Smith College

Financial Report 2010–11

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

Financial Report 2010–11

Ruth Constantine
Vice President for Finance and Administration and Treasurer

Laura Smiarowski
Controller and Associate Treasurer

This annual report presents the audited financial statements for the year ended June 30, 2011.

By every measure this has been an extraordinary year for Smith. We welcomed a remarkable incoming class selected from the largest number of applicants in the college's history. We celebrated a record 19 Fulbright Fellows, the most in any single year at Smith, cementing our position as a top Fulbright producer. This year also saw Smith's new Centers for Engagement, Learning and Leadership come into full operation in newly renovated spaces on campus, providing students and faculty greater opportunities to address real-world challenges in their academic and scholarly pursuits. These and other successes have been made possible by principled financial planning and strategic management of the Smith endowment, which has recovered to pre-economic downturn levels. With a strong financial foundation as a base, Smith is confidently moving forward in its mission to educate women of promise for lives of distinction.

The college's total net assets increased $222 million from the prior year to $1.8 billion as of June 30, 2011, primarily due to the recovery in the financial markets.

Statement of Financial Position

The college's total net assets increased $222 million from the prior year to $1.8 billion as of June 30, 2011, primarily due to the recovery in the financial markets. Despite market volatility and ongoing economic uncertainty, the endowment investment pool earned a return of 19.1 percent for the fiscal year. In addition, the largest gift the college has ever received came through two charitable lead trusts totaling $16.2 million. Over the next fifteen years, the trusts will provide funds to support student financial aid.

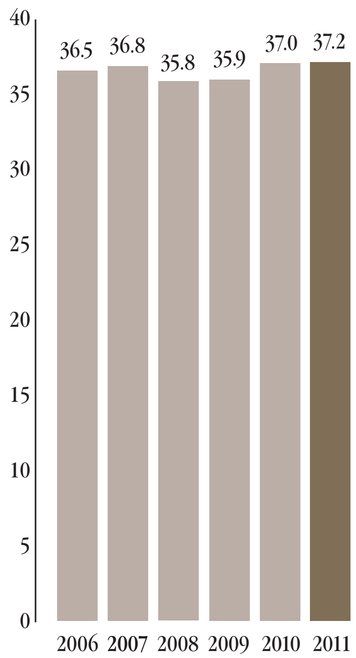
Statement of Activities

The college's overall financial condition remains strong due to annual operating surpluses, the recovery of the endowment to $1.4 billion and increasing applicant pools. These have enabled the college to invest in critical priorities including student financial aid, a strong faculty, global studies, student internships and facilities renovation.

Smith's operating revenues totaled $206.7 million in 2011 while operating expenses totaled $196.5 million. Net income from operations of $10.1 million represented 5 percent of gross operating revenues. The college enjoys a fairly diversified revenue base for opera-

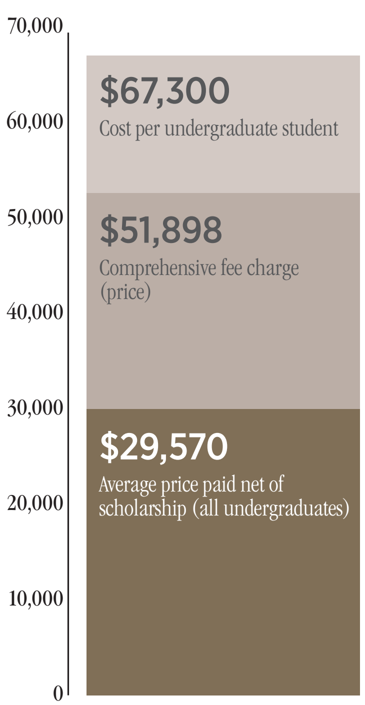
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education

2010–11



tions. Sources of revenue were 46 percent from student income net of financial aid, 33 percent from investment return of the endowment and other investments, 15 percent from gifts and 6 percent from other income sources. A portion of the investment return and 4 percent of the gifts were initially recognized in the temporarily restricted section and are included as net assets released from restrictions.

The cost to educate a student was $67,300 for fiscal year 2010–11, which is $15,402 above the comprehensive fee covering tuition, room and board. Nearly two-thirds of the college's 2,637 undergraduate students received need-based aid during the year. The college is committed to meeting the full demonstrated need of its students. Family income and assets are key factors in the determination of student need, and with a very slow economic recovery under way, overall financial aid increased by 2.7 percent over the prior year. Smith spent $49.8 million of institutional funds on aid to undergraduates. The college's discount rate, which compares institutional grant expense to gross comprehensive fee revenue, increased to 37.2 percent and the average institutional award to undergraduate students was $18,504 for the year. Income from the college's endowment funds and trusts designated for financial aid, as well as annual gifts for scholarship support, are critical sources of support for the institutional aid that enables full access to a Smith education.

