equities, 27 percent in alternative equities, 31 percent in private partnerships and 8 percent in fixed income and cash.

Smith's endowment totaled \$1.875 billion on June 30, 2018, up \$107.6 million from the prior year. The increase in market value during 2017–18 reflects \$30.1 million in gifts and other additions, plus \$164.3 million of investment return net of management fees and \$86.8 million in distribution to support operations. Smith's endowment returns exceed peer-group medians over most historical periods.

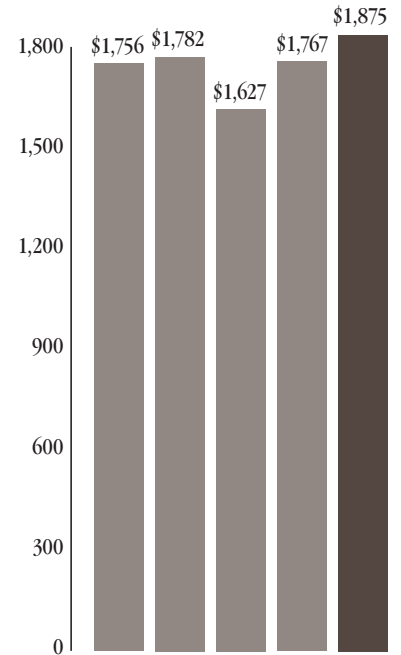
Fiscal year 2017–18 was a truly remarkable year for Smith: a record number of applications, prestigious awards to faculty and students, a continued commitment to environmental sustainability and educational excellence, and ambitious facility initiatives, all supported by a strong endowment. These accomplishments reflect the collective vision and commitment of the Smith community and position the college as a leader in liberal arts education for the 21st century.

Facilities

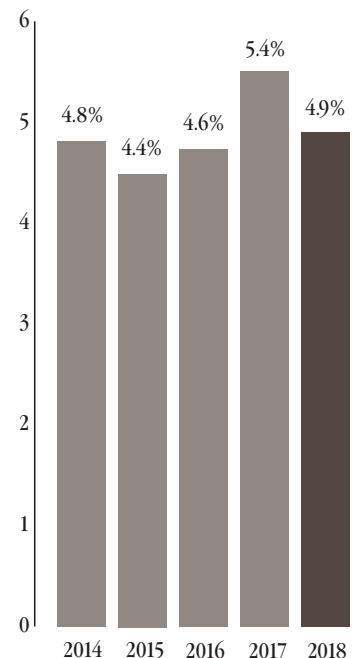
Smith continues to make significant annual investments in its facilities. For 2017–18, the college's capital expenditures for buildings, infrastructure and equipment totaled \$34.9 million. The Neilson Library renovation and reconstruction, which includes the renovation of Alumnae Gym, is the largest capital project in the college's history and reimagines the library for the 21st century. In 2017–18, demolition was completed and the process of rebuilding the library has begun. The Neilson Library project is expected to be complete in 2020.

Other capital initiatives included reconstruction of the college's softball field and associated infrastructure and renovation of the Mwangi Cultural Center and Dawes House. Additionally, on an annual basis, the college makes investments in the repair and upkeep of the campus infrastructure, including mechanical and electrical systems, building envelopes and energy-efficiency upgrades.

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Endowment Spending Rate

	Distributed to Operations	Spending Rate	Growth in Spending
2008–09	\$67.9	5.0%	13.4%
2009–10	\$62.0	5.7%	-8.7%
2010–11	\$65.6	5.3%	5.8%
2011–12	\$69.0	4.8%	5.2%
2012–13	\$71.8	5.1%	4.1%
2013–14	\$75.0	4.8%	4.5%
2014–15	\$77.3	4.4%	3.1%
2015–16	\$81.6	4.6%	5.5%
2016–17	\$87.2	5.4%	6.9%
2017–18	\$86.9	4.9%	-0.4%

