Smith College

Financial Report 2011–12

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

Financial Report 2011–12

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, 2012.

This has been an excellent year for the college, with a strong incoming class selected from the largest number of applications ever received. The college's financial position is strong despite the slow economic recovery and continued volatility in the investment markets. Smith's recently established Centers for Engagement, Learning and Leadership have attracted strong support as they respond to emerging student and scholarly interests, provide contexts for internships and independent projects and address real-world challenges. A generous gift to endow the Center for Work & Life, which links programming on leadership, work preparation and wellness practices, was received in the spring and the center will be re-named in honor of the donor later in the year. The center provides a context where students can learn about current research on women's lives, reflect on their own experiences, and explore concepts of fulfillment uniquely suited to them.

Smith joined the State Department and four other colleges in launching the Women in Public Service Project, a partnership that advances women's leadership in public service and governance worldwide. In addition, Smith became the chief academic planning partner with the Asian Women's Leadership University, an academically rigorous undergraduate women's liberal arts university under development in Malaysia.

Statement of Financial Position

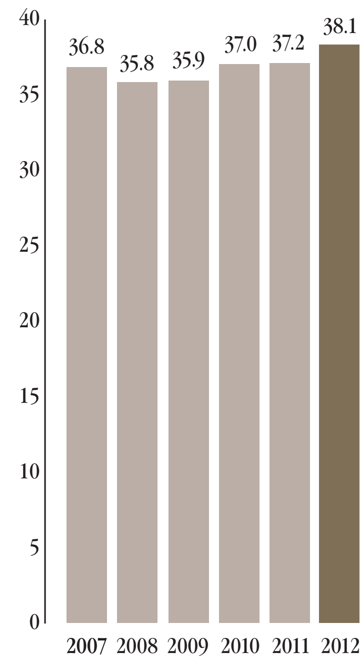
Smith had total net assets of $1.8 billion on June 30, 2012 and the college's liquidity position remains strong with over $78 million in cash and short-term investments. Overall, net assets declined by $38 million from the prior year primarily due to an investment return lower than the amount expended in support of operations and a decline in the value of swaps that overlay debt issues. Endowment income provides core support for the college's academic program and initiatives, and good fiscal discipline ensures that the asset base will remain strong for future generations of students.

Statement of Activities

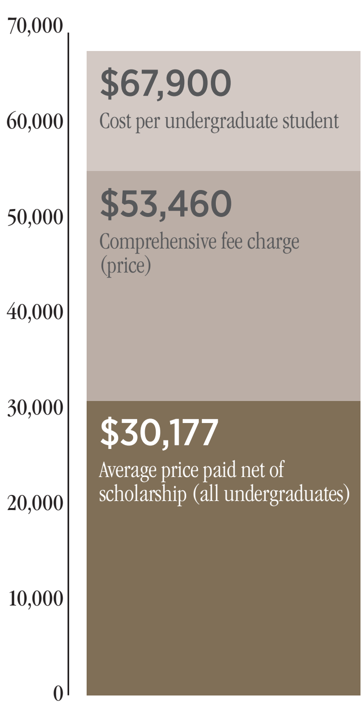
The college had a fiscal surplus from operations in 2011–12, largely due to an unanticipated increase in enrollment. Operating revenues

Smith has a strong commitment to preserving and enhancing its facilities and campus infrastructure. The college invested more than $25 million in campus upgrades in 2011–12.

Undergraduate Discount Rate
Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education
2011–12



totaled $218.3 million while operating expenses totaled $200.4 million. Net income from operations was $17.8 million or 8 percent of total operating revenues. The college has a diversified revenue base, with 45 percent of revenue from student income net of financial aid, 37 percent from investment return, 12 percent from gifts and 6 percent from other income sources.

Smith is committed to providing an outstanding education to qualified women from all economic backgrounds. To that end, the college meets the full demonstrated need of each admitted student based on an application process that considers family income and assets. Nearly two-thirds of the college's 2,671 undergraduates received need-based aid during 2011–12. Of the $53.4 million spent on undergraduate financial aid for the year, $24.7 million represented institutional funds generated by income from the college's endowment funds and trusts designated for aid as well as income from annual gifts and grants for scholarship support. The slow economic recovery contributed to a 7 percent increase in financial aid over the prior year. The college's discount rate, which compares institutional scholarships to comprehensive fee revenue, increased to 38.1 percent and the average institutional award to undergraduate students was $19,985 for the year. The funding partnership between students' families and the college, enabled by the college's financial resources, provides wide access to a Smith education.

