Smith College

Financial Report 2012–13

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

Board of Trustees, 2012–13

Financial Report 2012–13

Ruth Constantine
Vice President for Finance and Administration and Treasurer

Laura Smiarowski
Controller and Associate Treasurer

As another fiscal year at Smith comes to a close, the college's financial strength is evidenced by positive operating margins, diversified revenue sources, and continued investment in critical priorities including student access, a strong faculty, and student engagement, learning and leadership.

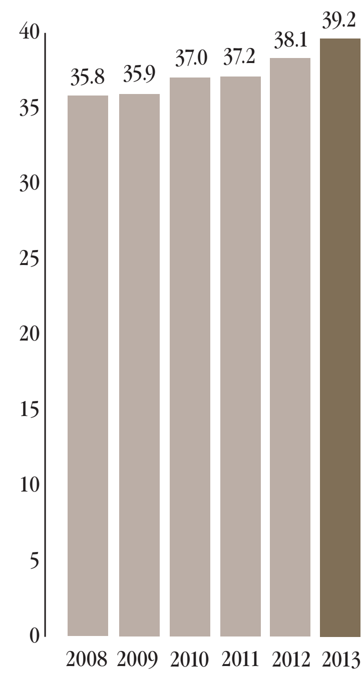
The end of the academic year was bittersweet, as long-time president Carol Christ returned to the west coast on her retirement. Her vision was one that expanded Smith's reach beyond the campus, responded to the needs of the times and met the expectations of students who see themselves competing in a global marketplace. In the spring, the Smith community gave a rousing welcome to incoming president Kathleen McCartney, who began her tenure as president in July.

As talented women are increasingly recognized as the hope of their nations, organizations, and families, Smith has embarked on a defining initiative: to educate women for the world. The college has an extraordinary opportunity to affirm its status as a global women's college, matching its greatest strength—women's education—with one of the world's great needs: women leaders. To this end, in October Smith launched a $450 million campaign that will make Smith the destination college for am-

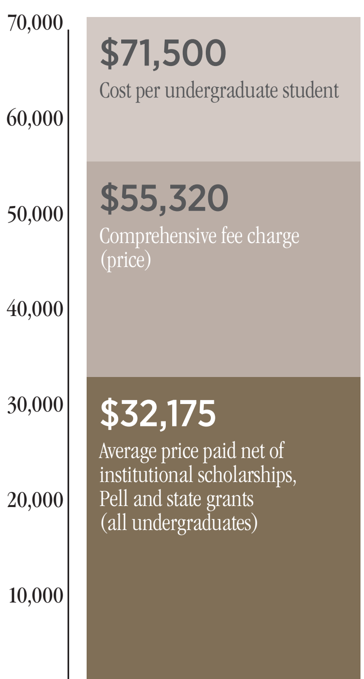
In October 2012, President Carol Christ announced a $450 million campaign that will make Smith the destination college for ambitious young women eager, as Sophia Smith envisioned, to increase their "power for good."

As talented young women are increasingly recognized as the hope of their nations, organizations and families, Smith is embarking on a defining initiative: to educate women for the world.

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



Cost vs. Price of a Smith Education
2012–13



bitious young women eager, as Sophia Smith envisioned, to increase their "power for good." The campaign focuses on financial aid and a range of investments under the broad theme of reimagining the liberal arts.

Statements of Financial Position

College assets grew approximately $144 million during fiscal year 2013, due primarily to earning a 14.3 percent investment return on long-term investments. Liabilities declined by nearly $11 million due to an increase in the fair market value of swaps on the college's variable rate debt.

Statements of Activities

Unrestricted net assets increased by $45.4 million in 2012–13 largely due to the positive return on the college's investments. Smith's revenue sources are diversified, with 46 percent of revenues coming from student income net of financial aid; 37 percent from investment return; 11 percent from gifts; and 6 percent from other income sources.

