Smith College

Financial Report 2015–16

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

Financial Report 2015–16

Michael W. Howard
Vice President for Finance and Administration

Laura Smiarowski
Controller and Associate Treasurer

In fiscal year 2015–16, Smith continued its mission to educate women for lives of distinction though the advancement of its education programs, the enhancement of the residential experience, and the renewal of its historic campus and facilities; all while managing through a challenging economic environment. While the annual return on Smith's endowment was -5.9 percent, the college ended the year with $2.0 billion in total net assets and an operating surplus of $5.5 million. Despite the endowment decline, the college remains in a very strong financial position as a result of many years of strong endowment returns and prudent expense management. Smith's endowment spending policy ensures that the investment returns are distributed for spending in a manner that enables stable operation of the college while exercising prudent management of its endowment resources. This distribution combined with the negative investment return resulted in an 8.1 percent decline in total net assets for the year. However, the college's long-standing financial strength positions Smith for continued investment in strategic initiatives and advancement of our core educational mission.

Admissions

The college's reputation as a leader in liberal arts education for women continues with improved national survey rankings and a record number of applications for admission for the ninth year in a row. The college received 5,006 applications for admission in the fall of 2015; an increase of 12 percent over the prior year. This class is the most diverse in Smith's history; including students from 47 states and 70 countries. Nineteen percent are the first in their families to attend college.

Academic Program: Faculty and Student Achievements

Smith faculty members produced over 350 scholarly and creative works during the 2015–16 academic year, 21 percent of which included students as co-authors. Work by 56 of these faculty members received media mentions. Twenty-nine members of the faculty also received grants and awards resulting in $7.2M in funding from corporate, foundation and government sponsors in support of faculty research, as well as curricular programming and initiatives.

Smith produced 19 Fulbright Fellowship offers in 2015–16, with a record cohort of 43 applicants and a 44 percent success rate (compared to the national average of 17 percent). Among the applicants, 37 percent were minority students, who, with eight winners among them, constitute 41 percent of Smith's fellows this year.

In 2016, our Celebrating Collaborations event showcased 270 projects in which students and faculty worked together in a variety of departmental, programmatic and interdisciplinary projects.

Fundraising

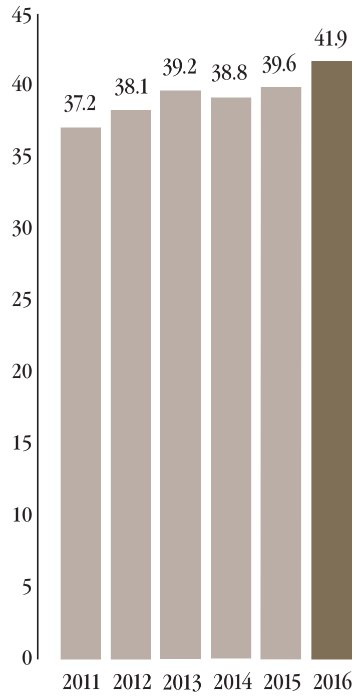
Fiscal year 2016 was another strong fundraising year with a 32 percent participation rate among alumnae. The Women for the World campaign engaged some 36,000 people in contributing just over $400 million toward a $450 million campaign goal—the largest in Smith's history. Women for the World: The Campaign for Smith will fuel a range of initiatives intended to keep Smith affordable, encourage innovation across the curriculum and create new educational opportunities for students. The campaign's priorities include scholarship aid, reimagining and enriching the liberal arts, and The Smith Fund—which supports the college's operating expenses and annual scholarship aid to students. Women for the World launched in the fall of 2012 and is expected to conclude on December 31, 2016.

Statement of Financial Position

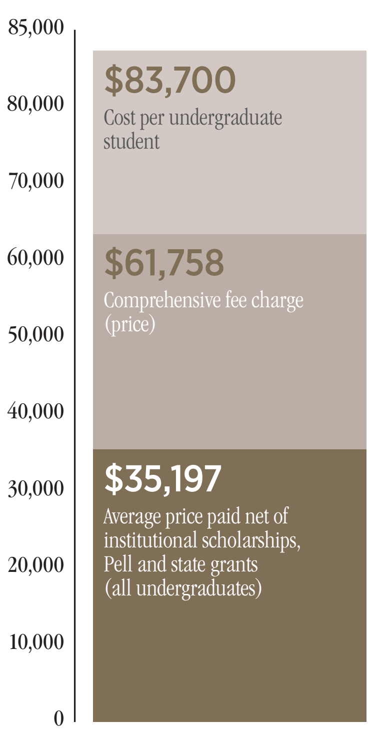
The college's total net assets on June 30, 2016, were $2.0 billion, down $177.6 million from the prior year primarily due to a decline in the market value of the endowment. While the endowment return was -5.9 percent, the annualized return over the past 10 years has been 7.3

The college ended the year with $2.0 billion in total net assets and an operating surplus of $5.5 million.