Ten year totals \$744.3
Dollar values reflect millions

Ten Years in Review

	2018	2017	2016	2014	2009
Assets, Liabilities and Net Assets (in thousands of dollars)					
Total Assets	\$2,671,632	\$2,543,069	\$2,384,766	\$2,374,681	\$1,691,744
Total Plant Assets - Cost Net of Depreciation	480,098	460,382	438,936	415,127	372,423
Endowment Funds Market Value	1,875,093	1,767,466	1,627,469	1,755,755	1,096,322
Life Income Funds Market Value	47,687	48,261	47,784	52,117	38,534
Long-Term Debt	265,203	265,194	265,183	159,711	172,644
Net Assets	2,309,702	2,177,355	2,020,580	2,116,850	1,438,509
Income and Expense (in thousands of dollars)					
Undergraduate Comprehensive Fees	\$167,494	\$159,056	\$153,376	\$148,724	\$126,616
Undergraduate Scholarships	72,760	65,716	61,686	57,651	45,324
Net	94,734	93,341	91,690	91,073	81,292
Unrestricted Gifts and Grants	25,961	30,365	30,381	23,497	31,642
Restricted Gifts and Grants	39,130	22,437	27,317	15,289	25,804
Total Operating Expenses	236,297	234,792	227,934	213,252	191,596
Salaries and Wages	104,288	103,916	100,296	94,884	88,109
Staff Benefits	32,859	30,741	30,796	29,742	26,612
Other Statistics					
Undergraduate:					
Student FTE*	2,550	2,528	2,521	2,636	2,683
Faculty FTE	281	280	280	283	289
Student-Faculty Ratio	8.7	8.7	8.6	8.9	8.8
Comprehensive Fee	\$66,774	\$63,914	\$61,758	\$57,524	\$48,108
Net Cost Per Student	86,000	86,500	83,700	73,400	\$64,300
Comprehensive Fee as Percent of Cost Per Student	77.6%	73.9%	73.8%	78.4%	74.8%
Students Receiving Scholarships	68.4%	65.7%	64.5%	64.3%	63.8%
Operations Supported by Endowment	36.8%	37.1%	35.8%	34.4%	36.7%
Total FTE*	3,009	2,956	2,966	3,104	3,099
Endowment Per Student (in thousands)	\$623	\$598	\$549	\$566	\$354
Endowment Spending as Percent of Market Value	4.9%	5.4%	4.6%	4.8%	5.0%

*Includes students attending independent study abroad programs paying the comprehensive fee to the college.

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 financial statements of Smith College, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(l) to the financial statements, during the year ended June 30, 2018, the College adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

KPMG LLP

Hartford, Connecticut
November 15, 2018

Statements of Financial Position

June 30, 2018 and 2017
(in thousands)

	2018	2017
Assets		
Cash and cash equivalents	\$ 37,261	\$ 25,457
Short-term investments	93,663	115,743
Receivables, net and other assets	40,374	42,387
Long-term investments	2,020,236	1,899,100
Property and collections, net	480,098	460,382
Total assets	\$ 2,671,632	\$ 2,543,069
Liabilities		
Accounts payable and accrued liabilities	\$ 20,622	\$ 18,787
Deferred income, deposits, and agency funds	25,933	25,445
Interest rate swap agreements	9,508	14,027
Liability for split-interest agreements	20,826	20,877
Asset retirement obligations	19,838	21,384
Bonds and mortgages payable	265,203	265,194
Total liabilities	361,930	365,714
Net Assets		
Without donor restrictions	718,088	683,411
With donor restrictions	1,591,614	1,493,944
Total net assets	2,309,702	2,177,355
Total liabilities and net assets	\$ 2,671,632	\$ 2,543,069

See accompanying notes to financial statements.

Statement of Activities

Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

(in thousands)

