Smith College

Financial Report 2008–09

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

Notice of Nondiscrimination

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

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

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

For more information, please contact the adviser for equity complaints, College Hall 103, (413) 585-2141, or visit www.smith.edu/diversity.

Financial Report 2008–09

Ruth Constantine
Vice President for Finance and Administration and Treasurer

This annual report presents the audited financial statements for Smith College for the fiscal year ended June 30, 2009. Operating results for the fiscal year were somewhat better than had been budgeted because after the economic downturn steepened sharply in September 2008, the college promptly analyzed many aspects of its operations for potential savings. In the short term, operating expenses were reduced and several vacant positions were not filled. In addition, campus planning groups and trustees developed a more permanent budget reduction plan that could be implemented as needed over the next three years. This was necessary because the value of endowment investments fell with the global markets, with losses reaching 22.8 percent by March before recovering in the remaining quarter of the fiscal year and ending at minus 16.7 percent for the year. Income from investments comprises more than one-third of Smith's annual operating revenue. Also, students' financial needs can be expected to increase over the next few years due to the weak economy. The college has already implemented more than one-third of the budget reductions for the upcoming fiscal year, and will continue drawing from the plan as needed over the next few years.

Smith's endowment per student of $354,000 remains among the highest of any liberal arts college in the nation.

Statement of Financial Position

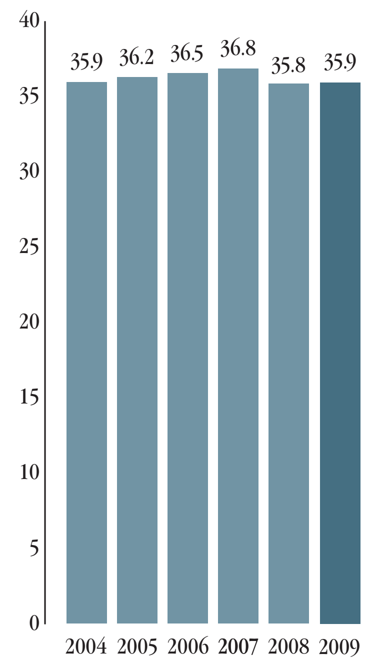
The college's total net assets on June 30, 2009 were $1.4 billion, a decline of $263 million from the prior year primarily due to losses in the market value of the endowment. While the endowment declined 19.7 percent (including investment losses, endowment payout and management expenses) during the year, its annualized return over the past 10 years has been 5.9 percent. Smith's endowment per student of $354,000 remains among the highest of any liberal arts college in the nation. Despite the current year decline in investments and other assets, net assets have increased at an annualized rate of 2 percent over the past five years. The college discontinued its securities lending program during 2008–09, eliminating the need to hold collateral. The construction of Ford Hall and various other improvement projects added $33 million to the college's investment in plant. Liabilities decreased by $67 million largely due to eliminating the liability associated with the discontinued securities lending program. Total debt outstanding declined $2.2 million to $173 million due to payments made on debt obligations.

Statement of Activities

Operating revenues totaled $213.0 million for 2008–09, an increase of $3.8 million or 2.0 percent over the previous fiscal year. Operating expenses increased 1.0 percent, or $2.3 million, to $191.6 million. Operations resulted in a $21.6 million operating margin. Smith derives its operating revenue from an array of sources including student income net of financial aid (43 percent), gifts and grants (15 percent), net assets released from restrictions (24 percent),

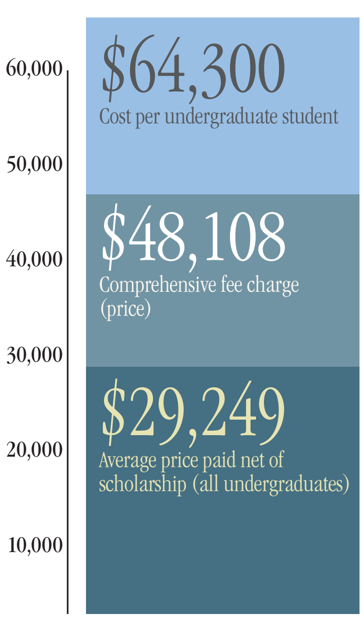
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percent



Cost vs. Price of a Smith Education

2008–09



investment return supporting operations (12 percent), and other income (6 percent). An excellent residential liberal arts education is a labor-intensive enterprise, as reflected in compensation expenses that account for 60 percent of operating expenses.