Sixty percent of Smith's 2,673 students receive need-based grant aid as part of the college's commitment to providing an outstanding education to qualified women of all economic backgrounds. The college meets eligible students' demonstrated need through a combination of grants, loans and work-study, based on an application process that considers family income and assets. The college expended $56.9 million on undergraduate financial aid for the year, of which $27.2 million was funded through income from endowment funds and trusts designated for student aid, and from gifts and grants for scholarship support. The slow pace of the economic recovery contributed to a 6 percent increase in financial aid over the prior year. The college's discount rate, which compares institutional scholarships to comprehensive fee revenue, increased to 39.2 percent and the average institutional award to undergraduate students increased to $21,300 for the year.

Investments

The market value of the college's endowment was $1.56 billion on June 30th. The college's investment return of 14.3 percent reflected the strong performance of investment markets during the year. While Smith's returns fell short of the portfolio's one-year benchmark (14.3 percent versus 15.4 percent), the college's returns exceeded the benchmark over five-year (6.1 percent versus 5.6 percent) and ten-year (10.3 percent versus 8.1 percent) periods.

The long-term investing horizon for the endowment allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other strategies are also used to reduce risk and volatility while optimizing performance. At June 30, 33 percent of the portfolio was invested in global equity, 33 percent in private partnerships, 25 percent in alternative equity, 6 percent in fixed income and 2 percent in cash and cash equivalents.

The board of trustees approves the annual endowment spending level and its investment committee oversees investment strategy and

A reconfigured terrace between McConnell and Burton halls includes a rock garden for use in geology classes.

allocation. Considerations include the need for steady support for academic programs and student access; liquidity within the investment portfolio; and preservation of the endowment to support future generations of students. The college's overall endowment spending rate has averaged 4.9 percent over the past decade. Normally spending per endowment share increases 4 percent annually, however the spending rate increased just 2 percent for 2012–13.

Facilities

With an estimated replacement value exceeding $1.1 billion, Smith's physical plant is one of its greatest assets. The 147-acre campus includes 120 residential, academic and administrative buildings totaling more than 3 million gross square feet of space. In the 2012–13 operating budget, the college achieved a long-term goal of annually funding facilities renewal and replacement at a level equal to 2 percent of the replacement value of the facilities.

Reflecting Smith's ongoing commitment to care for student residences, in 2012–13 the college began a major renovation of Cutter and Ziskind houses. The project is slated for completion in August, 2014, at a total cost of $31.5 million. An extensive renovation of Dewey Hall, originally the college's first student residence and now a faculty office building, was completed during the year.

The college has made significant improvements to infrastructure in recent years. This year, projects varied from reconstruction of the dam at Paradise Pond to significant upgrades of the college's data center and network. The renovation of the server room, along with new network cabling and equipment, dramatically improved the core information technology infrastructure. Finally, installation of a new generator enables the college to maintain or restart the cogeneration facility following disruptive weather, allowing the campus to function independent of the electrical grid when necessary.

As we close one presidential chapter and begin another welcoming Kathleen McCartney as Smith's 11th president, we reflect on the successes of the past and look forward to Smith's continued fiscal responsibility and its ever increasing global reach as we educate the leaders of tomorrow.

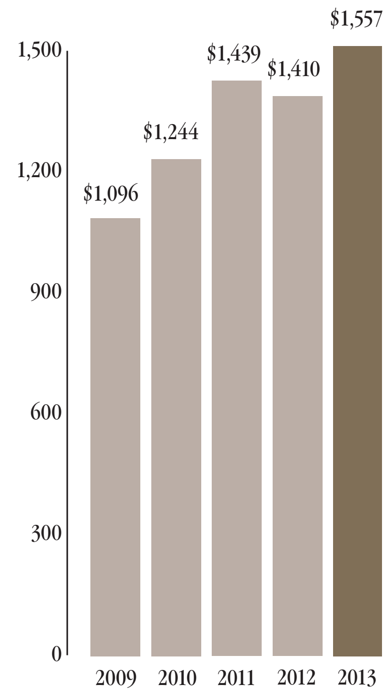
In 2012–13 Smith began a major renovation of Cutter and Ziskind houses. The project is slated for completion in August, 2014, at a total cost of $31.5 million.