Annual giving to the Smith Fund increased 3.1 percent in 2010–11. Total unrestricted gifts, including bequests and gifts for current operations, were $13.1 million, representing nearly 33 percent of total giving. Gifts for restricted purposes contributed an additional $7.4 million. Gifts to endowment totaled $15.7 million. Gifts to fund capital improvements of $2.6 million represented 7 percent of the total. Government grants contributed an additional $5.1 million to the total. The remaining gift revenue includes life income gifts and the effect of the accounting treatment for pledge payments.

Investments

Smith's 2010–11 investment return of 19.1 percent reflected the recovery in the investment market performance throughout the year. In a surging market, the college's returns are typically below earnings in the U.S. stock markets, due to both diversification in the college's holdings and the portfolio's structure that favors protection in down markets. Investment performance has equaled or exceeded the portfolio's benchmark over the three-year (4.9 percent), five-year (8.2 percent versus 5.7 percent) and ten-year (8.4 percent versus 6.4 percent) periods.

In 2010–11, approximately 33 percent of the college's operating budget was funded from investment return. With this support, the college is able to provide a premier educational experience, financial aid to students with need, and high-quality facilities. The college's endowment spending rate, approved annually by the board of trustees, seeks to set a responsible annual contribution to operations while providing a measure of protection against periods of declining returns. The spending policy provides that the income distributed per share from the endowment will typically increase by 4 percent annually as long as the resulting amount is more than 4 percent and less than 6 percent of endowment market value. For 2010–11, the trustees approved a spending rate equal to 5.23 percent of the December 31, 2009, market value, down from the maximum of 6.0 percent in 2010, largely as a result of the investment market recovery. The spending rate has averaged 5.0 percent over the past decade.

Smith's investments reflect a primarily equity-oriented investment strategy for long-term growth. Diversification of asset classes aims to reduce risk and overall volatility in the portfolio. Investments are diversified across managers and asset classes, with 24 percent of the portfolio invested in alternative equities (primarily hedge funds), 32 percent in global equities, 35 percent in private equity and real assets, 3 percent in cash and cash equivalents, and 6 percent in fixed income. The market value of the endowment recovered to $1.4 billion as of June 30, 2011.

Facilities

Smith continued its investment in campus facilities and buildings in 2010–11, expending $31 million during the year. The most significant project was the multi-year renovation of Sabin Reed and Burton Halls in the science complex. The opening of Ford Hall in fall 2009 allowed the college to repurpose and improve many of the spaces in the original science buildings to better support today's technological requirements. Three new centers—the Center for the Environment, Ecological Design and Sustainability (CEEDS), the Global Studies Center and the Center for Community Collaboration—were dedicated in October in the newly renovated Wright Hall. Renovation of the Center for Work and Life, located in Clark Hall, will be completed in fall 2011. The Friends of the Smith College Libraries Reading Room was dedicated in April. The yearlong project, part of the revitalization of study spaces in the library, restored the space to a reading room much like it was in 1910. The college completed improvements to finishes and roofs in a number of student residential houses, and Lawrence and Morris Houses underwent significant renovation.

As part of the effort of the 50th reunion class, improvements began to "green" the Campus Center. To date, the lighting has been retooled to dim or shut off in response to the amount of natural light entering the space. These improvements will continue during 2011–12.

In recent years, Smith has invested in numerous energy infrastructure improvements, including the cogeneration facility, efficient building systems, lighting upgrades, and improvements to buildings' thermal performance through added insulation, double pane windows and air sealing. The college set ambitious goals in its Sustainability and Climate Action Plan. Dashboards already installed in several student houses will give feedback to building occupants on water and energy use. A dashboard will be installed in the Campus Center by the fall.

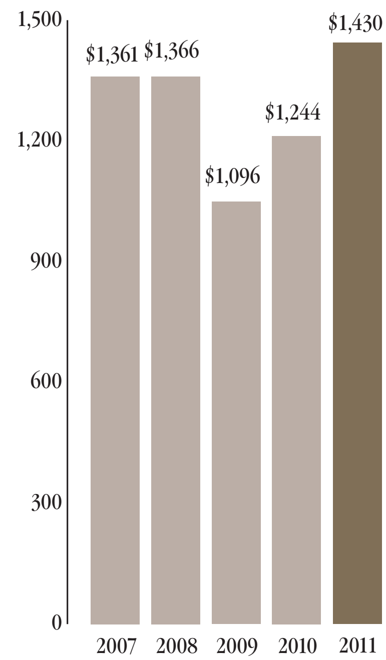
The college has completed the design phase for the Bechtel Environmental Classroom at its 200-acre Ada and Archibald MacLeish Field Station. The design of the classroom aims to achieve the Living Building Challenge, a certification that requires a facility to generate all of its own energy with renewable resources and rely on its own water system. Ground will be broken in September 2011 with an anticipated completion by May 2012.