Net student income increased by 5.3 percent to $92.3 million for 2008–09. The increase reflects the combined effects of a 5.5 percent increase in the comprehensive fee (tuition, room, board and student activity fee), slightly lower enrollment, and a 5.8 percent growth in total financial aid from institutional and other sources.

Smith admits 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 implemented new strategies in the past two years to increase the enrollment of lower-income students, Smith has a well-established position of leadership with regard to access and affordability, as evidenced by the proportion of students receiving federal Pell grants (22 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).

Smith spent $43.9 million on institutional grant aid, excluding federal and state sources, for undergraduates in 2008–09—an increase of 6.0 percent over the prior year. 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 $25,970 for 2008–09.

Endowment income supporting operations is distributed across the "investment return" and "net assets released" categories for purposes of the Statement of Activities. While endowment support will decline in future years due to the investment losses experienced this year, in the current year 33.4 percent of operations was funded from endowment income.

The college received a total of $57.4 million in gifts and grants in 2008–09, a remarkable 29 percent increase over the prior year. While giving to the annual Smith Fund declined due to economic conditions, the college received significant bequests during the year. As a result, unrestricted gifts for current operations, primarily from the Smith Fund and realized bequests, accounted for $18.3 million, nearly one-third of total giving. Gifts to endowment totaled $7.3 million, while restricted gifts for current operations contributed an additional $12.7 million. Government grants of $5.7 million represented 12 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 a student at Smith has risen to $64,300. This cost exceeds the comprehensive fee by $16,192. Nearly two-thirds of Smith students receive financial aid. Of those receiving scholarships, the typical student pays less than half of the full cost of her education. This is made possible by income from endowments designated for financial aid and by contributions from alumnae and friends of the college.

Smith has historically led 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 strengthening of the dollar relative to most foreign currencies coupled with the decline in semesters abroad led to a reduction in study abroad costs in 2008–09, with total costs of $8.6 million.

Debt service costs decreased from $5.5 million to $3.7 million, reflecting lower interest rates on variable-rate debt issues (series 2001, 2002 and 2007). Debt service is allocated functionally for purposes of the Statement of Activities, with instruction and auxiliaries (primarily student residences) accounting for 78 percent of the total for 2008–09. 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 in recent 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 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 one-third of operating revenues, both through new gifts and by employing a spending rate ap-

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proach that sets a responsible annual contribution to operations while providing a measure of protection against periods of declining returns.

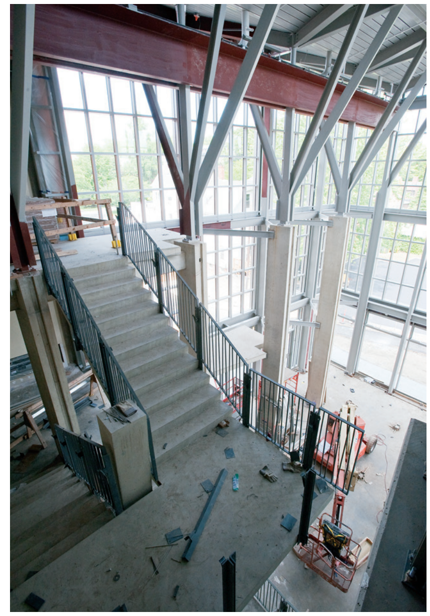
The investment committee of the board of trustees oversees endowment investments, which are directly managed by Smith's outsourced investment office, Investure LLC. Smith maintains a diversified portfolio of global equities, with a significant commitment to alternative equities, as well as private equity and fixed income. As performance of the investment markets began to slide in 2007–08, Smith's investment portfolio weathered the period in part due to a conservative outlook regarding market valuations that led to hedging against a market decline. When the markets fell steeply in late 2008 and early 2009, Smith's investment valuations fell dramatically as well and were down more than 22 percent by March, 2009. As the markets improved in the spring, Smith's investments partially recovered as well, ending at a net loss of 16.7 percent for the fiscal year.

Smith's endowment totaled $1.1 billion on June 30, 2009, down $270 million from the prior year. The decrease in market value during 2008–09 reflects $23.4 million of gifts and other additions less $224.9 million of investment losses net of management fees and $68.9 million in distributions to support operations.

As of June 30, 2009, the endowment was invested 31 percent in private partnerships, 29 percent in alternative equities, 27 percent in global equities, and 13 percent in fixed income and cash. These allocations represent a gradual and purposeful shift away from domestic equities toward alternative equity and private partnership investments over the past several years.