	Without Restriction	With Donor Restriction	2018 Total	2017 Total
Operating Revenues and Other Additions				
Student income:				
Tuition and other fees	\$ 147,347	—	147,347	140,145
Residence and dining fees	40,443	—	40,443	38,390
Student aid	(78,770)	—	(78,770)	(71,072)
Student income, net	109,020	—	109,020	107,463
Gifts and grants	25,961	—	25,961	30,365
Investment return supporting operations	7,716	—	7,716	6,383
Other income	11,057	—	11,057	9,743
Endowment return appropriated	86,860	—	86,860	87,189
Net assets released from restrictions	4,319	—	4,319	2,798
Total operating revenues and other additions	244,933	—	244,933	243,941
Operating Expenses				
Salaries and wages	104,288	—	104,288	103,916
Employee benefits	32,859	—	32,859	30,741
Supplies, services, other	62,345	—	62,345	58,764
Depreciation and amortization	19,496	—	19,496	23,620
Interest	11,422	—	11,422	11,336
Utilities	5,887	—	5,887	6,415
Total expenses	236,297	—	236,297	234,792
Increase in net assets from operating activities	8,636	—	8,636	9,149
Nonoperating Activities				
Gifts and grants	—	39,130	39,130	22,437
Net investment return increasing long-term investments	36,281	129,855	166,136	201,302
Endowment return appropriated	(18,391)	(68,469)	(86,860)	(87,189)
Realized and unrealized gains on interest rate swap agreements	4,519	—	4,519	7,981
Change in life income funds	679	3,251	3,930	5,893
Other income	1,175	—	1,175	—
Net assets released from restrictions	—	(4,319)	(4,319)	(2,798)
Change in net asset classification and transfers	1,778	(1,778)	—	—
Increase in net assets from nonoperating activities	26,041	97,670	123,711	147,626
Increase in net assets	34,677	97,670	132,347	156,775
Net assets, beginning of year	683,411	1,493,944	2,177,355	2,020,580
Net assets, end of year	\$ 718,088	1,591,614	2,309,702	2,177,355

See accompanying notes to financial statements.

Statement of Activities

Year ended June 30, 2017

(in thousands)

	Without Restriction	With Donor Restriction	Total
Operating Revenues and Other Additions			
Student income:			
Tuition and other fees	\$ 140,145	—	140,145
Residence and dining fees	38,390	—	38,390
Student aid	(71,072)	—	(71,072)
Student income, net	107,463	—	107,463
Gifts and grants	30,365	—	30,365
Investment return supporting operations	6,383	—	6,383
Other income	9,743	—	9,743
Endowment return appropriated	87,189	—	87,189
Net assets released from restrictions	2,798	—	2,798
Total operating revenues and other additions	243,941	—	243,941
Operating Expenses			
Salaries and wages	103,916	—	103,916
Employee benefits	30,741	—	30,741
Supplies, services, other	58,764	—	58,764
Depreciation and amortization	23,620	—	23,620
Interest	11,336	—	11,336
Utilities	6,415	—	6,415
Total expenses	234,792	—	234,792
Increase in net assets from operating activities	9,149	—	9,149
Nonoperating Activities			
Gifts and grants	—	22,437	22,437
Net investment return increasing long-term investments	46,173	155,129	201,302
Endowment return appropriated	(18,112)	(69,077)	(87,189)
Realized and unrealized gains on interest rate swap agreements	7,981	—	7,981
Change in life income funds	756	5,137	5,893
Net assets released from restrictions	—	(2,798)	(2,798)
Change in net asset classification and transfers	2,882	(2,882)	—
Increase in net assets from nonoperating activities	39,680	107,946	147,626
Increase in net assets	48,829	107,946	156,775
Net assets, beginning of year (as restated)	634,582	1,385,998	2,020,580
Net assets, end of year	\$ 683,411	1,493,944	2,177,355

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended June 30,
2018 and 2017

(in thousands)

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 132,347	\$ 156,775
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	19,280	23,108
Unrealized gain in market value on interest rate swap agreements	(4,519)	(7,984)
Net unrealized and realized gains on investments	(170,980)	(206,485)
Actuarial change in life income obligations	(51)	(582)
Contributions restricted for long-term investment	(27,169)	(18,261)
Contributions of property and securities	(11,303)	(14,852)
Net change in operating assets and liabilities:		
Receivables, net and other assets	2,669	7,292
Accounts payable, accrued liabilities, and asset retirement obligations	(525)	(1,278)
Deferred income, deposits and agency funds	<u>488</u>	<u>2,380</u>
Net cash used in operating activities	<u>(59,763)</u>	<u>(59,887)</u>
Cash Flows From Investing Activities		
Purchases of property and collections	(35,483)	(30,545)
Proceeds from student and other loan collections	633	1,494
Student and other loans issued	(1,289)	(1,219)
Purchases of investments	(262,218)	(230,180)
Sales and maturities of investments	320,730	294,184
Change in short-term investments	<u>22,080</u>	<u>13,001</u>
Net cash provided by investing activities	<u>44,453</u>	<u>46,735</u>
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	27,169	18,261
Mortgages	<u>(55)</u>	<u>(52)</u>
Net cash provided by financing activities	<u>27,114</u>	<u>18,209</u>
Net change in cash and cash equivalents	11,804	5,057
Cash and cash equivalents, beginning of year	<u>25,457</u>	<u>20,400</u>
Cash and cash equivalents, end of year	<u>\$ 37,261</u>	<u>\$ 25,457</u>
Supplemental disclosure:		
Interest paid	\$ 11,423	\$ 11,183
Gifts in kind	2,637	4,497
Additions to property and collections financed with a lease	—	7,515
Purchases of property and collections increasing payables	813	1,934

