Smith College

Financial Report 2013–14

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Smith College
Northampton, Massachusetts 01063

On the cover: the new Schacht Center for Health and Wellness.

Financial Report 2013–14

Ruth Constantine
Vice President for Finance and Administration and Treasurer

Laura Smiarowski
Controller and Associate Treasurer

Smith College entered a new chapter of its history in July 2013 when Kathleen McCartney took office as the college's 11th president. The Smith community has enthusiastically embraced her leadership and ambitions for the college.

By every key measure—operating margins, diversified revenue sources and investment in institutional infrastructure—Smith is well positioned to build on past progress and to enact a vision of access, opportunity and leadership for women of promise.

From the beginning, Smith students and graduates have looked beyond the gates of the campus to realize a more just, open and united world. We continue to steward our resources to advance this work and realize Smith's highest priorities. Through the Women for the World capital campaign, alumnae and friends of the college are active, engaged and generous supporters of Smith's vision.

Statements of Financial Position

At the close of fiscal year 2014, net assets exceeded $2 billion, a first in the college's history. Total assets increased by $200 million during the year largely due to a nearly 13 percent increase in the college's long-term investments. The college's liabilities remained consistent for the years ended June 30, 2014 and 2013, at

Kathleen McCartney was inaugurated as Smith's 11th president in October 2013.

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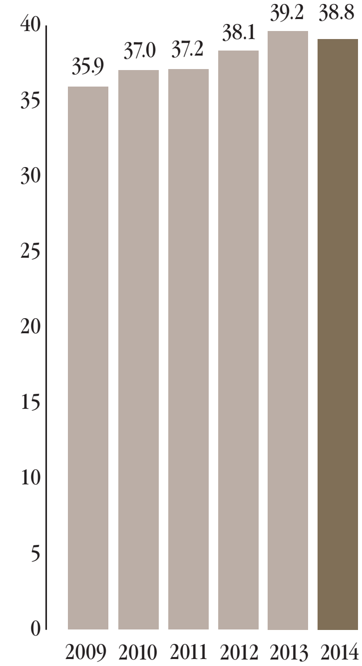
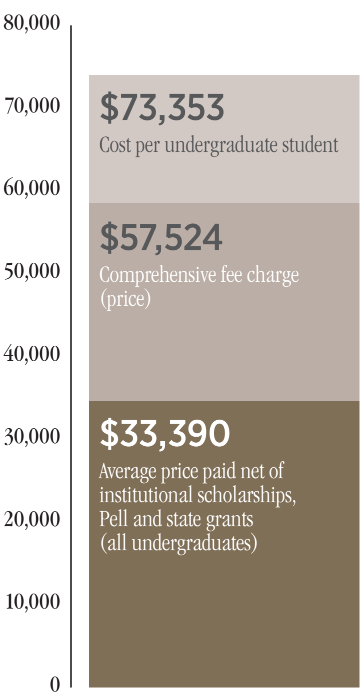
Undergraduate Discount Rate

Scholarships/Gross Comprehensive Fee Revenues, in percentages



Cost vs. Price of a Smith Education

2013–14



approximately $258 million. Just over 60 percent of liabilities are composed of tax-exempt bonds issued over the years as part of the college's longstanding commitment to campus buildings and improvements.

Statements of Activities

Operating expenses for fiscal year 2014 grew only slightly versus FY 2013 at just over $200 million. Diverse revenue sources support college operations, including student fees net of financial aid (46 percent); investment returns (38 percent); gifts and grants (11 percent); and other sources (5 percent).

Smith College is committed to educational access, but we recognize that the cost of higher education can present a barrier to students and families. Financial aid helps to remove this barrier. Smith continues its long-standing commitment to providing access and works to meet the demonstrated financial need of all eligible students with a combination of grants, loans and work study via an application process that considers family income and assets. The college expended $57.6 million in financial aid—$25 million of which was funded through income from endowments, trusts, gifts and grants designated for scholarships, with the balance coming from operations and government sources. The average aid award from the college increased 3 percent from the previous year to $21,882. The college's discount rate, which compares institutional dollars spent on financial aid to comprehensive fee revenue, decreased slightly to 38.8 percent for the year and continues to be at or near the top of its peer group.