Endowment Spending Rate

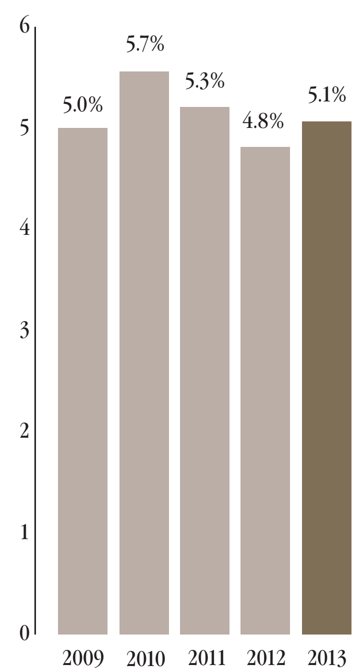
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2003–04	$823.9	$46.5	5.6%	-3.9%
2004–05	$924.5	$46.0	5.0%	-1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	-8.7%
2010–11	$1,243.6	$65.6	5.3%	5.8%
2011–12	$1,439.5	$69.0	4.8%	5.2%
2012–13	$1,409.8	$71.8	5.1%	4.1%
Ten-year totals		$586.6	4.9%	54.4%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2013	2012	2011	2008	2003
Assets, Liabilities and Net Assets (000's)					
Total Assets	$2,174,842	$2,036,198	$2,052,990	$2,021,816	$1,450,710
Total Plant Assets	405,436	404,764	400,741	339,283	266,392
Endowment Funds Market Value	1,557,407	1,409,755	1,439,485	1,365,792	823,915
Life Income Funds Market Value	48,517	46,115	46,866	55,932	43,098
Long-Term Debt	162,536	165,242	167,823	174,890	75,299
Net Assets	1,916,874	1,767,337	1,799,261	1,701,940	1,122,727
Income and Expense (000's)					
Undergraduate Comprehensive Fees	$144,313	$140,341	$134,319	$120,379	$93,435
Undergraduate Scholarships	56,936	53,382	49,844	42,776	32,730
Net	87,377	86,959	84,475	77,603	60,705
Unrestricted Gifts and Grants	22,573	25,392	22,711	30,856	22,772
Restricted Gifts and Grants	16,797	24,393	36,915	13,568	11,980
Total Operating Expenses	211,320	200,451	196,535	189,267	158,139
Salaries and Wages	92,264	89,438	87,755	84,533	77,923
Staff Benefits	28,361	27,308	26,970	25,174	21,271
Other Statistics					
Undergraduate:					
Student FTE*	2,673	2,671	2,637	2,696	2,743
Faculty FTE	283	281	281	290	301
Student-Faculty Ratio	9.1	9.1	8.9	8.7	8.5
Comprehensive Fee	$55,320	$53,460	$51,898	$45,606	$34,936
Net Cost Per Student	71,500	67,900	67,300	$62,700	$52,200
Comprehensive Fee as Percent of Cost Per Student	77.4%	78.7%	77.1%	72.7%	66.9%
Students Receiving Scholarships	64.9%	63.9%	64.3%	65.8%	64.1%
Operations Supported by Endowment	33.5%	34.1%	32.9%	30.7%	29.6%
Total Student FTE*	3,153	3,163	3,103	3,132	3,190
Endowment Per Student	493,916.30	445,700.46	463,886.11	436,085.68	258,306.07
Endowment Spending as Percent of Market Value	5.1%	4.8%	5.3%	4.4%	5.7%

* 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 financial statements of Smith College, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 18, 2013

Statements of Financial Position

June 30, 2013 and 2012

(In Thousands)

See accompanying notes to financial statements.

		2013		2012
Assets				
Cash and cash equivalents	$	17,948	$	32,737
Short-term investments		54,387		45,574
Receivables, net and other assets		44,521		47,368
Long-term investments		1,652,550		1,500,122
Property and collections, net		405,436		404,764
Total assets	$	2,174,842	$	2,030,565
Liabilities				
Accounts payable and accrued liabilities	$	22,819	$	20,448
Interest rate swap agreements		18,556		30,295
Deferred income, deposits, agency funds		14,897		13,688
Liability for split-interest agreements		19,796		20,525
Asset retirement obligations		19,360		18,663
Bonds payable		162,536		165,242
Total liabilities	$	257,964	$	268,861
Net Assets				
Unrestricted		627,545		582,126
Temporarily restricted		894,289		805,545
Permanently restricted		395,044		374,033
Total net assets	$	1,916,878	$	1,761,704
Total liabilities and net assets	$	2,174,842	$	2,030,565

Statements of Activities

For the years ended June 30, 2013 and 2012

(In Thousands)

See accompanying notes to financial statements.