The 2008–09 investment loss of 16.7 percent was more favorable than the performance of the composite benchmark used to measure endowment performance, which declined by 19.3 percent over the same period. Smith's investment returns have also outperformed the benchmark over the three-year (2.3 percent versus minus 2.7 percent), five-year (7.2 percent versus 2.9 percent), and 10-year (5.9 percent versus 2.6 percent) periods.

Determining an appropriate spending rate is a primary and important fiduciary responsibility of Smith's board of trustees, which aims to strike the right balance between maintaining



The two-year construction of Ford Hall was nearing completion in June 2009. The building is expected to be certified as a Leadership in Energy and Environmental Design (LEED) facility, incorporating numerous initiatives in its design and use to reduce the consumption of energy resources and the costs of operation. The building will be dedicated in October and opens for classes in Spring 2010.

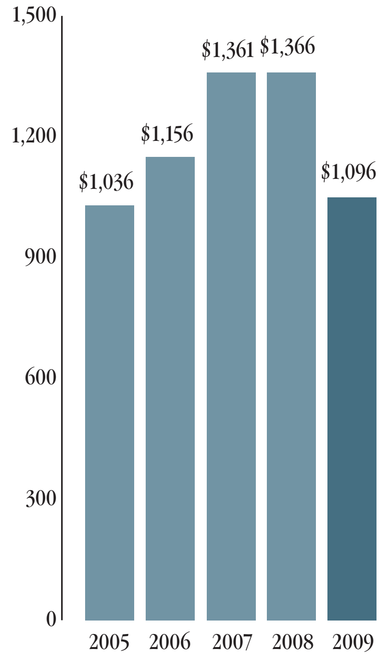
Endowment Spending Rate

	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
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%
2008–09	$1,365.8	$67.9	5.0%	13.4%
Ten-year totals		$496.0	4.9%	77.2%

Dollar values reflect millions

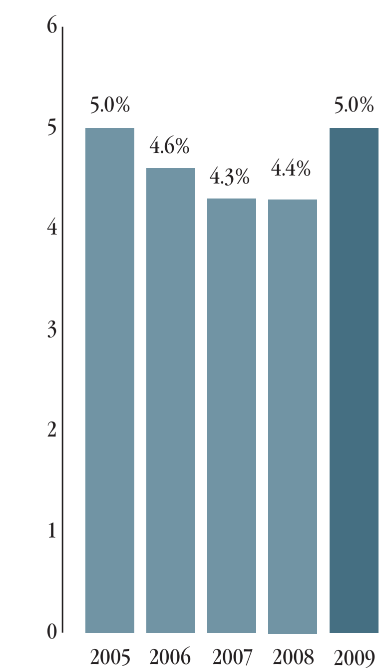
Endowment Market Value

in millions



Endowment Spending Rate

percentage of beginning market value



Despite the weakened economy, the college has continued investing in facilities improvements, including upgrades of building exteriors and mechanical systems, and campus infrastructure such as the electrical distribution system.

the real value of the endowment over time and funding annual priorities that meet the institution's competitive and programmatic needs. Smith's endowment spending policy provides that the income distributed per share from the endowment will increase by 4 percent annually as long as the resulting amount is more than 4 percent and less than 6 percent of the preceding December 31 market value. While this policy provides long-term direction, the 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 4.9 percent and ranged from a low of 4.3 percent to a high of 5.7 percent. The spending rate has been at or above 5.0 percent in five of the past 10 years, including in 2008–09. The rate is expected to increase further in the upcoming year due to the endowment's decline in market value.

The 4.8 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 one-third level. By contrast, net revenue received from comprehensive fees after financial aid has decreased from about 50 percent of operating revenues to 43 percent over the same period. As the college has drawn larger amounts from its endowment as market values increased, the source of funding for a Smith education has continued to shift from students and their families to the college's endowment.

Facilities

Smith spent $48.5 million on campus facilities and equipment during 2008–09. The two-year construction of Ford Hall is nearly complete and the building will be dedicated in mid-October. The $73 million, 140,000 square foot building will house the Picker Engineering Program, computer science, chemistry, biochemistry and molecular biology. The building is expected to be certified as a Leadership in Energy and Environmental Design (LEED) facility, incorporating numerous initiatives in its design and use to reduce the consumption of energy resources and the costs of operation. The building will serve as a teaching tool for sustainable design.

The college's new cogeneration facility began operating in the fall of 2008. Cogeneration is an efficient approach to generating heating and electrical energy from a single fuel source. The facility increased operational efficiency and dampened a large increase in energy costs, while significantly reducing emissions of greenhouse gases that contribute to global warming. Overall utilities spending increased over the prior year, to $8.2 million, due to rising costs for both natural gas and purchased electricity, and to increased consumption due to a colder than average winter.

