Smith College

Financial Report 2007–08

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

Financial Staff, 2007–08

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

Richard Myers
Director of Finance and Associate 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 2007–08

This annual report presents the audited financial statements for Smith College for the fiscal year ending June 30, 2008. The college's financial condition remains strong, as evidenced by positive operating margins, diversified revenue sources, endowment growth and spending, and continued investment in such critical priorities as student access, faculty recruitment and retention, international study experiences for students, and campus facilities. Smith's financial strength positions the college well as it implements the directions and initiatives identified in its most recent strategic planning process.

A 2006 study by *The Chronicle of Higher Education* found that Smith had the second highest proportion of students receiving Pell Grants among private institutions with endowments of $500 million or more.

Statement of Financial Position

The college's net financial assets increased by $14.1 million during 2007–08 to $1.7 billion. Net assets have increased at an annualized rate of 8.7 percent over the past five years. Much of this growth has stemmed from strong investment returns on the endowment, which accounted for $542 million of the $579 million overall increase since 2002–03. At 4.3 percent, investment returns were lower in 2007–08 than in the most recent years, leading to the smaller increase in net assets. The 10 percent increase in the college's investment in plant to $339 million reflects progress on the multi-year construction of the Ford Hall facility for engineering, computer science, chemistry, biochemistry, and molecular biology scheduled to open in the fall of 2009.

Liabilities increased by $57.9 million, or 22.1 percent, to $319.9 million, due largely to the issuance of $73 million of variable-rate tax-exempt debt to support the Ford Hall construction and several smaller renovation projects. Total outstanding debt was $174.9 million as of June 30, 2008. Offsetting the growth in debt liabilities, amounts payable by the college for collateralized security loan agreements decreased by $14.4 million (as did the corresponding asset) as the proportion of the investment portfolio in readily tradable securities has diminished in recent years with the shift toward private equity and other alternative investments.

Smith's endowment per student of $436,000 remains among the highest of any liberal arts college in the nation.

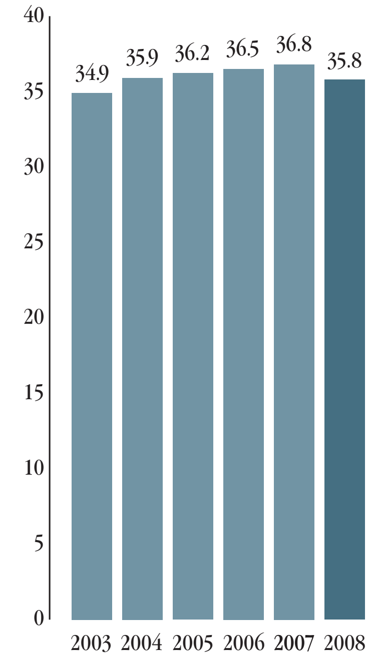
Statement of Activities

Operating revenues totaled $210.2 million for 2007–08, an increase of $24.9 million or 13.4 percent over the previous fiscal year. By comparison, operating expenses increased 11.0 percent, or $18.8 million, to $189.3 million. Operations resulted in a $20.9 million operating margin. Smith continues to benefit from diversified sources of operating revenue, consisting of student income net of financial aid (42 percent), net assets released from restrictions (23 percent), gifts and grants (15 percent), investment return supporting operations (13 percent), and other income (7 percent). Salaries, wages, and benefits accounted for 58 percent of operating spending, reflecting the labor-intensive nature of providing an excellent residential liberal arts educational experience, characterized by a low student-to-faculty ratio (8.7 to 1) and substantial student support services.

Net student income increased by 9.2 percent to $87.7 million for 2007–08. The increase reflects the combined effects of a 5.0 percent

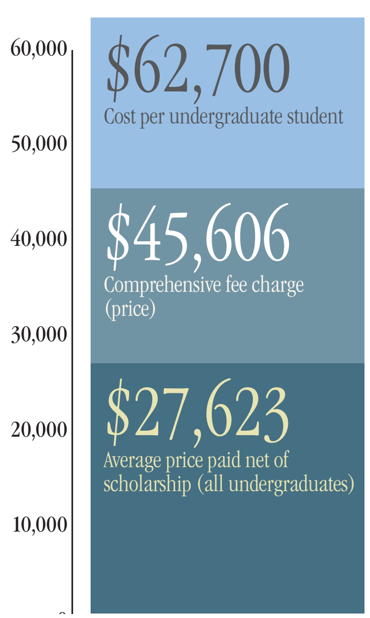
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percent



Cost vs. Price of a Smith Education

2007–08



increase to the comprehensive fee, slightly higher enrollment, and a slower growth rate for financial aid.