	2013	2012
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 127,112	$ 123,372
Residence and dining fees	35,683	34,407
Student aid	(62,796)	(59,120)
Student income, net	99,999	98,659
Gifts and grants	22,573	25,630
Investment return supporting operations	23,022	19,116
Other income	13,288	13,184
Net assets released from restrictions	60,353	61,695
Total operating revenues and other additions	$ 219,235	$ 218,284
Operating Expenses		
Instruction	90,261	86,454
Academic support	29,608	28,620
Student services	22,696	22,063
Auxiliary enterprises	35,717	33,280
General and administrative	33,038	30,034
Total expenses	211,320	$ 200,451
Operating subtotal	$ 7,915	17,833
Non-Operating Revenues and Other Changes		
Unrealized gain (loss), interest, and fees on interest-rate swap agreements	7,413	(21,091)
Net investment return increasing (decreasing) long-term investments	30,091	(9,785)
Non-operating revenues and other changes	$ 37,504	$ (30,876)
Increase (decrease) in unrestricted net assets	$ 45,419	$ (13,043)
Changes in Temporarily Restricted Net Assets		
Gifts, grants and change in donor intent	(1,138)	14,337
Investment return	148,399	21,029
Change in life income funds	1,836	(585)
Net assets released from restrictions	(60,353)	(61,695)
Increase (decrease) in temporarily restricted net assets	$ 88,744	$ (26,914)
Changes in Permanently Restricted Net Assets		
Gifts, grants and change in donor intent	17,935	3,962
Investment return	1,000	(175)
Change in life income funds	2,076	(1,387)
Increase in permanently restricted net assets	$ 21,011	$ 2,400
Total increase (decrease) in net assets	$ 155,174	$ (37,557)
Net assets, beginning of year	1,761,704	1,799,261
Net assets, end of year	$ 1,916,878	$ 1,761,704

Statements of Cash Flows

For the years ended June 30, 2013 and 2012

(In Thousands)

See accompanying notes to financial statements.

		2013		2012
Cash Flows From Operating Activities				
Change in net assets	$	155,174	$	(37,557)
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization		19,774		18,757
Unrealized (gain) loss in market value, interest, and fees on interest rate swap agreements		(11,739)		16,668
Net unrealized and realized gains on investments		(203,653)		(28,232)
Actuarial change in life income obligation		(729)		508
Contributions restricted for long-term investment		(4,345)		(2,653)
Contributions of property and securities		(4,722)		(4,460)
Net change in operating assets and liabilities:				
Receivables, net and other assets		2,316		5,504
Accounts payable, accrued liabilities, and asset retirement obligation		1,804		1,124
Deferred income, deposits, and agency funds		1,209		(290)
Net cash used in operating activities	$	(44,911)	$	(30,631)
Cash Flows From Investing Activities				
Purchases of plant and equipment	$	(17,557)	$	(20,142)
Funds held by bond trustee		27		13
Short-term investments		(8,813)		21,124
Proceeds from student and other loan collections		1,538		2,005
Student and other loans issued		(1,086)		(1,365)
Purchases of investments		(334,536)		(89,980)
Sales and maturities of investments		388,839		133,039
Net cash provided by investing activities	$	28,412	$	44,694
Cash Flows From Financing Activities				
Contributions restricted for long-term investment	$	4,345	$	2,653
Payments on long-term debt		(2,635)		(2,510)
Net cash provided by financing activities	$	1,710	$	143
Net change in cash and cash equivalents	$	(14,789)	$	14,206
Cash and cash equivalents, beginning of year	$	32,737	$	18,531
Cash and cash equivalents, end of year	$	17,948	$	32,737
Supplemental disclosure:				
Interest paid	$	6,488	$	6,614
Gifts in kind		1,643		2,952
Purchases of plant and equipment increasing (decreasing) accounts payable		1,264		(297)

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 from donors, are recognized as revenues when 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. 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. 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, 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, 2013 and 2012, 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.

