

Smith College
Consolidated Financial Statements
June 30, 2020 and 2019

Smith College
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June 30, 2020 and 2019

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Report of Independent Auditors

To the Board of Trustees of Smith College

We have audited the accompanying consolidated financial statements of Smith College (“the College”), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the college's preparation and fair presentation of the consolidated 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 college'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Smith College as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Hartford, Connecticut
October 30, 2020

Smith College
Consolidated Statements of Financial Position
June 30, 2020 and 2019

| <i>(in thousands)</i> | 2020 | 2019 (restated) |
|---|---------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 42,890 | \$ 45,207 |
| Short-term investments | 34,080 | 66,442 |
| Receivables, net and other assets | 72,857 | 58,902 |
| Long-term investments | 2,027,427 | 2,063,289 |
| Property, plant and equipment, net | <u>558,144</u> | <u>504,172</u> |
| Total assets | <u>\$ 2,735,398</u> | <u>\$ 2,738,012</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 29,928 | \$ 21,184 |
| Deferred income, deposits, and agency funds | 24,051 | 25,026 |
| Interest rate swap agreements | 26,771 | 15,625 |
| Liability for split interest agreements | 20,460 | 20,396 |
| Asset retirement obligations | 21,401 | 20,630 |
| Bonds and mortgages payable | <u>265,216</u> | <u>265,210</u> |
| Total liabilities | <u>387,827</u> | <u>368,071</u> |
| Net assets | | |
| Without donor restrictions | 720,255 | 731,416 |
| With donor restrictions | <u>1,627,316</u> | <u>1,638,525</u> |
| Total net assets | <u>2,347,571</u> | <u>2,369,941</u> |
| Total liabilities and net assets | <u>\$ 2,735,398</u> | <u>\$ 2,738,012</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Smith College
Consolidated Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

| <i>(in thousands)</i> | Without Restriction | With Donor Restriction | Total | |
|---|------------------------|---------------------------|---------------------|---------------------|
| | | | 2020 | 2019 (restated) |
| Operating revenues and other additions | | | | |
| Tuition, fees, residence & dining, net of financial aid of \$87,352 and \$82,304, respectively | 108,165 | - | 108,165 | 112,633 |
| Gifts and grants | 27,368 | - | 27,368 | 23,698 |
| Investment return supporting operations | 4,099 | - | 4,099 | 8,623 |
| Other income | 11,636 | - | 11,636 | 10,071 |
| Endowment return appropriated | 19,801 | 69,801 | 89,602 | 91,979 |
| Net assets released from restrictions | 73,998 | (73,998) | - | - |
| Total operating revenues and other additions | <u>245,067</u> | <u>(4,197)</u> | <u>240,870</u> | <u>247,004</u> |
| Operating expenses | | | | |
| Salaries and wages | 109,323 | - | 109,323 | 106,292 |
| Employee benefits | 33,796 | - | 33,796 | 31,567 |
| Supplies, services, other | 59,842 | - | 59,842 | 65,810 |
| Depreciation and amortization | 19,063 | - | 19,063 | 19,399 |
| Interest | 6,994 | - | 6,994 | 8,736 |
| Utilities | 5,560 | - | 5,560 | 6,234 |
| Total expenses | <u>234,578</u> | <u>-</u> | <u>234,578</u> | <u>238,038</u> |
| Increase in net assets from operating activities | <u>10,489</u> | <u>(4,197)</u> | <u>6,292</u> | <u>8,966</u> |
| Nonoperating activities | | | | |
| Gifts and grants | - | 42,492 | 42,492 | 26,617 |
| Net investment return increasing long-term investments | 7,889 | 27,448 | 35,337 | 118,318 |
| Endowment return appropriated | (19,801) | (69,801) | (89,602) | (91,979) |
| Realized and unrealized losses on interest rate swap agreements | (11,146) | - | (11,146) | (6,118) |
| Change in life income funds | (3,945) | (2,029) | (5,974) | 4,435 |
| Other income | 231 | - | 231 | - |
| Change in net asset classification and transfers | 5,122 | (5,122) | - | - |
| Decrease / Increase in net assets from nonoperating activities | <u>(21,650)</u> | <u>(7,012)</u> | <u>(28,662)</u> | <u>51,273</u> |
| Decrease / Increase in net assets | <u>(11,161)</u> | <u>(11,209)</u> | <u>(22,370)</u> | <u>60,239</u> |
| Net assets | | | | |
| Beginning of year | <u>731,416</u> | <u>1,638,525</u> | <u>2,369,941</u> | <u>2,309,702</u> |
| End of year | <u>\$ 720,255</u> | <u>\$ 1,627,316</u> | <u>\$ 2,347,571</u> | <u>\$ 2,369,941</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Smith College
Consolidated Statement of Activities
Year Ended June 30, 2019 (restated)

