Financial Report 2016–17

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

Financial Report 2016–17

Michael W. Howard
Executive Vice President for Finance and Administration

Matthew Motyka
Controller and Associate Treasurer

Thanks to a strong fiscal year 2016–17, Smith College is well positioned to support its new strategic plan—the blueprint for a 21st-century liberal arts education for women. The annual return on Smith's pooled long-term investments was 12.8 percent. The college's total net assets were $2.18 billion, an increase of 7.8 percent over the prior fiscal year. Smith's strong and prudent financial management ensures the purchasing power of the endowment for generations to come.

Admissions

Smith's reputation as a leader in liberal arts education for women continues with improved national survey rankings and a record number of applications for the tenth year in a row. The college received 5,432 applications for admission to the class of 2021, an increase of 3 percent over the prior year. Academically accomplished and notably diverse, the class of 2021 includes students from 41 states and 35 countries. Sixteen percent of the class members are the first in their families to attend college, while 15 percent are international citizens and 32 percent are domestic students of color.

Academic Program: Faculty and Student Achievements

Smith faculty members produced more than 384 scholarly and creative works during the 2016–17 academic year. Approximately 28 percent of faculty publications in STEM included students as co-authors. Work by 48 faculty members received 265 media mentions.

Seventeen students and alumnae received Fulbright awards in 2016–17, making Smith the top producer among liberal arts colleges.

In 2017, the college's Celebrating Collaborations event had more than 500 student participants and showcased 210 projects in which students and faculty members worked together in a variety of departmental, programmatic and interdisciplinary collaborations.

Fundraising

Fiscal year 2016–17 was a spectacular year for Smith fundraising, with a record-breaking $92 million raised or committed through pledges, bequest intentions and planned gifts. On December 31, 2016, Smith concluded Women for the World: The Campaign for Smith with a total of $486 million, $36 million above the campaign goal. More than 36,000 donors participated in the extraordinary campaign, which successfully raised funds to support scholarship aid; the enrichment of the liberal arts; and the Smith Fund, which supports the college's operating expenses and aid to students. The college also launched a special initiative to raise philanthropic funds for the renovation of Neilson Library; gifts and pledges of $16.5 million have been received.

Statement of Financial Position

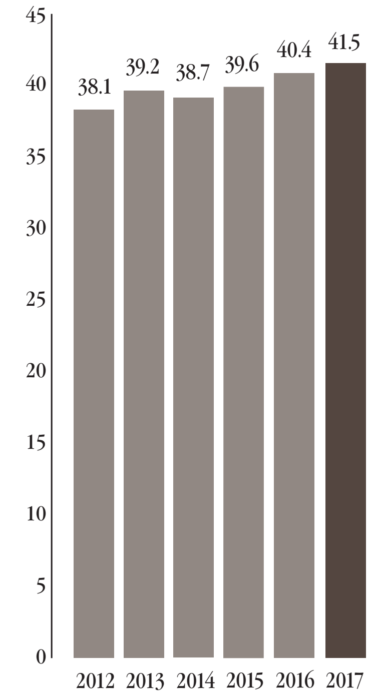
The college's total net assets on June 30, 2017, were $2.18 billion, an increase of $156.8 million from the prior year. This is primarily due to an increase in the market value of long-term investments to $1.9 billion, including endowment assets and outside perpetual trusts. Short-term investments of $115.7 million include operating reserves and bond proceeds earmarked for the Neilson Library renovation and other major capital projects.

President Kathleen McCartney announced the successful conclusion of the Women for the World campaign in March.

The college concluded Women for the World: The Campaign for Smith with a total of $486 million, exceeding the campaign goal by $36 million.