Endowment Spending Rate

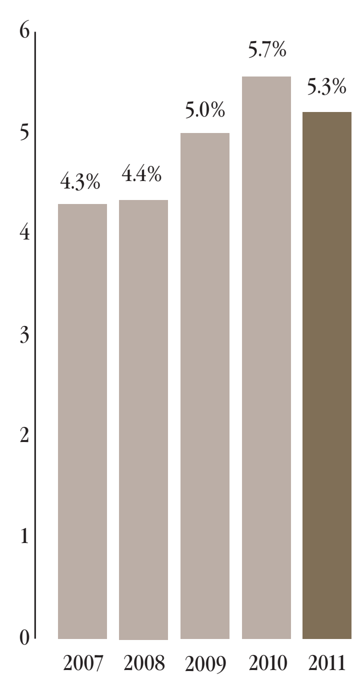
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2001–02	$917.6	$47.0	5.1%	6.4%
2002–03	$851.2	$48.4	5.7%	3.1%
2003–04	$823.9	$46.5	5.6%	-3.9%
2004–05	$924.5	$46.0	5.0%	-1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	-8.7%
2010–11	$1,243.6	$65.6	5.3%	5.8%
Ten-year totals		$541.1	5.0%	39.7%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2011	2010	2009	2006	2001
Assets, Liabilities and Net Assets (000's)					
Total Assets	$2,052,990	$1,833,836	$1,691,744	$1,718,579	$1,353,320
Total Plant Assets	400,741	$385,929	$372,423	283,634	200,312
Endowment Funds Market Value	1,429,527	$1,243,560	$1,096,322	1,156,349	917,254
Life Income Funds Market Value	46,866	$41,281	$38,534	52,450	44,079
Long-Term Debt	167,823	$170,288	$172,644	106,140	74,017
Net Assets	1,799,261	$1,577,397	$1,438,509	1,461,119	1,225,388
Income and Expense (000's)					
Undergraduate Comprehensive Fees	$134,319	$132,927	$126,616	$108,678	$83,688
Undergraduate Scholarships	49,844	48,964	45,324	39,416	25,872
Net	84,475	83,963	81,292	69,262	54,186
Unrestricted Gifts and Grants	22,711	30,891	31,642	24,109	20,910
Restricted Gifts and Grants	36,915	14,009	25,804	18,065	44,786
Total Operating Expenses	196,535	191,787	191,596	162,216	140,268
Salaries and Wages	87,755	86,099	88,109	77,630	67,731
Staff Benefits	26,970	26,043	26,612	22,356	16,700
Other Statistics					
Undergraduate:					
Student FTE	2,637	2,688	2,683	2,708	2,707
Faculty FTE	281	289	289	292	266
Student-Faculty Ratio	8.9	8.8	8.8	8.8	9.5
Comprehensive Fee	$51,898	50,380	48,108	$41,024	$31,560
Net Cost Per Student	67,300	64,400	64,300	$53,100	$47,000
Comprehensive Fee as Percent of Cost Per Student	77.1%	78.2%	74.8%	77.3%	67.1%
Students Receiving Scholarships	64.3%	64.7%	63.8%	66.2%	61.3%
Operations Supported by Endowment	32.6%	31.0%	33.9%	29.1%	29.8%
Total Student FTE	3,103	3,154	3,099	3,145	3,164
Endowment Per Student	460,677	394,334	353,794	367,632	289,924
Endowment Spending as Percent of Beginning Market Value	5.3%	5.7%	5.0%	4.6%	4.9%

Independent Auditors' Report

KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Trustees
Smith College:

We have audited the accompanying statements of financial position of Smith College (the College) as of June 30, 2011 and 2010, 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, 2011 and 2010, 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

October 14, 2011

Statements of Financial Position

June 30, 2011 and 2010

(In Thousands)

See accompanying notes to financial statements.