The college completed the second year of a multi-year plan to upgrade and refurbish student residences, with $3.4 million spent during the year. Substantial improvements were made in Albright, Friedman, Gardner, Lamont, Morrow, Park Annex, Park and Parsons houses. Other residential and dining area upgrades were completed in an additional six residence houses.

A year ago, the college completed an extensive assessment of the condition of its buildings and developed a comprehensive facilities plan that identifies project priorities for the next several years. Despite the weakened economy, the college has continued investing over the past year in facilities improvements called for in the plan. With other colleges and businesses halting much of their construction, Smith has benefited from very competitive bid pricing for those projects. The college's efforts are currently focused on upgrades of building exteriors, including roofs; infrastructure within buildings, such as mechanical systems; and campus infrastructure such as the electrical distribution system.

Ten Years in Review

	2009	2008	2007	2004	1999
Assets, Liabilities and Net Assets (000s)					
Total Assets	$1,691,744	$2,021,816	$1,949,801	$1,462,974	$1,209,154
Total Plant Assets	$372,423	$339,283	$308,686	$270,627	$145,466
Endowment Funds Market Value	$1,096,322	$1,365,792	$1,360,966	$924,464	$884,782
Life Income Funds Market Value	$38,534	$55,932	$60,846	$45,306	$42,823
Long-Term Debt	$172,644	$174,890	$104,081	$74,493	$34,180
Net Assets	$1,438,509	$1,701,940	$1,687,860	$1,222,805	$1,132,648
Income and Expense (000s)					
Undergraduate Comprehensive Fees	$126,616	$120,379	$113,588	$99,159	$73,311
Undergraduate Scholarships	45,324	42,776	41,822	35,618	21,844
Net	81,292	77,603	71,766	63,541	51,467
Unrestricted Gifts and Grants	32,537	30,856	28,478	19,264	22,798
Restricted Gifts and Grants	24,909	13,568	9,621	17,783	31,063
Total Operating Expenses	191,596	189,267	170,488	158,985	117,078
Salaries and Wages	88,109	84,533	80,188	76,343	59,229
Staff Benefits	26,612	25,174	23,468	20,836	14,332
Other Statistics					
Undergraduate:					
Student FTE	2,683	2,696	2,669	2,738	2,548
Faculty FTE	289	290	290	304	263
Student-Faculty Ratio	8.8	8.7	8.7	8.5	9.7
Comprehensive Fee	48,108	45,606	43,438	37,034	29,240
Net Cost Per Student	64,300	62,700	56,900	52,100	41,400
Comprehensive Fee as Percent of Cost Per Student	74.8%	72.7%	76.3%	71.1%	70.6%
Students Receiving Scholarships	63.8%	65.8%	66.4%	64.5%	59.3%
Operations Supported by Endowment	35.2%	30.7%	29.1%	28.6%	27.1%
Total Student FTE	3,099	3,132	3,097	3,196	3,043
Endowment Per Student	353,794	436,086	439,395	289,229	290,743
Endowment Spending as Percent of Beginning Market Value	5.0%	4.4%	4.3%	5.6%	4.3%

* 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, 2009 and 2008, 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, 2009 and 2008, 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 21, 2009

Statements of Financial Position

June 30, 2009 and 2008

(In Thousands)

See accompanying notes to financial statements.

		2009		2008
Assets				
Cash and cash equivalents	$	7,247	$	-
Short-term investments		57,884		58,496
Collateral held for loaned securities		-		62,720
Receivables, net		44,216		37,439
Other assets		18,463		6,453
Funds held by bond trustee		16,211		48,042
Long-term investments		1,175,300		1,472,003
Land, buildings, equipment and collections, net		372,423		339,283
Total assets	$	1,691,744	$	2,024,436
Liabilities				
Accounts payable and accrued liabilities	$	47,068	$	47,497
Payable under securities loan agreements		-		62,720
Life income obligations		19,507		23,117
Deferred income, deposits, agency funds		14,016		14,272
Bonds payable		172,644		174,890
Total liabilities	$	253,235	$	322,496
Net Assets				
Unrestricted		548,598		607,611
Temporarily restricted		568,817		777,787
Permanently restricted		321,094		316,542
Total net assets	$	1,438,509	$	1,701,940
Total liabilities and net assets	$	1,691,744	$	2,024,436

Statements of Activities

For the years ended June 30, 2009 and 2008

(In Thousands)

See accompanying notes to financial statements.