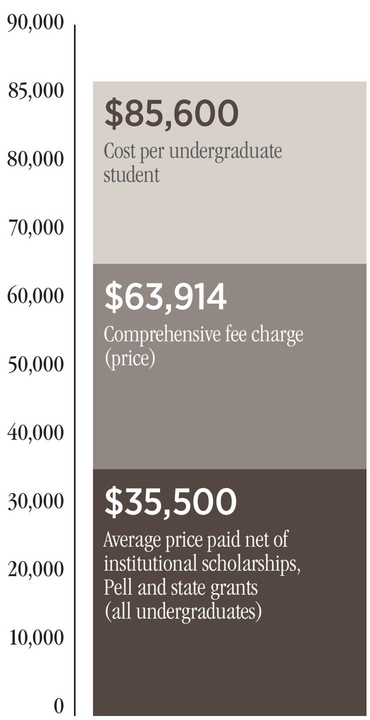
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education

2016–17



Architectural designer Maya Lin unveiled her vision for the new Neilson Library at a campus event in October.

Statement of Activities

Operating revenue was slightly higher in 2017 at $241.3 million ($233.5 million for 2016). Operating expenses increased by 2 percent to $232.4 million, resulting in an $8.9 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), net assets released from restrictions (29 percent), gifts and grants (13 percent), investment return supporting operations (10 percent) and other income (3 percent).

Student income net of financial aid grew by 1.8 percent. This is primarily the result of a 3.5 percent increase in undergraduate tuition, room and board, coupled with an increase in aid for the undergraduate enrollment of 2,528 students. Smith spent $65.7 million on institutional grant aid, excluding federal and state sources, for undergraduates in 2016–17—an increase of 6.5 percent over the prior year.

Smith is an established leader in education access and affordability and meets the full demonstrated financial need of all enrolled students. Sixty-four percent of students receive need-based aid; 20.4 percent receive Pell Grants. Smith's undergraduate financial aid as a percentage of tuition, room and board revenue is 41.5 percent. Smith admits talented women with the potential to succeed in a rigorous academic program. In 2016–17, the average institutional grant awarded to undergraduate students receiving aid was $37,500. While the annual cost to educate a Smith student has risen to $85,600, this cost exceeds the comprehensive fee by $21,686. The cost in excess of the comprehensive fee and additional aid is made possible through the income from endowments designated for financial aid and other contributions.

Investments

Smith's endowment supports the full range of college activities and programs through its more than 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. The endowment has grown to provide more than 37 percent of the college's operating budget support. Smith's endowment spending policy, approved annually by the board of trustees, 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 oversees Smith's endowment through an outsourced investment office, with the endowment portfolio directly managed by Investure LLC. The long-term investing horizon for the endowment allows for a large allocation to equity-oriented strategies to maximize long-term capital appreciation, while volatility and risk are reduced through diversification and hedging strategies. As of June

30, 2017, the endowment was invested 32 percent in global equities, 29 percent in alternative equities, 31 percent in private partnerships and 8 percent in fixed income and cash.

Smith's endowment totaled $1.77 billion on June 30, 2017, up $140 million from the prior year. The increase in market value during 2016–17 reflects $28.9 million in gifts and other additions, plus $198.2 million of investment return net of management fees and $87.1 million in distribution to support operations. Smith's endowment returns exceed peer-group medians over most historical periods.

Facilities

Smith continues to make significant annual investments in its facilities. For 2016–17, the college's capital expenditures for buildings, infrastructure and equipment totaled $44.5 million. The Neilson Library renovation and reconstruction, the largest capital project in the college's history, reimagines the library for the changing demands of this century. Work has progressed from design phase to initiation of construction. Major efforts were undertaken to create interim spaces for the library staff, functions and materials, including the construction of a new Five College library annex. Additionally, significant utility infrastructure relocation was necessary to maintain normal operations during an extended construction period. The Neilson Library project is expected to be complete by fall 2020.

Other capital initiatives included renovation of various classrooms, reconstruction of Smith's main entrance, accessibility improvements and energy-efficiency upgrades. Prioritized preventative maintenance efforts, which are based in a comprehensive facility condition assessment, included roof and window replacements, as well as mechanical and electrical upgrades.