Investments

Despite volatility in the financial markets over the past decade, Smith's endowment remains one of the largest among liberal arts colleges. The college's endowed investments gained back all of the value lost during the recent recession and reached a record high of $1.8 billion as of June 30, 2014. The long-term endowment investment horizon allows for a largely equity-oriented investing strategy where the potential for long-term capital appreciation exists. Other asset management strategies—including but not limited to hedging, derivative, or diversification—are also used to reduce risk and overall portfolio volatility. As of June 30, 2014, Smith's investments, which are managed by Investure LLC, were divided among global equities (35 percent), private partnerships (31 percent), alternative equities (26 percent), fixed income (6 percent) and cash (2 percent).

Smith's returns have typically exceeded the average for colleges and universities nationally, and have ranked competitively with the college's closest peer group. Endowment returns ended June 30, 2014, were 16.5 percent for the fiscal year and 10.8 percent, 13.5 percent and 10.3 percent over the three-, five- and 10-year periods, respectively. These returns exceeded the college's spending plus inflation benchmark for the same time periods.

The college's endowment spending rate, which is set annually by the board of trustees, provides a responsible annual contribution to operations. It balances the ability to protect against periods of declining returns with a commitment to preserve the endowment for

A major renovation of Cutter and Ziskind houses was completed in 2013–14.

future generations. Smith's spending supports the full breadth of the college's global mission including financial aid, academic programs, professorships and facilities. In FY 2014 Smith's spending rate was 4.8 percent; it has averaged 4.9 percent over the past decade. Historically, the college increases spending per share by 4.0 percent annually, within a 4.0 percent to 6.0 percent of market value collar. However, the college increased the spending rate by just 3.0 percent for 2013–14 to assist in reducing the spending level over time.

Facilities

Smith's 147-acre campus includes 120 residential, academic and administrative buildings totaling more than 3 million gross square feet of space. Maintaining Smith's facilities well is a high priority for the college. With a 2 percent annual reinvestment funded from operations, the college has substantially reduced deferred maintenance in its buildings. This year, the college completed two major facility projects: the renovation of Cutter and Ziskind houses; and construction of the Nancy and Henry Schacht Center for Health and Wellness, which houses the college's medical services, counseling services and wellness education programs. Additional infrastructure investments included a critical electrical and data fiber project, as well as renovations to the Helen Hills Hills Chapel with the installation of a new hardwood floor and flexible seating to accommodate a greater variety of meetings and events. Looking ahead, the Mason Infirmary and small surrounding buildings will be razed to make room for a new

As Smith begins a new era of leadership, our strong financial position and responsible management practices continue to support the college's ongoing commitment to access for the brightest and most talented young women in the world. This commitment is truly global in scope and ambition.

set of apartment-style student residences at the end of Paradise Road that will replace the Freidman apartments.

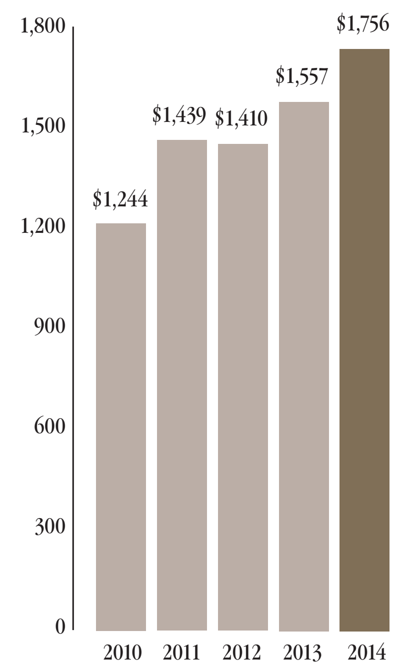
As Smith begins a new era of leadership, our strong financial position and responsible management practices continue to support the college's ongoing commitment to access for the brightest and most talented young women in the world. This commitment is truly global in scope and ambition. It embraces connections to the world in all its possibilities and challenges. It reflects Smith's position as a leader in teaching and scholarship, and our role in educating and preparing the next generation of global women leaders.

