Smith College

Financial Report 2006–07

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

Financial Staff, 2006–07

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

Richard Myers
Director of Finance and Assistant Treasurer

William Sheehan
Controller

Notice of Nondiscrimination

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

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

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

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

Financial Report 2006–07

Smith College completed 2006–07 in a strong financial position, as evidenced by significant growth in net assets. Thoughtful financial planning and careful allocation of resources among competing priorities enables the college to fulfill its mission of providing an excellent liberal arts education linked to achievement in research and scholarship. The financial flexibility created in recent years combined with continuing philanthropic efforts will position the college well to pursue the strategic initiatives emerging from the Smith Design for Learning planning process.

Statement of Financial Position

The college's net financial assets increased by $226.7 million in 2006–07 to $1.7 billion. Over the past five years, net assets have increased at an annualized rate of 7.9 percent. This increase reflects strong returns on the endowment, with the increase in the market value of the college's investments accounting for 90 percent of the overall increase in net assets for 2006–07. Liabilities increased only slightly in 2006–07, from $257.5 million to $261.9 million. Outstanding debt totaled $104 million as of June 30, 2007.

Statement of Activities

Operating revenues totaled $185.3 million for 2006–07, an increase of $10.2 million, or 5.8 percent, over the previous fiscal year. Operating expenses were $170.5 million, an increase of $8.3 million, or 5.1 percent, compared to the previous year. Net income from operations of $14.8 million represented 8 percent of gross operating revenues. By comparison, net income was $12.9 million in 2005–06, or 7.4 percent of gross operating revenues.

The college enjoys a fairly diversified revenue base for operations. Sources of revenue were 45 percent from student income net of financial aid, 29 percent from investment return of the endowment and other investments, 21 percent from gifts and grants, and 5 percent from other income sources. A portion of the investment return and 6 percent of the gifts and grants shares were initially recognized in the temporarily restricted section and are included as net assets released from restrictions.

Smith is committed to providing an excellent liberal arts education to students regardless of their ability to pay through a generous financial aid program. Approximately 66 percent of Smith undergraduate students received grant aid in 2006–07, an increase from 56 percent a decade ago. The $45.9 million discount for financial aid included $41.8 million to support undergraduate students, with the remainder allocated to graduate students and elementary students in the Smith College Campus School. Undergraduate scholarships increased by $2.4 million, or 6.1 percent, in 2006–07, and have increased at an annualized rate of 7.9 percent since 2001–02. As a result, the college's undergraduate discount rate (scholarships divided by gross comprehensive fees) has increased from 32 percent in 2001–02 to 37 percent in 2006–07. Net student income increased 2.7 percent in 2006–07, from $81.3 million to $83.5 million. Over the past five years, net student income has increased by an annualized rate of 3.6 percent, which is almost two percentage points below the annual rate of increase for the college's comprehensive fees (price) over the same period.

Smith's endowment, which totaled $1.4 billion as of June 30, 2007, contributes significantly to the college's annual operations. To

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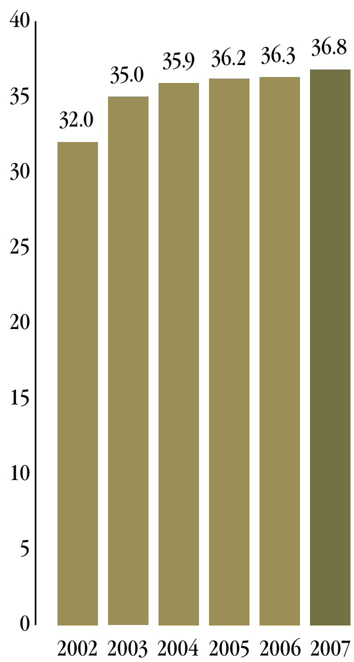
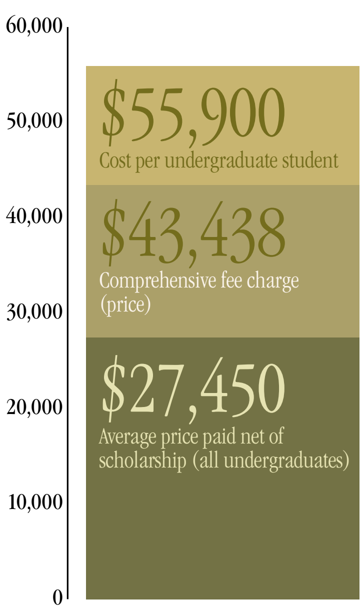
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percent