| <i>(in thousands)</i> | Without Restriction | With Donor Restriction | Total |
|--|--------------------------------|-----------------------------------|---------------------|
| Operating revenues and other additions | | | |
| Tuition, fees, residence & dining, net of financial aid of \$82,304 | 112,633 | - | 112,633 |
| Gifts and grants | 23,698 | - | 23,698 |
| Investment return supporting operations | 8,623 | - | 8,623 |
| Other income | 10,071 | - | 10,071 |
| Endowment return appropriated | 19,120 | 72,859 | 91,979 |
| Net assets released from restrictions | 72,373 | (72,373) | - |
| Total operating revenues and other additions | <u>246,518</u> | <u>486</u> | <u>247,004</u> |
| Operating expenses | | | |
| Salaries and wages | 106,292 | - | 106,292 |
| Employee benefits | 31,567 | - | 31,567 |
| Supplies, services, other | 65,810 | - | 65,810 |
| Depreciation and amortization | 19,399 | - | 19,399 |
| Interest | 8,736 | - | 8,736 |
| Utilities | 6,234 | - | 6,234 |
| Total expenses | <u>238,038</u> | <u>-</u> | <u>238,038</u> |
| Increase in net assets from operating activities | <u>8,480</u> | <u>486</u> | <u>8,966</u> |
| Nonoperating activities | | | |
| Gifts and grants | - | 26,617 | 26,617 |
| Net investment return increasing long-term investments | 25,171 | 93,147 | 118,318 |
| Endowment return appropriated | (19,120) | (72,859) | (91,979) |
| Realized and unrealized losses on interest rate swap agreements | (6,118) | - | (6,118) |
| Change in life income funds | 127 | 4,308 | 4,435 |
| Other income | - | - | - |
| Change in net asset classification and transfers | 4,788 | (4,788) | - |
| Increase in net assets from nonoperating activities | <u>4,848</u> | <u>46,425</u> | <u>51,273</u> |
| Increase in net assets | 13,328 | 46,911 | 60,239 |
| Net assets | | | |
| Beginning of year | <u>718,088</u> | <u>1,591,614</u> | <u>2,309,702</u> |
| End of year | <u>\$ 731,416</u> | <u>\$ 1,638,525</u> | <u>\$ 2,369,941</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Smith College
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

| <i>(in thousands)</i> | 2020 | 2019 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Decrease / Increase in net assets | \$ (22,370) | \$ 60,239 |
| Adjustments to reconcile change in net assets to net cash provided or used in operating activities | | |
| Depreciation and amortization | 18,357 | 18,669 |
| Unrealized loss in market value on interest rate swap agreements | 11,146 | 6,118 |
| Net unrealized and realized gains on investments | (39,452) | (127,396) |
| Actuarial change in life income obligations | 64 | (430) |
| Contributions restricted for long-term investment | (21,293) | (15,043) |
| Contributions of securities | (6,990) | (4,793) |
| Proceeds from sale of donated securities | 4,449 | 3,749 |
| Net change in operating assets and liabilities | | |
| Receivables, net and other assets | (14,116) | (18,742) |
| Accounts payable, accrued liabilities, and asset retirement obligations | 9,514 | 1,354 |
| Deferred income, deposits and agency funds | (975) | (907) |
| Net cash used in operating activities | <u>(61,666)</u> | <u>(77,182)</u> |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (72,265) | (42,681) |
| Proceeds from student and other loan collections | 1,111 | 1,323 |
| Student and other loans issued | (950) | (1,109) |
| Purchases of investments | (410,871) | (267,470) |
| Sales and maturities of investments | 486,232 | 351,260 |
| Change in short-term investments | <u>32,362</u> | <u>27,221</u> |
| Net cash provided by investing activities | <u>35,619</u> | <u>68,544</u> |
| Cash flows from financing activities | | |
| Contributions restricted for long-term investment | 21,293 | 15,043 |
| Proceeds from sale of donated securities for endowment | 2,495 | 1,597 |
| Mortgages | <u>(58)</u> | <u>(56)</u> |
| Net cash provided by financing activities | <u>23,730</u> | <u>16,584</u> |
| Net change in cash and cash equivalents | (2,317) | 7,946 |
| Cash and cash equivalent | | |
| Beginning of year | <u>45,207</u> | <u>37,261</u> |
| End of year | <u>\$ 42,890</u> | <u>\$ 45,207</u> |
| Supplemental disclosure | | |
| Interest paid | \$ 11,251 | \$ 11,528 |
| Gifts in kind | 759 | 399 |
| Purchases of property and collections increasing payables | 5,160 | 161 |
| Donated Securities | 6,990 | 4,793 |

The accompanying notes are an integral part of these consolidated financial statements.

Smith College

Notes to Consolidated Financial Statements

June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Presentation

The Trustees of the Smith College (the "College") is a private liberal arts college providing women an education of uncompromising quality. Smith College educates women of promise for lives of distinction and purpose. A college of and for the world, Smith links the power of the liberal arts to excellence in research and scholarship, thereby developing engaged global citizens and leaders to address society's challenges. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP") for The Trustees of the Smith College and includes the Alumnae Association of Smith College.

Net Asset Classes

The accompanying consolidated financial statements present information regarding the College's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions: 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.

With donor restrictions: net assets are subject to donor stipulations that expire with the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Changes in 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; and reclassifications of net assets received in prior periods and contributions with donor restrictions. All other unrestricted activity is reported as operating without donor restrictions.

Revenues

The College considers tuition, fees and residence and dining as one contract with two performance obligations under ASU 2014-09. The College is a residential community with most students living and dining on campus. Tuition and fees are charged per semester at the same rate for all students. Residence and dining fees are recognized ratably over the course of the contracted time students are on campus. Tuition, fees, residence and dining are all fully earned during the fiscal year. Financial aid is calculated based on total cost of attendance.