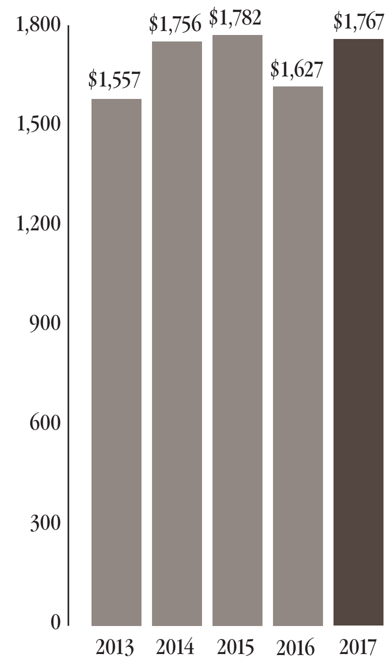
Fiscal year 2016–17 was truly remarkable for Smith: new records for admission, prestigious awards to faculty and students, a continued commitment to environmental sustainability and educational excellence, ambitious facility initiatives and a record-breaking capital campaign. These accomplishments reflect the collective strength and commitment of the Smith community and position the college well as a leader in liberal arts education now and in the future.

Endowment Spending Rate

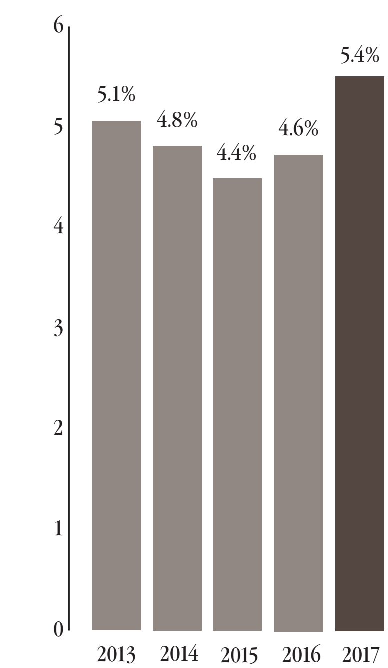
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2007–08	$1,361.0	$59.9	4.4%	19.6%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	(8.7%)
2010–11	$1,243.6	$65.6	5.3%	5.8%
2011–12	$1,439.5	$69.0	4.8%	5.2%
2012–13	$1,409.8	$71.8	5.1%	4.1%
2013–14	$1,557.4	$75.0	4.8%	4.5%
2014–15	$1,755.8	$77.3	4.4%	3.1%
2015–16	$1,781.8	$81.6	4.6%	5.5%
2016–17	$1,627.5	$87.2	5.4%	6.9%
Ten-year totals		$717.3		
Ten-year average			4.9%	

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2017	2016	2015	2013	2008
Assets, Liabilities and Net Assets (in thousands of dollars)					
Total Assets	$2,543,069	$2,384,766	$2,455,868	$2,174,842	$2,024,436
Total Plant Assets - Cost Net of Depreciation	460,382	438,936	420,421	405,436	339,283
Endowment Funds Market Value	1,767,466	1,627,469	1,781,763	1,557,407	1,365,792
Life Income Funds Market Value	48,261	47,784	50,659	48,517	55,932
Long-Term Debt	265,194	265,183	156,758	162,536	174,890
Net Assets	2,177,355	2,020,580	2,198,221	1,916,878	1,701,940
Income and Expense (in thousands of dollars)					
Undergraduate Comprehensive Fees	$159,056	$153,376	$152,868	$144,313	$120,379
Undergraduate Scholarships	65,716	61,686	60,265	56,936	42,776
Net	93,341	91,690	92,603	87,377	77,603
Unrestricted Gifts and Grants	30,365	30,381	32,293	22,573	30,856
Restricted Gifts and Grants	22,437	27,317	40,096	16,797	13,568
Total Operating Expenses	232,422	227,934	222,384	210,134	189,267
Salaries and Wages	104,065	100,296	98,707	92,264	84,533
Staff Benefits	30,785	30,796	32,056	28,361	25,174
Other Statistics					
Undergraduate:					
Student FTE*	2,528	2,521	2,601	2,673	2,696
Faculty FTE	280	280	281	283	290
Student-Faculty Ratio	8.7	8.6	8.8	9.1	8.7
Comprehensive Fee	$63,914	$61,758	$59,674	$55,320	$45,606
Net Cost Per Student	85,600	83,700	79,200	71,500	62,700
Comprehensive Fee as Percent of Cost Per Student	74.7%	73.8%	75.3%	77.4%	72.7%
Students Receiving Scholarships	65.6%	64.5%	64.6%	64.9%	65.8%
Operations Supported by Endowment	37.3%	35.3%	33.4%	33.5%	30.7%
Total Student FTE*	2,956	2,966	3,054	3,153	3,132
Endowment Per Student	598	549	583	494	436
Endowment Spending as Percent of Market Value	5.4%	4.6%	4.4%	5.1%	4.4%