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 alternative 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 2012 information to conform with the 2013 presentation.

2. Receivables, Net and Other Assets

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

	2013	2012
Contributions expected to be collected within:		
One year	$13,257	$16,459
One to five years	5,329	5,893
Over five years	20	96
Less: Discount (1% to 6%) on contributions	(112)	(293)
Less: Allowance for uncollectibles	(772)	(1,218)
Subtotal	$17,722	$21,027
Charitable Trusts	22,504	20,690
Less: Discount (1% to 6%) on contributions	(11,024)	(10,403)
Subtotal	$11,480	$10,287
Students, employees, other receivables	4,151	3,868
Student loans	6,238	6,474
Employee loans and mortgages	3,186	3,614
Less: Discount (1% to 6%) on contributions	(21)	(54)
Less: Allowance for uncollectibles	(1,862)	(2,002)
Subtotal	$11,692	$11,900
Other assets	3,627	4,154
Total	$44,521	$47,368

The college incurred fund-raising expenses of $7.6 million for the year ended June 30, 2013 ($7.1 million for the year ended June 30, 2012), which are included in general and administrative expense in the accompanying statement of activities.

3. Fair Value

The college's assets and liabilities at June 30, 2013 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:						
Money market fund	39,857			39,857	Daily	1
Fixed income	12,713	34,431		47,144	Daily	1
Hedge fund						
Equity and equity long/short		523,389		523,389	Daily/monthly/ quarterly	10–120
Multi-strategy		375,394		375,394	Quarterly	90
Credit driven			37,492	37,492	Annually	60–90
Fixed income			54,201	54,201	Annually	90
Private equity investments						
Venture capital			11,841	11,841	Illiquid	Illiquid
Buyout			10,795	10,795	Illiquid	Illiquid
Multi-strategy			452,374	452,374	Illiquid	Illiquid
Real assets investments			61,313	61,313	Illiquid	Illiquid
Equity securities	168		4,546	4,714	Not redeemable	Not redeemable
Third-party perpetual trusts	143		33,893	34,036	Not redeemable	Not redeemable
Total investments	52,881	933,214	666,455	1,652,550		
Other Assets						
Funds held by bond trustee		39		39	Daily	1
Short-term investments						
US treasuries money market fund	26,846			26,846	Daily	1
Low duration bond fund	27,541			27,541	Daily	1
Total assets	107,268	933,253	666,455	1,706,976		
Liabilities						
Interest rate swap agreements		(18,556)				
Total liabilities		(18,556)				

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	Day's 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/ quarterly	10–120
Multi-strategy		326,605		326,605	Quarterly	90
Credit driven			38,256	38,256	Annually	60–90
Fixed income			54,741	54,741	Annually	90
Private equity investments						
Venture capital			16,325	16,325	Illiquid	Illiquid
Buyout			15,237	15,237	Illiquid	Illiquid
Multi-strategy			439,724	439,724	Illiquid	Illiquid
Real assets investments			67,237	67,237	Illiquid	Illiquid
Equity securities	88		415	503	Not redeemable	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 following tables present the college's activity for the fiscal years ended June 30, 2013 and June 30, 2012 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2013

		Fair Value Beginning of Year	Acquisitions	Dispositions	Realized gains (losses)	Unrealized gains (losses)	Fair Value End of Year
Hedge fund:	Credit driven	38,256	-	(6,985)	2,968	3,253	37,492
	Fixed income	54,741	-	-		(540)	54,201
Private equity:	Venture capital	16,325	28	(5,685)	4,370	(3,198)	11,840
	Buyout	15,237	20	(5,080)	3,941	(3,323)	10,795
	Multi-strategy	439,724	66,583	(80,760)	34,834	(8,007)	452,374
Real assets		67,237	362	(9,718)	6,288	(2,856)	61,313
Third party trusts and other		33,623		(6,094)		10,911	38,440
		665,143	66,993	(114,322)	52,401	(3,760)	666,455