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



Cost vs. Price of a Smith Education
2015–16



percent. This figure is above that of peer institutions and has enabled Smith to maintain the long-term purchasing power of the endowment. Even with this recent decline, Smith's endowment per student ranks high among liberal arts college peers. Total liabilities increased by $106.5 million primarily as a result of the restructuring of the college's debt portfolio and the issuance of an additional $100 million of taxable bonds. The proceeds of this bond issuance will support the college's five-year capital program, including the renovation of Neilson Library that is set to begin in 2017.

Statement of Activities

Operating revenue was slightly lower in 2016 at $233.5 million ($238.2 million for 2015). Operating expenses increased by 2.5 percent to $227.9 million resulting in a $5.5 million operating surplus for the year. Smith derives its operating revenue from a variety of sources including student income net of financial aid (45 percent), gifts and grants (13 percent), net assets released from restrictions (29 percent), investment return supporting operations (8 percent) and other income (5 percent). Following the largest fundraising year in Smith's history in 2015, the college had another very strong year recording over $57.7 million in new gifts, pledges and grants.

While Smith increased undergraduate tuition, room and board by 3.5 percent, student income net of financial aid grew by less than 1 percent. This is primarily the result of a 3.1 percent decline in undergraduate enrollment to 2,521, which is part of our multi-year plan to reduce the undergraduate enrollment target to 2,500 students. Smith spent $61.6 million on institutional grant aid, excluding federal and state sources, for undergraduates in 2015–16—an increase of 2.2 percent over the prior year.

Smith has a well-established position of leadership with regard to access and affordability with over 59 percent of students receiving need-based aid; 21 percent receiving Pell grants; and undergraduate financial aid as a percentage of tuition, room and board revenue of 40.5 percent. Smith admits talented women with the potential to succeed in a rigorous academic program, meeting the full demonstrated financial need of all enrolled students. The average institutional grant awarded to undergraduate students was $25,000 for 2015–16. While the cost to educate a Smith student has risen to $83,700, this cost exceeds the comprehensive fee by $21,942. When financial aid is taken into account, the typical student pays less than half of the full cost of her education. This generosity is made possible through the income from endowments designated for financial aid and by contributions to financial aid from alumnae and friends of the college.

Debt service costs increased from $2.1 million to $9.5 million, reflecting the issuance of the 2015 taxable bond series and related refunding of the Series 2000, 2001 and 2005 issues and termination of their respective interest swap agreements. Smith continues to maintain strong credit ratings of Aa1 from Moody's and AA+ from Standard and Poor's.

Investments

Smith's endowment supports the full range of college activities and programs through its over 2,200 endowed funds. This critical funding source supports financial aid, assists in shaping the composition of the faculty, contributes to the maintenance of college facilities, provides funding for curricular and programmatic initiatives and allows the college to keep pace with expanding technological needs. Over the years, the endowment has grown to provide over 33 percent of the college's operating budget support. The spending from the endowment is approved annually by the board of trustees and is aimed at setting a reasonable contribution to operations while providing a measure of protection against periods of declining returns. Smith's endowment spending policy provides that the income distributed per share from the endowment will result in spending that is between four and six percent of the preceding calendar year-end market value. Over the past 10 years, the college's endowment spending rate has averaged 4.9 percent

The investment committee of the board of trustees oversees the investment of Smith's endowment. These investments are directly managed by Investure LLC, Smith's outsourced investment office. 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, such as hedging, derivative or diversification strategies, are also used to reduce risk and overall portfolio volatility. As of June 30, 2016, the endowment was invested 33 percent in global equities, 29 percent in alternative equities, 31 percent in private partnerships and 7 percent in fixed income and cash.

Smith's endowment totaled $1.6 billion on June 30, 2016, down $154 million from the prior year. The decrease in market value during 2015–16 reflects $29.9 million in gifts and other additions less $102.6 million of investment losses net of management fees and $81.6 million in distribution to support operations. Although the 2015–16 investment return of -5.9 percent is below that of many of our peers, returns have exceeded the composite benchmark and peer group median over longer periods.