Smith educates talented women with the potential to succeed in a rigorous academic program, meeting the full demonstrated financial need of all enrolled students. While many of Smith's peers have begun to consider and implement new strategies to increase the enrollment of lower-income students, Smith has a well-established position of leadership in this area, as evidenced by the proportion of students receiving federal Pell Grants (23 percent); the proportion of students receiving need-based aid (more than 60 percent); and undergraduate financial aid spending as a percentage of tuition, room and board revenue (36 percent). A 2006 study by *The Chronicle of Higher Education* found that Smith had the second highest proportion of students receiving Pell Grants among private institutions with endowments of $500 million or more.

Smith spent $41.4 million on institutional grant aid, excluding federal and state sources, for undergraduates in 2007–08, an increase of 3.0 percent over the prior year. The lower growth rate for financial aid relative to prior years does not reflect a departure from the college's long-standing leadership position with regard to access and affordability. Rather, the change for 2007–08 represents a stabilization of the discount rate after a period of significant growth. The college's discount rate (institutional grant expense/gross comprehensive fee revenue) for undergraduates increased from 29 percent to 36 percent over the past decade. The average grant among undergraduate students with need-based grants was $26,200 for 2007–08. Approximately one-third of undergraduate students received grants covering more than 75 percent of the comprehensive fee charge.

Endowment income is distributed across the "investment return" and "net assets released" categories for purposes of the Statement of Activities. For 2007–08, 30.7 percent of operations was funded from endowment income, continuing the steady increase of its share of the operating budget.

The college received a total of $44.4 million of gifts and grants in 2007–08, surpassing the prior year's total by $6.3 million. Unrestricted gifts for current operations, primarily the Smith Fund and realized bequests, accounted for $16.3 million, or 37 percent of the total. The Smith Fund totaled a record high $12 million, including gifts from 16,171 alumnae, or 37 percent of those contacted. Gifts to endowment totaled $10.1 million, while restricted gifts for current operations contributed an additional $8.7 million. Government grants of $5.9 million represented 13 percent of the total. The remaining contributions included funds for facilities and life income gifts and an adjustment for year-end pledge balances.

The annual cost of educating an undergraduate student at Smith has increased from $52,200 to $62,700 since 2002–03. This exceeds the comprehensive fee of $45,606 by $17,100, or 37.5 percent. In reality, only one-third of students pay the full comprehensive fee price, with the remaining two-thirds receiving financial aid. The typical student pays less than half of the full cost of her education. The differential is made possible by contributions from the college's endowment and continuing philanthropic support from the college's alumnae and friends.

Faculty compensation continues as a strategic priority for the college to ensure recruitment and retention of excellent faculty. The college completed a three-year initiative in 2007–08 to improve the competitiveness of salaries at each rank among a comparison group of peer national liberal arts colleges. Through this initiative, faculty salaries have increased by an average of 7.0 percent annually during the past three years, including a 9.2 percent increase for 2007–08.

Student participation in study abroad programs increased from 426 semesters abroad in 2006–07 to 465 in 2007–08, at a cost of $9

The typical student pays less than half of the full cost of her education. The differential is made possible by contributions from the college's endowment and continuing philanthropic support from the college's alumnae and friends.

million. Smith leads the nation's liberal arts colleges in the proportion of students studying abroad for a full academic year. Students pursue educational opportunities, primarily during the junior year, at the college's own programs in Western Europe and through consortial and other programs located around the world. The weakening of the dollar relative to most foreign currencies has increased the costs of these programs relative to other parts of the college's operations.

Utilities spending increased to $6.6 million in 2007–08 due to rising costs for electricity and natural gas. Price differentials and the flexibility of the college's heating plant led to a shift away from oil toward natural gas. Concern about rising energy prices has combined with progress on several environmental stewardship initiatives in recent years to reduce energy consumption on campus. Heating plant usage, as measured by mmBTUs, has decreased 16.7 percent between 2002–03 and 2007–08. While a portion of this decrease may be attributed to recent warmer winters, the decrease remains substantial at 11.4 percent when adjusted for seasonal temperatures. Heating prices have increased 146.0 percent over this same period. The college has also reduced its electricity consumption by 10.4 percent since 2003–04.