See accompanying notes to financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The Trustees of the Smith 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 financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) on the accrual basis of accounting and include the accounts of The Trustees of the Smith College (college), as well as the Alumnae Association of Smith College.

(b) Net Asset Classes

The accompanying 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.

(c) 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.

(d) 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 investments or long-term investment funds.

(e) Short-term Investments

Short-term investments include operating funds invested in equity securities, as well as funds identified for specific capital projects.

(f) 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, 2018 and 2017, 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 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.

(g) Property and Collections

Property, which includes land, land improvements, buildings and equipment, and collections are recorded at cost or fair value at date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets.

(h) 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.

(i) Estimates

The preparation of financial statements in conformity with GAAP 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 alternative investments, receivables, interest rate swap agreements and asset retirement obligations. Actual results could differ from estimates.

(j) 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.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The college has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the college.

(k) Reclassifications

Certain reclassifications have been made to 2017 information to conform to the 2018 presentation.

(l) Recent Accounting Pronouncements

In August 2016, the college adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Non-for-Profit Entities changes, which affect most not-for-profit financial statements, include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. In fiscal 2018, the college retrospectively adopted this standard. A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2016 is as follows (in thousands):

	ASU 2016-14 Classification		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
2016 ending net assets as previously presented:			
Unrestricted	\$ 631,951	—	631,951
Temporary restricted	—	926,907	926,907
Permanently restricted	—	461,722	461,722
Reclassification to implement ASU 2016-14:			
Underwater endowments	2,631	(2,631)	—
2016 ending net assets, as restated	<u>\$ 634,582</u>	<u>1,385,998</u>	<u>2,020,580</u>

2. Liquidity

As of June 30, 2018, 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):

Cash and cash equivalents	\$ 37,261
Contributions, notes, and accounts receivable, net	5,676
Working capital investments	58,562
Fiscal 2019 endowment appropriation	90,002
Total financial assets available within one year	<u>\$ 191,501</u>

The college's Board of Trustees approves the annual spending distribution per unit. Under the provision of the spending rule, for fiscal year 2018 and 2017 the Board approved an endowment appropriation of \$381.84 and \$387.60 annually per share, for a total spending allocation (in thousands) of \$86,860 and \$87,189 respectively. For fiscal year 2019 the Board approved an endowment appropriation of \$383.76 annually per share, for a total spending allocation (in thousands) of \$90,002. Additionally, the college has board-designated endowment funds of \$399 million as of June 30, 2018. 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.

3. Receivables, Net and Other Assets

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

	2018	2017
Contributions expected to be collected within:		
One year	\$ 4,317	5,019
One to five years	9,314	10,626
Over five years	3,000	3,351
Less discount (0% to 3%)	(955)	(1,043)
Less allowance for uncollectibles	(862)	(1,300)
Subtotal	<u>14,814</u>	<u>16,653</u>
Grants receivable	1,158	1,150
Charitable trusts	21,574	21,896
Less discount (1.75% to 5.0%)	(11,179)	(10,591)
Subtotal	<u>10,395</u>	<u>11,305</u>
Students, employees, other receivables	2,888	2,863
Student loans	5,765	5,773
Employee loans and mortgages	3,911	3,677
Less allowance for uncollectibles	(2,389)	(2,519)
Subtotal	<u>10,175</u>	<u>9,794</u>
Other assets	<u>3,832</u>	<u>3,485</u>
Total	<u>\$ 40,374</u>	<u>42,387</u>