*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, 2017 and 2016, 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, 2017 and 2016, 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

November 10, 2017

Statements of Financial Position

June 30, 2017 and 2016

(in thousands)

See accompanying notes to financial statements.

	2017	2016
Assets		
Cash and cash equivalents	$ 25,457	$ 20,400
Short-term investments	115,743	128,744
Receivables, net and other assets	42,387	49,954
Long-term investments	1,899,100	1,746,264
Property and collections, net	460,382	438,936
Total assets	2,543,069	2,384,298
Liabilities		
Accounts payable and accrued liabilities	18,787	18,988
Deferred income, deposits, and agency funds	25,445	15,550
Interest rate swap agreements	14,027	22,011
Liability for split-interest agreements	20,877	21,459
Asset retirement obligations	21,384	20,527
Bonds and mortgages payable	265,194	265,183
Total liabilities	365,714	363,718
Net Assets		
Unrestricted	683,191	631,951
Temporarily restricted	1,009,839	926,907
Permanently restricted	484,325	461,722
Total net assets	2,177,355	2,020,580
Total liabilities and net assets	$ 2,543,069	$ 2,384,298

Statements of Activities

For the years ended June 30, 2017 and 2016

(in thousands)

See accompanying notes to financial statements.

		2017	2016
Changes in Unrestricted Net Assets			
Operating revenues and other additions			
Student income:	Tuition and other fees	$ 140,145	$ 136,245
	Residence and dining fees	38,390	36,970
	Student aid	(71,072)	(67,676)
Student income, net		107,463	105,539
Gifts and grants		30,365	30,381
Investment return supporting operations		24,495	19,435
Other income		9,743	10,533
Net assets released from restrictions		69,244	67,602
Total operating revenues and other additions		241,310	233,490
Operating expenses			
Instruction		90,303	90,456
Academic support		36,960	35,968
Student services		29,101	28,098
Auxiliary enterprises		35,452	34,761
Institutional support		40,606	38,651
Total expenses		232,422	227,934
Operating subtotal		8,888	5,556
Nonoperating revenues and other changes			
Realized and unrealized gain (loss), interest and fees on interest rate swap agreements		5,611	(11,541)
Change in net asset classification and transfers		7,924	290
Net investment return increasing (decreasing) long-term investments		28,061	(44,055)
Change in life income funds		756	—
Nonoperating revenues and other changes		42,352	(55,306)
Increase (decrease) in unrestricted net assets		51,240	(49,750)
Changes in Temporarily Restricted Net Assets			
Gifts and grants		6,582	7,091
Change in net asset classification and transfers		(11,059)	(4,167)
Investment return		154,804	(80,073)
Change in life income funds		1,849	(1,134)
Net assets released from restrictions		(69,244)	(67,602)
Increase (decrease) in temporarily restricted net assets		82,932	(145,885)
Changes in Permanently Restricted Net Assets			
Gifts and grants		15,855	20,226
Change in net asset classification and transfers		3,135	3,877
Investment return		325	(277)
Change in life income funds		3,288	(5,832)
Increase in permanently restricted net assets		22,603	17,994
Total increase (decrease) in net assets		156,775	(177,641)
Net assets, beginning of year		2,020,580	2,198,221
Net assets, end of year		$ 2,177,355	$ 2,020,580

Statements of Cash Flows

For the years ended June 30, 2017 and 2016

(in thousands)

See accompanying notes to financial statements.