Debt service costs increased 30.9 percent, from $4.2 million to $5.5 million, reflecting the additional interest on the variable-rate debt issued in July 2007. Debt service is allocated functionally for purposes of the Statement of Activities, with instruction and auxiliaries (primarily student residences) accounting for 79 percent of the total for 2007–08. Smith has maintained its strong credit ratings (Aa1 from Moody's and AA from Standard and Poor's) despite increasing its debt load by approximately $102 million over the past three years to support facilities construction and renovation projects.

Investments

Smith's endowment supports the breadth of the college's activities and programs. The endowment provides a critical funding stream that allows the college to provide financial aid to students, shape the composition of its faculty to meet curricular objectives, maintain and expand facilities, develop new initiatives and programs to respond to current societal and intellectual challenges, and keep pace with technological changes integral to today's teaching and learning. The endowment has grown to provide approximately 31 percent of operating revenues by employing a spending rate approach that seeks the largest responsible annual contribution to operations while providing a measure of protection against periods of declining returns.

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.

Smith's endowment totaled $1.37 billion as of June 30, 2008. Over the past 10 years, the

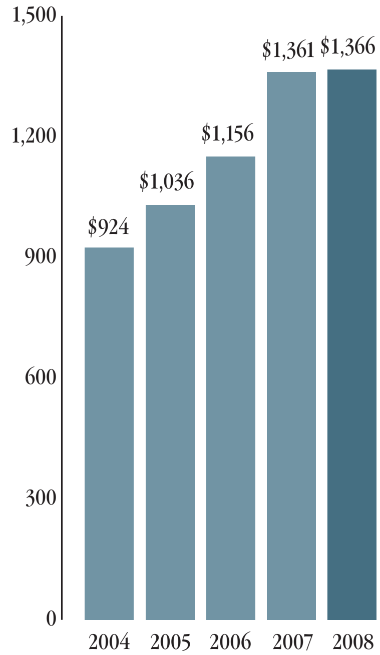
Growth of Endowment

	Begin-of-Year Market Value	Gifts and Transfers	Return minus Fees	Distributed to Operations	End-of-Year Market Value	Change (%)
1998–99	$793.2	$23.7	$101.7	($33.8)	$884.8	11.5%
1999–00	$884.8	$17.0	$43.5	($38.4)	$906.9	2.5%
2000–01	$906.9	$12.4	$42.4	($44.1)	$917.6	1.2%
2001–02	$917.6	$15.1	($34.5)	($47.0)	$851.2	–7.2%
2002–03	$851.2	$7.5	$13.5	($48.4)	$823.9	–3.2%
2003–04	$823.9	$17.2	$129.8	($46.5)	$924.5	12.2%
2004–05	$924.5	$13.5	$143.6	($46.0)	$1,035.6	12.0%
2005–06	$1,035.6	$13.3	$155.1	($47.7)	$1,156.4	11.7%
2006–07	$1,156.4	$7.7	$247.0	($50.1)	$1,361.0	17.7%
2007–08	$1,361.0	$11.2	$53.5	($59.9)	$1,365.8	0.4%
Annual compounded growth rate						5.6%

Dollar values reflect millions

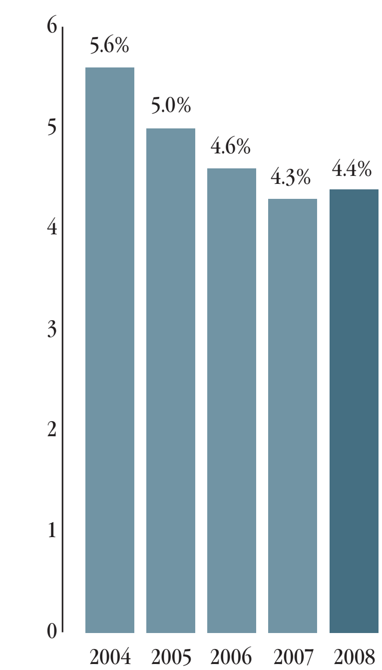
Endowment Market Value

in millions



Endowment Spending Rate

percentage of beginning market value



Endowment Spending Rate

	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
1998–99	$793.2	$33.8	4.3%	17.5%
1999–00	$884.8	$38.4	4.3%	13.5%
2000–01	$906.9	$44.1	4.9%	15.0%
2001–02	$917.6	$47.0	5.1%	6.4%
2002–03	$851.2	$48.4	5.7%	3.1%
2003–04	$823.9	$46.5	5.6%	–3.9%
2004–05	$924.5	$46.0	5.0%	–1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
Ten-year totals		$461.9	4.8%	77.2%