2012

		Fair Value Beginning of Year	Acquisitions	Dispositions	Realized gains (losses)	Unrealized gains (losses)	Fair Value End of Year
Hedge fund:	Credit driven	41,300	762	(7,162)	(422)	3,778	38,256
	Fixed income	49,869				4,872	54,741
Private equity:	Venture capital	18,420	1,467	(2,122)	1,544	(2,984)	16,325
	Buyout	16,169	372	(3,334)	2,556	(526)	15,237
	Multi-strategy	422,007	63,856	(57,098)	18,640	(7,681)	439,724
Real assets		69,706	2,179	(6,271)	2,632	(1,009)	67,237
Third party trusts and other		43,653	9,958			(19,988)	33,623
		661,124	78,594	(75,987)	24,950	(23,548)	665,143

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 80.3% of the college's investments at June 30, 2013 (77.8% at June 30, 2012).

At June 30, 2013 and June 30, 2012, the college's remaining outstanding commitments to private equity partnerships totaled $243.2 million and $223.4 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.

The private equity partnerships have varying terms. As of June 30, 2013, the average remaining life of the private equity partnerships is approximately four years.

The redemption periods are summarized below (in thousands):

Fiscal Year	Amount
Less than one year	$743,707
Between one and three years	309,737
Greater than three years	599,106
Total	$1,652,550

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

	2013	2012
Dividends and interest	$8,468	$10,835
Realized gains	67,989	41,476
Unrealized gains (losses)	130,327	(13,244)
Fees and other	(4,272)	(8,882)
	$202,512	$30,185

The total return as presented in the statements of activities is summarized below (in thousands):

	2013	2012
Unrestricted Net Assets Operating	23,022	19,116
Unrestricted Net Assets Non-Operating	30,091	(9,785)
Temporarily Restricted Net Assets	148,399	21,029
Permanently Restricted Net Assets	1,000	(175)
	202,512	30,185

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 percent peak-to-trough declines in the inflation adjusted endowment unit value. Asset allocation parameters are established for investments with lock-up periods. The strategy allows for a significant allocation to equity-oriented investments offering long-term capital appreciation, diversified across asset classes and managers. The college compares the performance of its investments against several benchmarks. The college's Board of Trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter 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 percent annually as long as the resulting amount is more than 4.0 percent and less than 6.0 percent of the preceding December 31 endowment market value. For fiscal year 2012-13, the Board of Trustees increased the distribution per unit by 2.0 percent in an effort to reduce spending over time.

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, 2013, this dollar amount was $0.02 million ($0.4 million as of June 30, 2012). 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, 2013 and June 30, 2012 (in thousands):

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	($20)	$830,624	$354,166	$1,184,770
Quasi (board designated)	372,657	-	-	372,657
Total	$372,637	$830,624	$354,166	$1,557,427

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

Changes in endowment funds for the fiscal years ended June 30, 2013 and June 30, 2012 were as follows (in thousands):

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2012	$337,368	$737,231	$335,156	$1,409,755
Interest and dividends, net of fees	648	2,454	-	3,102
Realized/unrealized gains (losses)	46,789	145,667	785	193,241
Contributions and donor requested transfers	-	15	17,935	17,950
Distributions	(16,194)	(53,853)	-	(70,047)
Transfers	4,026	(890)	290	3,426
Balance June 30, 2013	$372,637	$830,624	$354,166	$1,557,427

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)	406	-	404
Realized/unrealized gains (losses)	7,007	20,657	(253)	27,411
Contributions and donor requested transfers	-	958	1,753	2,711
Distributions	(16,790)	(52,523)	-	(69,313)
Transfers	8,458	(133)	732	9,057
Balance June 30, 2012	$337,368	$737,231	$335,156	$1,409,755

5. Property and Collections

Property and collections at June 30, 2013 and June 30, 2012 (in thousands):