	2009	2008
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 111,265	$ 105,253
Residence and dining fees	31,067	29,725
Student aid	(49,997)	(47,276)
Student income, net	92,335	87,702
Gifts	32,537	30,856
Investment return supporting operations	24,891	28,362
Other income	12,372	14,864
Net assets released from restrictions	51,064	48,410
Total operating revenues	$ 213,199	$ 210,194
Operating Expenses		
Instruction	82,280	81,242
Academic support	26,155	24,700
Student services	21,428	19,961
Auxiliary enterprises	34,555	35,885
General and administrative	27,178	27,479
Total expenses	191,596	189,267
Income from operations	$ 21,603	$ 20,927
Non-Operating Revenues and Other Changes		
Realized and unrealized gain (loss) on interest-rate swap agreements	6,695	(4,347)
Investment return decreasing long-term investments	(87,311)	(1,631)
Non-operating revenues and other changes subtotal	$ (80,616)	$ (5,978)
(Decrease) Increase in unrestricted net assets	$ (59,013)	$ 14,949
Changes in Temporarily Restricted Net Assets		
Gifts	8,499	8,717
Investment return	(167,048)	34,679
Change in life income funds	643	(1,103)
Net assets released from restrictions	(51,064)	(48,410)
Decrease in temporarily restricted net assets	$ (208,970)	$ (6,117)
Changes in Permanently Restricted Net Assets		
Gifts	16,410	4,851
Investment return	(3,301)	(883)
Change in life income funds	(8,557)	1,280
Increase in permanently restricted net assets	$ 4,552	$ 5,248
Total (decrease) increase in net assets	$ (263,431)	$ 14,080
Net assets, beginning of year	1,701,940	1,687,860
Net assets, end of year	$ 1,438,509	$ 1,701,940

Statements of Cash Flows

For the years ended June 30, 2009 and 2008

(In Thousands)

See accompanying notes to financial statements.

		2009		2008
Cash Flows From Operating Activities				
Change in net assets	$	(263,431)	$	14,080
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization		13,345		12,504
Net unrealized and realized losses (gains) on investments		240,547		(48,080)
Cumulative effect of a change in accounting principle		-		-
Change in accounting principle		-		-
Actuarial change in life income obligation		(3,610)		(1,268)
Change in operating assets		13,221		5,854
Change in operating liabilities		1,915		5,373
Accounts payable and accrued liabilities				
Deferred income				
Deposits and agency funds				
Contributions restricted for long-term investment		(7,355)		(3,972)
Loss on disposal		-		-
Contributions of property and securities		(3,247)		(5,291)
Net cash used in operating activities	$	(8,615)	$	(20,800)
Cash Flows From Investing Activities				
Purchases of plant and equipment	$	(47,032)	$	(41,831)
Proceeds from loan collections		1,576		1,454
Loans issued		(1,197)		(1,514)
Purchases of investments		(697,138)		(664,205)
Sales and maturities of investments		754,473		653,881
Net cash provided by (used in) investing activities	$	10,682	$	(52,215)
Cash Flows From Financing Activities				
Contributions restricted for long-term investment	$	7,355	$	3,972
Federal contribution Perkins loan funds		-		-
Proceeds from new long-term debt		-		72,960
Issuance costs of new long-term debt		-		(455)
Payments on long-term debt		(2,175)		(2,079)
Net cash provided by financing activities	$	5,180	$	74,398
Net change in cash and cash equivalents	$	7,247	$	1,383
Cash and cash equivalents, beginning of year	$	-	$	(1,383)
Cash and cash equivalents, end of year	$	7,247	$	-
Supplemental disclosure:				
Interest paid	$	3,751	$	5,527
Gifts in kind		2,067		1,285
Purchases of plant and equipment included in accounts payable		4,042		6,641
Collateral received for loaned securities		-		62,720

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

e. Investments
Investments are reported at fair value. If an investment is held directly by the college and an active market with quoted prices exists, the college reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The college also holds shares or units in alternative investments funds involving private equity, venture capital, and real asset strategies. Such alternative investment funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The college has utilized the net asset value (NAV) reported by each of the of the underlying funds as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the college's interest in the funds. Furthermore, changes in the liquidity provisions of the funds may significantly impact the fair value of the college's interests in the funds. Although certain investments may be sold in secondary market transactions, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the college were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different than the reported value. Investments include the beneficial interests in perpetual trusts. Beneficial interest in a perpetual trust represents resources neither in the possession of, nor under the control of the college, but held and administered by an outside fiscal agent, with the college deriving income from the trust. Assets of the Alumnae Association of Smith College, the Smith Students' Aid Society, Inc., and the Smith College Club of New York City are invested with the college's pooled investments.