Cost vs. Price of a Smith Education

2006–07



The college has increasingly pursued conservation initiatives in recent years in response to escalating utility costs and heightened environmental awareness.

smooth the effect of market fluctuations on the amount of endowment support for operations each year, Smith uses a spending rate for endowment distributions. Under the college's spending formula, $50 million was available for spending in 2006–07, most of which supported operations. Under the spending rate, the amount distributed for each share of the endowment increases by 4 percent annually as long the resulting spending rate is less than 6 percent and more than 4 percent of market value. For 2006–07, the spending rate was 4.3 percent of the beginning-of-year market value. Over the past 10 years, Smith's spending rate has averaged 4.8 percent.

The Smith Fund, including unrestricted annual giving by alumnae, parents, and friends, totaled $11.3 million. Unrestricted gifts and grants supported $28.5 million of operations. An additional $10.5 million included in the Net Assets Released From Restrictions line represented restricted gifts and grants utilized for operations. Smith has experienced an increase in the volume of externally sponsored research in recent years, reaching a total of $4.4 million of sponsored activity in 2006–07.

At $103.7 million, salaries and benefits continue to account for the largest share (61 percent) of operating expenses. Compensation expenses increased 3.7 percent from the previous year, reflecting market-driven increases and relatively stable staffing levels. The college continues progress toward a gradual reduction of 25 positions to return the faculty to its normal size after filling some positions in advance of anticipated retirements. Smith will continue to maintain a favorable student-to-faculty ratio of 9:1. Health insurance spending increased by approximately 6 percent in 2006–07, reflecting a premium increase of 12.9 percent for calendar year 2007. This follows decreased and flat premiums over the previous two renewals, respectively. The college expects higher increases to persist at least through 2008.

Smith students have a long and distinguished history of studying abroad for a semester or year at colleges and universities around the world. Smith is a leader nationally in the proportion of its students who study abroad for a full academic year. In 2006–07, Smith students enrolled in 420 semesters abroad, paying Smith the comprehensive fee and receiving the same financial aid as resident students. The college pays the various study abroad programs. At a cost of $6.4 million, expenses for these programs continue to increase by twice the rate of general inflation, reflecting the weakening of the U.S. dollar relative to many foreign currencies.

Smith spent $5.8 million on utilities in 2006–07. The college uses an average of 33,500 barrels of oil annually in its heating plant, replaced by natural gas when pricing structures are advantageous, and consumes approximately 22 million kilowatt hours of electricity. Higher energy prices led to an $890,000, or 18 percent, increase in utility expenses in 2006–07, driven primarily by a sharp rise in electricity rates as the college reached the end of a long-term contract at lower rates. The college has increasingly pursued conservation initiatives in recent years in response to escalating utility costs and heightened environmental awareness. In addition to a new cogeneration plant scheduled to begin operation in 2008, other initiatives have included retrofitting lights and controls, improving insulation and increasing campus awareness about conservation efforts. Sustainability has emerged as an important commitment in new construction projects as well, as evidenced by the environmentally sensitive plans for Ford Hall (to be completed in 2009) and Conway House, opened in 2006, which was designed to minimize thermal and electrical usage.

Investments

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

The endowment is managed by the investment committee of the Board of Trustees with the assistance of Smith's outsourced investment office, Investure LLC. Smith maintains a diversified portfolio of global equities and fixed income securities, with a significant commitment to alternative equities, including hedge funds and private equity. The value of the college's endowment increased $204.6 million in

2006–07 to a total market value of $1.4 billion. Smith's endowment ranks among the largest for liberal arts colleges. The increase in market value reflects $252.3 million of investment return, consisting of appreciation and yield, and $7.8 million of gifts and other additions, less $55.5 million of distributions to support operations and management expenses.