Dollar values reflect millions

endowment has increased by $572 million, or 5.6 percent annually. This increase reflects new gifts, transfers and appreciation minus spending and management expenses. Gifts and transfers to the endowment have accounted for $138.7 million of the overall growth, or the equivalent of 1.4 percent of the beginning-of-year market value annually.

The value of the college's endowment increased $4.8 million in 2007–08 to a market value of $1.37 billion. The increase in market value during 2007–08 reflects $53.5 million of investment return net of management fees and $11.2 million of gifts and other additions minus $59.9 million of distributions to support operations.

As of June 30, 2008, the endowment was invested 31 percent in alternative equities, 29 percent in private equity and real assets, 18 percent in international equities including emerging markets, 10 percent in domestic equities, and 12 percent in fixed income and cash. These allocations represent a gradual and purposeful shift away from domestic equities toward alternative and private equity investments over the past five years.

The 2007–08 investment return of 4.3 percent exceeded the composite benchmark, which declined by 3.7 percent over the same period. The notable over-performance relative to the benchmark reflects the college's decision to purchase, and subsequently sell, a short position on the Standard & Poor's 500 index to take advantage of high volatility in the financial markets. Smith's investment returns have also outperformed the benchmark over the three-year (13.6 percent versus 8.6 percent), five-year (14.6 percent versus 10.6 percent), and 10-year (9.1 percent versus 6.3 percent) periods. Strong returns have allowed the college to achieve its primary return objective of matching spending plus annual inflation over rolling five-year periods.

Determining an appropriate spending rate is a primary and important fiduciary responsibility of Smith's board of trustees, which aims to strike a balance between maintaining the real value of the endowment over time and funding annual priorities that meet the institution's competitive and programmatic needs. Smith's

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By installing a cogeneration system designed to meet the heating and electrical needs of the campus, Smith will increase operational efficiency and decrease energy costs, while significantly reducing emissions of greenhouse gases that contribute to global warming.

endowment spending policy provides that the income distributed per share from the endowment will increase by 4.0 percent annually as long as the resulting amount is more than 4.0 percent and less than 6.0 percent of the preceding December 31 market value. While this policy provides long-term direction, the full board of trustees continues to review and approve the spending rate each year.

Over the past 10 years, the college's endowment spending rate has averaged 4.8 percent and ranged from a low of 4.3 percent to a high of 5.7 percent. The spending rate has been above 5.0 percent in four of the past 10 years, most recently in 2004–05. The rate has declined to below 4.5 percent in the most recent years given the unusually high investment returns during fiscal years 2004 through 2007 (average 17.3 percent). The trustees approved a reset of the spending rate per share to 4.75 percent of the preceding December 31 market value for 2007–08. As a result, the amount of endowment income distributed to operations in 2007–08 increased by nearly 20 percent, from $50.0 million to $59.9 million. Endowment spending has increased by $26.1 million, or 77 percent, over the past decade.

The 5.6 percent annualized growth rate in endowment market value exceeds the 4.5 percent annual growth in operations at the college during this period. The proportion of the operating budget covered by the endowment has increased from approximately 20 percent in the mid-1990s to its current 30 percent level. By contrast, net revenue received from comprehensive fees after financial aid has decreased its share of operating revenues from about 50 percent to 42 percent over the same period. As the college draws larger amounts from its endowment as market values have increased, the source of funding for a Smith education continues to shift from students and their families to the college's endowment.

Facilities

Smith invested $40.8 million in campus facilities during 2007–08. New construction projects included completion of the cogeneration facility ($3.8 million in 2007–08, $13 million overall) and continued progress on Ford Hall ($25.4 million), the college's new 140,000 square foot building housing engineering and the molecular sciences. That building is expected to open for the 2009–10 academic year, at a cost of $73 million. The building incorporates numerous initiatives in its design and use in order to reduce the consumption of energy resources and the costs of operation and to serve as a teaching tool for sustainable design.