Facilities

Smith continues to make significant annual investments in its facilities. For 2015–16, the college's capital expenditures for buildings, infrastructure and equipment were $41.3 million. Significant construction projects included a renovation of Stoddard Hall to improve classroom and office spaces, the redesign of the entrance to College Hall to improve accessibility and preserve the historic Grécourt Gates, renovation of a number of other labs and classrooms and upgrades to electrical infrastructure. After nearly two years of construction, the Friedman Complex, Smith's first new student residence in a decade, was completed in the spring of 2016. Underscoring Smith's commitment to creating a diverse and inclusive community, the new buildings will be known as: Cromwell House, after Otelia Cromwell, class of 1900, Smith's first African American graduate; DeCora House, after Angel DeCora, class of 1896, Smith's first Native American student; Hashimy House, after Sabiha Yassin Hashimy, class of 1937, Smith's first Middle Eastern student; Machado House, after Salomé Amelia Machado, class of 1883, Smith's first Latina student; and Ninomiya House, after Tei Ninomiya, class of 1910, the first Asian student to graduate from Smith. The new apartments, located on Paradise Road, incorporate sustainable design standards targeted for LEED Gold certification.

Planning and design work began for the renovation of Neilson Library, which will be the largest construction project in the college's history. Related activities in fiscal year 2016, included community engagement to reimagine the library and initial design conversations with the project designers Maya Lin Studios in partnership with Shepley Bulfinch. Relocation of existing staff and contents is scheduled for fiscal year 2017. Construction is scheduled to begin in late 2017 and occupancy is planned for 2020.

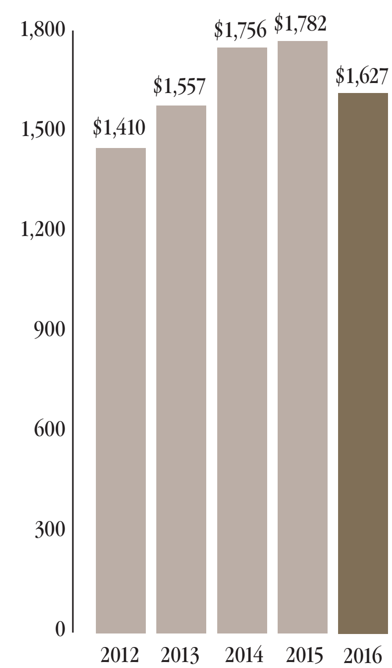
Across a range of measures, 2015–16 was a stand-out year for Smith: a record year for admission; positive student engagement; prestigious awards to faculty and students; visibility, including media visibility, in the U.S. and abroad; and completion of an ambitious strategic plan. The college celebrated the leadership of longtime Board of Trustees Chair Elizabeth Eveillard, class of 1969, and welcomed a new board chair in Deborah Duncan, class of 1977. The momentum of this year, combined with the strength of the college's leadership team, positions Smith well for enacting the transformational initiatives of President Kathleen McCartney's strategic plan and for engaging the Smith community, and future students and alumnae, in its success.

Endowment Spending Rate

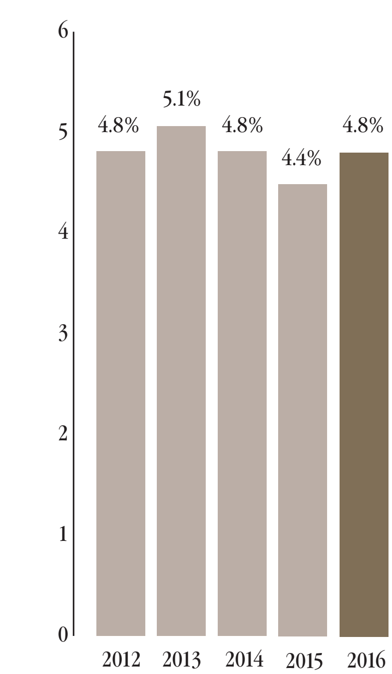
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.6%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	(8.7%)
2010–11	$1,243.6	$65.6	5.3%	5.8%
2011–12	$1,439.5	$69.0	4.8%	5.2%
2012–13	$1,409.8	$71.8	5.1%	4.1%
2013–14	$1,557.4	$75.0	4.8%	4.5%
2014–15	$1,755.8	$77.3	4.4%	3.1%
2015–16	$1,781.8	$81.6	4.8%	5.5%
Ten-year totals		$680.2	4.9%	57.4%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2016	2015	2014	2011	2006
Assets, Liabilities and Net Assets (in thousands of dollars)					
Total Assets	$2,384,766	$2,455,868	$2,374,681	$2,052,990	$1,718,579
Total Plant Assets—Cost Net of Depreciation	438,936	420,421	415,127	400,741	283,634
Endowment Funds Market Value	1,627,469	1,781,763	1,755,755	1,439,485	1,156,349
Life Income Funds Market Value	47,784	50,627	52,117	46,866	52,450
Long-Term Debt	265,651	156,758	159,711	167,823	106,140
Net Assets	2,020,580	2,198,221	2,116,850	1,799,261	1,461,119
Income and Expense (in thousands of dollars)					
Undergraduate Comprehensive Fees	$153,376	$152,868	$148,724	$134,319	$108,678
Undergraduate Scholarships	61,571	60,265	57,651	49,844	39,416
Net	91,805	92,603	91,073	84,475	69,262
Unrestricted Gifts and Grants	30,381	32,293	23,497	22,711	24,109
Restricted Gifts and Grants	27,317	40,096	15,289	36,915	18,065
Total Operating Expenses	227,934	222,384	213,252	196,535	162,216
Salaries and Wages	100,296	98,707	94,884	87,755	77,630
Staff Benefits	30,796	32,056	29,742	26,970	22,356
Other Statistics					
Undergraduate:					
Student FTE*	2,521	2,601	2,636	2,637	2,708
Faculty FTE	280	281	283	281	292
Student-Faculty Ratio	8.6	8.8	8.9	8.9	8.8
Comprehensive Fee	$61,758	$59,674	$57,524	$51,898	$41,024
Net Cost Per Student	$83,700	$79,200	$73,400	$67,300	$53,100
Comprehensive Fee as Percent of Cost Per Student	73.8%	75.3%	78.4%	77.1%	77.3%
Students Receiving Scholarships	64.5%	64.6%	64.3%	64.3%	66.2%
Operations Supported by Endowment	35.3%	33.4%	33.5%	32.9%	29.1%
Total FTE*	2,966	3,054	3,104	3,103	3,145
Endowment Per Student (in thousands)	$549	$583	$566	$464	$368
Endowment Spending as Percent of Market Value	4.8%	4.4%	4.8%	5.3%	4.6%