		2011		2010
Assets				
Cash and cash equivalents	$	18,531	$	13,237
Short-term investments		66,699		89,201
Receivables, net		59,294		39,530
Other assets		4,189		4,106
Funds held by bond trustee		53		1,487
Long-term investments		1,503,483		1,300,346
Land, buildings, equipment and collections, net		400,741		385,929
Total assets	$	2,052,990	$	1,833,836
Liabilities				
Accounts payable and accrued liabilities	$	51,911	$	53,884
Liability for split interest agreements		20,017		19,356
Deferred income, deposits, agency funds		13,978		12,911
Bonds payable		167,823		170,288
Total liabilities	$	253,729	$	256,439
Net Assets				
Unrestricted		595,169		542,042
Temporarily restricted		832,459		694,427
Permanently restricted		371,633		340,928
Total net assets	$	1,799,261	$	1,577,397
Total liabilities and net assets	$	2,052,990	$	1,833,836

Statements of Activities

For the years ended June 30, 2011 and 2010

(In Thousands)

See accompanying notes to financial statements.

	2011	2010
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 117,629	$ 116,041
Residence and dining fees	32,981	32,490
Student aid	(55,294)	(53,829)
Student income, net	95,316	94,702
Gifts and grants	22,711	30,887
Investment return supporting operations	29,314	20,416
Other income	12,414	12,932
Net assets released from restrictions	46,908	65,218
Total operating revenues	$ 206,663	$ 224,155
Operating Expenses		
Instruction	86,055	83,088
Academic support	27,454	25,699
Student services	21,314	20,981
Auxiliary enterprises	32,471	33,390
General and administrative	29,241	28,629
Total expenses	196,535	$ 191,787
Income from operations	$ 10,128	32,368
Non-Operating Revenues and Other Changes		
Realized and unrealized loss on interest-rate swap agreements	(297)	(10,318)
Investment return increasing long-term investments	43,295	27,788
Total non-operating revenues and other changes	$ 42,998	$ 17,470
Increase in unrestricted net assets	$ 53,126	$ 49,838
Changes in Temporarily Restricted Net Assets		
Gifts and grants	12,444	8,261
Investment return	169,405	134,609
Change in life income funds	3,092	1,714
Net assets released from restrictions	(46,908)	(65,218)
Increase in temporarily restricted net assets	$ 138,033	$ 79,366
Changes in Permanently Restricted Net Assets		
Gifts and grants	24,471	5,753
Investment return	2,393	795
Change in life income funds	3,841	3,136
Increase in permanently restricted net assets	$ 30,705	$ 9,684
Total increase in net assets	$ 221,864	$ 138,888
Net assets, beginning of year	1,577,397	1,438,509
Net assets, end of year	$ 1,799,261	$ 1,577,397

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

(In Thousands)

See accompanying notes to financial statements.

		2011		2010
Cash Flows From Operating Activities				
Change in net assets	$	221,864	$	138,888
Depreciation and amortization		17,628		15,626
Net unrealized and realized gains on investments		(227,553)		(178,133)
Actuarial change in life income obligation		661		(150)
Gain on disposal of plant and equipment		(372)		-
Net change in operating assets and liabilities:				
Short-term investments		22,502		(31,317)
Receivables, net		(20,175)		4,873
Other assets		(137)		1,583
Accounts payable and accrued liabilities		2,115		432
Deferred income, deposits, and agency funds		1,067		(1,106)
Contributions restricted for long-term investment		(20,209)		(5,098)
Contributions of property and securities		(9,077)		(8,874)
Net cash used in operating activities	$	(11,686)	$	(63,276)
Cash Flows From Investing Activities				
Purchases of plant and equipment	$	(29,525)	$	(22,401)
Funds held by bond trustee		1,435		14,723
Proceeds from student and other loan collections		1,859		1,514
Student and other loans issued		(1,448)		(1,701)
Purchases of investments		(113,620)		(194,505)
Sales and maturities of investments		140,463		244,635
Net cash (used in)/provided by investing activities	$	(836)	$	42,265
Cash Flows From Financing Activities				
Cash received from SWAP refinancing		-		12,719
Contributions restricted for long-term investment	$	20,209	$	5,098
Payments on long-term debt		(2,393)		(2,285)
Net cash provided by financing activities	$	17,816	$	15,532
Net change in cash and cash equivalents	$	5,294	$	(5,479)
Cash and cash equivalents, beginning of year	$	13,237	$	18,716
Cash and cash equivalents, end of year	$	18,531	$	13,237
Supplemental disclosure:				
Interest paid	$	2,039	$	2,109
Gifts in kind		2,484		6,746
Purchases of plant and equipment included in accounts payable		4,254		4,177

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Net Asset Classes

The accompanying financial statements present information regarding the college's financial position and activities according to 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 and endowed income whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenues. Contributions restricted for the acquisition of land, buildings, equipment and collections are reported as temporarily restricted gifts and are reclassified to unrestricted net assets at the time the assets are acquired and placed in service.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, investments acquired with original maturities 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 and the college believes the carrying amounts of these financial instruments are reasonable estimates of fair value. The values of publicly traded fixed income and equity securities are based on quoted market prices. Nonmarketable securities, which include alternative investments in hedge funds and private equity funds, are valued using net asset value (NAV) provided by fund managers as a practical expedient to estimate fair 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. Depreciation expense for land improvements and buildings is allocated to functional classifications based on square footage.