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

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

h. Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include valuation of investments at fair value, estimated net realizable value of receivables, asset retirement obligations, and actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from estimates. The current economic environment increases the uncertainty of these estimates.

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

j. Recently Issued Accounting Standards
Effective July 1, 2008, the college adopted Financial Accounting Standards

Board (FASB) Statement No. 157, Fair Value Measurements (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Effective June 30, 2009, the college elected to apply the concepts of the proposed FASB Staff Position No. FAS 157-g, Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies, to its hedge fund and private equity investments. This proposed guidance amends Statement 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

Effective June 30, 2009, the college adopted FASB Statement No. 165, Subsequent Events (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The college evaluated events subsequent to June 30, 2009 and through September 21, 2009. The adoption of Statement 165 had no impact on the college's financial statements.

Effective July 1, 2008, the college adopted FASB Staff Position No. 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 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires disclosures about endowment funds.

k. Reclassifications

Certain reclassifications have been made to 2008 accounts to conform with the 2009 presentation.

2. Short-term Investments

The college was an investor in the Commonfund for Short-Term Investments (the Fund). On September 29, 2008, the college was notified that Wachovia Bank, N.A., as trustee of the Fund, would resign as trustee, initiate the termination of the Fund, and establish procedures to liquidate and distribute the Fund's net assets over a period of time. As of September 29, 2008, the college had $46.8 million remaining in the Fund ($5.2 million at June 30, 2009). Due to the nature of the underlying holdings of the Commonfund and certain other short-term vehicles, the college has reclassified its holdings of $58.5 million as of June 30, 2008 from cash and cash equivalents to short-term investments. Additionally, for purposes of the Statements of Cash Flows, the college has accounted for this activity on a gross basis and has reported the activity in the investing section of the Statements of Cash Flows.

3. Collateral Held and Payable Under Securities Loan Agreements

As of June 30, 2008, the college had loaned certain securities, returnable on demand, with a fair value of $61.2 million to several financial institutions that had deposited collateral with respect to such securities of $62.7 million. The college received income on the invested collateral. The college terminated this program in March 2009.

4. Receivables

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

	2009	2008
Students, employees, other receivables	$4,499	$3,220
Contributions expected to be collected within:		
One year	21,975	14,054
One to five years	2,247	3,379
Over five years	16,046	20,248
Student loans	6,725	7,055
Employee loans and mortgages	4,122	4,178
Less: Discount (2.50% to 6.00%) on contributions	(8,722)	(11,905)
Less: Allowance for uncollectibles	(2,676)	(2,790)
	$44,216	$37,439

The college incurred fund-raising expenses of $4.8 million for the year ended June 30, 2009 ($4.5 million for the year ended June 30, 2008).

5. Other Assets

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

	2009	2008
Inventories	$1,085	$1,293
Prepaid Assets	2,449	2,483
Miscellaneous Assets	1,043	1,099
Bond Swap Asset	12,719	-
Accrued Income & Dividends	1,167	1,578
	$18,463	$6,453

6. Fair Value

At June 30, 2009 and June 30, 2008, the carrying values of the college's cash and cash equivalents, receivables, accounts payable and deposits approximated their fair values.

Statement 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.

Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.

Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy used to classify an item is based on the lowest level that is significant to the fair value being established.

		Level 1	Level 2	Level 3	Total
Assets:	Investments:				
	Cash and Cash Equivalents	$11,498	$ -	$ -	$11,498
	Short-term investments	24,485	-	-	24,485
	Global Equity	-	-	311,767	311,767
	Alternative Equity	-	-	330,070	330,070
	Private Partnerships	-	-	365,590	365,590
	Equity Securities	22	-	1,484	1,506
	Fixed Income	2,281	58,213	43,268	103,762
	Funds held or administered by others	-	26,042	580	26,622
	Total Investments	38,286	84,255	1,052,759	1,175,300
Other assets:	Interest Rate Swap	-	12,719	-	12,719
	Funds held by bond trustee	-	16,211	-	16,211
	Short-term investments	20,747	37,137	-	57,884
	Total assets	$59,033	$150,322	$1,052,759	$1,262,114
Liabilities:	Interest Rate Swap		$(11,409)		
	Total liablilites		$(11,409)		

The following table presents the college's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Statement 157 (in thousands):

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

Included in the above table are $1,052.8 million at June 30, 2009 ($1,196.5 million at June 30, 2008) of investments for which the college has utilized the net asset value (NAV) reported by each of the underlying funds as a practical expedient to estimate the fair value of the investment.

