Smith College

Financial Report 2003–04

Office of the Vice President for Finance and Administration
College Hall 4
Smith College
Northampton, Massachusetts 01063

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 Office of Institutional Diversity, (413) 585-2141.

Financial Report 2003–04

Ruth H. Constantine
Vice President for Finance and Administration and Treasurer

Basil A. Stewart
Controller and Assistant Treasurer

We are pleased to present the financial report of Smith College for the year ended June 30, 2004. Highlights of the year included:

- After considerable study the college adopted and implemented a new financial equilibrium plan to ensure balanced operations and adequate funding for college priorities in the years to come.
- The endowment market value increased dramatically and the college adopted a new investment strategy, including shifting responsibility for investment management to an external firm.
- The Smith community joined in grand opening celebrations for the vibrant new Smith College Campus Center and the Olin Fitness Center.

Smith's financial results for 2003–04 were positively affected by past investment performance, unanticipated over-enrollment and expense reductions. Tuition, room and board net of financial aid increased 6.2 percent to $75.3 million in 2003–04. Gifts are a critical source of support for college operations. Total gifts and pledges totaled $37 million in 2003–04, an increase of 6.6 percent above the prior year.

STATEMENT OF FINANCIAL POSITION

Total assets at June 30, 2004, were nearly $1.5 billion. The market value of investments, which represent 68 percent of total assets, increased by $108.5 million, or 12.1 percent. New gifts and additions to endowment totaled $17.2 million and the recovery of investment markets, net of income allowed for spending, added the balance. Reduced volume in the securities lending program, lowering the level of collateral held that is required to be recorded as additional assets and liabilities, offset much of the true increase in assets resulting from endowment growth.

Total liabilities declined by $87.8 million, or 26.8 percent, with most of the decline associated with the securities lending program. During the year the Smith Students' Aid Society's endowment was co-invested with that of the college, adding $2.9 million in agency funds.

Smith's total net assets increased by $100.1 million, or 8.9 percent, principally due to the increase in endowment market value.

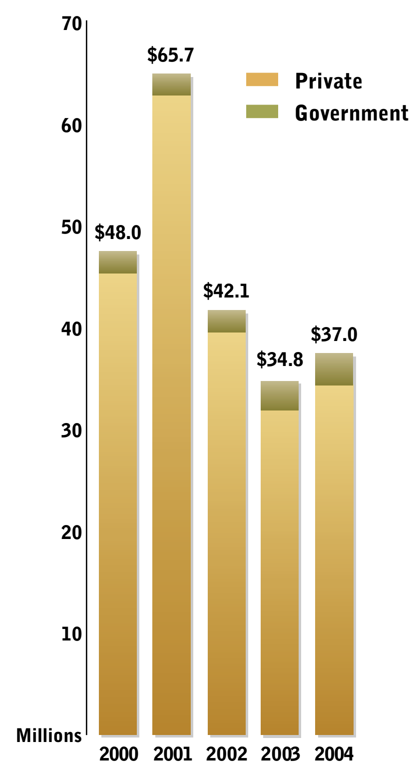
REVIEW OF OPERATIONS

Operations for the year ended June 30, 2004, produced positive results and were managed within budget. The increase in unrestricted net assets from operations was $6.7 million in fiscal year 2004 compared to an increase of $1.2 million in fiscal year 2003. The changes in the value of the interest rate swaps associated with two bond issues explain most of the fluctuation between the periods, as budgeted operations was positive in both years.

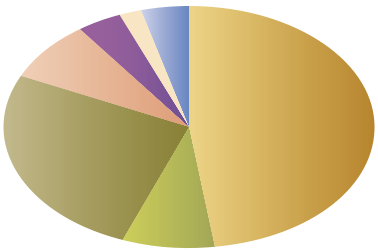
Operating Revenue

Operating revenue was $164.3 million in 2003–04, a decrease of 2 percent from 2002–03. Comprehensive fees revenue increased 7 percent, due in large part to an increase of 6 percent in the comprehensive fee. Student financial aid increased by 8.7 percent above the prior year. A total of 1,770 undergraduate students received grants totaling $35.6 million from college funds, including generous corporate and foundation support for engineering and international students. Endowment income for scholarships and restricted scholarship gifts