Investments

Smith's investment pool has recovered to its pre-recession level of $1.5 billion. The college maintains a diverse investment portfolio across managers and asset classes that aims to mitigate risk and maintain sufficient liquidity to meet investment management and college needs. At June 30, 2012, 31 percent of the portfolio was invested in global equities, 24 percent in alternative equities, 36 percent in private equity and real assets, 3 percent in cash and 6 percent in fixed income. The college's combined investment strategy, asset allocation and the spending level approved annually by the board of trustees aim to provide a steady return to support current operations while ensuring that the value of the endowment grows sufficiently to provide comparable support to future generations of students. The college's endowment spending policy provides that income available to support current operations typically will increase by four percent annually as long as the resulting amount is more than four percent and less than six percent of the endowment market value. The spending rate has averaged five percent over the past decade.

The college's investment return of 2.2 percent for 2011–12 reflected the continued volatility of the investment markets. While modest, the investment performance exceeded the portfolio's benchmark for the year (2.2 percent versus a loss of 1.3 percent), and returns have exceeded the benchmark for the

most recent three-year (12.3 percent versus 12.2 percent), five-year (4.2 percent versus 1.9 percent) and ten-year (9.0 percent versus 6.9 percent) periods.

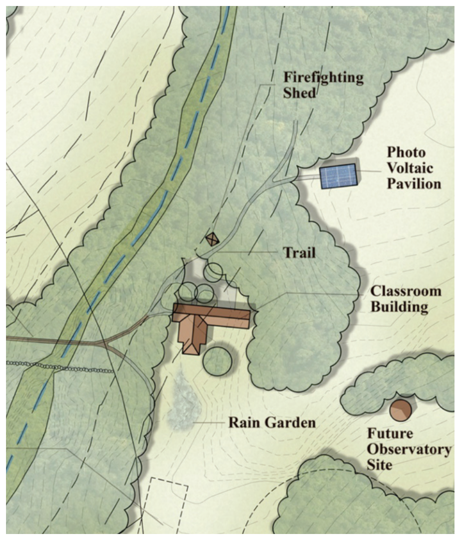
Facilities

Smith has a strong commitment to preserving and enhancing its facilities and campus infrastructure. The college invested more than $25 million in campus upgrades in 2011–12. The most significant project was the completion of the renovation of Sabin Reed and Burton Halls in the Clark Science Center. The multi-year project included re-purposing spaces vacated when Ford Hall opened, and improving many other spaces to meet current academic and technological requirements.

To preserve buildings and improve energy efficiency, Smith is making significant investments across the campus in exterior improvements including masonry, roofing, painting and window replacement. Though largely unseen, maintenance and energy improvements are also underway in the campus infrastructure, including upgrades in the central power plant and underground electrical, steam and chilled water systems.

Following two years of planning and construction, the college dedicated the Bechtel Environmental Classroom at the Ada and Archibald MacLeish Field Station in spring 2012. The facility was designed by the architectural firm of Coldham & Hartman. The design of the building aims to achieve the Living Building Challenge, a certification that requires the facility to generate all of its own energy with renewable resources and to have its own water system.

The college prizes its student residences and continues to invest in numerous upgrades of the facilities each year. Looking ahead, major renovations of Ziskind and Cutter Houses have been approved and will be carried out over the next few summers. The architectural firm of Perkins+Will has designed renovations sensitive to the original international design and preliminary work began in the summer of 2012.