As of June 30, 2007, endowment managed by Investure LLC, was invested 39 percent in alternative equities (primarily hedge funds), 20 percent in international equities including emerging markets, 18 percent in private equity and real assets, 13 percent in U.S. equities, and 10 percent in fixed income, cash and other. The 2006–07 investment return of 23.2 percent on this investment pool exceeded its composite benchmark return of 18.7 percent. The return also outperformed the benchmark for the three-year (17.8 percent versus 14.1 percent), five-year (14.0 percent versus 12.2 percent), and 10-year (10.4 percent versus 8.9 percent) periods. Strong returns have assured that the college has met its primary return objective of matching spending plus annual inflation over rolling five-year periods.

Student residences have emerged in our capital planning as an important priority for renovation and aesthetic updates.

Facilities

In 2005, the college began an upgrade of the mechanical systems in Nielson Library, approaching the work in phases due to its substantial cost and scope. Phase I of the project was completed in 2006–07 at a cost of $4.0 million, and consisted of the highest priority mechanical system upgrades in the Alumnae Gym and South Wing. Phase II of this project, budgeted at $4.0 million, began in 2007 and will address priority needs in the core area of the library. The project provides a total mechanical overhaul, including new heating, ventilation and air conditioning systems.

Student residences have emerged in the college's capital planning as an important priority for renovation and aesthetic updates. Staff in physical plant and student affairs have worked closely to develop a five-year plan to invest $22 million in the houses. During the summers of 2006 and 2007, Baldwin House underwent a comprehensive $3.5 million renovation, including the addition of nine suites to accommodate 26 students, replacement of windows, expansion of common area space, and upgraded finishes. Talbot House and Albright House received new roofs in 2006. Projects in summer 2007 included a $4.75 million renovation of Haven House, including five suites housing 14 students. A renovation added a new porch and entrance on the north side of Chapin House and reconfigured portions of the residence's kitchen and dining area to provide added space for the popular new "grab-and-go" lunch option. In addition, several houses were painted and wallpapered, and lighting was upgraded.

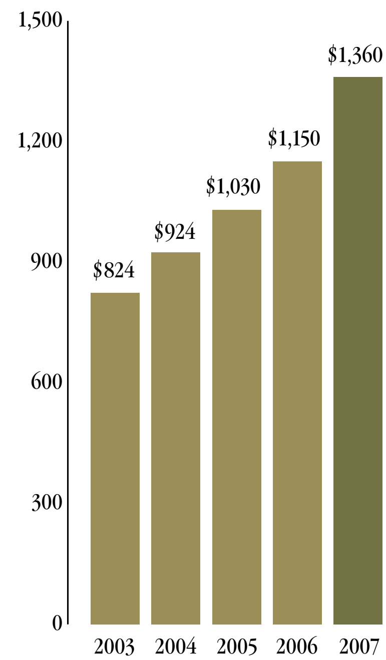
The college's first cogeneration facility is scheduled for completion in early 2008. The facility will include a gas turbine generator that will allow the college to produce its own electricity, as well as a heat recovery system designed to augment the existing central heating plant's output by capturing heat normally wasted. At current rates, we expect annual utility savings of nearly $2 million when the facility becomes operational.

College Hall, the original building constructed in 1875, was renovated in 2006. The mechanical systems were upgraded or replaced, and the heating and cooling systems were added to the college's energy management system. A reconfiguration of space within the building locates the student services offices of class deans, student financial services, disability services and registrar on the first floor.

The college broke ground during summer 2007 for Ford Hall, a state-of-the art $76 million science and engineering building. The new 140,000-square-foot facility will house the Picker Engineering Program as well as the departments of computer science and chemistry and the biochemistry and molecular biology programs. The new building, scheduled for completion in fall 2009, symbolizes Smith's commitment to producing women leaders in engineering, technology and science. Ford Hall is expected to be certified as a Leadership in Energy and Environmental Design (LEED) facility, incorporating initiatives to reduce energy consumption and to serve as a teaching tool for sustainable design. The facility's design includes a "green roof," porous pavement, vegetated swales, use of shading for temperature control and energy-efficient mechanical systems.