Within each asset class, the college achieves diversification through allocations to several investment strategies and market capitalizations. The college has outsourced its investment office. This outsourced investment office has established limited partnership vehicles to assist in the management of its client's accounts. These limited partnership investments represents 70 percent of the college's investments at June 30, 2009 (49 percent at June 30, 2008).

At June 30, 2009, the college's remaining outstanding commitments to private equity partnerships totaled $268.8 million. The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below (in thousands of dollars):

Fiscal Year	Projected Capital Calls
2010	$85,800
2011	81,000
2012	40,200
2013	23,950
2014	20,600
Thereafter	17,250
Total	$268,800

The private equity partnerships have 10 year terms, with extensions of one to four years. As of June 30, 2009, the average remaining life of the private equity partnerships is approximately five years.

At June 30, 2009, the college had alternative equity and fixed income investments of $481.2 million that are restricted from redemption for lock-up periods. At June 30, 2008, the college had alternative equity and fixed income investments of $583.8 million that were restricted from redemption for lock-up periods. Some of the alternative equity and fixed income investments with redemption restrictions allow early redemption for specified fees. The terms and conditions upon which an investor may redeem an investment vary, with the majority requiring 30 to 180 days notice after the initial lock up period.

The expirations of redemption lock up periods are summarized in the table below (in thousands of dollars):

Fiscal Year	Amount
Less than one year	$237,800
Between one and three years	158,600
Greater than three years	84,800
Total	$481,200

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

	2009 Total	2008 Total
Dividends and Interest	$10,118	$15,047
Realized (Losses) Gains	(6,637)	165,895
Unrealized Losses	(233,910)	(117,815)
Fees	(2,340)	(2,600)
	$(232,769)	$60,527

7. Endowment Funds

The college's endowment consists of 1,910 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the college to function as endowments (quasi-endowment).

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

The college's Board of Trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter/exit the investment pool, based on the then market value of a unit in the pool (the pool is valued monthly). The endowment spending policy provides that the income distributed per unit will 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 endowment market value. For fiscal year 2008–09 the Board of Trustees set the spending rate at 4.70 percent of the December 31, 2007 endowment market value.

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

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

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. At June 30, 2009, this dollar amount was $3.0 million ($0.1 million as of June 30, 2008). These unrealized losses have been recorded as reductions of unrestricted net assets. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the UPMIFA or donor required value of such funds increases temporarily restricted net assets.

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

Endowment funds consisted of the following at June 30, 2009 and June 30, 2008 (in thousands):

2009

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

2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$(99)	$706,114	$279,160	$985,175
Quasi (Board Designated)	380,617	-	-	380,617
Total	$380,518	$706,114	$279,160	$1,365,792

Changes in endowment funds for the fiscal years ended June 30, 2009 and June 30, 2008 were as follows (in thousands):

2009

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

2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2007	$377,441	$709,693	$273,832	$1,360,966
Yield	7,268	134	28	7,430
Realized/Unrealized Gains (Losses)	13,319	34,514	(1,079)	46,754
Contributions	4,458	41	5,465	9,964
Distributions	(22,125)	(38,740)	(29)	(60,894)
Transfers	157	472	943	1,572
Balance June 30, 2008	$380,518	$706,114	$279,160	$1,365,792

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

The following is a summary of land, land improvements, buildings, equipment, and collections at June 30, 2009 and June 30, 2008 (in thousands):

	Useful Lives	2009	2008
Land		$6,785	$6,785
Land improvements	10–30 years	5,471	5,309
Buildings	40–70 years	376,613	359,970
Works of art	100 years	36,791	35,058
Library books	15 years	49,293	47,295
Equipment	5–12 years	12,957	14,413
		487,910	468,830
Accumulated depreciation		(189,673)	(179,869)
		298,237	288,961
Construction in progress		74,186	50,322
		$372,423	$339,283
Depreciation Expense		$13,360	$12,518
Capitalized Interest		$250	$131

9. Accounts Payable and Accrued Liabilities

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

	2009	2008
General payables	$4,669	$7,523
Interest Rate Swaps	11,409	7,915
Facilities, construction, repairs	23,967	25,547
Payroll related	3,539	2,612
Compensated absences	3,448	3,807
Early retirement and separation plans	36	93
	$47,068	$47,497