Endowment Spending Rate

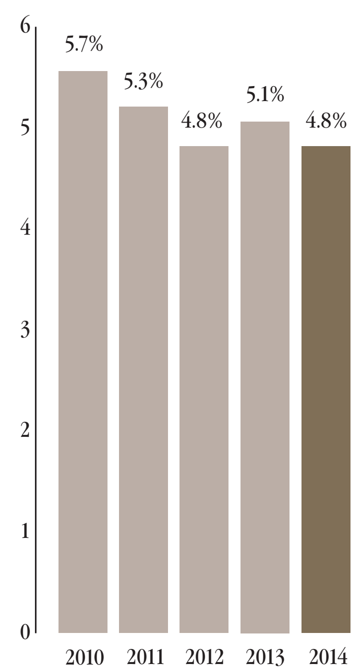
	Begin-of-year Market Value	Distributed to Operations	Spending Rate	Growth in Spending
2004–05	$924.5	$46.0	5.0%	-1.0%
2005–06	$1,035.5	$47.7	4.6%	3.6%
2006–07	$1,156.3	$50.1	4.3%	5.0%
2007–08	$1,361.0	$59.9	4.4%	19.7%
2008–09	$1,365.8	$67.9	5.0%	13.4%
2009–10	$1,096.3	$62.0	5.7%	-8.7%
2010–11	$1,243.6	$65.6	5.3%	5.8%
2011–12	$1,439.5	$69.0	4.8%	5.2%
2012–13	$1,409.8	$71.8	5.1%	4.1%
2013–14	$1,557.4	$75.0	4.8%	4.5%
Ten-year totals		$615.1	4.9%	62.9%

Dollar values reflect millions

Endowment Market Value
in millions



Endowment Spending Rate
percentage of beginning market value



Ten Years in Review

	2014	2013	2012	2009	2004
Assets, Liabilities and Net Assets (000's)					
Total Assets	$2,374,681	$2,174,842	2,036,198	1,691,744	$1,462,974
Total Plant Assets - Cost Net of Depreciation	415,127	405,436	404,764	372,423	270,627
Endowment Funds Market Value	1,755,755	1,557,407	1,409,755	1,096,322	924,464
Life Income Funds Market Value	52,117	48,517	46,115	38,534	45,306
Long-Term Debt	159,711	162,536	165,242	172,644	74,493
Net Assets	2,116,850	1,916,874	1,767,337	1,438,509	1,222,801
Income and Expense (000's)					
Undergraduate Comprehensive Fees	$148,724	$144,313	$140,341	$126,616	$99,159
Undergraduate Scholarships	57,651	56,936	53,382	45,324	35,618
Net	91,073	87,377	86,959	81,292	63,541
Unrestricted Gifts and Grants	23,497	22,573	25,392	31,642	19,264
Restricted Gifts and Grants	15,289	16,797	24,393	25,804	17,783
Total Operating Expenses	213,252	211,320	200,451	191,596	158,985
Salaries and Wages	94,884	92,264	89,438	88,109	76,343
Staff Benefits	29,742	28,361	27,308	26,612	20,836
Other Statistics					
Undergraduate:					
Student FTE*	2,636	2,673	2,671	2,683	2,738
Faculty FTE	283	283	281	289	304
Student-Faculty Ratio	8.9	9.1	9.1	8.8	8.5
Comprehensive Fee	$57,524	$55,320	$53,460	$48,108	$37,034
Net Cost Per Student (line 68 rounded)	73,400	71,500	67,900	64,300	52,100
Comprehensive Fee as Percent of Cost Per Student	78.4%	77.4%	78.7%	74.8%	71.1%
Students Receiving Scholarships	64.3%	64.9%	63.9%	63.8%	64.5%
Operations Supported by Endowment	33.5%	33.5%	34.1%	33.9%	28.6%
Total FTE*	3,104	3,153	3,163	3,099	3,196
Endowment Per Student	565,672.00	493,916.10	445,700.46	353,794.35	289,228.97
Endowment Spending as Percent of Market Value	4.8%	5.1%	4.8%	5.0%	5.6%

* 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, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2014 and 2013, 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, 2014

Statements of Financial Position

June 30, 2014 and 2013

(In Thousands)

See accompanying notes to financial statements.