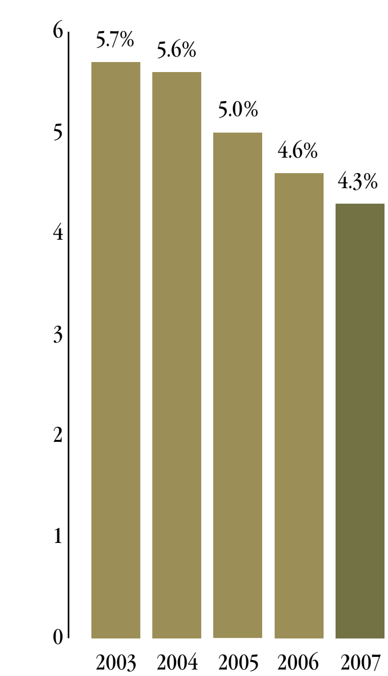
Endowment Market Value

in millions



Endowment Spending Rate

percentage of beginning market value



Ten Years in Review

	2007	2006	2005	2002	1997
Assets, Liabilities and Net Assets (000s)					
Total Assets	$1,949,801	$1,718,579	$1,585,630	$1,451,544	$955,474
Total Plant Assets	308,686	283,634	271,862	239,396	146,036
Endowment Funds Market Value	1,360,966	1,156,349	1,035,542	851,253	683,424
Life Income Funds Market Value	60,846	52,450	49,271	41,003	32,571
Long-Term Debt	104,081	106,140	72,916	76,185	37,659
Net Assets	1,687,860	1,461,119	1,332,637	1,154,349	880,110
Income and Expense (000s)					
Undergraduate Comprehensive Fees	$113,588	$108,678	$105,577	$89,176	$68,495
Undergraduate Scholarships	41,822	39,416	38,209	28,572	19,402
Net	71,766	69,262	67,368	60,604	49,093
Unrestricted Gifts and Grants	28,478	24,109	20,823	23,396	16,068
Restricted Gifts and Grants	9,621	18,065	17,826	18,700	22,536
Total Operating Expenses	170,488	162,217	157,007	147,821	104,454
Salaries and Wages	80,188	77,630	75,537	71,283	51,005
Staff Benefits	23,468	22,356	21,503	18,665	13,204
Other Statistics					
Undergraduate FTE	2,719	2,708	2,776	2,743 *	2,556
Faculty FTE	290.0	292.0	294.0	263.9	264.4
Student-Faculty Ratio	8.9	8.8	8.8	9.7	9.7
Comprehensive Fee	$43,438	$41,024	$38,886	$33,110	$27,300
Net Cost per Student	$55,900	$53,100	$50,500	$48,900	$37,100
Fee as Percent of Cost Per Student	77.7%	77.3%	77.0%	67.7%	73.6%
Students Receiving Scholarships	66.4%	66.2%	65.4%	62.8%	56.0%
Operations Supported by Endowment	29.1%	29.1%	28.7%	29.5%	24.7%
Endowment per Student	$478,411	$407,362	$355,955	$296,870	$259,100
Endowment Spending as Percent of Beginning Market Value	4.3%	4.6%	5.0%	5.1%	4.5%

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

KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

Independent Auditors' Report

The Board of Trustees
Smith College:

We have audited the accompanying statements of financial position of Smith College (the College) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 25, 2007

Statements of Financial Position

June 30, 2007 and 2006

(In Thousands)

		2007		2006
Assets				
Cash and cash equivalents	$	37,675	$	33,348
Collateral held for loaned securities		77,079		78,984
Receivables, net		41,425		39,505
Other assets		7,862		6,367
Investments		1,477,074		1,276,741
Land, buildings, equipment and collections, net		308,686		283,634
Total assets	$	1,949,801	$	1,718,579
Liabilities				
Accounts payable and accrued liabilities	$	42,037	$	36,215
Payable under securities loan agreements		77,079		78,984
Life income obligation		24,385		23,849
Deferred income, deposits, agency funds		14,359		12,272
Bonds payable		104,081		106,140
Total liabilities	$	261,941	$	257,460
Net Assets				
Unrestricted		592,662		520,551
Temporarily restricted		783,904		642,640
Permanently restricted		311,294		297,928
Total net assets	$	1,687,860	$	1,461,119
Total liabilities and net assets	$	1,949,801	$	1,718,579

See accompanying notes to financial statements.