Cogeneration, also called combined heat and power, is an efficient, clean, and reliable approach to generating heating and electrical energy from a single fuel source. By installing a cogeneration system designed to meet the heating and electrical needs of the campus, the college will increase operational efficiency and decrease energy costs, while significantly reducing emissions of greenhouse gases that contribute to global warming. The cogeneration system's 3500-kW gas turbine will be a reliable source of electricity, providing substantial operational cost and environmental emissions benefits. The financial benefits provide an attractive payback while the steam generation capability provides a necessary upgrade to the boiler plant. The efficiency and flexibility of a cogeneration system also provide the college with greater energy independence.

Major renovation projects were focused on student residences in 2007–08, with $7.8 million spent to renovate and refurbish several houses across campus, and also continued improvement to the heating, ventilation, and air handling systems in Neilson Library. These investments are part of a multi-year focus to enhance the condition of the houses and library. In 2007–08, the college completed a comprehensive assessment of the condition of its buildings and has begun to prioritize major renovation projects for the next several years.

In late 2007, workers installed the new turbine that will help fire the college's innovative cogeneration power plant. With the new system up and running, Smith will meet the heating and electrical demands of the campus with a measure of energy independence while cutting its greenhouse emissions in half.

Ten Years in Review

	2008	2007	2006	2003	1998
Assets, Liabilities and Net Assets (000s)					
Total Assets	$2,021,816	$1,949,801	$1,718,579	$1,450,710	$1,096,561
Total Plant Assets	$339,283	$308,686	$283,634	$266,392	$145,971
Endowment Funds Market Value	$1,365,792	$1,360,966	$1,156,349	$823,915	$793,214
Life Income Funds Market Value	$55,932	$60,846	$52,450	$43,098	$38,247
Long-Term Debt	$174,890	$104,081	$106,140	$75,299	$35,801
Net Assets	$1,701,940	$1,687,860	$1,461,119	$1,122,727	$1,020,166
Income and Expense (000s)					
Undergraduate Comprehensive Fees	$120,379	$113,588	$108,678	$93,435	$71,181
Undergraduate Scholarships	42,776	41,822	39,416	32,730	20,800
Net	77,603	71,766	69,262	60,705	50,381
Unrestricted Gifts and Grants	30,856	28,478	24,109	22,772	15,607
Restricted Gifts and Grants	13,568	9,621	18,065	11,980	31,063
Total Operating Expenses	189,267	170,488	162,216	158,139	111,262
Salaries and Wages	84,533	80,188	77,630	77,923	56,390
Staff Benefits	25,174	23,468	22,356	21,271	13,978
Other Statistics					
Undergraduate:					
Student FTE	2,696	2,669	2,708	2,743	2,562
Faculty FTE	290	290	292	301	263
Student-Faculty Ratio	8.7	8.7	8.8	8.5	9.7
Comprehensive Fee	45,606	43,438	41,024	34,936	28,610
Net Cost Per Student	62,700	56,900	53,100	52,200	38,900
Comprehensive Fee as Percent of Cost Per Student	72.7%	76.3%	77.3%	66.9%	73.5%
Students Receiving Scholarships	65.8%	66.4%	66.2%	64.1%	56.9%
Operations Supported by Endowment	30.7%	29.1%	29.1%	28.1%	25.7%
Total Student FTE	3,132	3,097	3,145	3,190	3,037
Endowment Per Student	436,086	439,395	367,632	258,306	261,167
Endowment Spending as Percent of Beginning Market Value	4.4%	4.3%	4.6%	5.7%	4.2%

* 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, 2008 and 2007, 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, 2008 and 2007, 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 26, 2008

Statements of Financial Position

June 30, 2008 and 2007

(In Thousands)

See accompanying notes to financial statements.

	2008	2007
Assets		
Cash and cash equivalents	$ 55,876	$ 37,675
Collateral held for loaned securities	62,720	77,079
Receivables, net	37,439	41,425
Other assets	6,453	7,862
Funds Held by Bond Trustee	48,042	4,899
Investments	1,472,003	1,472,175
Land, buildings, equipment and collections, net	339,283	308,686
Total assets	$ 2,021,816	$ 1,949,801
Liabilities		
Accounts payable and accrued liabilities	$ 44,877	$ 42,037
Payable under securities loan agreements	62,720	77,079
Life income obligations	23,117	24,385
Deferred income, deposits, agency funds	14,272	14,359
Bonds payable	174,890	104,081
Total liabilities	$ 319,876	$ 261,941
Net Assets		
Unrestricted	607,611	592,662
Temporarily restricted	777,787	783,904
Permanently restricted	316,542	311,294
Total net assets	$ 1,701,940	$ 1,687,860
Total liabilities and net assets	$ 2,021,816	$ 1,949,801

Statements of Activities

For the years ended June 30, 2008 and 2007

(In Thousands)

See accompanying notes to financial statements.