		2014		2013
Assets				
Cash and cash equivalents	$	19,888	$	17,948
Short-term investments		42,995		54,387
Receivables, net and other assets		36,835		44,521
Long-term investments		1,859,836		1,652,550
Property and collections, net		415,127		405,436
Total assets	$	2,374,681	$	2,174,842
Liabilities				
Accounts payable and accrued liabilities	$	24,094	$	22,819
Interest rate swap agreements		18,923		18,556
Deferred income, deposits, and agency funds		15,717		14,897
Liability for split-interest agreements		19,625		19,796
Asset retirement obligations		19,761		19,360
Bonds payable		159,711		162,536
Total liabilities	$	257,831	$	257,964
Net Assets				
Unrestricted		663,111		627,545
Temporarily restricted		1,036,145		894,289
Permanently restricted		417,594		395,044
Total net assets	$	2,116,850	$	1,916,878
Total liabilities and net assets	$	2,374,681	$	2,174,842

Statements of Activities

For the years ended June 30, 2014 and 2013

(In Thousands)

See accompanying notes to financial statements.

	2014	2013
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$ 130,427	$ 127,112
Residence and dining fees	36,415	35,683
Student aid	(63,260)	(62,796)
Student income, net	103,582	99,999
Gifts and grants	23,497	22,573
Investment return supporting operations	27,084	23,022
Other income	11,638	12,102
Net assets released from restrictions	60,363	60,353
Total operating revenues and other additions	$ 226,164	$ 218,049
Operating Expenses		
Instruction	93,002	90,771
Academic support	30,456	29,931
Student services	24,576	24,075
Auxiliary enterprises	31,833	32,331
General and administrative	33,385	33,026
Total expenses	213,252	210,134
Operating subtotal	$ 12,912	$ 7,915
Non-Operating Revenues and Other Changes		
Unrealized gain (loss), interest, and fees on interest-rate swap agreements	(4,666)	7,413
Net investment return increasing long-term investments	40,282	30,091
Other net asset reclassifications	(12,962)	
Non-operating revenues and other changes	$ 22,654	$ 37,504
Increase in unrestricted net assets	$ 35,566	$ 45,419
Changes in Temporarily Restricted Net Assets		
Gifts and grants	2,411	(1,138)
Investment return	188,205	148,399
Change in life income funds	2,999	1,836
Net assets released from restrictions	(60,363)	(60,353)
Other net asset reclassifications	8,604	
Increase in temporarily restricted net assets	$ 141,856	$ 88,744
Changes in Permanently Restricted Net Assets		
Gifts and grants	12,878	17,935
Investment return	1,869	1,000
Change in life income funds	3,445	2,076
Other net asset reclassifications	4,358	
Increase in permanently restricted net assets	$ 22,550	$ 21,011
Total increase in net assets	$ 199,972	$ 155,174
Net assets, beginning of year	1,916,878	1,761,704
Net assets, end of year	$ 2,116,850	$ 1,916,878

Statements of Cash Flows

For the years ended June 30, 2014 and 2013

(In Thousands)

See accompanying notes to financial statements.

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ 199,972	$ 155,174
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	21,473	19,774
Unrealized loss (gain) in market value of interest rate swap agreements	367	(11,739)
Net unrealized and realized gains on investments	(251,185)	(203,653)
Actuarial change in life income obligation	(171)	(729)
Contributions restricted for long-term investment	(9,876)	(6,869)
Contributions of property and securities	(9,439)	(4,722)
Net change in operating assets and liabilities:		
Receivables, net and other assets	7,187	2,316
Accounts payable, accrued liabilities, and asset retirement obligations	56	1,804
Deferred income, deposits, and agency funds	820	1,209
Net cash used in operating activities	$ (40,796)	$ (47,435)
Cash Flows From Investing Activities		
Purchases of plant and equipment	$ (27,781)	$ (17,557)
Funds held by bond trustee	7	27
Short-term investments	11,392	(8,813)
Proceeds from student and other loan collections	1,744	1,538
Student and other loans issued	(1,303)	(1,086)
Purchases of investments	(311,301)	(334,536)
Sales and maturities of investments	362,855	388,839
Net cash provided by investing activities	$ 35,613	$ 28,412
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	$ 9,877	$ 6,869
Payments on long-term debt	(2,754)	(2,635)
Net cash provided by financing activities	$ 7,123	$ 4,234
Net change in cash and cash equivalents	$ 1,940	$ (14,789)
Cash and cash equivalents, beginning of year	$ 17,948	$ 32,737
Cash and cash equivalents, end of year	$ 19,888	$ 17,948
Supplemental disclosure:		
Interest paid	$ 6,240	$ 6,488
Gifts in kind	1,784	1,643
Purchases of plant and equipment increasing accounts payable	1,620	1,264