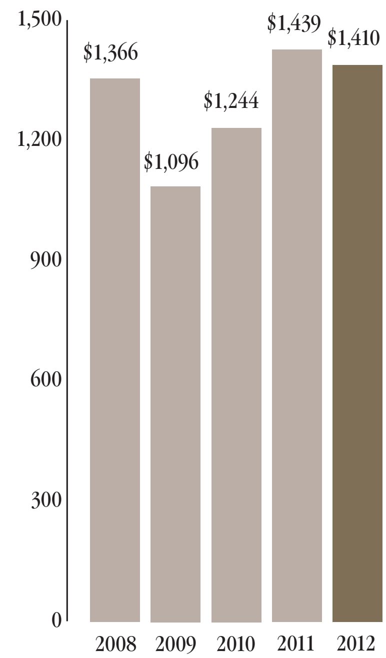
The design of the 2,300-square-foot Bechtel Environmental Classroom at the college's MacLeish Field Station aims to achieve the Living Building Challenge, a designation that places it among the most environmentally sustainable buildings in the country.

Endowment Spending Rate

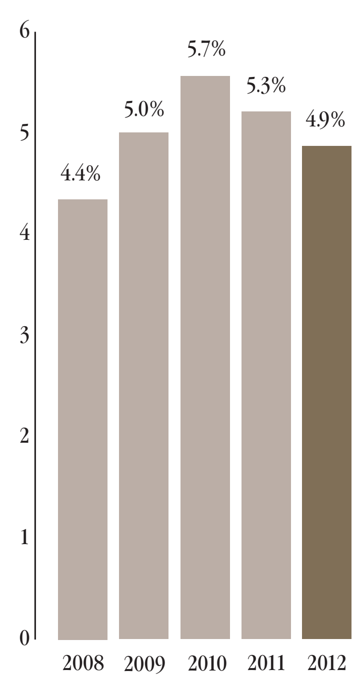
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2002–03	$851.2	$48.4	5.7%	3.1%
2003–04	$823.9	$46.5	5.6%	-3.9%
2004–05	$924.5	$46.0	5.0%	-1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
2008–09	$1,365.8	$67.9	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%
2011–12	$1,439.5	$69.5	4.9%	6.4%
Ten-year totals		$563.7	5.0%	44.2%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2012	2011	2010	2007	2002
Assets, Liabilities and Net Assets (000's)					
Total Assets	$2,030,565	$2,052,990	$1,833,836	$1,949,801	$1,451,544
Total Plant Assets	404,764	400,741	$385,929	$308,686	$239,396
Endowment Funds Market Value	1,409,755	1,439,485	$1,243,560	$1,360,966	$851,253
Life Income Funds Market Value	46,115	46,866	$41,281	$60,846	$41,003
Long-Term Debt	165,242	167,823	$170,288	$104,081	$76,185
Net Assets	1,761,704	1,799,261	$1,577,397	$1,687,860	$1,154,349
Income and Expense (000's)					
Undergraduate Comprehensive Fees	$140,341	$134,319	$132,927	$113,588	$89,176
Undergraduate Scholarships	53,382	49,844	48,964	41,822	28,572
Net	86,959	84,475	83,963	71,766	60,604
Unrestricted Gifts and Grants	25,630	22,711	30,891	28,478	23,396
Restricted Gifts and Grants	18,299	36,915	14,009	9,621	18,699
Total Operating Expenses	200,451	196,535	191,787	170,488	147,821
Salaries and Wages	89,438	87,755	86,099	80,188	71,283
Staff Benefits	27,308	26,970	26,043	23,468	18,665
Other Statistics					
Undergraduate:					
Student FTE *	2,671	2,637	2,688	2,669	2,743
Faculty FTE	281	281	289	290	264
Student-Faculty Ratio	9.1	8.9	8.8	8.7	9.7
Comprehensive Fee	$53,460	$51,898	50,380	43,438	33,110
Net Cost Per Student	67,900	67,300	64,400	56,900	48,900
Comprehensive Fee as Percent of Cost Per Student	78.7%	77.1%	78.2%	76.3%	67.7%
Students Receiving Scholarships	63.9%	64.3%	64.7%	66.4%	62.8%
Operations Supported by Endowment	34.1%	32.6%	31.0%	29.1%	30.7%
Total Student FTE *	3,163	3,103	3,154	3,097	3,166
Endowment Per Student	447,481	460,677	394,334	439,395	268,877
Endowment Spending as Percent of Beginning Market Value	4.8%	5.3%	5.7%	4.3%	5.1%

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

Independent Auditors' Report

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

Independent Auditors' Report

The Board of Trustees
Smith College:

We have audited the accompanying statements of financial position of Smith College (the College) as of June 30, 2012 and 2011, 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, 2012 and 2011 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 15, 2012

Statements of Financial Position

June 30, 2012 and 2011

(In Thousands)

See accompanying notes to financial statements.