(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. Depreciation expense for equipment is allocated 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.

(h) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include the valuation of investments, receivables, and asset retirement obligations. Actual results could differ from 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) Reclassifications

Certain reclassifications have been made to 2010 information to conform with the 2011 presentation.

2. Receivables

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

	2011	2010
Contributions expected to be collected within:		
One year	$16,880	$16,002
One to five years	9,086	5,377
Over five years	132	107
Less: Discount (1.00% to 6.00%) on contributions	(231)	(292)
Less: Allowance for uncollectibles	(1,241)	(1,348)
Subtotal	24,626	19,846
Charitable Trusts	34,634	16,234
Less: Discount (1.00% to 6.00%) on contributions	(15,742)	(8,649)
Subtotal	18,892	7,585
Students, employees, other receivables	7,148	3,337
Student loans	6,580	6,549
Employee loans and mortgages	3,979	4,319
Less: Discount (1.00% to 6.00%) on contributions	(115)	(369)
Less: Allowance for uncollectibles	(1,816)	(1,737)
Subtotal	15,776	12,099
Total	$59,294	$39,530

The college incurred fund-raising expenses of $6.4 million for the year ended June 30, 2011 ($5.5 million for the year ended June 30, 2010).

3. Investments and Fair Value

The college's investment objective is to invest its assets in a prudent manner in order to achieve a long-term rate-of-return sufficient to fund a portion of its spending and to increase investment value equal to or above inflation. The college uses a diversified investment approach incorporating multiple asset classes, strategies, and managers. The college's Board of Trustees' Investment Committee oversees the college's investments and authorizes major investment decisions.

In addition to equity and fixed income investments, the college may also hold shares or units in institutional funds and alternative investment funds involving hedged and private equity strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments. Private equity funds generally employ buyout, venture capital, and debt related strategies, generally requiring the estimation of fair values by the fund managers in the absence of readily determinable market values.

Fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The college's interest in alternative investment funds are generally reported at net asset value (NAV) provided by the fund managers. NAV is used as a practical expedient to estimate the fair value of the college's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011 and 2010, the college had no specific plans or intentions to sell investments at amounts different than NAV.

At June 30, 2011 and June 30, 2010, the carrying values of the college's cash and cash equivalents, receivables, accounts payable and deposits approximated their fair values.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.
Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.
Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

For those alternative investments valued at NAV as a practical expedient, classification in Level 2 or 3 is based on the college's ability to redeem its interest at or near the date of the statement of financial position rather than the observability of the input. If the interest can be redeemed in the near term, the investment is classified in Level 2.

The college's assets and liabilities at June 30, 2011 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Day's Notice
Assets:						
Investments:						
Cash and cash equivalents	$112	$ -	$ -	$112	Daily	1
Money market fund	33,061	-	-	33,061	Daily	1
Fixed income	2,918	23,349	-	26,267	Daily	1
Hedge fund						
Equity and equity long/short	-	461,670	-	461,670	Daily/Monthly	1-30
Multi-strategy	-	331,181	-	331,181	Monthly	Not Redeemable
Credit/event driven	-	-	12,558	12,558	Annually	90
Credit/event driven	-	-	20,753	20,753	Annually	60
Fixed income strategies	-	-	8,027	8,027	Illiquid	Not Redeemable
Fixed income strategies	-	-	49,869	49,869	Every 2 years	90
Private equity investments	-	-	461,883	461,883	Illiquid	Not Redeemable
Real assets investments	-	-	65,752	65,752	Illiquid	Not Redeemable
Equity securities	26	-	565	591	Illiquid	Not Redeemable
Third-party perpetual trusts	-	-	31,759	31,759	Not Redeemable	Not Redeemable
Total investments	36,117	816,200	651,166	1,503,483		
Other assets:						
Funds held by bond trustee	-	53	-	53	Daily	1
Short-term investments	66,699	-	-	66,699	Daily	1
Total assets	$102,816	$816,253	$651,166	$1,570,235		
Liabilities:						
Interest rate swap		$(13,627)				
Total liabilities		$(13,627)				