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 for women providing academic, residential and other services to a diverse student population. 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 non-operating. Non-operating 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 and less interest 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) Investments and Fair Value

The college's investment objective is to invest its assets in a prudent manner in order to achieve a long-term rate-of-return sufficient to fund a portion of its spending and to increase investment value equal to or above inflation. The college uses a diversified investment approach incorporating multiple asset classes, strategies, and managers. The college's board of trustees' investment committee oversees the college's investments and authorizes major investment decisions.

In addition to equity and fixed income investments, the college may also hold shares or units in institutional funds and alternative investment funds involving hedged and private equity strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments. Private equity funds generally employ buyout, venture capital, and debt related strategies, often requiring the estimation of fair values by the fund managers in the absence of readily determinable market values.

Investments are reported at fair value. The values of publicly traded fixed income and equity securities are based on quoted market prices. Fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. Nonmarketable securities, which include alternative investments in hedge funds and private equity funds, are valued using net asset value (NAV) provided by fund managers as a practical expedient to estimate fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2014 and 2013, the college had no specific plans or intentions to sell investments at amounts different than NAV.

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

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the college has the ability to access at measurement date.
Level 2: Quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities.
Level 3: No observable quoted prices, reliance on assumptions market participants would use if a market existed for the assets or liabilities.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

For those alternative investments valued at NAV as a practical expedient, classification in Level 2 or 3 is based on the college's ability to redeem its interest at or near the date of the statements of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2.

(f) 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.

(g) Asset Retirement Obligation

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

(h) Allocation of Certain Expenses

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

(i) Estimates

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

(j) Tax Status

The college is an organization described under Internal Revenue Code (IRC) Section 501(c)(3) and is generally exempt from federal and state taxes under the Section 501(a) of the Code and applicable state laws. The college believes it has taken no significant uncertain tax positions.

(k) Reclassifications

Certain reclassifications have been made to 2013 information to conform with the 2014 presentation.

2. Receivables, Net and Other Assets

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

	2014	2013
Contributions expected to be collected within:		
One year	$7,586	$8,639
One to five years	4,096	9,947
Over five years	95	20
Less: Discount (1% to 6%) on contributions	(103)	(112)
Less: Allowance for uncollectibles	(730)	(772)
Subtotal	$10,944	$17,722
Charitable Trusts	23,703	22,504
Less: Discount (1% to 6%) on contributions	(11,147)	(11,024)
Subtotal	$12,556	$11,480
Students, employees, other receivables	2,181	4,151
Student loans	6,192	6,238
Employee loans and mortgages	2,938	3,186
Less: Discount (1% to 6%) on contributions	(5)	(21)
Less: Allowance for uncollectibles	(1,982)	(1,862)
Subtotal	$9,324	$11,692
Other assets	4,011	3,627
Total	$36,835	$44,521

The college incurred fund-raising expenses of $7.0 million for the year ended June 30, 2014 ($7.6 million for the year ended June 30, 2013), which are included in general and administrative expense in the accompanying statement of activities.