Statements of Activities

For the years ended June 30, 2007 and 2006

(In Thousands)

	2007	2006
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 100,338	$ 96,529
Room and board fees	29,124	27,813
Student aid	(45,938)	(43,007)
Student income, net	83,524	81,335
Gifts and Grants	28,478	24,110
Investment return supporting operations	25,597	21,230
Other income	9,308	9,018
Net assets released from restrictions	38,386	39,427
Total operating revenues	$ 185,293	$ 175,120
Operating Expenses		
Instruction	73,083	69,537
Academic support	23,228	23,621
Student services	19,047	19,165
Auxiliary enterprises	31,389	28,346
General and administrative	23,741	21,548
Total expenses	$ 170,488	$ 162,217
Income from operations	$ 14,805	12,903
Non-Operating Revenues and Other Changes		
Realized and unrealized (loss) gain on interest-rate swap agreements	(713)	4,296
Investment return increasing long-term investment	58,374	31,055
Cumulative effect of change in accounting principle		(14,150)
Changes in accounting principle	(355)	
Non-operating revenues and other changes subtotal	$ 57,306	$ 21,201
Increase in unrestricted net assets	$ 72,111	$ 34,104
Changes in Temporarily Restricted Net Assets		
Gifts and Grants	3,283	12,193
Investment return	171,790	108,453
Change in life income funds	4,577	1,505
Net assets released from restrictions	(38,386)	(39,427)
Increase in temporarily restricted net assets	$ 141,264	$ 82,724
Changes in Permanently Restricted Net Assets		
Gifts and Grants	6,338	5,871
Investment return	1,797	669
Change in life income funds	5,231	5,114
Increase in permanently restricted net assets	$ 13,366	$ 11,654
Total increase in net assets	$ 226,741	$ 128,482
Net assets, beginning of year	1,461,119	1,332,637
Net assets, end of year	$ 1,687,860	$ 1,461,119

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended June 30, 2007 and 2006

(In Thousands)

	2007	2006
Cash Flows From Operating Activities		
Increase in net assets	$ 226,741	$ 128,482
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation, accretion and amortization	11,956	12,467
Net unrealized and realized gains on investments	(243,457)	(151,202)
Cumulative effect of a change in accounting principle		14,150
Change in accounting principle	355	
Actuarial change in life income obligation	535	77
Decrease (increase) in operating assets	(3,488)	2,228
Increase (decrease) in operating liabilities	6,001	(19,291)
Contributions restricted for long-term investment	(6,674)	(14,748)
Loss (Gain) on disposal	107	(143)
Contributions of property	(2,426)	(611)
Net cash used in operating activities	$ (10,350)	$ (28,591)
Cash Flows From Investing Activities		
Purchases of plant and equipment	$ (33,162)	$ (19,699)
Proceeds from loan collections	1,916	2,228
Loans issued	(1,886)	(2,317)
Purchases of investments	424,084	(282,568)
Sales and maturities of investments	(380,961)	278,029
Net cash (used in) provided by investing activities	$ 9,991	$ (24,327)
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	$ 6,674	$ 14,748
Proceeds from new long-term debt		35,196
Payments on long-term debt	(1,988)	(1,901)
Net cash provided by financing activities	$ 4,686	$ 48,043
Net change in cash and cash equivalents	$ 4,327	$ (4,875)
Cash and cash equivalents, beginning of year	$ 33,348	$ 38,223
Cash and cash equivalents, end of year	$ 37,675	$ 33,348
Supplemental disclosures:		
Interest paid	$ 4,207	$ 2,870

See accompanying notes to financial statements.

Notes to Financial Statements

1. Accounting Policies

Organization: Smith College is a private liberal arts college for women providing academic, residential and other services to a diverse student population. The college is an organization described under Internal Revenue Code (IRC) Section 501(c)(3) and is generally exempt from federal and state taxes under the Section 501(a) of the Code and applicable state laws.