4. Fair Value

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 (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Measured at NAV</u>
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	<u>2,020,236</u>	<u>130,169</u>	<u>515</u>	<u>52,210</u>	<u>1,837,342</u>
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	<u>93,663</u>	<u>93,663</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 2,113,899</u>	<u>223,832</u>	<u>515</u>	<u>52,210</u>	<u>1,837,342</u>
Liabilities					
Interest rate swap agreements	\$ (9,508)	—	(9,508)	—	—
Total	<u>\$ (9,508)</u>	<u>—</u>	<u>(9,508)</u>	<u>—</u>	<u>—</u>

The college's assets and liabilities as of June 30, 2017 that are measured at fair value on a recurring basis are summarized in the following table (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Measured at NAV</u>
Assets					
Investments:					
Cash and cash equivalents:					
Cash and money market funds	\$ 42,829	42,829	—	—	—
Fixed income:					
U.S. Treasuries and U.S. Treasury funds	54,393	54,393	—	—	—
Hedge fund Fixed income	51,000	—	—	—	51,000
Private equity Credit driven	539	—	—	—	539
Global equities:					
U.S. equity securities	162	162	—	—	—
Derivative Long-short	24,048	24,048	—	—	—
Hedge fund Long-short	562,096	—	—	—	562,096
Hedge fund Multi-strategy	7,085	—	—	—	7,085
Private equity Multi-strategy	350	—	—	—	350
Alternative equity:					
Hedge fund Multi-strategy	520,525	—	—	—	520,525
Hedge fund Event driven	22,840	—	—	—	22,840
Private equity:					
Venture capital	4,659	—	—	—	4,659
Buyout	2,617	—	—	—	2,617
Multi-strategy	532,307	—	—	—	532,307
Real asset investments	34,978	—	—	16,237	18,741
Third-party perpetual trusts	38,672	—	354	38,318	—
Total long-term investments	<u>1,899,100</u>	<u>121,432</u>	<u>354</u>	<u>54,555</u>	<u>1,722,759</u>
Short-term investments					
U.S. Treasuries and U.S. Treasury funds	85,531	85,531	—	—	—
Fixed income funds	29,212	29,212	—	—	—
Certificate of deposit	1,000	1,000	—	—	—
Total short-term investments	<u>115,743</u>	<u>115,743</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 2,014,843</u>	<u>237,175</u>	<u>354</u>	<u>54,555</u>	<u>1,722,759</u>
Liabilities					
Interest rate swap agreements	\$ (14,027)	—	(14,027)	—	—
Total	<u>\$ (14,027)</u>	<u>—</u>	<u>(14,027)</u>	<u>—</u>	<u>—</u>

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 with daily liquidity 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 has no liquidity until the investments are sold and the monies are distributed by the fund manager.

Detailed liquidity of the college's investments as of June 30, 2018 and June 30, 2017 is as follows (in thousands):

2018						
	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>	<u>Illiquid</u>	<u>Total</u>
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
Total	\$ 130,169	621,469	562,157	21,288	685,153	2,020,236
2017						
	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>	<u>Illiquid</u>	<u>Total</u>
Cash and cash equivalents	\$ 42,829	—	—	—	—	42,829
Fixed income	54,393	—	—	51,000	539	105,932
Global equities	24,210	562,096	—	7,085	350	593,741
Alternative equity	—	—	520,525	22,840	—	543,365
Private equity	—	—	—	—	574,561	574,561
Third-party perpetual trusts	—	—	—	—	38,672	38,672
Total	\$ 121,432	562,096	520,525	80,925	614,122	1,899,100

The following tables present the college's activity for the fiscal years ended June 30, 2018 and 2017, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2018						
	<u>Fair Value Beginning of Year</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Realized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value End of Year</u>
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
	<u>\$ 54,555</u>	<u>8,667</u>	<u>(10,495)</u>	<u>1,257</u>	<u>(1,774)</u>	<u>52,210</u>
2017						
	<u>Fair Value Beginning of Year</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Realized Gains</u>	<u>Unrealized Gains (Losses)</u>	<u>Fair Value End of Year</u>
Real asset investments	\$ 20,940	73	(4,809)	3,522	(3,489)	16,237
Third-party trusts and other	40,528	2,842	(2,491)	—	(2,561)	38,318
	<u>\$ 61,468</u>	<u>2,915</u>	<u>(7,300)</u>	<u>3,522</u>	<u>(6,050)</u>	<u>54,555</u>

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 87.4% of the college's investments at June 30, 2018 (86.5% at June 30, 2017).