	2012	2011
Assets		
Cash and cash equivalents	$ 32,737	$ 18,531
Short-term investments	45,574	66,699
Receivables, net and other assets	47,368	53,578
Long-term investments	1,500,122	1,513,441
Property and collections, net	404,764	400,741
Total assets	$ 2,030,565	$ 2,052,990
Liabilities		
Accounts payable and accrued liabilities	$ 20,448	$ 20,165
Interest rate swap agreements	30,295	13,627
Deferred income, deposits, agency funds	13,688	13,978
Liability for split-interest agreements	20,525	20,017
Asset retirement obligations	18,663	18,119
Bonds payable	165,242	167,823
Total liabilities	$ 268,861	$ 253,729
Net Assets		
Unrestricted	582,126	595,169
Temporarily restricted	805,545	832,459
Permanently restricted	374,033	371,633
Total net assets	$ 1,761,704	$ 1,799,261
Total liabilities and net assets	$ 2,030,565	$ 2,052,990

Statements of Activities

For the years ended June 30, 2012 and 2011

(In Thousands)

See accompanying notes to financial statements.

	2012	2011
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 123,372	$ 117,629
Residence and dining fees	34,407	32,981
Student aid	(59,120)	(55,294)
Student income, net	98,659	95,316
Gifts and grants	25,630	22,711
Investment return supporting operations	19,116	32,213
Other income	13,184	12,414
Net assets released from restrictions	61,695	46,908
Total operating revenues and other additions	$ 218,284	$ 209,562
Operating Expenses		
Instruction	86,454	86,390
Academic support	28,620	27,464
Student services	22,063	21,316
Auxiliary enterprises	33,280	32,137
General and administrative	30,034	29,228
Total expenses	200,451	$ 196,535
Operating subtotal	$ 17,833	13,027
Non-Operating Revenues and Other Changes		
Realized and unrealized loss on interest-rate swap agreements	(21,091)	(297)
Net investment return (decreasing) increasing long-term investments	(9,785)	40,396
Non-operating revenues and other changes	$ (30,876)	$ 40,099
(Decrease) increase in unrestricted net assets	$ (13,043)	$ 53,126
Changes in Temporarily Restricted Net Assets		
Gifts and grants	14,337	12,444
Investment return	21,029	169,405
Change in life income funds	(585)	3,092
Net assets released from restrictions	(61,695)	(46,908)
(Decrease) increase in temporarily restricted net assets	$ (26,914)	$ 138,033
Changes in Permanently Restricted Net Assets		
Gifts and grants	3,962	24,471
Investment return	(175)	2,393
Change in life income funds	(1,387)	3,841
Increase in permanently restricted net assets	$ 2,400	$ 30,705
Total (decrease) increase in net assets	$ (37,557)	$ 221,864
Net assets, beginning of year	1,799,261	1,577,397
Net assets, end of year	$ 1,761,704	$ 1,799,261

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

(In Thousands)

See accompanying notes to financial statements.