Basis of Presentation: The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the college as a whole—including the Alumnae Association of Smith College as required by accounting rules governing the consolidation of related entities—and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The preparation of financial statements in accordance with U. S. Generally Accepted Accounting Principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues, gains and expenses recognized during the reporting periods. Actual results may differ from those estimates. Significant estimates include the allowance for uncollectible contributions and accounts receivable, the allowance for uncollectible loans receivable, the valuation of non-marketable securities, useful lives of buildings, equipment and collections, accrued compensation and benefits, and the actuarial assumptions regarding life income obligations.

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

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

> **Permanently Restricted:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the college. Generally, the donors of these assets permit the college to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.
> **Temporarily Restricted:** Net assets subject to donor-imposed stipulations that may or will be met by actions of the college and/or the passage of time.
> **Unrestricted:** Net assets not subject to donor-imposed stipulations.

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

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

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

- i as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- ii as increase in temporarily restricted net assets if the terms of the gift or the college's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The college has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as temporarily restricted; and
- iii as increases in unrestricted net assets in all other cases.

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

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

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Private equities and certain other non-marketable securities are valued using current estimates of fair value by management based on information provided by the general partner or investment manager for the respective funds. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. One related group of limited partnership investments represents 42 percent and 38 percent of the college's investments as of June 30, 2007 and June 30, 2006, respectively. Purchases and sales of investments are recorded at the trade date of the transaction. Realized investment gains and losses are recorded utilizing the average cost method for all investments except where specific identification is required by law. Investments include the beneficial interests in perpetual trusts. Beneficial interest in a perpetual trust represents resources neither in the possession of, nor under the control of the college, but held and administered by an outside fiscal agent, with the college deriving income from the trust. Assets of the Alumnae Association and the Smith Students' Aid Society, Inc., are invested with the college's pooled endowment.

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

As of June 30, 2007 and 2006, the college had loaned certain securities, returnable on demand, with a fair value of approximately $75,697,000 and $77,112,000 respectively, to several financial institutions that have deposited collateral with respect to such securities of $77,079,000 and $78,984,000 respectively. The college receives income on the invested collateral, and also continues to receive interest and dividends from the securities on loan.

Derivative financial instruments are utilized by the college to equitize cash held by investment managers and to manage currency exchange risks arising from investments in nonderivative foreign assets in proportion to the asset at risk. Such instruments consist of S&P 500 futures and forward foreign exchange contracts entered into as part of the investment portfolio of the college's endowment fund. On June 30, 2007, the college held no open positions on forward foreign exchange contracts. On June 30, 2007, the notional value of S&P 500 futures was $31,569,000; no S&P 500 futures were held at June 30, 2006.

In connection with the issuance of the Series 2001 and Series 2002 revenue bonds, the college entered into interest rate swap agreements that effectively changed the interest rate exposure on the issues from a variable rate to a fixed rate of 4.39 percent on the Series 2001 bonds and 4.66 percent on the Series 2002 bonds. The interest rate swap agreements have a notional amount and termination date equal to the principal amount and maturity date of the respective Series 2001 and Series 2002 bonds. On June 30, 2007 and 2006, the fair value of the interest rate swaps, recorded as part of the college's accounts payable and accrued liabilities, was $4,635,000 and $4,511,000 respectively.

Land, buildings, equipment and collections are recorded at cost. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Equipment, works of art and other assets contributed to the college are capitalized at fair value at the date of the gift. Collection purchases are recorded at cost. The Museum of Art maintains a collection of art for educational purposes.

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

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

		2007	2006
Students, employees, other receivables		$ 2,637	$ 1,202
Contributions expected to be collected within:	One year	15,884	13,379
	One to five years	3,046	3,341
	Over five years	25,564	26,413
Student loans		7,211	7,353
Employee loans and mortgages		4,138	3,816
Less: Discount (3.03% to 6.00%) on contributions		(14,117)	(13,443)
Less: Allowance for uncollectibles		(2,938)	(2,556)
		$41,425	$39,505

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

	2007 Total	2006 Total
Cash and cash equivalents	$ 18,840	$ 24,189
Fixed Income Securities	91,279	89,740
Equity Securities	381,348	358,377
Limited Partnerships/ Other	943,439	744,954
Funds Held by Bond Trustee	4,899	25,205
Life Income Funds	19,392	17,847
Beneficial Interests	18,221	16,450
Due to Brokers	(467)	(49)
Due from Brokers	123	28
Total Investments	$1,477,074	$1,276,741