The College records student related revenue in the fiscal year in which services are provided. Institutional financial aid includes amounts funded by the College's operations, endowments, and restricted gifts. This aid offsets the published price of tuition, fees, residence and dining, for students. Grants to students for costs in excess of published prices are reported as student services and expense in the consolidated statement of activities.

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Student related revenue by performance obligation at June 30 (in thousands):

2020

| | Tuition, Fees | Residence & Dining | Total |
|-----------------------------|----------------------|-----------------------------------|-------------------|
| Student charge | \$ 158,218 | \$ 37,299 | \$ 195,517 |
| Allocation of financial aid | <u>(70,688)</u> | <u>(16,664)</u> | <u>(87,352)</u> |
| Total net student charges | <u>\$ 87,530</u> | <u>\$ 20,635</u> | <u>\$ 108,165</u> |

2019

| | Tuition, Fees | Residence & Dining | Total |
|-----------------------------|----------------------|-----------------------------------|-------------------|
| Student charge | \$ 153,179 | \$ 41,758 | \$ 194,937 |
| Allocation of financial aid | <u>(64,673)</u> | <u>(17,631)</u> | <u>(82,304)</u> |
| Total net student charges | <u>\$ 88,506</u> | <u>\$ 24,127</u> | <u>\$ 112,633</u> |

Contributions

Contributions are recognized as revenues when received. Conditional pledges are recognized as revenues when conditions are substantially met. The College had no conditional pledges outstanding as of June 30, 2020 and 2019, respectively. Unconditional pledges, net of an allowance for uncollectible amounts, are reported at their estimated net present values and are classified as with donor restrictions. Contributions restricted for the acquisition of property and collections are reported as with donor restrictions gifts and are reclassified to without donor restrictions net assets at the time the assets are acquired and placed in service.

Cash and Cash Equivalents

Cash and investments acquired with a maturity date of three months or less are reported as cash equivalents, unless they are part of short-term or long-term investment funds.

Short-Term Investments

Short-term investments include operating funds invested in equity securities, as well as funds identified for specific capital projects, with a maturity of more than three months but less than one year.

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

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Notes to Consolidated Financial Statements

June 30, 2020

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, 2020 and 2019, 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 value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The investments reported at NAV as practical expedient are not required to be categorized in the fair value hierarchy.

Property, Plant & Equipment

Property, which includes land, land improvements, buildings and equipment, and works of art are recorded at cost or fair value at date of donation. The College discontinued the capitalization of library books in the period ended June 30, 2019. Library books capitalized in previous periods will be depreciated over their remaining useful lives. Depreciation is recognized using the straight-line method over the useful lives of the assets.

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

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Notes to Consolidated Financial Statements

June 30, 2020

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.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The College's significant estimates include the fair value of its investments, its valuation of contributions receivable, recognition of its conditional asset retirement obligations, interest rate swap agreements, and other accruals for expenses incurred which will be settled in the future. Actual results could differ from estimates.

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.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the College in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%.

For the tax year ended June 30, 2020, the College made a reasonable estimate of the effect of the net investment income excise tax on deferred tax balances. The College continues to evaluate the impact of tax reform on the organization.

Presentation and Reclassifications

For the year ended June 30, 2019, the College changed the presentation of the statement of activities and statement of cash flows to conform with the current year presentation.

Recent Accounting Pronouncements

ASU 2014-09 “Revenue from Contracts with Customers (ASC 606)”

In May 2014, the FASB issued ASU No. 2014-09, a principles-based standard to recognize revenue from customer contracts. The guidance applies to all contracts, but specifically excludes contribution income. The College adopted *ASU No. 2014-09 as of July 1, 2019 using the modified retrospective method. There was no material impact to revenues for the year ended June 30, 2020 as a result of its application.*

ASU 2018-08: “Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made”

In June 2018 the FASB issued ASU 2018-08, that aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. *The College adopted ASU 2018-08 simultaneously with ASC 606 as of July 1, 2019. The College applied the new standard on a modified prospective basis. The adoption of the standard did not have a material impact to the College’s consolidated statement of activities for the year ended June 30, 2020.*

ASU 2016-18: “Statement of Cash Flows (Topic 230)”

In November 2016 the FASB issued ASU 2016-18: “Statement of Cash Flows (Topic 230): Restricted Cash” which requires that cash restricted by donors and others be combined with unrestricted cash in the statement of cash flows. *The College had no restricted cash during the period and therefore the standard had no effect on the College’s consolidated statement of cash flows for the year ended June 30, 2020.*

ASU 2016-15: “Statement of Cash Flows (Topic 230)”

In August 2016 the FASB issued ASU 2016-15: “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” which clarifies how certain items are categorized on the statement of cash flow. *The adoption of the standard did not have a material impact to the College’s consolidated statement of cash flows for the year ended June 30, 2020.*

ASU 2016-02: “Leases (Topic 842)”

In February 2016, the FASB issued ASU 2016-02. The objective of this standard update is to provide a representation of an entity’s leasing activities. This standard update requires that lease assets and lease liabilities be recognized on the balance sheet and all key information about leasing arrangements be disclosed. *This standard update is effective for the College’s fiscal year 2021. The College is currently assessing the impact on its consolidated financial statements.*