3. Fair Value

The college's assets and liabilities at June 30, 2014 are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Days' Notice
Assets						
Investments:						
Money market fund	34,423			34,423	Daily	1
Fixed income	16,648	30,061		46,709	Daily	1
Hedge fund						
Equity and equity long/short		611,849		611,849	Daily/monthly/ quarterly	10-120
Multi-strategy		435,302		435,302	Quarterly	90
Credit driven			36,180	36,180	Annually	60-90
Fixed income			51,584	51,584	Annually	90
Private equity investments						
Venture capital			9,808	9,808	Illiquid	Illiquid
Buyout			5,812	5,812	Illiquid	Illiquid
Multi-strategy			525,936	525,936	Illiquid	Illiquid
Real assets investments			59,920	59,920	Illiquid	Illiquid
Equity securities	117		5,534	5,651	Not redeemable	Not redeemable
Third-party perpetual trusts and other	164	95	36,403	36,662	Not redeemable	Not redeemable
Total long-term investments	51,352	1,077,307	731,177	1,859,836		
Other Assets						
Short-term investments						
US treasuries money market fund	14,679			14,679	Daily	1
Low duration bond fund	28,316			28,316	Daily	1
Total short-term investments	42,995			42,995		
Total	94,347	1,077,307	731,177	1,902,831		
Liabilities						
Interest rate swap agreements		(18,923)				
Total		(18,923)				

The college's assets and liabilities at June 30, 2013 are summarized in the following table by their fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total	Redemption or Liquidation	Day's Notice
Assets						
Investments:						
Money market fund	39,857			39,857	Daily	1
Fixed income	12,713	34,431		47,144	Daily	1
Hedge fund						
Equity and equity long/short		523,389		523,389	Daily/monthly/ quarterly	10–120
Multi-strategy		375,394		375,394	Quarterly	90
Credit driven			37,492	37,492	Annually	60-90
Fixed income			54,201	54,201	Annually	90
Private equity investments						
Venture capital			11,841	11,841	Illiquid	Illiquid
Buyout			10,795	10,795	Illiquid	Illiquid
Multi-strategy			452,374	452,374	Illiquid	Illiquid
Real assets investments			61,313	61,313	Illiquid	Illiquid
Equity securities	168		4,546	4,714	Not redeemable	Not redeemable
Third-party perpetual trusts	143		33,893	34,036	Not redeemable	Not redeemable
Total long-term investments	52,881	933,214	666,455	1,652,550		
Other Assets						
Short-term investments						
US treasuries money market fund	26,846			26,846	Daily	1
Low duration bond fund	27,541			27,541	Daily	1
Total short-term investments	54,387			54,387		
Total	107,268	933,214	666,455	1,706,937		
Liabilities						
Interest rate swap agreements		(18,556)				
Total		(18,556)				

The following tables present the college's activity for the fiscal years ended June 30, 2014 and 2013 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

2014

		Fair Value Beginning of Year	Acquisitions	Dispositions	Realized gains (losses)	Unrealized gains (losses)	Fair Value End of Year
Hedge fund:	Credit driven	37,492		(4,010)	3,213	(515)	36,180
	Fixed income	54,201				(2,617)	51,584
Private equity:	Venture capital	11,841	55	(4,027)	3,430	(1,491)	9,808
	Buyout	10,795	14	(6,522)	3,371	(1,846)	5,812
	Multi-strategy	452,374	56,106	(80,445)	35,300	62,601	525,936
Real assets		61,313	120	(9,370)	3,294	4,563	59,920
Third party trusts and other		38,439	616	(878)		3,761	41,937
		666,455	56,911	(105,259)	48,608	64,456	731,177

2013

		Fair Value Beginning of Year	Acquisitions	Dispositions	Realized gains (losses)	Unrealized gains (losses)	Fair Value End of Year
Hedge fund:	Credit driven	38,256		(6,985)	2,968	3,253	37,492
	Fixed income	54,741				(540)	54,201
Private equity:	Venture capital	16,326	28	(5,685)	4,370	(3,198)	11,841
	Buyout	15,237	20	(5,080)	3,941	(3,323)	10,795
	Multi-strategy	439,724	66,583	(80,760)	34,834	(8,007)	452,374
Real assets		67,237	362	(9,718)	6,288	(2,856)	61,313
Third party trusts and other		33,622		(6,094)		10,911	38,439
		665,143	66,993	(114,322)	52,401	(3,760)	666,455

Within each asset class, the college achieves diversification through allocations to several investment strategies and market capitalizations. The college has outsourced its investment office. This outsourced investment office has established limited partnership vehicles to facilitate the management of its clients' accounts. These limited partnership investments represent 83.5% of the college's investments at June 30, 2014 (80.3% at June 30, 2013).