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

	2007 Total	2006 Total
Dividends and Interest	$ 19,594	$ 14,906
Realized Gains	70,884	73,037
Unrealized Gains	172,573	78,165
Fees	(5,493)	(4,701)
	$ 257,558	$ 161,407

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

			2006			2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Supporting operations	$25,597	$28,318		$21,230	$29,128	
Increasing long-term investments	58,374	143,472	$1,797	31,055	79,325	$669
	$83,971	$171,790	$1,797	$52,285	$108,453	$669

Outstanding commitments to limited partnerships were $338,862,000 and $271,270,000 at June 30, 2007 and 2006, respectively. These commitments are scheduled to be funded over a number of years.

4. Land, Buildings, Equipment and Collections Land, buildings, equipment and collections are as follows at June 30 (in thousands):

	Useful Lives	2007	2006
Land		$ 5,441	$ 4,742
Land improvements	10–30 years	5,122	5,107
Buildings	40–70 years	352,637	335,879
Works of art	100 years	33,301	30,350
Library books	15 years	43,863	41,161
Equipment	5–12 years	15,912	17,450
		456,276	434,689
Accumulated depreciation		(171,652)	(162,852)
		284,624	271,837
Construction in progress		24,062	11,797
		$308,686	$283,634
Depreciation Expense		$ 11,985	$ 11,749
Capitalized Interest		$ 638	$ 304

5. Changes in Accounting Principles In fiscal year 2007 the college adopted Financial Accounting standard Board (FASB) Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (Statement 158), which applies to the college's postretirement plan that provides health and dental benefits for eligible retired employees between the ages of 62 and 65. Additional information about the plan, as required by this new statement, is provided in Note 11.

In fiscal year 2006 the college adopted the Financial Accounting Standards Board (FASB) Interpretation Number 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an assets retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized. The college adopted FIN 47 for the year ended June 30, 2006, and recorded a liability of $15,867,000 as of July 1, 2005; of which $14,150,000 was recorded as a cumulative effect of a change in accounting principle. The depreciation and accretion for the years ended June 30, 2007 and 2006 were $752,000 and $747,000 respectively, and the June 30, 2007 and 2006 liability was $15,862,000 and $16,104,000 respectively.

6. Accounts Payable and Accrued Liabilities Accounts payable and accrued liabilities consist of the following items at June 30 (in thousands):

	2007	2006
General payables	$ 5,948	$ 3,235
Interest Rate Swaps	4,635	4,511
Facilities, construction, repairs	24,097	22,847
Payroll related	3,545	1,716
Compensated absences	3,546	3,158
Early retirement and separation plans	266	748
	$42,037	$36,215

7. Life Income Assets, Obligations and Net Assets Life income funds consist of the following items at June 30 (in thousands):

	Annuities (held by College)		Life Income (College Trustee)		Life Income (Individual Trustee)	
	2007	2006	2007	2006	2007	2006
Assets:						
Cash/Investments	$41,454	$34,604	$19,392	$17,846		
Contributions Receivable					$ 28,690	$ 27,665
Discount/Allowance					(13,340)	(13,271)
Obligation:						
Obligation	(15,617)	(14,797)	(8,768)	(9,052)		
	$25,837	$19,807	$10,624	$8,794	$15,350	$14,394
Net Assets:						
Temporary	$10,016	$8,622	$ 4,583	$ 3,843	$ 9,431	$ 8,941
Permanent	15,821	11,185	6,041	4,951	5,919	5,453
	$25,837	$19,807	$10,624	$ 8,794	$15,350	$14,394

8. Deferred Income, Deposits and Agency Funds Deposits and agency funds consist of the following items at June 30 (in thousands):

	2007	2006
Deferred income	$ 5,444	$ 4,043
Student deposits	702	708
Associated Kyoto Program	1,242	1,274
Smith Students' Aid Society	4,328	3,688
Other deposits	599	540
Perkins loan program	2,044	2,019
	$14,359	$12,272