	2008		2007	
Changes in Unrestricted Net Assets				
Operating Revenues and Other Additions				
Student income: Tuition and other fees	$	105,253	$	98,389
Room and board fees		29,725		27,867
Student aid		(47,276)		(45,938)
Student income, net		87,702		80,318
Gifts		30,856		28,478
Investment return supporting operations		28,362		25,597
Other income		14,864		12,514
Net assets released from restrictions		48,410		38,386
Total operating revenues	$	210,194	$	185,293
Operating Expenses				
Instruction		81,242		73,170
Academic support		24,700		22,377
Student services		19,961		18,858
Auxiliary enterprises		35,885		31,239
General and administrative		27,479		24,844
Total expenses		189,267	$	170,488
Income from operations	$	20,927		14,805
Non-Operating Revenues and Other Changes				
Realized and unrealized loss on interest-rate swap agreements		(4,346)		(713)
Investment return (decreasing) increasing long-term investment		(1,631)		58,374
Change in accounting principle				(355)
Non-operating revenues and other changes subtotal	$	(5,977)	$	57,306
Increase in unrestricted net assets	$	14,949	$	72,111
Changes in Temporarily Restricted Net Assets				
Gifts		8,717		3,283
Investment return		34,679		171,790
Change in life income funds		(1,103)		4,577
Net assets released from restrictions		(48,410)		(38,386)
(Decrease) Increase in temporarily restricted net assets	$	(6,117)	$	141,264
Changes in Permanently Restricted Net Assets				
Gifts		4,851		6,338
Investment return		(883)		1,797
Change in life income funds		1,280		5,231
Increase in permanently restricted net assets	$	5,248	$	13,366
Total increase in net assets	$	14,080	$	226,741
Net assets, beginning of year		1,687,860		1,461,119
Net assets, end of year	$	1,701,940	$	1,687,860

Statements of Cash Flows

For the years ended June 30, 2008 and 2007

(In Thousands)

See accompanying notes to financial statements.

	2008	2007
Cash Flows From Operating Activities		
Increase in net assets	$ 14,080	$ 226,741
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	12,504	11,956
Net unrealized and realized gains on investments	(48,080)	(243,457)
Change in accounting principle		355
Actuarial change in life income obligation	(1,268)	535
Change in operating assets	5,854	(3,488)
Change in operating liabilities	1,724	6,001
Contributions restricted for long-term investment	(3,972)	(6,674)
Loss on disposal		107
Contributions of property and securities	(5,291)	(2,426)
Net cash used in operating activities	$ (24,449)	$ (10,350)
Cash Flows From Investing Activities		
Purchases of plant and equipment	$ (40,802)	$ (33,163)
Proceeds from loan collections	1,453	1,916
Loans issued	(1,514)	(1,886)
Purchases of investments	528,037	424,085
Sales and maturities of investments	(518,922)	(380,961)
Net cash (used in) provided by investing activities	$ (31,748)	$ 9,991
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	$ 3,972	$ 6,674
Proceeds from new long-term debt	72,960	
Issuance costs of new long-term debt	(455)	
Payments on long-term debt	(2,079)	(1,988)
Net cash provided by financing activities	$ 74,398	$ 4,686
Net change in cash and cash equivalents	$ 18,201	$ 4,327
Cash and cash equivalents, beginning of year	$ 37,675	$ 33,348
Cash and cash equivalents, end of year	$ 55,876	$ 37,675
Supplemental disclosure:		
Interest paid	$ 5,527	$ 4,207

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 cost which approximates fair value.

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. 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 49 percent and 42 percent of the college's investments as of June 30, 2008 and June 30, 2007, 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, 2008 and 2007, the college had loaned certain securities, returnable on demand, with a fair value of approximately $61,217,000 and $75,697,000 respectively, to several financial institutions that have deposited collateral with respect to such securities of $62,720,000 and $77,079,000 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, 2008 and 2007, the college held no open positions on forward foreign exchange contracts. On June 30, 2008 and 2007, the notional value of S&P 500 futures was $71,430,000 and $31,569,000 respectively.