	2017	2016
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ 156,775	$ (177,641)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	23,108	22,195
Unrealized (gain) loss in market value on interest rate swap agreements	(7,984)	10,455
Net unrealized and realized (gains) losses on investments	(206,485)	110,024
Actuarial change in life income obligations	(582)	1,756
Contributions restricted for long-term investment	(18,261)	(16,808)
Contributions of property and securities	(14,852)	(7,510)
Net change in operating assets and liabilities:		
Receivables, net and other assets	7,292	2,086
Accounts payable, accrued liabilities, and asset retirement obligations	(1,278)	(10,288)
Deferred income, deposits and agency funds	2,380	(657)
Net cash used in operating activities	(59,887)	(66,388)
Cash Flows From Investing Activities		
Purchases of plant and equipment	(30,545)	(42,943)
Proceeds from student and other loan collections	1,494	1,170
Student and other loans issued	(1,219)	(1,164)
Purchases of investments	(230,180)	(130,711)
Sales and maturities of investments	294,184	196,839
Net cash provided by investing activities	33,734	23,191
Cash Flows From Financing Activities		
Change in short-term investments	13,001	(85,802)
Contributions restricted for long-term investment	18,261	16,808
(Payment) issuance of mortgages payable	(52)	1,856
Proceeds from issuance of long-term debt	—	190,790
Principal payments on long-term debt	—	(82,377)
Net cash provided by financing activities	31,210	41,275
Net change in cash and cash equivalents	5,057	(1,922)
Cash and cash equivalents, beginning of year	20,400	22,322
Cash and cash equivalents, end of year	$ 25,457	$ 20,400
Supplemental disclosure:		
Interest paid	$ 11,183	$ 12,993
Gifts in kind	4,497	2,026
Additions to plant and collections financed with a lease	7,515	—
Purchases of plant and collections increasing (decreasing) payables	1,934	(3,620)

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 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, 2017 and 2016, 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., the Smith College Club of New York City, and the Five College Consortium, 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 are 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 income 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 2016 information to conform to the 2017 presentation.

2. Receivables, Net and Other Assets

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

	2017	2016
Contributions expected to be collected within:		
One year	$ 5,019	9,825
One to five years	10,626	13,007
Over five years	3,351	871
Less discount (0.75% to 3.0%)	(1,043)	(792)
Less allowance for uncollectibles	(1,300)	(1,061)
Subtotal	16,653	21,850
Grants	1,150	—
Charitable trusts	21,896	22,227
Less discount (1.75% to 5.00%)	(10,591)	(10,160)
Subtotal	11,305	12,067
Students, employees, other receivables	2,863	5,144
Student loans	5,773	5,763
Employee loans and mortgages	3,677	3,438
Less allowance for uncollectibles	(2,519)	(2,154)
Subtotal	9,794	12,191
Other assets	3,485	3,846
Total	$ 42,387	49,954