10. 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)	
	2009	2008	2009	2008	2009	2008
Assets:						
Cash/Investments	$25,779	$38,772	$12,755	$17,160	$ -	$ -
Contributions						
Receivable	-	-	-	-	19,064	23,938
Discount/Allowance	-	-	-	-	(8,178)	(11,219)
Obligation:						
Obligation	(13,706)	(15,465)	(5,801)	(7,652)	-	-
	$12,073	$23,307	$6,954	$9,508	$10,886	$12,719
Net Assets:						
Temporary	5,066	7,849	3,007	3,873	6,257	5,551
Permanent	7,007	15,458	3,947	5,635	4,629	7,168
	$12,073	$23,307	$6,954	$9,508	$10,886	$12,719

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

11. Deferred Income, Deposits and Agency Funds

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

	2009	2008
Deferred income	$4,783	$5,500
Student deposits	718	697
Associated Kyoto Program	1,816	1,194
Smith Students' Aid Society	3,442	4,330
Other deposits	1,340	572
Perkins loan program	1,917	1,979
	$14,016	$14,272

12. Bonds Payable

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

Series	Final Year of Maturity	Interest Rates	2009	2008
Massachusetts Development Finance Agency:				
2000	2010	4.60%–5.75%	$2,890	$3,760
2001	2024	Variable	27,876	29,036
2002	2029	Variable	34,005	34,150
2005	2035	5.00%	33,065	33,065
2007	2037	Variable	72,960	72,960
			170,796	172,971
Unamortized premium			1,848	1,919
			$172,644	$174,890

The average interest rates on the Series 2001 and Series 2002 bond issues were 1.02 percent during fiscal year 2009, 2.80 percent during fiscal year 2008. The average interest rate on the Series 2007 bond issue during fiscal year 2009 was 1.84 percent, 2.62 percent during fiscal year 2008.

The fair value of the Series 2000 bonds payable as of June 30, 2009 is $3.0 million and the fair value of the Series 2005 bonds payable as of June 30, 2009 is $32.7 million. The fair value of the Series 2001, 2002, and 2007 bonds payable as of June 30, 2009 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

2010	2011	2012	2013	2014	Thereafter	Total
$2,285	$2,393	$2,510	$2,635	$2,754	$158,219	$170,796

Funds held by bond trustees were $16.2 million at June 30, 2009 ($48.0 million at June 30, 2008), and were held primarily for construction projects designated under the applicable bond agreements.

In connection with the issuance of the Series 2001, Series 2002 and Series 2007 revenue bonds, the college entered into interest rate swap agreements that effectively changed the interest rate exposure on the issues from a variable rate to a fixed rate of 4.39 percent on the Series 2001 bonds, 4.66 percent on the Series 2002 bonds, and 2.86 percent on the Series 2007 bonds. The interest rate swap agreements have a notional amount and termination date equal to the principal amount and maturity date of the respective Series 2001, Series 2002, and series 2007 bonds. On June 30, 2009 and 2008, the fair value of the interest rate swaps for the 2001 and 2002 Series Bonds, recorded as part of the college's accounts payable and accrued liabilities, was $11.4 million and $7.9 million respectively. On June 30, 2009, the fair value of the interest rate swap for the 2007 Series Bond, recorded as part of the college's other assets, was $12.7 million. 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 has secured liquidity through a standby liquidity support agreement for the 2001 and 2002 Bonds Series, and a standby bond purchase agreement for the 2007 Bond Series.

13. Net Assets

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009
Endowment				
Permanent Endowment	$(3,049)	$ -	$294,304	$291,255
Net Appreciation				
on Permanent Endowment		498,131	-	498,131
Term Endowment		3,620	-	3,620
Quasi-Endowment	303,316	-	-	303,316
	300,267	501,751	294,304	1,096,322
Life Income Funds	-	14,330	15,583	29,913
Plant Funds	199,006	264	-	199,270
Loan Funds	-	-	7,711	7,711
Other Funds	49,325	52,472	3,496	105,293
	$548,598	$568,817	$321,094	$1,438,509

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Endowment				
Permanent Endowment	$(99)	$ -	$279,160	$279,061
Net Appreciation				
on Permanent Endowment	-	701,198	-	701,198
Term Endowment	-	4,916	-	4,916
Quasi-Endowment	380,617	-	-	380,617
	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

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

	2009	2008
Total Return Distribution	$43,742	$37,470
Program Services	7,322	10,940
	$51,064	$48,410

14. 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 $8.0 million in fiscal 2009 ($7.8 million in fiscal 2008).

4005-1/09

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SMITH COLLEGE