ASU 2018-13: “Fair Value Measurements (Topic 820)”

In August 2018, the FASB issued ASU 2018-13 Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The standard modifies the disclosure for transfers between Levels 1 and 2 and the disclosure requirements for investments recorded at a net asset value in the fair value hierarchy. *This standard update is effective for the College’s fiscal year 2021. The College is currently assessing the impact on its consolidated financial statements.*

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Notes to Consolidated Financial Statements
June 30, 2020

2. Liquidity

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capitalized construction costs not financed with debt, were as follows (in thousands):

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 42,890 | \$ 45,207 |
| Contributions, notes, and accounts receivable, net | 4,657 | 3,933 |
| Working capital investments | 60,263 | 60,203 |
| Next fiscal year endowment appropriation | 95,423 | 92,200 |
| Total financial assets available within one year | <u>\$ 203,233</u> | <u>\$ 201,543</u> |

The College's Board of Trustees approves the annual spending distribution per unit. Under the provision of the spending rule, for fiscal year 2020 and 2019 the Board of Trustees approved an endowment appropriation of \$379.20 and \$383.76 annually per unit, respectively. For fiscal year 2021 the Board of Trustees approved an endowment appropriation of \$388.68 annually per unit, for an estimated total spending allocation (in thousands) of \$95,423. The College maintains a \$30 million line of credit accessible for short-term liquidity needs. The College did not draw from the line in fiscal year 2020. Additionally, the College has board-designated endowment funds (in thousands) of \$401,178 as of June 30, 2020. Although the College does not intend to spend from its board-designated endowment funds other than amounts appropriated for operation, amounts could be made available if necessary.

The College's cash flows have seasonal variations attributable to the timing of tuition billing and contributions received. To manage liquidity, the College maintains a working capital portfolio conservatively invested across three tiers, the amounts and duration of which correspond with the projected liquidity need. The first tier in cash and cash equivalents, tier two in mid-term high-quality fixed income, and tier three co-invested with the long-term investment portfolio.

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Notes to Consolidated Financial Statements
June 30, 2020

3. Receivables, Net and Other Assets

Receivables, net and other assets consist of the following items at June 30 (in thousands):

| | 2020 | 2019 |
|--|------------------|------------------|
| Contributions expected to be collected within | | |
| One year | \$ 8,431 | \$ 6,052 |
| One to five years | 13,877 | 8,120 |
| Over five years | 5,650 | 2,750 |
| Less: Discount (0% to 3%) | (917) | (835) |
| Less: Allowance for uncollectibles | <u>(1,889)</u> | <u>(761)</u> |
| | 25,152 | 15,326 |
| Grants receivable | <u>3,360</u> | <u>1,553</u> |
| Charitable trusts | 30,538 | 34,152 |
| Less: Discount (1.0% to 4.72%) | <u>(9,244)</u> | <u>(10,205)</u> |
| | <u>21,294</u> | <u>23,947</u> |
| Students, employees, other receivables | 6,344 | 2,378 |
| Student loans | 5,748 | 5,690 |
| Employee loans and mortgages | 3,757 | 3,855 |
| Less: Allowance for uncollectibles | <u>(2,470)</u> | <u>(2,404)</u> |
| | 13,379 | 9,519 |
| Other assets | <u>9,672</u> | <u>8,557</u> |
| | <u>\$ 72,857</u> | <u>\$ 58,902</u> |

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Notes to Consolidated Financial Statements
June 30, 2020

4. Fair Value

The College's assets and liabilities as of June 30, 2020 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 |
|---|---------------------|-------------------|--------------------|------------------|-----------------------------|
| Assets | | | | | |
| Investments | | | | | |
| Cash equivalents | | | | | |
| Cash equivalents and money market funds | \$ 18,071 | \$ 18,071 | \$ - | \$ - | \$ - |
| Fixed income | | | | | |
| U.S. Treasuries and U.S. Treasury funds | 122,204 | 122,204 | - | - | - |
| Global equities | | | | | |
| U.S. equity securities | 204 | 204 | - | - | - |
| Derivative | | | | | |
| Long-short | 27,520 | 27,520 | - | - | - |
| Hedge fund | | | | | |
| Long-short | 568,877 | - | - | - | 568,877 |
| Private equity | | | | | |
| Multi-strategy | 8,632 | - | - | - | 8,632 |
| Alternative equity | | | | | |
| Hedge fund | | | | | |
| Multi-strategy | 566,449 | - | - | - | 566,449 |
| Hedge fund | | | | | |
| Event driven | 25,546 | - | - | - | 25,546 |
| Private equity | | | | | |
| Venture capital | 1,388 | - | - | - | 1,388 |
| Buyout | 1,773 | - | - | - | 1,773 |
| Multi-strategy | 649,427 | - | - | - | 649,427 |
| Real asset investments | 15,915 | - | - | - | 15,915 |
| Third-party perpetual trusts | 21,421 | - | 765 | 20,656 | - |
| Total long-term investments | <u>2,027,427</u> | <u>167,999</u> | <u>765</u> | <u>20,656</u> | <u>1,838,007</u> |
| Short-term investments | | | | | |
| U.S. Treasuries and U.S. Treasury funds | 7,557 | 7,557 | - | - | - |
| Fixed income funds | 26,523 | 26,523 | - | - | - |
| Total short-term investments | <u>34,080</u> | <u>34,080</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,061,507</u> | <u>\$ 202,079</u> | <u>\$ 765</u> | <u>\$ 20,656</u> | <u>\$ 1,838,007</u> |
| Liabilities | | | | | |
| Interest rate swap agreements | \$ (26,771) | \$ - | \$ (26,771) | \$ - | \$ - |
| | <u>\$ (26,771)</u> | <u>\$ -</u> | <u>\$ (26,771)</u> | <u>\$ -</u> | <u>\$ -</u> |