3. Fair Value

The college's assets and liabilities as of June 30, 2017, 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						
Investments:						
Cash and cash equivalents:						
Cash and money market funds	$ 42,795	42,795	—	—	—	Daily
Fixed income:						
US Treasuries and US Treasury funds	54,393	54,393	—	—	—	Daily
Type / **Strategy**						
Hedge fund / Fixed income	51,000	—	—	—	51,000	Annually
Private equity / Credit driven	539	—	—	—	539	Illiquid
Global equities:						
Type / **Strategy**						
Derivative / Long-short	24,048	24,048	—	—	—	Daily
Hedge fund / Long-short	562,096	—	—	—	562,096	Monthly/quarterly
Hedge fund / Multi-strategy	7,085	—	—	—	7,085	Annually
Private equity / Multi-strategy	350	—	—	—	350	Illiquid
Alternative equity:						
Type / **Strategy**						
Hedge fund / Multi-strategy	520,525	—	—	—	520,525	Quarterly
Hedge fund / Event driven	22,840	—	—	—	22,840	Annually
Private equity:						
Venture capital	4,659	—	—	—	4,659	Illiquid
Buyout	2,617	—	—	—	2,617	Illiquid
Multi-strategy	532,307	—	—	—	532,307	Illiquid
Real asset investments	34,978	—	—	16,237	18,741	Illiquid
Third-party perpetual trusts	38,868	196	354	38,318	—	Daily/Illiquid
Total long-term investments	1,899,100	121,432	354	54,555	1,722,759	
Short-term investments						
US Treasuries and US Treasury funds	85,531	85,531	—	—	—	
Fixed income funds	29,212	29,212	—	—	—	
Certificate of deposit	1,000	1,000	—	—	—	
Total short-term investments	115,743	115,743	—	—	—	
	$ 2,014,843	237,175	354	54,555	1,722,759	
Liabilities						
Interest rate swap agreements	$ (14,027)	—	—	(14,027)	—	
Total	$ (14,027)	—	—	(14,027)	—	

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						
Investments:						
Cash and cash equivalents:						
Cash and money market funds	$ 25,791	25,791	—	—	—	Daily
Fixed income:						
US Treasuries and US Treasury funds	53,494	53,494	—	—	—	Daily
Type **Strategy**						
Hedge fund Fixed income	51,290	—	—	—	51,290	Annually
Private equity Credit driven	306	—	—	—	306	Illiquid
Global equities:						
US equity securities	768	768	—	—	—	Daily
Type **Strategy**						
Derivative Long-short	22,950	22,950	—	—	—	Daily
Hedge fund Long-short	521,916	—	—	—	521,916	Monthly/quarterly
Hedge fund Multi-strategy	6,837	—	—	—	6,837	Annually
Alternative equity:						
Type **Strategy**						
Hedge fund Multi-strategy	459,794	—	—	—	459,794	Quarterly
Hedge fund Event driven	24,579	—	—	—	24,579	Annually
Private equity:						
Venture capital	6,128	—	—	—	6,128	Illiquid
Buyout	4,345	—	—	—	4,345	Illiquid
Multi-strategy	484,557	—	—	—	484,557	Illiquid
Real asset investments	42,598	—	—	20,940	21,658	Illiquid
Third-party perpetual trusts	40,911	169	214	40,528	—	Daily/Illiquid
Total long-term investments	1,746,264	103,172	214	61,468	1,581,410	
Short-term investments						
US Treasuries and US Treasury funds	100,028	100,028	—	—	—	
Fixed income funds	28,716	28,716	—	—	—	
Total short-term investments	128,744	128,744	—	—	—	
	$ 1,875,008	231,916	214	61,468	1,581,410	
Liabilities						
Interest rate swap agreements	$ (22,011)	—	—	(22,011)	—	
Total	$ (22,011)	—	—	(22,011)	—	

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, 2017 and 2016, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2017

	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains	Unrealized Losses	Fair Value End of Year
Real asset investments	$ 20,940	73	(4,809)	3,522	(3,489)	16,237
Third-party trusts and other	40,528	2,842	(2,491)	—	(2,561)	38,318
	$ 61,468	2,915	(7,300)	3,522	(6,050)	54,555

2016

	Fair Value Beginning of Year	Acquisitions	Dispositions	Realized Gains	Unrealized Gains (Losses)	Fair Value End of Year
Real asset investments	$ 23,511	14	(1,018)	747	(2,314)	20,940
Third-party trusts and other	40,810	—	(475)	—	193	40,528
	$ 64,321	14	(1,493)	747	(2,121)	61,468

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 86.5% of the college's investments at June 30, 2017 (84.9% at June 30, 2016).