		2012		2011
Cash Flows From Operating Activities				
Change in net assets	$	(37,557)	$	221,864
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization		18,757		17,628
Unrealized loss in market value of interest rate swap agreements		16,668		(4,166)
Net unrealized and realized gains on investments		(28,232)		(227,553)
Actuarial change in life income obligation		508		661
Gain on disposal of plant and equipment		-		(372)
Contributions restricted for long-term investment		(2,653)		(20,209)
Contributions of property and securities		(4,460)		(6,807)
Net change in operating assets and liabilities:				
Receivables, net and other assets		5,504		(10,354)
Accounts payable and accrued liabilities		1,124		2,115
Deferred income, deposits, and agency funds		(290)		1,067
Net cash used in operating activities	$	(30,631)	$	(26,126)
Cash Flows From Investing Activities				
Purchases of property and collections	$	(20,142)	$	(29,525)
Funds held by bond trustee		13		1,435
Short-term investments		21,124		22,502
Proceeds from student and other loan collections		2,005		1,859
Student and other loans issued		(1,365)		(1,448)
Purchases of investments		(89,980)		(112,022)
Sales and maturities of investments		133,039		130,803
Net cash provided by investing activities	$	44,694	$	13,604
Cash Flows From Financing Activities				
Contributions restricted for long-term investment	$	2,653	$	20,209
Payments on long-term debt		(2,510)		(2,393)
Net cash provided by financing activities	$	143	$	17,816
Net change in cash and cash equivalents	$	14,206	$	5,294
Cash and cash equivalents, beginning of year	$	18,531	$	13,237
Cash and cash equivalents, end of year	$	32,737	$	18,531
Supplemental disclosure:				
Interest paid, including amounts paid under interest rate swap agreements	$	6,614	$	6,842
Gifts in kind		2,952		2,484
Purchases of plant and equipment included in accounts payable		(297)		78

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 with 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 in perpetuity.

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues when donors' commitments are received. Conditional pledges are recognized as revenues when conditions are substantially met. Unconditional pledges, net of an allowance for uncollectible amounts, are reported at their estimated net present values, and are classified as 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 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 statements of cash flows, investments acquired with a maturity date of three months or less are reported as cash equivalents, unless they are part of short-term investments or long-term investment funds.

(e) 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, often requiring the estimation of fair values by the fund managers in the absence of readily determinable market values.

Investments are reported at 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. NAV is used as a practical expedient to estimate the fair value of the College's interest therein unless it probable that all or a portion of the investment will be sold for an amount different from NAV. 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. As of June 30, 2012 and 2011, the College had no specific plans or intentions to sell investments at amounts different than NAV.

Investments include beneficial interests in trusts. A beneficial interest in a limited-term or perpetual trust represents resources neither in the possession of, nor under the control of the college, but held and administered by an outside fiscal agent, with the college deriving income from the trust. Assets of the Alumnae Association of Smith College, the Smith Students' Aid Society, Inc., and the Smith College Club of New York City are invested with the college's pooled investments.

At June 30, 2012 and 2011, the carrying values of the college's cash and cash equivalents, receivables, accounts payable and accrued liabilities, and deposits approximated their fair values because of the generally short-term nature of these items.

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 statements of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2.

(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.

(g) Asset Retirement Obligation

An asset retirement obligation (ARO) is a conditional legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the college records period-to-period changes in the ARO liability resulting from the passage of time, new laws and regulations and revisions to either the timing or amounts of the original estimate of undiscounted cash flows. Upon settlement of the obligation, any difference between the cost to settle the ARO and the liability recorded will be recognized in the statement of activities as an expense.

(h) Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant and depreciation expense for land improvements and buildings are allocated based on square footage. Depreciation expense for equipment is allocated to functional classifications based on the functional classifications of the departments in which the equipment is located, and depreciation expense for collections is allocated to the academic support functional classification. Interest expense is allocated based on the functional purpose for which the debt proceeds were used.

(i) Estimates

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

(j) 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. The college believes it has taken no significant uncertain tax positions.

(k) Reclassifications

Certain reclassifications have been made to 2011 information to conform with the 2012 presentation.

2. Receivables, Net and Other Assets

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

		2012	2011
Contributions expected to be collected within:			
One year		$13,201	$16,881
One to five years		9,241	9,086
Over five years		96	132
Less: Discount (1.00% to 6.00%)		(293)	(231)
Less: Allowance for uncollectibles		(1,218)	(1,241)
	Subtotal	$21,027	$24,627
Charitable trusts		20,690	18,433
Less: Discount (1.00% to 6.00%)		(10,403)	(9,500)
	Subtotal	$10,287	$8,933
Students, employees, other receivables		3,814	7,033
Student loans		6,474	6,580
Employee loans and mortgages		3,614	3,979
Less: Allowance for uncollectibles		(2,002)	(1,816)
	Subtotal	$11,900	$15,776
Other Assets	Subtotal	$4,154	$4,242
	Total	$47,368	$53,578

The college incurred fund-raising expenses of $7.1 million for the year ended June 30, 2012 ($6.4 million for the year ended June 30, 2011).