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

KPMG LLP
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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, 2016 and 2015, 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 and 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 auditors consider 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, 2016 and 2015, 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

December 12, 2016

Statements of Financial Position

June 30, 2016 and 2015

(in thousands)

See accompanying notes to financial statements.

		2016		2015
Assets				
Cash and cash equivalents	$	20,400	$	22,322
Short-term investments		128,744		42,942
Receivables, net and other assets		50,422		53,252
Long-term investments		1,746,264		1,916,931
Property and collections, net		438,936		420,421
Total assets		2,384,766		2,455,868
Liabilities				
Accounts payable and accrued liabilities		18,988		33,580
Interest rate swap agreements		22,011		11,556
Deferred income, deposits and agency funds		15,550		16,207
Liability for split-interest agreements		21,459		19,703
Asset retirement obligations		20,527		19,843
Bonds and mortgages payable		265,651		156,758
Total liabilities		364,186		257,647
Net Assets				
Unrestricted		631,951		681,701
Temporarily restricted		926,907		1,072,792
Permanently restricted		461,722		443,728
Total net assets		2,020,580		2,198,221
Total liabilities and net assets	$	2,384,766	$	2,455,868

Statements of Activities

For the years ended June 30, 2016 and 2015

(in thousands)

See accompanying notes to financial statements.

	2016	2015
Changes in Unrestricted Net Assets		
Operating revenues and other additions		
Student income: Tuition and other fees	$ 136,245	$ 133,918
Residence and dining fees	36,970	36,961
Student aid	(67,676)	(66,049)
Student income, net	105,539	104,830
Gifts and grants	30,381	32,293
Investment return supporting operations	19,435	21,592
Other income	10,533	15,096
Net assets released from restrictions	67,602	64,414
Total operating revenues and other additions	233,490	238,225
Operating expenses		
Instruction	90,456	92,494
Academic support	35,968	33,576
Student services	28,098	24,862
Auxiliary enterprises	34,761	35,062
Institutional support	38,651	36,390
Total expenses	227,934	222,384
Operating subtotal	5,556	15,841
Nonoperating revenues and other changes		
Realized and unrealized loss, interest and fees on interest rate swap agreements	(11,541)	(5,864)
Change in net asset classification and donor requested transfers	290	1,489
Net investment return (decreasing) increasing long-term investments	(44,055)	7,124
Nonoperating revenues and other changes	(55,306)	2,749
(Decrease) increase in unrestricted net assets	(49,750)	18,590
Changes in Temporarily Restricted Net Assets		
Gifts and grants	7,091	14,726
Change in net asset classification and donor requested transfers	(4,167)	(1,570)
Investment return	(80,073)	88,241
Change in life income funds	(1,134)	(336)
Net assets released from restrictions	(67,602)	(64,414)
(Decrease) increase in temporarily restricted net assets	(145,885)	36,647
Changes in Permanently Restricted Net Assets		
Gifts and grants	20,226	25,370
Change in net asset classification and donor requested transfers	3,877	81
Investment return	(277)	(265)
Change in life income funds	(5,832)	948
Increase in permanently restricted net assets	17,994	26,134
Total (decrease) increase in net assets	(177,641)	81,371
Net assets, beginning of year	2,198,221	2,116,850
Net assets, end of year	$ 2,020,580	$ 2,198,221

Statements of Cash Flows

For the years ended June 30, 2016 and 2015

(in thousands)

See accompanying notes to financial statements.