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, 2008 and 2007, the fair value of the interest rate swaps, recorded as part of the college's accounts payable and accrued liabilities, was $7,915,000 and $4,635,000 respectively. Subsequent to June 30, 2008, the financial markets in the United States have experienced significant turmoil. The continued effectiveness of these swaps will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements. The Series 2001, 2002, and 2007 revenue bonds are variable rate. The rate is set weekly. The college is obligated to re-purchase any bonds tendered when the rate is reset if the college's re-marketing agents fail to find a buyer. The college maintains sufficient liquidity through internal funds and a standby bond purchase agreement to re-purchase all bonds tendered and not re-marketed.

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.

Certain reclassifications have been made to 2007 accounts to conform with the 2008 presentation.

2. Receivables

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

		2008	2007
Students, employees, other receivables		$3,220	$2,637
Contributions expected to be collected within:	One year	14,054	15,884
	One to five years	3,379	3,045
	Over five years	20,248	25,565
Student loans		7,055	7,211
Employee loans and mortgages		4,178	4,138
Less: Discount (3.03% to 6.00%) on contributions		(11,905)	(14,117)
Less: Allowance for uncollectibles		(2,790)	(2,938)
		$37,439	$41,425

3. Investments

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

	2008	2007
Cash and cash equivalents	$43,185	$ 18,839
Fixed Income	94,977	91,279
Equity Securities	309,247	381,348
Limited Partnerships/Other	978,194	943,439
Life Income Funds	17,160	19,392
Beneficial Trusts	17,089	18,221
Due to Brokers	(1,290)	(467)
Due from Brokers	13,441	123
Total Investments	$1,472,003	$1,472,175

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

	2008 Total	2007 Total
Dividends and Interest	$ 15,047	$ 19,594
Realized Gains	165,895	70,884
Unrealized (Losses) Gains	(117,815)	172,573
Fees	(2,600)	(5,493)
	$ 60,527	$ 257,558

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

	Unrestricted	Temporarily Restricted	Permanently Restricted
Supporting Operations	$ 28,362	$ 38,606	$ -
(Decreasing) Increasing long-term investments	(1,631)	(3,927)	(883)
	$ 26,731	$ 34,679	$ (883)

2007

	Unrestricted	Temporarily Restricted	Permanently Restricted
Supporting Operations	$ 25,597	$ 28,318	$ -
Increasing long-term investments	58,374	143,472	1,797
	$ 83,971	$ 171,790	$ 1,797

Outstanding commitments to limited partnerships were $408,523,298 at June 30, 2008. 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:

	Useful Lives	2008	2007
Land		$ 6,785	$ 5,441
Land improvements	10-30 years	5,309	5,123
Buildings	40-70 years	359,970	352,636
Works of art	100 years	35,058	33,301
Library books	15 years	47,295	43,862
Equipment	5-12 years	14,413	15,912
		468,830	456,276
Accumulated depreciation		(179,869)	(171,651)
		288,961	284,625
Construction in progress		50,322	24,061
		$ 339,283	$ 308,686
Depreciation Expense		$ 12,518	$ 11,985
Capitalized Interest		$ 131	$ 638

5. Accounts Payable and Accrued Liabilities

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

	2008	2007
General payables	$ 4,903	$ 6,416
Interest Rate Swaps	7,915	4,635
Facilities, construction, repairs	25,547	24,097
Payroll related	2,612	3,076
Compensated absences	3,807	3,546
Early retirement and separation plans	93	267
	$ 44,877	$ 42,037

6. Life Income Assets, Obligations, and Net Assets

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

	Annuities (held by College)		Life Income (College Trustee)		Life Income (Individual Trustee)	
	2008	2007	2008	2007	2008	2007
Assets:						
Cash/Investments	$ 38,772	$ 41,454	$ 17,160	$ 19,392	$ -	$ -
Contributions Receivable					23,938	28,690
Discount/Allowance					(11,219)	(13,340)
Obligation:						
Obligation	(15,465)	(15,617)	(7,652)	(8,768)		
	$ 23,307	$ 25,837	$ 9,508	$ 10,624	$ 12,719	$ 15,350
Net Assets:						
Temporary	$ 7,849	$ 10,016	$ 3,873	$ 4,583	$ 5,551	$ 9,431
Permanent	15,458	15,821	5,635	6,041	7,168	5,919
	$ 23,307	$ 25,837	$ 9,508	$ 10,624	$ 12,719	$ 15,350