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

Series	Final Year of Maturity	Interest Rates	2007	2006
Massachusetts Development Finance Agency:				
2000	2010	4.6%–5.75%	$ 4,590	$ 5,380
2001	2024	Variable	30,145	31,208
2002	2029	Variable	34,290	34,425
2005	2035	5.00%	33,065	33,065
			102,090	104,078
Unamortized premium			1,991	2,062
			$104,081	$106,140

The average interest rate on the Series 2001 and Series 2002 bond issues, during fiscal 2007, were 3.57 percent and 3.57 percent respectively, with June 30, 2006, rates of 2.91 percent and 2.90 percent respectively. The college entered into swap agreements on the Series 2001 and Series 2002 issues, as described in Note 1, at fixed rates of 4.39 percent and 4.66 percent respectively.

The fair value of the Series 2000 bonds payable as of June 30, 2007, is approximately $4,816,000, and the fair value of the Series 2005 bonds payable as of June 30, 2007 is approximately $34,741,000. The fair value of the Series 2001 and 2002 bonds payable as of June 30, 2007 approximates the total outstanding principal balance. Aggregate principal payments due on these bonds during each of the next five years, ending June 30 and thereafter are as follows (in thousands):

2008	2009	2010	2011	2012	Thereafter	Total
$2,079	$2,175	$2,285	$2,393	$2,635	$90,523	$102,090

Funds Held by Bond Trustees were $4,899,000 at June 30, 2007 ($25,205,000 at June 30, 2006), and were held primarily for construction projects designated under the applicable bond agreements.

10. Net Assets

Net assets at June 30, 2007, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2007
Endowment				
Permanent Endowment			$273,832	273,832
Net Appreciation on Permanent Endowment		$704,420		704,420
Term Endowment		5,273		5,273
Quasi-endowment	$377,441			377,441
	377,441	709,693	273,832	1,360,966
Life Income Funds		24,030	27,781	51,811
Plant Funds	181,357	3,138		184,495
Loan Funds			6,938	6,938
Other Funds	33,864	47,043	2,743	83,650
	$592,662	$783,904	$311,294	$1,687,860

And net assets at June 30, 2006, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006
Endowment				
Permanent Endowment			$267,263	$ 267,263
Net Appreciation on Permanent Endowment		$564,605		564,605
Term Endowment		4,715		4,715
Quasi-endowment	$319,766			319,766
	319,766	569,320	267,263	1,156,349
Life Income Funds		21,407	21,588	42,995
Plant Funds	176,420	6,492		182,912
Loan Funds			6,743	6,743
Other Funds	24,365	45,421	2,334	72,120
	$520,551	$642,640	$297,928	$1,461,119

Included in unrestricted, temporarily restricted and permanently restricted net assets are the college's endowment and similar funds and life income funds. The per share market value of the college's pooled investment fund at June 30, 2007, was $6,901 ($5,896 at June 30, 2006). The total endowment and annuity shares in the pool (including annuity funds) were 200,327 at June 30, 2007 (198,904 at June 30, 2006).

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

	2007	2006
Total return distribution	$27,878	$29,492
Program services	10,508	9,935
	$38,386	$39,427

11. Retirement Plans

The college has a defined contribution retirement plan for substantially all its employees. The plan is administered by independent trustees to whom all funds are transferred for investment purposes and benefit payments. All employees are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contribution to the retirement plan amounted to approximately $7,214,000 in 2006–07 ($6,930,000 in 2005–06).

The college also provides health and dental insurance benefits for eligible retired employees between the ages of 62–65. Effective June 30, 2007, the college adopted FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (Statement 158). As of July 1, 2006, the college had recognized an accrued postretirement benefit obligation of $367,000. During 2006–07 the college recognized a $355,000 transitional adjustment, $122,000 of expense, and $9,000 of payments, for an accrued postretirement benefit obligation of $835,000 at June 30, 2007.

12. Subsequent Event

On July 31, 2007, $72,960,000 Massachusetts Development Finance Agency variable rate demand revenue bonds, Smith College Issue, Series 2007, were issued. The bonds, which mature July 1, 2037, have a variable interest rate, set weekly. The proceeds from the bonds are to fund construction projects on the Smith College campus.

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SMITH COLLEGE