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The College's assets and liabilities as of June 30, 2019 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 |
|---|---------------------|-------------------|--------------------|------------------|-----------------------------|
| Assets | | | | | |
| Investments | | | | | |
| Cash equivalents | | | | | |
| Cash equivalents and money market funds | \$ 29,283 | \$ 29,283 | \$ - | \$ - | \$ - |
| Fixed income | | | | | |
| U.S. Treasuries and U.S. Treasury funds | 77,175 | 77,175 | - | - | - |
| Hedge fund Fixed income | 32,380 | - | - | - | 32,380 |
| Global equities | | | | | |
| U.S. equity securities | 205 | 205 | - | - | - |
| Derivative Long-short | 20,800 | 20,800 | - | - | - |
| Hedge fund Long-short | 623,670 | - | - | - | 623,670 |
| Hedge fund Multi-strategy | 723 | - | - | - | 723 |
| Private equity Multi-strategy | 7,035 | - | - | - | 7,035 |
| Alternative equity | | | | | |
| Hedge fund Multi-strategy | 556,685 | - | - | - | 556,685 |
| Hedge fund Event driven | 23,310 | - | - | - | 23,310 |
| Private equity | | | | | |
| Venture capital | 2,702 | - | - | - | 2,702 |
| Buyout | 982 | - | - | - | 982 |
| Multi-strategy | 644,750 | - | - | - | 644,750 |
| Real asset investments | 21,541 | - | - | - | 21,541 |
| Third-party perpetual trusts | 22,048 | - | 574 | 21,474 | - |
| Total long-term investments | <u>2,063,289</u> | <u>127,463</u> | <u>574</u> | <u>21,474</u> | <u>1,913,778</u> |
| Short-term investments | | | | | |
| U.S. Treasuries and U.S. Treasury funds | 40,988 | 40,988 | - | - | - |
| Fixed income funds | 25,454 | 25,454 | - | - | - |
| Total short-term investments | <u>66,442</u> | <u>66,442</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,129,731</u> | <u>\$ 193,905</u> | <u>\$ 574</u> | <u>\$ 21,474</u> | <u>\$ 1,913,778</u> |
| Liabilities | | | | | |
| Interest rate swap agreements | \$ (15,625) | \$ - | \$ (15,625) | \$ - | \$ - |
| | <u>\$ (15,625)</u> | <u>\$ -</u> | <u>\$ (15,625)</u> | <u>\$ -</u> | <u>\$ -</u> |

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 without restriction 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 cannot redeem the investment until it is sold and the monies are distributed by the fund manager.

At June 30, 2020 and 2019, the College's remaining outstanding commitments to private equity partnerships totaled \$561.2 million and \$399.6 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.

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Notes to Consolidated Financial Statements
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Detailed redemption restrictions on the College's investments as of June 30, 2020 and June 30, 2019 are as follows (in thousands):

| | 2020 | | | | | |
|------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|---------------------|
| | Daily | Monthly | Quarterly | Annually | Illiquid | Total |
| Cash equivalents | \$ 18,071 | \$ - | \$ - | \$ - | \$ - | \$ 18,071 |
| Fixed income | 122,204 | - | - | - | - | 122,204 |
| Global equities | 27,724 | 568,877 | - | - | 8,632 | 605,233 |
| Alternative equity | - | - | 566,449 | 25,546 | - | 591,995 |
| Private equity | - | - | - | - | 668,503 | 668,503 |
| Third-party perpetual trusts | - | - | - | - | 21,421 | 21,421 |
| | <u>\$ 167,999</u> | <u>\$ 568,877</u> | <u>\$ 566,449</u> | <u>\$ 25,546</u> | <u>\$ 698,556</u> | <u>\$ 2,027,427</u> |

| | 2019 | | | | | |
|------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|---------------------|
| | Daily | Monthly | Quarterly | Annually | Illiquid | Total |
| Cash equivalents | \$ 29,283 | \$ - | \$ - | \$ - | \$ - | \$ 29,283 |
| Fixed income | 77,175 | - | 32,380 | - | - | 109,555 |
| Global equities | 21,005 | 623,670 | - | - | 7,758 | 652,433 |
| Alternative equity | - | - | 556,685 | 23,310 | - | 579,995 |
| Private equity | - | - | - | - | 669,975 | 669,975 |
| Third-party perpetual trusts | - | - | - | - | 22,048 | 22,048 |
| | <u>\$ 127,463</u> | <u>\$ 623,670</u> | <u>\$ 589,065</u> | <u>\$ 23,310</u> | <u>\$ 699,781</u> | <u>\$ 2,063,289</u> |