3. Fair Value

The college's assets and liabilities at June 30, 2012 are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets						
Investments:						
Cash and cash equivalents	$74	-	-	$74	Daily	1
Money market fund	39,528	-	-	39,528	Daily	1
Fixed income	2,978	24,526		27,504	Daily	1
Hedge fund						
Equity and equity long/short	-	441,180		441,180	Daily/Monthly	1–30
Multi-strategy	-	326,605		326,605	Monthly	Not Redeemable
Credit/event driven		-	10,808	10,808	Annually	90
Credit/event driven	-	-	22,901	22,901	Annually	60
Fixed income strategies	-		4,547	4,547	Illiquid	Not Redeemable
Fixed income strategies	-	-	54,741	54,741	Every 2 years	
Private equity investments		-				
Venture capital			466,085	466,085	Illiquid	Not Redeemable
US equity			3,536	3,536	Illiquid	Not Redeemable
Other			5,826	5,826	Illiquid	Not Redeemable
Real assets investments			63,076	63,076	Illiquid	Not Redeemable
Equity securities	88	-	415	503	Illiquid	Not Redeemable
Third-party perpetual trusts	-		33,208	33,208	Not Redeemable	Not Redeemable
Total investments	42,668	792,311	665,143	1,500,122		
Other Assets						
Funds held by bond trustee	-	66	-	66	Daily	1
Short-term investments:						
US treasuries money market fund	27,866			27,866	Daily	1
Low duration bond fund	17,708	-	-	17,708	Daily	1
Total assets	$88,242	$792,377	$665,143	$1,545,762		
Liabilities						
Interest rate swap agreements		$(30,295)				
Total liabilities		$(30,295)				

The college's assets and liabilities at June 30, 2011 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						
Venture capital			452,368	452,368	Illiquid	Not Redeemable
US equity			4,229	4,229	Illiquid	Not Redeemable
Other			5,286	5,286	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	-	-	41,717	41,717	Not Redemable	Not Redeemable
Total investments	36,117	816,200	661,124	1,513,441		
Other Assets						
Funds held by bond trustee	-	53	-	53	Daily	1
Short-term investments:						
US treasuries money market fund						
Low duration bond fund	66,699	-	-	66,699	Daily	1
Total assets	$102,816	$816,253	$661,124	$1,508,193		
Liabilities						
Interest rate swap agreements		$(13,627)				
Total liabilities		$(13,627)				

The following tables present the college's activity for the fiscal years ended June 30, 2012 and June 30, 2011 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Hedge Funds Credit/Event Driven	Hedge Funds Fixed Income Strategies	Private Equity/ Real Assets	Third Party Equity Securities	Perpetual Trusts	Total
Fair value as of June 30, 2011	$33,311	$57,896	$65,752	$462,448	$41,717	$661,124
Transfers	-	-	-	-	-	-
Acquisitions	-	762	2,179	63,948	-	66,889
Dispositions	(2,635)	(4,567)	(6,271)	(61,563)	(6,094)	(81,130)
Investment return	(422)	-	2,632	22,329	-	24,539
Unrealized gains (losses)	3,455	5,197	(1,216)	(11,300)	(2,415)	(6,279)
Fair value as of June 30, 2012	$33,709	$59,288	$63,076	$475,862	$33,208	$665,143

	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)
Acquisitions	-	4,553	(5,846)	53,273	9,958	61,938
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	$41,717	$661,124

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 77.8% of the college's investments at June 30, 2012 (78.1% at June 30, 2011).

At June 30, 2012 and June 30, 2011, the college's remaining outstanding commitments to private equity partnerships totaled $223.4 million and $210.8 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 within the current agreements.

The private equity partnerships have varying terms. As of June 30, 2012, the average remaining life of the private equity partnerships is approximately four years.