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, 2018 the college held certain index future contracts in a net liability position of \$343,893. At June 30, 2017 the college held certain index future contracts in a net liability position of \$9,652. The college posted collateral on the index futures contracts of \$19.5 million and \$9.1 million at June 30, 2018 and June 30, 2017, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2018 and 2017, are summarized in the following table (in thousands):

2018

	Long Notional	Short Notional	Unrealized Loss
Instrument type:			
Index futures contracts	\$ 15,956	-	(344)
Total	<u>\$ 15,956</u>	<u>-</u>	<u>(344)</u>

2017

	Long Notional	Short Notional	Unrealized Loss
Instrument type:			
Index futures contracts	\$ 13,904	-	(10)
Total	<u>\$ 13,904</u>	<u>-</u>	<u>(10)</u>

As of June 30, 2018 and 2017, there were 174 and 167 futures contracts open, respectively. The volume of futures is based on the quarterly number of contracts held during the year. For the year ended June 30, 2018 and 2017, the average number of contracts for futures was 150 and 141, respectively.

At June 30, 2018 and 2017, the college's remaining outstanding commitments to private equity partnerships totaled \$470.4 million and \$329.7 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, 2018, 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):

	2018	2017
Dividends and interest, net	\$ 2,872	1,200
Realized and unrealized gains	170,980	206,485
	<u>\$ 173,852</u>	<u>207,685</u>

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

	2018	2017
Without restrictions—operating	\$ 7,716	6,383
Without restrictions—nonoperating	36,281	46,173
With donor restrictions—nonoperating	129,855	155,129
	<u>\$ 173,852</u>	<u>207,685</u>

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, 2018, the board of trustees decreased the distribution per unit by 1.5%.

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, 2018 and 2019, funds (in thousands) with an original gift value of \$1,767 and \$5,598 were under water by \$70 and \$220, 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.

Endowment funds consisted of the following at June 30, 2018 and 2017 (in thousands):

2018	Without Donor Restrictions	With Donor Restrictions			Total Funds 2018
		Original Gift	Accumulated Gains (Losses)	Total	
Quasi	\$ 398,663	—	—	—	398,663
Donor restricted:					
Underwater	—	1,767	(70)	1,697	1,697
Other	—	472,033	1,002,700	1,474,733	1,474,733
Total	\$ 398,663	473,800	1,002,630	1,476,430	1,875,093

2017	Without Donor Restrictions	With Donor Restrictions			Total Funds 2017
		Original Gift	Accumulated Gains (Losses)	Total	
Quasi	\$ 381,234	—	—	—	381,234
Donor restricted:					
Underwater	—	5,598	(220)	5,378	5,378
Other	—	438,803	942,051	1,380,854	1,380,854
Total	\$ 381,234	444,401	941,831	1,386,232	1,767,466

Changes in endowment funds for the fiscal years ended June 30, 2018 and 2017 were as follows (in thousands):

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance June 30, 2016	\$ 356,791	1,270,678	1,627,469
Interest and dividends, net of fees	(207)	(559)	(766)
Realized/unrealized gains	44,666	154,350	199,016
Contributions and transfers	(1,904)	30,840	28,936
Distributions	(18,112)	(69,077)	(87,189)
Balance June 30, 2017	\$ 381,234	1,386,232	1,767,466

6. Property and Collections

Property and collections at June 30, 2018 and 2017 (in thousands):

	Useful Lives	2018	2017
Land	—	\$ 8,003	8,003
Land improvements	10–30 years	17,948	11,497
Buildings and building improvements	5–50 years	613,840	589,516
Works of art	100 years	64,800	61,412
Library books	15 years	60,305	60,420
Equipment	5–12 years	23,572	25,030
		788,468	755,878
Accumulated depreciation		(351,633)	(336,425)
		436,835	419,453
Construction in progress		43,263	40,929
		\$ 480,098	460,382
Depreciation expense		\$ 19,217	23,045
Capitalized interest		506	281