	Useful Lives	June 30, 2013	June 30, 2012
Land		$6,759	$6,759
Land improvements	10-30 years	8,166	7,824
Buildings	40-70 years	512,001	506,521
Works of art	100 years	50,982	49,112
Library books	15 years	56,094	54,956
Equipment	5-12 years	17,569	15,267
		651,571	640,439
Accumulated depreciation		(254,346)	(236,812)
		397,225	403,627
Construction in progress		8,211	1,137
		$405,436	$404,764
Depreciation Expense		19,793	18,700
Capitalized Interest		144	167

6. Accounts Payable and Accrued Liabilities

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

	2013	2012
General payables	$7,545	$6,199
Facilities, construction, repairs	5,222	3,958
Payroll related	3,754	3,843
Compensated absences	3,676	3,745
Long Term Debt Interest	2,622	2,703
	$22,819	$20,448

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)	
	2013	2012	2013	2012	2013	2012
Assets:						
Cash/investments	$35,404	$32,997	$13,114	$13,118		
Contributions receivable					$22,504	$20,690
Discount/allowance					(11,024)	(10,403)
Obligation:						
Obligation	(14,014)	(14,649)	(5,782)	(5,876)		
	$21,390	$18,348	$7,332	$7,242	$11,480	$10,287
Net assets:						
Temporary	$9,758	$8,100	$2,780	$2,668	$3,364	$3,424
Permanent	11,632	10,248	4,552	4,574	8,116	6,863
	$21,390	$18,348	$7,332	$7,242	$11,480	$10,287

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 items at June 30 (in thousands):

	2013	2012
Deferred income	$5,399	$4,278
Student deposits	951	828
Associated Kyoto Program	440	947
Smith Students' Aid Society	4,618	4,262
Other deposits	1,788	1,637
Perkins loan program	1,701	1,736
	$14,897	$13,688

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	2013	2012
Massachusetts Development Finance Agency:				
2001	2024	Variable	22,668	$24,058
2002	2029	Variable	32,280	$33,525
2005	2035	5.00%	33,065	$33,065
2007	2037	Variable	72,960	$72,960
			160,973	163,608
Unamortized premium			1,563	$1,634
			$162,536	$165,242

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 May 2016, and a standby bond purchase agreement for the 2007 Bond Series that expires in July 2015.

The college's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the college estimates the fair value of the fixed rate Series 2005 bonds as of June 30, 2013 was $34.8 million. The fair value is estimated using significant observable inputs at June 30, 2013 and would be considered to be Level 2 in the fair value hierarchy. The fair value of the Series 2001, 2002, and 2007 bonds as of June 30, 2013 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

2014	2015	2016	2017	2018	Thereafter	Total
2,754	2,882	3,014	3,079	3,297	145,947	160,973

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):

2013

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2001	($4,147)	0.13%	4.39%
2002	(6,798)	0.13%	4.66%
2007	(7,611)	0.14%	2.86%
	($18,556)		

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)		

The swaps' fair values are indicative values based on mid-market levels as of the close of business on June 30, 2013 and 2012, 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, 2013 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013
Endowment	$372,637	$830,624	$354,166	$1,557,427
Split interest agreements		15,901	24,301	40,202
Plant funds	214,850	71		214,921
Loan funds			9,135	9,135
Other funds	40,058	47,693	7,442	95,193
	$627,545	$894,289	$395,044	$1,916,878

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
Endowment	$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

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

	2013	2012
Total Return Distribution	$51,858	$51,613
Program Services	8,495	10,082
	$60,353	$61,695

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 in each of the years ended June 30, 2013 and 2012 amounted to $8.3 million.

12. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through October 18, 2013, the date on which the financial statements were issued.

Notice of Nondiscrimination

Smith College is committed to maintaining a diverse community in an atmosphere of mutual respect and appreciation of differences. Smith College does not discriminate in its educational and employment policies on the bases of race, color, creed, religion, national/ethnic origin, sex, sexual orientation, age, or with regard to the bases outlined in the Veterans Readjustment Act and the Americans with Disabilities Act. Smith's admission policies and practices are guided by the same principle, concerning women applying to the undergraduate program and all applicants to the graduate programs. For more information, please contact the adviser for equity complaints, College Hall 103, (413) 585-2141, or visit www.smith.edu/diversity.

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