The following tables present the College's activity for the fiscal years ended June 30, 2020 and 2019, for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

| 2020 | Fair Value Beginning of Year | Acquisitions | Dispositions | Realized Gains | Unrealized (Losses) Gains | Fair Value End of Year |
|--|------------------------------------|--------------|-----------------|-------------------|---------------------------------|---------------------------|
| Third-party perpetual trusts and other | 21,474 | - | (628) | - | (190) | 20,656 |
| | <u>\$ 21,474</u> | <u>\$ -</u> | <u>\$ (628)</u> | <u>\$ -</u> | <u>\$ (190)</u> | <u>\$ 20,656</u> |

| 2019 | Fair Value Beginning of Year | Acquisitions | Dispositions | Realized Gains | Unrealized (Losses) Gains | Fair Value End of Year |
|--|------------------------------------|-----------------|--------------------|-------------------|---------------------------------|---------------------------|
| Real asset investments | \$ 13,911 | \$ - | \$ (13,911) | \$ - | \$ - | \$ - |
| Third-party perpetual trusts and other | 38,299 | 4,793 | (22,152) | 52 | 482 | 21,474 |
| | <u>\$ 52,210</u> | <u>\$ 4,793</u> | <u>\$ (36,063)</u> | <u>\$ 52</u> | <u>\$ 482</u> | <u>\$ 21,474</u> |

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 89% of the College's investments at June 30, 2020 (93% at June 30, 2019).

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.

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Index future contracts are included in long-term investments on the statement of financial position. At June 30, 2020 the College held certain index future contracts in a net asset position of \$314,421. At June 30, 2019 the College held certain index future contracts in a net asset position of \$621,108 and US Treasury futures contracts in a net liability position of \$1,304. The College has posted collateral and segregated funds for the index futures contracts of \$19.3 million and \$15.8 million at June 30, 2020 and June 30, 2019, respectively.

The fair market value of investment derivatives held by the fund at June 30, 2020 and 2019, are summarized in the following table (in thousands):

| | 2020 | | |
|-------------------------------|----------------------|-----------------------|------------------------|
| | Long Notional | Short Notional | Unrealized Loss |
| Instrument type | | | |
| US Treasury futures contracts | \$ - | \$ - | \$ - |
| Index futures contracts | 19,691 | - | 314 |
| | <u>\$ 19,691</u> | <u>\$ -</u> | <u>\$ 314</u> |
| | | | |
| | 2019 | | |
| | Long Notional | Short Notional | Unrealized Loss |
| Instrument type | | | |
| US Treasury futures contracts | \$ 16,626 | \$ - | \$ (1) |
| Index futures contracts | 9,651 | - | 621 |
| | <u>\$ 26,277</u> | <u>\$ -</u> | <u>\$ 620</u> |

As of June 30, 2020 and 2019, there were 214 and 242 futures contracts open, respectively. The volume of futures is based on the quarterly number of contracts held during the year. For the years ended June 30, 2020 and 2019, the average number of contracts for futures was 190.

The private equity partnerships have varying terms. As of June 30, 2020, the average remaining life of the private equity partnerships is approximately one year 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):

| | 2020 | 2019 |
|-------------------------------------|------------------|-------------------|
| Interest and dividends, net of fees | \$ (37) | \$ (455) |
| Realized and unrealized gains | 39,473 | 127,396 |
| | <u>\$ 39,436</u> | <u>\$ 126,941</u> |

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

| | 2020 | 2019 |
|---------------------------------------|------------------|-------------------|
| Without restrictions – operating | \$ 4,099 | \$ 8,623 |
| Without restrictions – nonoperating | 7,889 | 25,171 |
| With donor restriction – nonoperating | <u>27,448</u> | <u>93,147</u> |
| | <u>\$ 39,436</u> | <u>\$ 126,941</u> |

5. 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 generally provides that the income distributed per unit will increase by 4.0% annually as long as the resulting amount is between 4.0% and 6.0% of the preceding December 31 endowment market value. For the fiscal year ended June 30, 2020, the Board of Trustees decreased the distribution per unit by 1.2%.

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. 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

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Notes to Consolidated Financial Statements
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- 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. As of June 30, 2020 and 2019, funds (in thousands) with an original gift value of \$9,799 and \$126 were under water by \$190 and \$18, respectively. These unrealized losses have been recorded as reductions in net assets with donor restriction. Future market gains will be used to restore this reduction in net assets.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment funds for the fiscal years ended June 30, 2020 and 2019 were as follows (in thousands):

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Balances June 30, 2019 | \$ 411,093 | \$ 1,502,160 | \$ 1,913,253 |
| Interest and dividends, net of fees | 152 | (3,037) | (2,885) |
| Realized and unrealized gains | 8,755 | 28,631 | 37,386 |
| Contributions and transfers | 979 | 48,047 | 49,026 |
| Distributions | (19,801) | (69,801) | (89,602) |
| Balances June 30, 2020 | <u>\$ 401,178</u> | <u>\$ 1,506,000</u> | <u>\$ 1,907,178</u> |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Balances June 30, 2018 | \$ 398,663 | \$ 1,476,430 | \$ 1,875,093 |
| Interest and dividends, net of fees | (1,523) | (1,876) | (3,399) |
| Realized and unrealized gains | 25,946 | 95,000 | 120,946 |
| Contributions and transfers | 7,127 | 5,465 | 12,592 |
| Distributions | (19,120) | (72,859) | (91,979) |
| Balances June 30, 2019 | <u>\$ 411,093</u> | <u>\$ 1,502,160</u> | <u>\$ 1,913,253</u> |