7. Deferred Income, Deposits and Agency Funds

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

	2008	2007
Deferred income	$ 5,500	$ 5,444
Student deposits	697	702
Associated Kyoto Program	1,194	1,243
Smith Students' Aid Society	4,330	4,328
Other deposits	573	599
Perkins loan program	1,979	2,043
	$14,272	$14,359

8. Bonds Payable

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

Series	Final Year of Maturity	Interest Rates	2008	2007
Massachusetts Development Finance Agency:				
2000	2010	4.60%–5.75%	$ 3,760	$ 4,590
2001	2024	Variable	29,036	30,145
2002	2029	Variable	34,150	34,290
2005	2035	5.00%	33,065	33,065
2007	2037	Variable	72,960	
			172,971	102,090
Unamortized premium			1,919	1,991
			$ 174,890	$ 104,081

The average interest rates on the Series 2001 and Series 2002 bond issues were 2.80 percent during fiscal year 2008, with fiscal year 2007 rates of 3.57 percent. The average interest rate on the Series 2007 bond issue during fiscal year 2008 was 2.62 percent. 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, 2008 is approximately $3,760,000 and the fair value of the Series 2005 bonds payable as of June 30, 2008 is approximately $34,984,000. The fair value of the Series 2001, 2002, and 2007 bonds payable as of June 30, 2008 approximates the total outstanding principal balance. Aggregate principal payments due on the bonds during each of the next five years, ending June 30 and thereafter are as follows (in thousands):

Principal

2009	2010	2011	2012	2013	Thereafter	Total
$2,175	$2,285	$2,393	$2,510	$2,635	$160,973	$172,971

Funds Held by Bond Trustees were $48,042,000 at June 30, 2008 ($4,899,000 at June 30, 2007), and were held primarily for construction projects designated under the applicable bond agreements (also see Note 3).

9. Net Assets

Net assets at June 30, 2008 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Endowment				
Permanent Endowment	$ -	$ -	$ 279,160	$ 279,160
Net Appreciation on Permanent Endowment		701,198		701,198
Term Endowment		4,916		4,916
Quasi-Endowment	380,518			380,518
	380,518	706,114	279,160	1,365,792
Life Income Funds		17,273	28,261	45,534
Plant Funds	182,360	4,120		186,480
Loan Funds			7,477	7,477
Other Funds	44,733	50,280	1,644	96,657
	$ 607,611	$ 777,787	$ 316,542	$ 1,701,940

And 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

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, 2008 was $6,875 ($6,901 at June 30, 2007). The total endowment and annuity shares in the pool were $201,683 at June 30, 2008 ($200,327 at June 30, 2007). The spending rate per share for fiscal year 2008 was $302 (for fiscal year 2007 it was $254).

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

	2008	2007
Total return distribution	$37,470	$27,878
Program services	10,940	10,508
	$48,410	$38,386

10. Retirement Plans

The college has a defined contribution retirement plan for substantially all its employees. The plan is administered by independent trustees to whom all funds are transferred for investment purposes and benefit payments. All employees are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contribution to the retirement plan amounted to $7,771,000 in fiscal 2008 ($7,214,000 in fiscal 2007).

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, 2007 the college had recognized an accrued postretirement benefit obligation of $835,000. During fiscal 2008 the college recognized $90,000 of expense and $14,000 of payments, for an accrued postretirement benefit obligation of $911,000 at June 30, 2008.

11. Changes in Accounting Principles

In fiscal year 2007 the college adopted Financial Accounting Standards 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 10.

Effective July 1, 2007, the college adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the college's financial statements.

12. New Accounting Pronouncements

In September 2006, the Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. This standard expands the disclosure that is required for the use of fair value measure assets and liabilities. The new disclosure will focus on the inputs used to measure fair value and the effect, if any, on the measurement of changes in net assets for the period. The college will adopt this standard in its financial statements for the year ended June 30, 2009.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP that pertains to the college is a requirement for expanded disclosures for all endowment funds. The college will adopt this standard in its financial statements for the year ended June 30, 2009.

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SMITH COLLEGE