At June 30, 2014 and 2013, the college's remaining outstanding commitments to private equity partnerships totaled $292.6 million and $243.2 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 redemption periods are summarized below (in thousands):

Fiscal Year	Amount
Less than one year	$862,575
Between one and three years	320,189
Greater than three years	677,072
Total	$1,859,836

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

	2014	2013
Dividends and interest	$10,447	$8,468
Realized gains	59,190	67,989
Unrealized gains, net	191,995	130,327
Fees and other, net	(4,192)	(4,272)
	$257,440	$202,512

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

	2014	2013
Unrestricted Net Assets Operating	$27,084	$23,022
Unrestricted Net Assets Non-Operating	40,282	30,091
Temporarily Restricted Net Assets	188,205	148,399
Permanently Restricted Net Assets	1,869	1,000
	$257,440	$202,512

4. Endowment Funds

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

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

The college's Board of Trustees approves the annual spending distribution per unit. Units are assigned when gifts and transfers enter or exit the investment pool, based on the then market value of a unit in the pool. The pool is valued monthly. The endowment spending policy provides that the income distributed per unit will increase by 4.0% annually as long as the resulting amount is more than 4.0% and less than 6.0% of the preceding December 31 endowment market value. For fiscal year 2013-14, the Board of Trustees increased the distribution per unit by 3.0% in an effort to reduce spending over time.

The college has interpreted the Massachusetts enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the college to appropriate for expenditure or accumulate so much of an endowment fund as the college determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure. As a result of this interpretation, the college has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the college considers the following factors in determining appropriate spending levels from donor-restricted endowment funds:

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

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include term endowments reported as temporarily restricted net assets; and unexpended investment return, reported as temporarily restricted net assets.

Endowment funds consisted of the following at June 30, 2014 and 2013 (in thousands):

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$	$970,374	$377,379	$1,347,753
Quasi (board designated)	408,002			408,002
Total	$408,002	$970,374	$377,379	$1,755,755

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

Changes in endowment funds for the fiscal years ended June 30, 2014 and 2013 were as follows (in thousands):

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance June 30, 2013	$372,637	$830,624	$354,166	$1,557,427
Change in net asset classification	(12,962)	8,604	4,358	
Interest and dividends, net of fees	1,124	4,130		5,254
Realized/unrealized gains	56,757	184,589	1,930	243,276
Contributions and donor requested tranfers	34		16,305	16,339
Distributions	(17,599)	(57,439)		(75,038)
Transfers	8,011	(134)	620	8,497
Balance June 30, 2014	$408,002	$970,374	$377,379	$1,755,755

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

5. Property and Collections

Property and collections at June 30, 2014 and 2013 (in thousands):

	Useful Lives	2014	2013
Land		$6,784	$6,759
Land improvements	10-30 years	8,430	8,166
Buildings	40-70 years	513,134	512,001
Works of art	100 years	53,662	50,982
Library books	15 years	57,164	56,094
Equipment	5-12 years	18,104	17,569
		657,278	651,571
Accumulated depreciation		(273,385)	(254,346)
		383,893	397,225
Construction in progress		31,234	8,211
		$415,127	$405,436
Depreciation expense		21,493	19,793
Capitalized interest		790	144

6. Accounts Payable and Accrued Liabilities

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

	2014	2013
General payables	$6,926	$7,545
Facilities, construction, repairs	6,842	5,222
Payroll related	3,899	3,754
Compensated absences	3,869	3,676
Interest on long-term debt	2,558	2,622
	$24,094	$22,819

7. Split Interest Agreements: Assets, Obligations, and Net Assets

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

	Annuities (held by College)		Split Interest (College Trustee)		Life Income (Individual Trustee)	
	2014	2013	2014	2013	2014	2013
Assets:						
Cash/investments	$38,614	$35,404	$13,503	$13,114		
Contributions receivable					$23,703	$22,504
Discount/allowance					(11,147)	(11,024)
Obligation	(13,747)	(14,014)	(5,878)	(5,782)		
	$24,867	$21,390	$7,625	$7,332	$12,556	$11,480
Net assets:						
Temporary	$11,256	$9,758	$2,839	$2,780	$4,030	$3,364
Permanent	13,611	11,632	4,786	4,552	8,526	8,116
	$24,867	$21,390	$7,625	$7,332	$12,556	$11,480