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Notes to Consolidated Financial Statements
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6. Property, Plant and Equipment, Net

Property, plant and equipment at June 30 (in thousands):

| | Useful Lives | 2020 | 2019 |
|-------------------------------------|---------------------|-------------------|-------------------|
| Land | — | \$ 7,997 | \$ 8,003 |
| Land improvements | 10–30 years | 18,590 | 18,214 |
| Buildings and building improvements | 5-50 years | 620,875 | 618,275 |
| Works of art | 100 years | 66,939 | 65,360 |
| Library books | 15 years | 60,071 | 60,166 |
| Equipment | 5–12 years | 24,877 | 24,323 |
| | | <u>799,349</u> | <u>794,341</u> |
| Accumulated depreciation | | <u>(386,157)</u> | <u>(368,954)</u> |
| | | 413,192 | 425,387 |
| Construction in progress | | <u>144,952</u> | <u>78,785</u> |
| | | <u>\$ 558,144</u> | <u>\$ 504,172</u> |
| Depreciation expense | | \$ 18,293 | \$ 18,607 |
| Capitalized interest | | 4,397 | 2,792 |

7. Accounts Payable and Accrued Liabilities

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

| | 2020 | 2019 |
|-----------------------------------|------------------|------------------|
| General payables | \$ 13,993 | \$ 11,614 |
| Facilities, construction, repairs | 8,440 | 3,280 |
| Payroll related | 2,480 | 1,872 |
| Compensated absences | 5,015 | 4,418 |
| | <u>\$ 29,928</u> | <u>\$ 21,184</u> |

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8. Split Interest Agreements

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

| | Annuities (Held by College) | | Split Interest (College Trustee) | | Split Interest (Outside Trustee) | |
|--------------------------------|--------------------------------|------------------|-------------------------------------|-----------------|-------------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets | | | | | | |
| Cash/investments | \$ 35,514 | \$ 36,673 | \$ 9,223 | \$ 9,939 | \$ - | \$ - |
| Contributions receivable (net) | - | - | - | - | 21,294 | 23,946 |
| Obligation | (16,538) | (16,191) | (3,922) | (4,205) | - | - |
| | <u>\$ 18,976</u> | <u>\$ 20,482</u> | <u>\$ 5,301</u> | <u>\$ 5,734</u> | <u>\$ 21,294</u> | <u>\$ 23,946</u> |
| Net assets | | | | | | |
| Without donor restrictions | \$ 5,853 | \$ 6,373 | \$ - | \$ - | \$ - | \$ - |
| With donor restrictions | 13,123 | 14,109 | 5,301 | 5,734 | 21,294 | 23,946 |
| | <u>\$ 18,976</u> | <u>\$ 20,482</u> | <u>\$ 5,301</u> | <u>\$ 5,734</u> | <u>\$ 21,294</u> | <u>\$ 23,946</u> |

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.

9. Deferred Income, Deposits, and Agency Funds

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

| | 2020 | 2019 |
|-----------------------------|------------------|------------------|
| Deferred income | \$ 6,862 | \$ 7,412 |
| Lease liability | 7,139 | 7,290 |
| Smith Students' Aid Society | 5,210 | 5,359 |
| Perkins loan program | 504 | 1,022 |
| Student deposits | 1,165 | 1,182 |
| Other deposits | 3,171 | 2,761 |
| | <u>\$ 24,051</u> | <u>\$ 25,026</u> |

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10. Bonds and Mortgages Payable and Interest Rate Swap Agreements

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

| Bond Series | Final Year of Maturity | Interest Rates | 2020 | 2019 |
|---|-------------------------------|-----------------------|-------------------|-------------------|
| 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 |
| | | | <u>264,960</u> | <u>264,960</u> |
| Unamortized discount | | | (987) | (1,032) |
| Unamortized debt issuance cost | | | <u>(391)</u> | <u>(410)</u> |
| Bonds payable | | | 263,582 | 263,518 |
| Mortgages payable | 2040 | 3.00 % | <u>1,634</u> | <u>1,692</u> |
| | | | <u>\$ 265,216</u> | <u>\$ 265,210</u> |

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.

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

| Fiscal Year | Principal Payments |
|--------------------|---------------------------|
| 2021 | \$ 60 |
| 2022 | 62 |
| 2023 | 64 |
| 2024 | 66 |
| 2025 | 68 |
| Thereafter | <u>266,274</u> |
| | <u>\$ 266,594</u> |

The swaps are summarized as follows (in thousands):

| Series | 2020 | | |
|---------------|------------------------|------------------------------|------------------------|
| | Swap Fair Value | Average Interest Rate | Swap Fixed Rate |
| 2007 | \$ (26,771) | 1.68 % | 2.86 % |
| | <u>\$ (26,771)</u> | | |
| Series | 2019 | | |
| | Swap Fair Value | Average Interest Rate | Swap Fixed Rate |
| 2007 | \$ (15,625) | 2.30 % | 2.86 % |
| | <u>\$ (15,625)</u> | | |

The swaps' fair values are indicative values based on midmarket levels as of the close of business on June 30, 2020 and 2019, 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.