	2016	2015
Cash Flows From Operating Activities		
(Decrease) increase in net assets	$ (177,641)	$ 81,371
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	22,195	21,519
Unrealized loss in market value on interest rate swap agreements	10,455	1,720
Net unrealized and realized losses (gains) on investments	110,024	(113,129)
Actuarial change in life income obligations	1,756	78
Contributions restricted for long-term investment	(16,808)	(16,916)
Contributions of property and securities	(7,510)	(6,565)
Net change in operating assets and liabilities:		
Receivables, net and other assets	2,086	(16,573)
Accounts payable, accrued liabilities, and asset retirement obligations	(10,288)	1,735
Deferred income, deposits and agency funds	(657)	490
Net cash used in operating activities	(66,388)	(46,270)
Cash Flows From Investing Activities		
Purchases of plant and equipment	(42,943)	(25,707)
Change in funds held by bond trustee	—	32
Proceeds from student and other loan collections	1,170	1,378
Student and other loans issued	(1,164)	(1,304)
Purchases of investments	(130,711)	(275,841)
Sales and maturities of investments	196,839	336,059
Net cash provided by investing activities	23,191	34,617
Cash Flows From Financing Activities		
Change in short-term investments	(85,802)	53
Contributions restricted for long-term investment	16,808	16,916
Issuance of mortgages payable	1,856	—
Proceeds from issuance of long-term debt	190,790	—
Payments on long-term debt	(82,377)	(2,882)
Net cash provided by financing activities	41,275	14,087
Net change in cash and cash equivalents	(1,922)	2,434
Cash and cash equivalents, beginning of year	22,322	19,888
Cash and cash equivalents, end of year	$ 20,400	$ 22,322
Supplemental disclosure:		
Interest paid	$12,993	$6,106
Gifts in kind	$2,026	$2,381
Purchases of plant and equipment decreasing payables	$(3,620)	$(1,254)

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The Trustees of the Smith College is a private liberal arts college providing women of high ability and promise an education of uncompromising quality. Smith College educates women of promise for lives of distinction, a college of and for the world. Based in the humanities, arts and sciences, Smith's broad liberal arts curriculum prepares students for leadership by developing personal and intellectual capacities to transform communities and change the world. 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.

Changes in unrestricted net assets are classified as operating and nonoperating. Nonoperating changes in net assets are: net realized and unrealized gains and losses on long-term investments, less amounts distributed for operating purposes; the change in the market value of interest rate swap agreements plus interest received on the swaps, mark to market differentials paid on the swaps and losses on unwinding swaps; and reclassifications of net assets received in prior periods. All other unrestricted net assets activity is reported as operating.

(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 property 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) Short-term Investments

Short-term investments include operating funds invested in equity securities, as well as funds identified for specific capital projects.

(f) 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.

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), or its equivalent, 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, 2016 and 2015, the college had no specific plans or intentions to sell investments at amounts different than NAV. These nonmarketable investments often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

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, which are not part of Smith College, 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.

The fair value amounts presented as NAV are intended to permit reconciliation of the fair value hierarchy disclosure to the amounts presented in the statement of financial position.

(g) Property and Collections

Property, which includes land, land improvements, buildings, equipment and collections, is recorded at cost or fair value at date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets.

(h) 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.

(i) 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.

(j) 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.

(k) Tax Status

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.

(l) Reclassifications

Certain reclassifications have been made to 2015 information to conform to the 2016 presentation.

2. Receivables, Net and Other Assets

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

	2016	2015
Contributions expected to be collected within:		
One year	$9,825	$13,523
One to five years	13,007	13,089
Over five years	871	53
Less discount (0.50% to 3.50%)	(792)	(350)
Less allowance for uncollectibles	(1,061)	(1,216)
Subtotal	21,850	25,099
Charitable Trusts	22,227	26,226
Less discount (3.00% to 6.00%)	(10,160)	(11,824)
Subtotal	12,067	14,402
Students, employees, other receivables	5,144	2,156
Student loans	5,763	6,023
Employee loans and mortgages	3,438	3,065
Less allowance for uncollectibles	(2,154)	(2,019)
Subtotal	12,191	9,225
Other assets	4,314	4,526
Total	$50,422	$53,252

3. Fair Value

The college's assets and liabilities as of June 30, 2016, that are measured at fair value on a recurring basis, are summarized in the following table (in thousands):