The college's assets and liabilities at June 30, 2010 that are reported at fair value are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Day's Notice
Assets:						
Investments:						
Cash and cash equivalents	$157	$ -	$ -	$157	Daily	1
Money market fund	27,837	-	-	27,837	Daily	1
Fixed income	2,488	42,196	-	44,684	Daily	1
Hedge fund						
Equity and equity long/short	-	384,440	-	384,440	Daily/Monthly	1-30
Multi-strategy	-	288,414	-	288,414	Monthly	Not Redeemable
Credit/event driven	-	-	10,248	10,248	Annually	90
Credit/event driven	-	-	16,234	16,234	Annually	60
Fixed income strategies	-	-	8,687	8,687	Illiquid	Not Redeemable
Fixed income strategies	-	-	44,811	44,811	Every 2 years	90
Private equity investments	-	-	380,003	380,003	Illiquid	Not Redeemable
Real assets investments	-	-	66,101	66,101	Illiquid	Not Redeemable
Equity securities	12	-	1,461	1,473	Illiquid	Not Redeemable
Third-party perpetual trusts	-	-	27,257	27,257	Not Redeemable	Not Redeemable
Total investments	30,494	715,050	554,802	1,300,346		
Other assets:						
Funds held by bond trustee	-	1,487	-	1,487	Daily	1
Short-term investments	89,201	-	-	89,201	Daily	1
Total assets	$119,695	$716,537	$554,802	$1,391,034		
Liabilities:						
Interest rate swap		$(17,793)				
Total liabilities		$(17,793)				

The following tables present the college's activity for the fiscal years ended June 30, 2011 and 2010 for Level 3 investments (in thousands):

	Hedge Funds Credit/Event Driven	Hedge Funds Fixed Income Strategies	Real Assets	Private Equity/ Equity Securities	Third Party Perpetual Trusts	Total
Fair value as of June 30, 2010	$26,482	$53,498	$66,101	$381,464	$27,257	$554,802
Transfers	-	(60)	-	-	-	(60)
Acquistions	-	4,553	(5,846)	53,273	-	51,980
Dispositions	-	(4,590)	(6,004)	(37,699)	-	(48,293)
Investment return	-	-	9,067	19,466	-	28,533
Unrealized gains	6,829	4,495	2,434	45,944	4,502	64,204
Fair value as of June 30, 2011	$33,311	$57,896	$65,752	$462,448	$31,759	$651,166

	Hedge Funds Credit/Event Driven	Hedge Funds Fixed Income Strategies	Real Assets	Private Equity/ Equity Securities	Third Party Perpetual Trusts	Total
Fair value as of June 30, 2009	$24,546	$43,267	$68,582	$915,784	$26,621	$1,078,800
Transfers	-	9	-	(617,292)	(5)	(617,288)
Acquistions	-	4,131	328	56,546	-	61,005
Dispositions	-	(2,879)	(4,571)	(38,381)	-	(45,831)
Investment return	-	-	4,034	6,501	-	10,535
Unrealized gains (losses)	1,936	8,970	(2,272)	58,306	641	67,581
Fair value as of June 30, 2010	$26,482	$53,498	$66,101	$381,464	$27,257	$554,802

Accounting standards adopted for investments in 2010 allow investments redeemable at net asset value (NAV) on or near the date of the statement of financial position to be classified as Level 2. Three investment funds ($617.3 million) were transferred from Level 3 to Level 2 during 2009-10 because of this adoption.

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 facilitate the management of its client's accounts. These limited partnership investments represent 78% of the college's investments at June 30, 2011 (74% at June 30, 2010).

At June 30, 2011 and June 30, 2010, the college's remaining outstanding commitments to private equity partnerships totaled $210.8 million and $188.5 million respectively, based on the provisions of the individual agreements, with adjustments as to amounts and timing based on prior actions of the partnerships and expectations as to future opportunities. There can be no assurance that the timing or amounts of the capital calls will materialize as indicated.

The private equity partnerships have ten year terms, with extensions of one to four years. As of June 30, 2011, the average remaining life of the private equity partnerships is approximately five years.

The college had alternative equity and fixed income investments of $1,484 million at June 30, 2011 ($846.9 million at June 30, 2010) restricted from redemption for various periods of time due to lock-ups, gates and notice 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 redemption periods are summarized in the table below (in thousands):

Fiscal Year	Amount
Less than one year	$652,969
Between one and three years	267,124
Greater than three years	563,928
Total	$1,484,021

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

	2011	2010
Dividends and interest	$14,562	$6,799
Realized gains	43,518	36,344
Unrealized gains	183,927	141,789
Fees and other	2,400	(1,323)
	$244,407	$183,609

The total return by net asset classification is summarized in the table below (in thousands):

	2011	2010
Unrestricted net assets—operating	$29,314	$23,542
Unrestricted net assets—non-operating	43,295	33,610
Temporarily restricted net assets	169,405	125,662
Permanently restricted net assets	2,393	795
	$244,407	$183,609

4. Endowment Funds

The college's endowment consists of approximately 2,000 individual funds established for a variety of purposes, including both donor restricted endowment funds and funds designated by the college to function as endowments (quasi-endowment).