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11. Net Assets

Net assets at June 30, 2020, are as follows (in thousands):

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------|---------------------------------------|------------------------------------|---------------------|
| Endowment | \$ 401,178 | \$ 1,506,000 | \$ 1,907,178 |
| Split interest agreements | 5,853 | 39,718 | 45,571 |
| Plant funds | 226,001 | - | 226,001 |
| Loan funds | - | 8,708 | 8,708 |
| Other funds | 87,223 | 72,890 | 160,113 |
| | <u>\$ 720,255</u> | <u>\$ 1,627,316</u> | <u>\$ 2,347,571</u> |

Net assets at June 30, 2019, are as follows (in thousands):

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------|---------------------------------------|------------------------------------|---------------------|
| Endowment | \$ 411,093 | \$ 1,502,160 | \$ 1,913,253 |
| Split interest agreements | 6,373 | 43,789 | 50,162 |
| Plant funds | 232,964 | - | 232,964 |
| Loan funds | - | 11,160 | 11,160 |
| Other funds | 80,986 | 81,416 | 162,402 |
| | <u>\$ 731,416</u> | <u>\$ 1,638,525</u> | <u>\$ 2,369,941</u> |

Endowment return appropriated were as follows (in thousands):

| | 2020 | 2019 |
|-------------------|------------------|------------------|
| Scholarship | \$ 33,675 | \$ 33,973 |
| Instruction | 20,078 | 20,044 |
| General operating | 18,579 | 20,620 |
| Program support | 12,126 | 12,164 |
| Arts and library | 5,144 | 5,178 |
| | <u>\$ 89,602</u> | <u>\$ 91,979</u> |

12. Functional Expenses

The statements of activities present expenses by natural classification. The College also summarizes its expenses by functional classification. The College's primary program service is academic instruction and research. Expenses reported as student services and auxiliary enterprises are incurred in support of this primary program activity.

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

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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.

Functional expenses for the year ended June 30, 2020, are as follows (in thousands):

| | Instruction | Academic Support | Student Services | Auxiliary Enterprises | Institutional Support | Total |
|-------------------------------|------------------|------------------|------------------|-----------------------|-----------------------|-------------------|
| Salaries and wages | \$ 51,438 | \$ 14,907 | \$ 15,206 | \$ 9,936 | \$ 17,836 | \$ 109,323 |
| Employee benefits | 16,874 | 4,789 | 4,649 | 3,116 | 4,368 | 33,796 |
| Supplies, services, other | 17,257 | 10,604 | 9,227 | 8,306 | 14,448 | 59,842 |
| Depreciation and amortization | 5,129 | 5,541 | 2,575 | 5,011 | 807 | 19,063 |
| Interest | 1,857 | 1,106 | 1,035 | 2,651 | 345 | 6,994 |
| Utilities | 1,417 | 891 | 786 | 2,226 | 240 | 5,560 |
| | <u>\$ 93,972</u> | <u>\$ 37,838</u> | <u>\$ 33,478</u> | <u>\$ 31,246</u> | <u>\$ 38,044</u> | <u>\$ 234,578</u> |

Functional expenses for the year ended June 30, 2019, are as follows (in thousands):

| | Instruction | Academic Support | Student Services | Auxiliary Enterprises | Institutional Support | Total |
|-------------------------------|------------------|------------------|------------------|-----------------------|-----------------------|-------------------|
| Salaries and wages | \$ 49,815 | \$ 14,814 | \$ 12,958 | \$ 10,066 | \$ 18,639 | \$ 106,292 |
| Employee benefits | 16,394 | 4,815 | 3,768 | 3,679 | 2,911 | 31,567 |
| Supplies, services, other | 19,073 | 12,283 | 9,406 | 8,254 | 16,794 | 65,810 |
| Depreciation and amortization | 4,786 | 5,640 | 2,554 | 5,492 | 927 | 19,399 |
| Interest | 2,372 | 1,413 | 1,138 | 3,398 | 415 | 8,736 |
| Utilities | 1,637 | 974 | 785 | 2,551 | 287 | 6,234 |
| | <u>\$ 94,077</u> | <u>\$ 39,939</u> | <u>\$ 30,609</u> | <u>\$ 33,440</u> | <u>\$ 39,973</u> | <u>\$ 238,038</u> |

13. 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. The College's 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, 2020, amounted to \$9.4 million (year ended June 30, 2019 was \$9.3 million). The College also provides health and dental insurance benefits for eligible retired employees between the ages of 62 and 65. The College recognized an accrued postretirement benefit obligation of \$1.8 million and \$2.0 million at June 30, 2020 and 2019, respectively.

14. Subsequent Events

On August 1, 2020 the College entered into a line of credit with Century Bank for \$20 million.

On September 30, 2020 the College issued a taxable private placement loan for \$100 million at a fixed rate of 2.86% with the full principal payment due at maturity in forty years. These funds will be drawn in two tranches during fiscal year 2021 and held for liquidity and strategic capital investment.

The College evaluated subsequent events for potential recognition or disclosure through October 30, 2020, the date on which the consolidated financial statements were issued.