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV	Redemption or Liquidation
Assets						
Long-term investments:						
Cash and money market fund	$48,741	$48,741	—	—	—	Daily
Fixed income	53,494	53,494	—	—	—	Daily
Hedge funds:						
Equity and equity long/short	521,916	—	—	—	$521,916	Monthly/quarterly
Multi-strategy	459,794	—	—	—	459,794	Quarterly
Credit-driven	31,416	—	—	—	31,416	Annually
Fixed income	51,596	—	—	—	51,596	Annually
Private equity investments:						
Venture capital	7,972	—	—	—	7,972	Illiquid
Buyout	55	—	—	—	55	Illiquid
Multi-strategy	487,003	—	—	—	487,003	Illiquid
Real asset investments	42,598	—	—	$19,390	23,208	Illiquid
Equity securities	6,072	768	—	5,304	—	Daily/not redeemable
Third-party perpetual trusts and other	35,607	169	$214	35,224	—	Daily/not redeemable
Total long-term investments	1,746,264	103,172	214	59,918	1,582,960	
Short-term investments						
U.S. Treasuries money market fund	100,028	100,028	—	—	—	
Fixed income fund	28,716	28,716	—	—	—	
Total short-term investments	128,744	128,744	—	—	—	
Total	$1,875,008	$231,916	$214	$59,918	$1,582,960	
Liabilities:						
Interest rate swap agreements	(22,011)	—	(22,011)	—	—	
Total	$(22,011)	—	$(22,011)	—	—	

The college's assets and liabilities as of June 30, 2015, that are measured at fair value on a recurring basis, are summarized in the following table by their fair value hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV	Redemption or Liquidation
Assets						
Long-term investments:						
Cash and money market fund	$54,053	$54,053	—	—	—	Daily
Fixed income	50,423	50,423	—	—	—	Daily
Hedge funds:						
Equity and equity long/short	578,764	—	—	—	$578,764	Monthly/quarterly
Multi-strategy	483,498	—	—	—	483,498	Quarterly
Credit-driven	30,727	—	—	—	30,727	Annually
Fixed income	55,597	—	—	—	55,597	Annually
Private equity investments:						
Venture capital	11,021	—	—	—	11,021	Illiquid
Buyout	68	—	—	—	68	Illiquid
Multi-strategy	557,375	—	—	—	557,375	Illiquid
Real asset investments	52,980	—	—	$21,119	31,861	Illiquid
Equity securities	6,523	1,288	—	5,235	—	Daily/not redeemable
Third-party perpetual trusts and other	35,902	170	$157	35,575	—	Daily/not redeemable
Total long-term investments	1,916,931	105,934	157	61,929	1,748,911	
Short-term investments						
U.S. Treasuries money market fund	14,527	14,527	—	—	—	
Fixed income fund	28,415	28,415	—	—	—	
Total short-term investments	42,942	42,942	—	—	—	
Total	$1,959,873	$148,876	$157	$61,929	$1,748,911	
Liabilities:						
Interest rate swap agreements	$(11,556)	—	$(11,556)	—	—	
Total	$(11,556)	—	$(11,556)	—	—	

The limitations and restrictions on the college's ability to redeem or sell investments vary by investment and range from none for publicly traded securities, to required notice periods (generally 30 to 90 days after initial lock-up periods) for certain hedge funds, to dependency on the disposition of portfolio positions and return of capital by the investment manager for private equity, venture capital, commodity fixed income related, and real estate limited partnership interests. Investments with daily liquidity generally do not require any notice prior to withdrawal.

The "illiquid" category is related to private equity, real estate and certain limited partnership investments, where the college has no liquidity until the investments are sold and the monies are distributed by the fund manager.

The following tables present the college's activity for the fiscal years ended June 30, 2016, and June 30, 2015, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2016

	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains (losses)	Unrealized Gains (Losses)	Fair Value End of Year
Third-party trusts and other	$35,575	—	$(475)	—	$124	$35,224
Equity securities	5,235	—	—	—	69	5,304
Real asset investments	21,119	—	(1,005)	$747	(1,471)	19,390
	$61,929	—	$(1,480)	$747	$(1,278)	$59,918

2015

	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains (losses)	Unrealized Gains (Losses)	Fair Value End of Year
Third-party trusts and other	$36,403	—	$(459)	—	$(369)	$35,575
Equity securities	5,534	—	—	—	(299)	5,235
Real asset investments	24,664	—	(1,269)	$732	(3,008)	21,119
	$66,601	—	$(1,728)	$732	$(3,676)	$61,929

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 private fund vehicles to facilitate the management of its clients' accounts. These private fund investments represent 84.9 percent of the college's investments at June 30, 2016 (83.6 percent at June 30, 2015).

The college enters into derivative instruments such as futures for trading purposes. The college may enter into equity or index option contracts to speculate on the price movements of the financial instrument or index underlying the option.