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

The college's Board of Trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter/exit the investment pool, based on the then market value of a unit in the pool. The pool is valued monthly. The endowment spending policy provides that the income distributed per unit will increase by 4.0% annually as long as the resulting amount is more than 4.0% and less than 6.0 % of the preceding December 31 endowment market value. For fiscal year 2010–11 the Board of Trustees set the spending rate at 5.3% of the December 31, 2009 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, 2011, this dollar amount was $0.1 million ($1.4 million as of June 30, 2010). 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.

During a 2011 review of its funds, management identified that certain funds recorded as quasi-endowment (unrestricted net assets) had donor restrictions and should have been classified as either temporarily or permanently restricted net assets. This classification error arose in periods prior to June 30, 2010. As a result, management determined that an adjustment to its previously reported June 30, 2010 balances for unrestricted, temporarily restricted and permanently restricted net assets of approximately ($56.4 million), $46.2 million and $10.2 million, respectively, was necessary to correct this immaterial error. In addition, management adjusted the statement of activities for the year ended June 30, 2010 to correct the investment return classification between unrestricted and temporarily restricted by approximately $6.2 million. Certain related footnotes have also been revised as a result of the correction. There was no change to the total net assets on the statement of financial position as of June 30, 2010; the total increase in net assets for the year ended June 30, 2010 on the statement of activities or to any balance on the statement of cash flows for the year ended June 30, 2010. The previous classification of the funds as unrestricted net assets did not affect the college's historical management, investment or use of the funds within the endowment pool.

Endowment funds consisted of the following at June 30, 2011 and June 30, 2010 (in thousands):

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(114)	$757,908	$332,924	$1,090,718
Quasi (board designated)	338,809	-	-	338,809
Total	$338,695	$757,908	$332,924	$1,429,527

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(1,401)	$581,560	$302,126	$882,285
Quasi (board designated)	361,275	-	-	361,275
Total	$359,874	$581,560	$302,126	$1,243,560

Changes in endowment funds for the fiscal years ended June 30, 2011 and June 30, 2010 were as follows (in thousands):

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2010	$297,689	$633,594	$312,277	$1,243,560
Yield	13,542	959	60	14,561
Realized/unrealized gains	52,587	165,208	2,411	220,206
Contributions	490	60	15,179	15,729
Distributions	(25,733)	(39,852)	(60)	(65,585)
Transfers	120	(2,061)	3,057	1,056
Balance June 30, 2011	$338,695	$757,908	$332,924	$1,429,527

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2009	$243,931	$547,938	$304,453	$1,096,322
Yield	3,514	221	14	3,749
Realized/unrealized gains	39,140	131,875	811	171,826
Contributions	1,285	2	5,011	6,298
Distributions	(16,907)	(44,809)	(14)	(61,730)
Transfers	26,726	(1,633)	2,002	27,095
Balance June 30, 2010	$297,689	$633,594	$312,277	$1,243,560

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

Land, land improvements, buildings, equipment, and collections at June 30, 2011 and June 30, 2010 (in thousands):

	Useful Lives	2011	2010
Land		$6,759	$6,784
Land improvements	10–30 years	7,584	5,977
Buildings	40–70 years	474,387	459,561
Works of art	100 years	46,355	43,698
Library books	15 years	53,446	51,243
Equipment	5–12 years	14,182	12,012
		602,713	579,275
Accumulated depreciation		(219,249)	(202,252)
		383,464	377,023
Construction in progress		17,277	8,906
		$400,741	$385,929
Depreciation expense		$17,570	$15,642
Capitalized interest		$186	$71

6. Accounts Payable and Accrued Liabilities

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

	2011	2010
General payables	$5,431	$4,643
Interest rate swaps	13,627	17,793
Facilities, construction, repairs	25,142	24,485
Payroll related	4,143	3,555
Compensated absences	3,568	3,408
	$51,911	$53,884