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):

	2014	2013
Deferred income	$5,207	$5,399
Student deposits	1,065	951
Associated Kyoto Program	570	440
Smith Students' Aid Society	5,125	4,618
Other deposits	2,051	1,788
Perkins loan program	1,699	1,701
	$15,717	$14,897

9. Bonds Payable and Interest Rate Swap Agreements

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

Series	Final Year of Maturity	Interest Rates	2014	2013
Massachusetts Development Finance Agency:				
2001	2024	Variable	21,214	$22,668
2002	2029	Variable	30,980	$32,280
2005	2035	5.00%	33,065	$33,065
2007	2037	Variable	72,960	$72,960
			158,219	160,973
Unamortized premium			1,492	$1,563
			$159,711	$162,536

The Series 2001, 2002, and 2007 are variable rate demand revenue bonds. The rate is set weekly by the re-marketing agent at the lowest rate which would permit the sale of the bonds on such date at par. The college is obligated to re-purchase any bonds tendered when the rate is reset if the college's re-marketing agents fail to find a buyer. The college has secured liquidity through a standby liquidity support agreement for the 2001 and 2002 Bond Series that will expire in May 2016, and a standby bond purchase agreement for the 2007 Bond Series that expires in July 2015.

The college's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the college estimates the fair value of the fixed rate Series 2005 bonds as of June 30, 2014 was $35 million. The fair value of the Series 2001, 2002, and 2007 bonds as of June 30, 2014 approximates the total outstanding principal balance given the variable-rate terms of these obligations.

Aggregate principal payments due on the bonds during each of the next five years ending June 30 and thereafter are as follows (in thousands):

Principal

2015	2016	2017	2018	2019	Thereafter	Total
$2,882	$3,014	$3,149	$3,297	$3,449	$142,428	$158,219

In connection with the issuance of the Series 2001, Series 2002 and Series 2007 revenue bonds, the college entered into interest rate swap agreements that effectively changed the interest rate exposure on the issues from a variable rate to a fixed rate. The interest rate swap agreements have a notional amount and termination date equal to the principal amount and maturity date of the respective Series 2001, Series 2002, and Series 2007 bonds. The continued effectiveness of these swaps will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements.

The swaps are summarized as follows (in thousands):

2014

Series	Swap Fair Value	Avg Interest Rate	Swap Fixed Rate
2001	$(3,734)	0.05%	4.39%
2002	(6,573)	0.05%	4.66%
2007	(8,616)	0.05%	2.86%
	$(18,923)		

2013

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

The swaps' fair values are indicative values based on mid-market levels as of the close of business on June 30, 2014 and 2013, derived from models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. The valuations do not represent the actual terms at which new transactions could be entered into or the actual terms at which existing transactions could be liquidated.

The college has lines of credit available with a total limit of $50M; there were no amounts outstanding on the line as of June 30, 2014.

10. Net Assets

Net assets at June 30, 2014 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
Endowment	$408,002	$970,374	$377,379	$1,755,755
Split interest agreements		18,125	26,923	45,048
Plant funds	235,912	73		235,985
Loan funds			9,392	9,392
Other funds	19,197	47,573	3,900	70,670
	$663,111	$1,036,145	$417,594	$2,116,850

And net assets at June 30, 2013 are as follows (in thousands):

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

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

	2014	2013
Total Return Distribution	$51,567	$51,858
Program Services	8,796	8,495
	$60,363	$60,353

11. Retirement Plan

The college has a defined contribution retirement plan for substantially all of its employees who are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contributions to the plan for the year ended June 30, 2014 amounted to $8.5 million (year ended June 30, 2013 was $8.3 million).

12. Subsequent Events

The college evaluated subsequent events for potential recognition or disclosure through November 10, 2014, the date on which the financial statements were issued.

Notice of Nondiscrimination

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

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