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.

Index future contracts are included in long-term investments on the statement of financial position. At June 30, 2017 the college held certain index future contracts in a net liability position of $9,652. At June 30, 2016 the college held certain index future contracts in a net asset position of $47,397. The college posted collateral on the index futures contracts of $9.1 million and $13.4 million at June 30, 2017 and June 30, 2016, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2017 and 2016, are summarized in the following table (in thousands):

2017

	Long Notional	Short Notional	Unrealized Loss
Instrument type:			
Index futures contracts	$13,904	-	(10)
Total	$13,904	-	(10)

2016

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

As of June 30, 2017 and 2016, there were 167 and 187 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, 2017 and 2016, the average number of contracts for futures was 141 and 155, respectively.

At June 30, 2017 and 2016, the college's remaining outstanding commitments to private equity partnerships totaled $329.7 million and $403.0 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, 2017, 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):

	2017	2016
Dividends and interest	$ 8,481	10,086
Realized gains	101,781	91,485
Unrealized gains (losses)	104,704	(201,509)
Fees and other, net	(7,281)	(5,032)
	$ 207,685	(104,970)

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

	2017	2016
Unrestricted net assets operating	$ 24,495	19,435
Unrestricted net assets nonoperating	28,061	(44,055)
Temporarily restricted net assets	154,804	(80,073)
Permanently restricted net assets	325	(277)
	$ 207,685	(104,970)

4. Endowment Funds

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

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

The college's board of trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter or exit the investment pool, based on the then market value of a unit in the pool. The pool is valued monthly. The endowment spending policy provides that the income distributed per unit will increase annually as long as the resulting amount is more than 4.0% and less than 6.0% of the preceding December 31 endowment market value. For the fiscal year ended June 30, 2017, the board of trustees increased the distribution per unit by 4.0%.

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:

- Duration and preservation of the endowment fund
- Purposes of the college and the endowed fund
- General economic conditions
- Possible effects of inflation or deflation
- Expected total return from income and the appreciation of investments
- Other resources of the college
- 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, 2017, this dollar amount was $0.2 million ($2.6 as of June 30, 2016). 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, 2017 and 2016 (in thousands):

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (220)	939,727	446,725	1,386,232
Quasi (board designated)	381,234	—	—	381,234
Total	$ 381,014	939,727	446,725	1,767,466

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

Changes in endowment funds for the fiscal years ended June 30, 2017 and 2016, were as follows (in thousands):

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2016	$ 354,160	856,565	416,744	1,627,469
Interest and dividends, net of fees	(207)	(559)	—	(766)
Realized/unrealized gains	44,666	153,639	711	199,016
Contributions and transfers	507	(1,563)	29,992	28,936
Distributions	(18,112)	(68,355)	(722)	(87,189)
Balance June 30, 2017	$ 381,014	939,727	446,725	1,767,466

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 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

5. Property and Collections

Property and collections at June 30 (in thousands):

	Useful Lives	2017	2016
Land	—	$ 8,003	8,003
Land improvements	10–30 years	11,497	11,426
Buildings and building improvements	5–50 years	589,516	581,748
Works of art	100 years	61,412	58,599
Library books	15 years	60,420	59,010
Equipment	5–12 years	25,030	23,175
		755,878	741,961
Accumulated depreciation		(336,425)	(313,821)
		419,453	428,140
Construction in progress		40,929	10,796
		$ 460,382	438,936
Depreciation expense		$ 23,045	22,834
Capitalized interest		281	51

6. Accounts Payable and Accrued Liabilities

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

	2017	2016
General payables	$ 8,356	8,654
Facilities, construction, repairs	3,902	1,968
Payroll related	2,178	4,051
Compensated absences	4,351	4,315
	$ 18,787	18,988