7. Accounts Payable and Accrued Liabilities

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

	2018	2017
General payables	\$ 11,030	8,356
Facilities, construction, repairs	3,119	3,902
Payroll related	2,006	2,178
Compensated absences	4,467	4,351
	\$ 20,622	18,787

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 (Individual Trustee)	
	2018	2017	2018	2017	2018	2017
Assets:						
Cash/investments	\$ 36,469	36,849	11,218	11,412	—	—
Contributions receivable	—	—	—	—	21,574	21,896
Discount/allowance	—	—	—	—	(11,179)	(10,591)
Obligation	(16,093)	(15,638)	(4,733)	(5,239)	—	—
	\$ 20,376	21,211	6,485	6,173	10,395	11,305
Net assets:						
Without donor restrictions	\$ 5,058	4,781	—	—	—	—
With donor restrictions	15,318	16,430	6,485	6,173	10,395	11,305
	\$ 20,376	21,211	6,485	6,173	10,395	11,305

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):

	2018	2017
Deferred income	\$ 8,461	7,892
Lease liability	7,515	7,515
Smith Students' Aid Society	5,280	5,016
Perkins loan program	1,006	1,393
Student deposits	1,178	1,206
Other deposits	2,493	2,423
	<u>\$ 25,933</u>	<u>25,445</u>

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	2018	2017
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
			<u>264,960</u>	<u>264,960</u>
Unamortized discount			(1,076)	(1,121)
Unamortized debt issuance cost			<u>(430)</u>	<u>(449)</u>
Bonds payable			263,454	263,390
Mortgages payable	2040	3.00%	1,749	1,804
			<u>\$ 265,203</u>	<u>265,194</u>

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):

Fiscal Year	Principle Payments
2019	\$ 56
2020	58
2021	60
2022	62
2023	64
Thereafter	266,409
	<u>\$ 266,709</u>

The swaps are summarized as follows (in thousands):

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2018			
2007	\$ (9,508)	1.61 %	2.86 %
	<u>\$ (9,508)</u>		
2017			
2007	\$ (14,027)	1.01 %	2.86 %
	<u>\$ (14,027)</u>		

The swaps' fair values are indicative values based on midmarket levels as of the close of business on June 30, 2018 and 2017, 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, 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
	<u>\$ 718,088</u>	<u>1,591,614</u>	<u>2,309,702</u>

Net assets at June 30, 2017, are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment	\$ 381,234	1,386,232	1,767,466
Split interest agreements	4,781	33,908	38,689
Plant funds	229,446	—	229,446
Loan funds	—	10,162	10,162
Other funds	67,950	63,642	131,592
	<u>\$ 683,411</u>	<u>1,493,944</u>	<u>2,177,355</u>

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

	2018	2017
Scholarship	\$ 33,500	32,927
Instruction	21,472	21,449
General operating	18,437	17,595
Program support	12,321	12,563
Arts and library	5,449	5,453
	<u>\$ 91,179</u>	<u>89,987</u>

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 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. Interest expense is allocated based on the functional purpose for which the debt proceeds were used.

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
	<u>\$ 90,511</u>	<u>39,606</u>	<u>29,188</u>	<u>36,089</u>	<u>40,903</u>	<u>236,297</u>

Functional expenses for the year ended June 30, 2017, are as follows (in thousands):

	Instruction	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Total
Salaries and wages	\$ 48,403	15,403	12,960	10,091	17,059	103,916
Employee benefits	15,734	4,660	3,509	3,286	3,552	30,741
Supplies, services, other	15,508	9,011	8,670	9,774	15,801	58,764
Depreciation and amortization	6,530	5,738	1,873	6,214	3,265	23,620
Interest	3,081	1,653	1,962	3,979	661	11,336
Utilities	1,693	881	857	2,603	381	6,415
	<u>\$ 90,949</u>	<u>37,346</u>	<u>29,831</u>	<u>35,947</u>	<u>40,719</u>	<u>234,792</u>

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, 2018, amounted to \$9.1 million (year ended June 30, 2017 was \$8.9 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 both at June 30, 2018 and 2017.

14. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through November 15, 2018, the date on which the financial statements were available to be 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, gender identity and expression, genetic information, age, disability, or service in the military or other uniformed services.

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

For more information, please contact the adviser for equity complaints, College Hall 302, 413-585-2141, or visit www.smith.edu/diversity.

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