The college had alternative equity and fixed income investments of $1,399.7 million at June 30, 2012 ($1,454 million at June 30, 2011) 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	$623,219
Between one and three years	224,762
Greater than three years	551,739
Total	$1,399,720

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

	2012	2011
Dividends and interest	10,835	14,562
Realized gains	41,476	43,518
Unrealized (losses) gains	(13,244)	183,927
Fees and other	(8,882)	2,400
	30,185	244,407

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

	2012	2011
Unrestricted Net Assets Operating	19,116	32,213
Unrestricted Net Assets Non-Operating	(9,785)	40,396
Temporarily Restricted Net Assets	21,029	169,405
Permanently Restricted Net Assets	(175)	2,393
	30,185	244,407

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 or exit the investment pool, based on the then market value of a unit in the pool. The pool is valued monthly. The endowment spending policy provides that the income distributed per unit will increase by 4.0% annually as long as the resulting amount is more than 4.0% and less than 6.0% of the preceding December 31 endowment market value. For fiscal year 2011-12, the Board of Trustees set the spending rate at 5.0% of the December 31, 2010 endowment market value.

The college has interpreted the Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the college to appropriate for expenditure or accumulate so much of an endowment fund as the college determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure. As a result of this interpretation, the college has not changed the way permanently restricted net assets are classified. 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 in a manner consistent with the standard of prudent prescribed thy 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, 2012, this dollar amount was $0.4 million ($0.1 million as of June 30, 2011). 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 unexpended investment return, reported as temporarily restricted net assets.

Endowment funds consisted of the following at June 30, 2012 and June 30, 2011 (in thousands):

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(417)	$737,231	$335,156	$1,071,970
Quasi (board designated)	337,785	-	-	337,785
Total	$337,368	$737,231	$335,156	$1,409,755

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(114)	$767,866	$332,924	$1,100,676
Quasi (board designated)	338,809	-	-	338,809
Total	$338,695	$767,866	$332,924	$1,439,485

Changes in endowment funds for the fiscal years ended June 30, 2012 and June 30, 2011 were as follows (in thousands):

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2011	$338,695	$767,866	$332,924	$1,439,485
Interest and dividends, net of fees	(2)	644	-	642
Realized/unrealized gains (losses)	7,007	20,657	(253)	27,411
Contributions	-	958	1,753	2,711
Distributions	(16,790)	(52,761)	-	(69,551)
Transfers	8,458	(133)	732	9,057
Balance June 30, 2012	$337,368	$737,231	$335,156	$1,409,755

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2010	$297,689	$633,594	$312,277	$1,243,560
Interest and dividends, net of fees	3,292	11,209	60	14,561
Realized/unrealized gains	52,588	165,208	2,411	220,207
Contributions	-	10,018	15,179	25,197
Distributions	(15,483)	(50,102)	(60)	(65,645)
Transfers	609	(2,061)	3,057	1,605
Balance June 30, 2011	$338,695	$767,866	$332,924	$1,439,485

5. Property and Collections

Property and collections at June 30, 2012 and June 30, 2011 (in thousands):

	Useful Lives	2012	2011
Land		$6,759	$6,759
Land improvements	10–30 years	7,824	7,584
Buildings	40–70 years	506,521	474,387
Works of art	100 years	49,112	46,355
Library books	15 years	54,956	53,446
Equipment	5–12 years	15,267	14,182
		640,439	602,713
Accumulated depreciation		(236,812)	(219,249)
		403,627	383,464
Construction in progress		1,137	17,277
		$404,764	$400,741
Depreciation Expense		18,700	17,570
Capitalized Interest		167	186

6. Accounts Payable and Accrued Liabilities

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

	2012	2011
General payables	$6,199	$5,431
Facilities, construction, repairs	6,661	7,023
Payroll related	3,843	4,143
Compensated absences	3,745	3,568
	$20,448	$20,165