Contracts are included in long-term investments on the statement of financial position. At June 30, 2016, the college held certain index future contracts in a net asset position of $47,397. At June 30, 2015, the college held certain index future contracts in a net liability position of $330,540. The college posted collateral on the index futures contracts of $13.4 million and $18.3 million at June 30, 2016, and June 30, 2015, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2016 and 2015, are summarized in the following table (in thousands):

2016

	Long Notional	Short Notional	Unrealized Gain
Instrument type:			
Index futures contracts	$13,410	-	$47
Total	$13,410	-	$47

2015

	Long Notional	Short Notional	Unrealized Loss
Instrument type:			
Index futures contracts	$17,928	-	$(331)
Total	$17,928	-	$(331)

As of June 30, 2016 and 2015, there were 187 and 204 futures contracts open, respectively. The volume of futures is based on the quarterly number of contracts held during the year. For the year ended June 30, 2016 and 2015, the average number of contracts for futures was 155 and 120, respectively.

At June 30, 2016 and 2015, the college's remaining outstanding commitments to private equity partnerships totaled $403.0 million and $282.6 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, 2016, the average remaining life of the private equity partnerships is approximately two years or until the partnership is dissolved or the underlying investments are liquidated.

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

	2016	2015
Dividends and interest	$10,086	$8,205
Realized gains	91,485	117,526
Unrealized losses	(201,509)	(4,397)
Fees and other, net	(5,032)	(4,642)
	$(104,970)	$116,692

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

	2016	2015
Unrestricted net assets operating	$19,435	$21,592
Unrestricted net assets nonoperating	(44,055)	7,124
Temporarily restricted net assets	(80,073)	88,241
Permanently restricted net assets	(277)	(265)
	$(104,970)	$116,692

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 2015–16, the board of trustees increased the distribution per unit by 4.0 percent.

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 prudence prescribed by UPMIFA. In accordance with UPMIFA, the college considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

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

As a result of market declines, the fair value of certain donor-restricted endowments may fall below original contributed value. At June 30, 2016, this dollar amount was $2.6 million ($0 as of June 30, 2015). 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 as well as unexpended investment return, reported as temporarily restricted net assets.

Endowment funds consisted of the following at June 30, 2016 and 2015 (in thousands):

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$(2,632)	$856,565	$416,744	$1,270,677
Quasi (board designated)	356,792	—	—	356,792
Total	$354,160	$856,565	$416,744	$1,627,469

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	—	$997,545	$394,276	$1,391,821
Quasi (board designated)	$389,942	—	—	389,942
Total	$389,942	$997,545	$394,276	$1,781,763

Changes in endowment funds for the fiscal years ended June 30, 2016 and 2015, were as follows (in thousands):

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2015	$389,942	$997,545	$394,276	$1,781,763
Interest and dividends, net of fees	839	2,718	—	3,557
Realized/unrealized losses	(24,195)	(81,694)	(236)	(106,125)
Contributions and donor requested transfers	6,975	(10)	22,899	29,864
Distributions	(19,401)	(61,994)	(195)	(81,590)
Balance June 30, 2016	$354,160	$856,565	$416,744	$1,627,469

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2014	$408,002	$970,374	$377,379	$1,755,755
Interest and dividends, net of fees	487	1,939	—	2,426
Realized/unrealized gains (losses)	24,223	85,048	(345)	108,926
Contributions and donor requested transfers	(25,625)	380	17,242	(8,003)
Distributions	(17,145)	(60,196)	—	(77,341)
Balance June 30, 2015	$389,942	$997,545	$394,276	$1,781,763

5. Property and Collections

Property and collections at June 30 (in thousands):

	Useful Lives	2016	2015
Land		$8,003	$7,107
Land improvements	10–30 years	11,426	9,880
Buildings	27½–70 years	581,748	552,607
Works of art	100 years	58,599	56,278
Library books	15 years	59,010	58,133
Equipment	5–12 years	23,175	19,305
		741,961	703,310
Accumulated depreciation		(313,821)	(291,879)
		428,140	411,431
Construction in progress		10,796	8,990
		$438,936	$420,421
Depreciation expense		$22,834	$21,540
Capitalized interest		51	397

6. Accounts Payable and Accrued Liabilities

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

	2016	2015
General payables	$8,654	$7,483
Facilities, construction, repairs	1,968	5,588
Payroll related	4,051	5,432
Compensated absences	4,315	4,238
Liability for unwinding interest rate swaps	—	9,087
Interest on bonds payable	—	1,752
	$18,988	$33,580