7. Split Interest Agreements

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

	Annuities (Held by College)		Split Interest (College Trustee)		Life Income (Individual Trustee)	
	2017	2016	2017	2016	2017	2016
Assets:						
Cash/investments	$ 36,849	35,977	11,412	11,807	—	—
Contributions receivable	—	—	—	—	21,896	22,227
Discount/allowance	—	—	—	—	(10,591)	(10,160)
Obligation	(15,638)	(16,354)	(5,239)	(5,105)	—	—
	$ 21,211	19,623	6,173	6,702	11,305	12,067
Net assets:						
Unrestricted	$ 4,781	—	—	—	—	—
Temporary	5,679	9,262	3,384	2,283	5,591	5,016
Permanent	10,751	10,361	2,789	4,419	5,714	7,051
	$ 21,211	19,623	6,173	6,702	11,305	12,067

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):

	2017	2016
Deferred income	$ 7,892	5,080
Lease liability	7,515	—
Smith Students' Aid Society	5,016	4,682
Perkins loan program	1,393	1,695
Student deposits	1,206	1,210
Other deposits	2,423	2,883
	$ 25,445	15,550

9. Bonds and Mortgages Payable and Interest Rate Swap Agreements

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

Bond Series	Final Year of Maturity	Interest Rates	2017	2016
Massachusetts Development Finance Agency:				
2007A	2037	Variable	$ 25,460	25,460
2007B	2037	Variable	47,500	47,500
The Trustees of the Smith College:				
2015	2035	4.47 %	40,000	40,000
2015	2045	4.62 %	152,000	152,000
			264,960	264,960
Unamortized discount			(1,121)	(1,165)
Unamortized debt issuance cost			(449)	(468)
Bonds payable			263,390	263,327
Mortgages payable	2040	3.00 %	1,804	1,856
			$ 265,194	265,183

On July 1, 2015, the college issued taxable bonds in the amount of $192 million. The proceeds were utilized to redeem prior borrowings and related interest rate swap agreements. In addition, remaining proceeds of $100.9 million were intended to finance various capital projects, operating costs, investments and other activities.

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 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 college retrospectively adopted the provisions of ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Accordingly, bonds and mortgages payable originally stated in thousands at $265,651 in the June 30, 2016 statement of financial position have been restated to $265,183 to reflect $468 of unamortized issuance costs previously included in receivables, net and other assets. The adoption of ASU No. 2015-03 did not affect the college's net assets, statement of activities or cash flows for the fiscal years ended June 30, 2017 and 2016.

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

Fiscal Year	Principle Payments
2018	$ 55
2019	56
2020	58
2021	60
2022	62
Thereafter	266,473
	$ 266,764

The swaps are summarized as follows (in thousands):

2017

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2007	$ (14,027)	1.01 %	2.86 %
	$ (14,027)		

2016

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

The swaps' fair values are indicative values based on midmarket levels as of the close of business on June 30, 2017 and 2016, 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, 2017, are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	$ 381,014	939,727	446,725	1,767,466
Split interest agreements	4,781	14,654	19,254	38,689
Plant funds	229,446	—	—	229,446
Loan funds	—	—	10,162	10,162
Other funds	67,950	55,458	8,184	131,592
	$ 683,191	1,009,839	484,325	2,177,355

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

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

	2017	2016
Scholarship	$ 27,617	25,431
Instruction	19,479	19,620
General operating	10,612	11,306
Program support	7,028	7,123
Arts and library	4,508	4,122
	$ 69,244	67,602

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 fiscal year ended June 30, 2017, amounted to $8.9 million (year ended June 30, 2016 was $8.9 million). The college also provides health and dental insurance benefits for eligible retired employees between the ages of 62–65. The college recognized an accrued postretirement benefit obligation of $2.0 million and $1.9 million at June 30, 2017 and 2016, respectively.

12. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through November 10, 2017, 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, gender identity and expression, genetic information, age, disability, or service in the military or other uniformed services.

Smith's admission policies and practices are guided by the same principle, concerning applicants to the undergraduate program who identify as women, 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.

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

Smith College

INDIVIDUAL. GLOBAL. EXCEPTIONAL.