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) 2012	Annuities (held by College) 2011	Split Interest (College Trustee) 2012	Split Interest (College Trustee) 2011	Life Income (Individual Trustee) 2012	Life Income (Individual Trustee) 2011
Assets:						
Cash/investments	$32,997	$31,763	$13,118	$15,103		
Contributions receivable					$20,690	$18,433
Discount/allowance					(10,403)	(9,499)
Obligation:						
Obligation	(14,649)	(13,161)	(5,876)	(6,856)		
	$18,348	$18,602	$7,242	$8,247	$10,287	$8,934
Net assets:						
Temporary	$8,100	$8,227	$2,668	$3,413	$3,424	$3,737
Permanent	10,248	10,375	4,574	4,834	6,863	5,197
	$18,348	$18,602	$7,242	$8,247	$10,287	$8,934

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):

	2012	2011
Deferred income	$4,278	$4,332
Student deposits	828	785
Associated Kyoto Program	947	999
Smith Students' Aid Society	4,262	4,345
Other deposits	1,637	1,715
Perkins loan program	1,736	1,802
	$13,688	$13,978

9. Bonds Payable and Interest Rate Swap Agreements

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

Series	Final Year of Maturity	Interest Rates	2012	2011
Massachusetts Development Finance Agency:				
2000	2010	4.60%–5.75%	$-	$1,015
2001	2024	Variable	24,058	$25,388
2002	2029	Variable	33,525	$33,690
2005	2035	5.00%	33,065	$33,065
2007	2037	Variable	72,960	$72,960
			163,608	166,118
Unamortized premium			1,634	$1,705
			$165,242	$167,823

The Series 2001, 2002, and 2007 are variable rate demand revenue bonds. The rate is set weekly by the re-marketing agent at the lowest rate which would permit the sale of the bonds on such date at par. The college is obligated to repurchase 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 Bond Series that will expire in June 2013, and a standby bond purchase agreement for the 2007 Bond Series that expires in September 2012 (see Note 12).

The college's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a a third-party, the college estimates the fair value of the fixed rate Series 2005 bonds as of June 30, 2012 was $35.9 million. The fair value of the Series 2001, 2002, and 2007 bonds as of June 30, 2012 approximates the total outstanding principal balance given the variable-rate terms of these obligations.

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

2013	2014	2015	2016	2017	Thereafter	Total
$2,635	$2,754	$2,882	$3,014	$3,079	$149,244	$163,608

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 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 as follows (in thousands):

2012

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2001	(5,506)	0.12%	4.39%
2002	(9,218)	0.12%	4.66%
2007	(15,571)	0.17%	2.86%
	$(30,295)		

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)		

The swaps' fair values are indicative values based on mid-market levels as of the close of business on June 30, 2012 and 2011, derived from models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. The valuations do not represent the actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated.

10. Net Assets

Net assets at June 30, 2012 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
Endowment				
Permanent endowment	$(417)	$-	$335,156	$334,739
Net unexpended return		722,536	-	722,536
Term endowment	-	14,695	-	14,695
Quasi-endowment	337,785	-	-	337,785
	337,368	737,231	335,156	1,409,755
Split interest agreements	-	14,192	21,685	35,877
Plant funds	202,845	69	-	202,914
Loan funds	-	-	8,606	8,606
Other funds	41,913	54,053	8,586	104,552
	$582,126	$805,545	$374,033	$1,761,704

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
Endowment				
Permanent endowment	$(114)	$-	$332,924	$332,810
Net unexpended return		753,846	-	753,846
Term endowment	-	14,020		14,020
Quasi-endowment	338,809	-		338,809
	338,695	767,866	332,924	1,439,485
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	49,160	10,099	93,156
	$595,169	$832,459	$371,633	$1,799,261

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

	2012	2011
Total Return Distribution	$51,613	$39,027
Program Services	10,082	7,881
	$61,695	$46,908

11. Retirement Plans

The college has a defined contribution retirement plan for substantially all of its employees who are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contributions to the plan amounted to $8.3 million in fiscal 2012 ($8.0 million in fiscal 2011).

12. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through October 15, 2012, the date on which the financial statements were issued.

On August 1, 2012, the college tendered and re-issued Massachusetts Development Finance Authority Series 2007 bonds. The college entered into this transaction in order to substitute the financial institution which issued the original underlying standby bond purchase agreement. The new standby agreement expires in July 2015.

5204-10/12

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

SMITH COLLEGE

INDIVIDUAL. GLOBAL. EXCEPTIONAL.