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)	
	2016	2015	2016	2015	2016	2015
Assets:						
Cash/investments	$35,977	$37,765	$11,807	$12,894	—	—
Contributions receivable	—	—	—	—	$22,227	$26,226
Discount/allowance	—	—	—	—	(10,160)	(11,824)
Obligation:	(16,354)	(14,132)	(5,105)	(5,571)	—	—
	$19,623	$23,633	$6,702	$7,323	$12,067	$14,402
Net assets:						
Temporary	$9,262	$11,006	$2,283	$2,776	$5,016	$3,913
Permanent	10,361	12,627	4,419	4,547	7,051	10,489
	$19,623	$23,633	$6,702	$7,323	$12,067	$14,402

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):

	2016	2015
Deferred income	$5,080	$5,738
Student deposits	1,210	1,145
Associated Kyoto Program	810	295
Smith Students' Aid Society	4,682	5,233
Other deposits	2,073	2,147
Perkins loan program	1,695	1,649
	$15,550	$16,207

9. Bonds and Mortgages Payable and Interest Rate Swap Agreements

The college has the following general longterm obligations at June 30 (in thousands):

Series	Final Year of Maturity	Interest Rates	2016	2015
Massachusetts Development Finance Agency:				
2001	2024	Variable	—	$19,692
2002	2029	Variable	—	29,620
2005	2035	0.05%	—	33,065
2007	2037	Variable	—	72,960
2007A	2037	Variable	$25,460	—
2007B	2037	Variable	47,500	—
The Trustees of the Smith College				
2015	2035	4.47%	40,000	—
2015	2045	4.62%	152,000	—
			264,960	155,337
Unamortized premium			—	1,421
Unamortized discount			(1,165)	—
Bonds payable			263,795	156,758
Mortgages payable	2040	3.00%	1,856	—
Total			$265,651	$156,758

On July 1, 2015, the college issued taxable bonds in the amount of $192 million. The proceeds were utilized to redeem in full the Series 2001, 2002 and 2005 bonds, and pay off swaps of $10.2 million. In addition, remaining proceeds of $100.9 million are intended to finance various capital projects, operating costs, investments and other activities, as outlined within the offering memorandum.

On January 29, 2016, the college converted its Series 2007 bonds to direct bank loans (Series 2007A with TD Bank, National Association, and Series 2007B with Century Subsidiary Investments, Inc. III), from variable rate demand obligations with a weekly tender feature.

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 agreement on the Series 2007 bond issue has a notional amount and termination date equal to the principal amount and maturity date of the Series 2007 bond. The continued effectiveness of the 2007 Series swap will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements. The 2001 and 2002 series bonds' swap agreements were terminated in June 2015, in anticipation of the July 2015 bond issue that refunded the Series 2001, 2002 and 2005 bonds.

Future principal payments on bonds and mortgage payable are summarized as follows (in thousands):

Fiscal Year	Principle Payments
2017	$53
2018	55
2019	56
2020	57
2021	60
Thereafter	266,535
	$266,816

The swaps are summarized as follows (in thousands):

2016

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2007	$(22,011)	0.82%	2.86%
	$(22,011)		

2015

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2007	$(11,556)	0.04%	2.86%
	$(11,556)		

The swaps' fair values are indicative values based on midmarket levels as of the close of business on June 30, 2016 and 2015, 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.

The college is no longer required to have a letter of credit available for the repurchase of bonds due to the terms in the conversion to the direct bank purchase mode for the Series 2007A and Series 2007B and the payoff of the Series 2001, 2002, and 2005 with Series 2015 and therefore the letter of credit was closed during the year ended June 30, 2016. There were no borrowings or payments made on the letter of credit during the years ended June 30, 2016 and 2015.

10. Net Assets

Net assets at June 30, 2016, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$354,160	$856,565	$416,744	$1,627,469
Split interest agreements	—	16,561	21,831	38,392
Plant funds	247,508	966	—	248,474
Loan funds	—	—	10,225	10,225
Other funds	30,283	52,815	12,922	96,020
	$631,951	$926,907	$461,722	$2,020,580

Net assets at June 30, 2015, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$389,942	$997,545	$394,276	$1,781,763
Split interest agreements	—	17,695	27,663	45,358
Plant funds	248,380	449	—	248,829
Loan funds	—	—	9,813	9,813
Other funds	43,379	57,103	11,976	112,458
	$681,701	$1,072,792	$443,728	$2,198,221

Temporarily restricted net assets released to unrestricted net assets were as follows at June 30 (in thousands):

	2016	2015
Total return distribution	$59,276	$58,257
Program services	8,326	6,157
	$67,602	$64,414

11. Retirement Plan

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 for the year ended June 30, 2016, amounted to $8.9 million (year ended June 30, 2015, was $8.7million).

12. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through December 12, 2016, the date on which the financial statements were available to be 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 302, 413-585-2141, or visit www.smith.edu/diversity.

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