7. Split Interest Agreements: Assets, Obligations, and Net Assets

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

	Annuities (held by College)		Split Interest (College Trustee)		Life Income (Individual Trustee)	
	2011	2010	2011	2010	2011	2010
Assets:						
Cash/investments	$31,763	$28,314	$15,103	$12,967	-	-
Contributions receivable	-	-	-	-	$18,433	$16,233
Discount/allowance	-	-	-	-	(9,499)	(8,649)
Obligation:						
Obligation	(13,161)	(13,470)	(6,856)	(5,886)	-	-
	$18,602	$14,844	$8,247	$7,081	$8,934	$7,584
Net assets:						
Temporary	$8,227	$6,445	$3,413	$2,943	$3,737	$3,326
Permanent	10,375	8,399	4,834	4,138	5,197	4,258
	$18,602	$14,844	$8,247	$7,081	$8,934	$7,584

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

8. Deferred Income, Deposits and Agency Funds

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

	2011	2010
Deferred income	$4,332	$4,157
Student deposits	785	683
Associated Kyoto Program	999	942
Smith Students' Aid Society	4,345	3,823
Other deposits	1,715	1,447
Perkins loan program	1,802	1,859
	$13,978	$12,911

9. Bonds Payable

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

Series	Final Year of Maturity	Interest Rates	Variable Rate as of 6/30/11	Variable Rate as of 6/30/10	2011	2010
Massachusetts Development Finance Agency:						
2000	2010	4.60%–5.75%			$1,015	$1,975
2001	2024	Variable	0.06%	0.24%	25,388	26,661
2002	2029	Variable	0.06%	0.24%	33,690	33,850
2005	2035	5.00%			33,065	33,065
2007	2037	Variable	0.80%	0.30%	72,960	72,960
					166,118	168,511
Unamortized premium					1,705	1,777
					$167,823	$170,288

The Series 2001, 2002, and 2007 revenue bonds are at variable rates. 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 that will expire in September 2012, and a standby bond purchase agreement for the 2007 Bond Series that will expire in June 2013.

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. 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. The fair value of the interest rate swaps is recorded as part of the college's accounts payable and accrued liabilities. The continued effectiveness of these swaps will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements.

The swaps are summarized in the table below (in thousands):

2011

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2001	$(4,422)	0.22%	4.39%
2002	(6,590)	0.22%	4.66%
2007	(2,615)	0.26%	2.86%
	$(13,627)		

2010

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2001	$(5,042)	0.19%	4.39%
2002	(7,103)	0.19%	4.66%
2007	(5,648)	0.29%	2.86%
	$(17,793)		

In September 2009, the college changed the terms of the 2007 swap which reduced the percent of LIBOR used in determining the amount due to the college resulting in a $13.3 million payment to the college by the counterparty.

The fair value of the Series 2000 bonds as of June 30, 2011 is $1.0 million and the fair value of the Series 2005 bonds as of June 30, 2011 is $33.6 million. The fair value of the Series 2001, 2002, and 2007 bonds as of June 30, 2010 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

2012	2013	2014	2015	2016	Thereafter	Total
$2,510	$2,635	$2,754	$2,882	$3,014	$152,323	$166,118

10. Net Assets

Net assets at June 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
Permanent Endowment	$(114)	$ -	$332,924	$332,810
Net Appreciation on Permanent Endowment	-	753,846	-	753,846
Term Endowment	-	4,062	-	4,062
Quasi-Endowment	338,809	-	-	338,809
	338,695	757,908	332,924	1,429,527
Split Interest Agreements	-	15,377	20,406	35,783
Plant Funds	222,577	56	-	222,633
Loan Funds	-	-	8,204	8,204
Other Funds	33,897	59,118	10,099	103,114
	$595,169	$832,459	$371,633	$1,799,261

And net assets at June 30, 2010 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment				
Permanent endowment	$(1,401)	$ -	$312,277	$310,876
Net appreciation on permanent endowment	-	630,031	-	630,031
Term endowment	-	3,563	-	3,563
Quasi-endowment	299,090		-	299,090
	297,689	633,594	312,277	1,243,560
Life income funds	-	12,715	16,795	29,510
Plant funds	196,457	39	-	196,496
Loan funds	-	-	7,974	7,974
Other funds	47,896	48,079	3,882	99,857
	$542,042	$694,427	$340,928	$1,577,397

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

	2011	2010
Total return distribution	$39,027	$43,168
Program services	7,881	22,050
	$46,908	$65,218

11. Retirement Plans

The college has a defined contribution retirement plan for substantially all its employees. The plan is administered by independent trustees to whom all funds are transferred for investment purposes and benefit payments. All employees are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contribution to the retirement plan amounted to $8.0 million in fiscal 2011 ($7.7 million in fiscal 2010).

12. Subsequent Event

The college evaluated subsequent events for potential recognition or disclosure through October 14, 2011, the date on which the financial statements were available to be issued.

5111-10/11

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

SMITH COLLEGE

INDIVIDUAL. GLOBAL. EXCEPTIONAL.