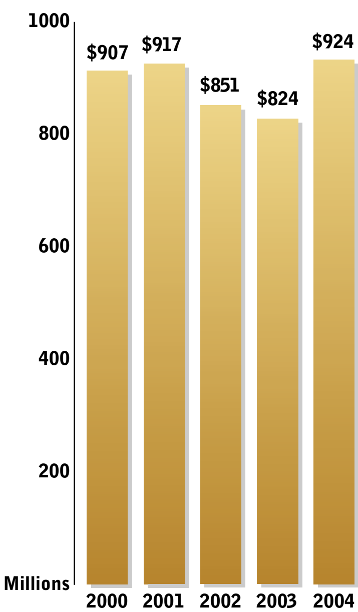
Total Giving



Average Financial Aid Award for 2003–04



Endowment Market Value



totaled $18.6 million, covering 52 percent of the financial aid grants awarded. While overall giving remained strong, a decline in unrestricted gifts and grants as well as a decline in investment return supporting operations (reductions of 15.4 percent and 10.3 percent, respectively) largely offset the increase in net comprehensive fees revenue. Total gifts and pledges of $37 million were received during the year, including government grants of $3 million.

Operating Expenses

Operating expenses totaled $157.6 million, a decrease of 5.3 percent from 2002–03. The reduction was due principally to $3.8 million in changes in the value of the interest rate swaps on bonds, which flows through as a negative expense. Smith instituted a reduction of 2.5 percent in departmental budgets, which was partially offset by a modest salary increase.

Academic support expenses increased primarily because of a new faculty retirement option, which resulted in recording current and future expense of $3.6 million. Auxiliary enterprises and general and administrative expenses decreased $5.2 million and $5.4 million, respectively. The change in auxiliary enterprises expense is due to changes in the value of swaps on bonds referenced above. General and administrative expenses decreased in part because in the prior year we recorded $1.7 million in expense associated with a staff separation plan. The reduction in general and administrative and other expenses reflects early savings realized from the college's financial equilibrium plan, the bulk of which will go into effect in 2004–05.

INVESTMENTS

Following a lengthy investigation of alternatives for sharing investment management services with other colleges, in January 2004 Smith entered into an agreement with Investure to manage its investment portfolio under the continuing oversight of the investment committee of the Board of Trustees. Investure was recently formed by Alice Handy, former long-time chief investment officer at the University of Virginia Investment Management Company, for the purpose of providing investment management and advisory services to a small group of primarily nonprofit organizations.

Smith maintains a large and diversified position in hedge funds, public and private equity funds ranging from small to large capitalization companies in the United States as well as developed and emerging international markets. Income from the endowment supports the breadth of the college's activities and programs, from general operations to specific needs such as scholarships and professorships. Income from endowment investments is critically important in funding new initiatives and emerging needs.

Following a partial recovery of the endowment market value in the latter part of fiscal year 2003, the market value of the college's endowment increased by $100.5 million in 2003–04 to a total value of $924.5 million on June 30, 2004. The increase in market value includes $129.8 million in investment return, consisting of appreciation and yield, and $17.2 million in gifts and other additions to the endowment, net of $46.4 million in distributions to support operations.

Total return on the college's long-term investments, net of fees, was 15.8 percent for the year. In the second half of the fiscal year the college shifted its asset allocation targets to invest more in hedge funds and less in fixed income and domestic equities. As of June 30, 2004, 35 percent of the portfolio was invested in hedge funds, 29 percent in domestic equities, 15 percent in international equities, 11 percent in fixed income, 8 percent in private equity and 2 percent in real assets.

FACILITIES

The college completed several capital projects during the year. The Smith College Campus Center, designed as a common gathering space for students, faculty, staff and visitors, opened in August 2003. The 56,000-square-foot building was designed by the architectural firm Weiss/Manfredi. The renovation of the performing arts center, also completed in August 2003, repaired the building's exterior, added a classroom and improved mechanical systems. The Olin Fitness Center, designed as a new connection between Ainsworth and Scott gyms, opened in February 2004.

Following a leadership gift from the Ford Motor Company, Smith has begun to design a new engineering and molecular sciences building. Construction on the building is expected to begin in two years.

Capital expenditures for land, building, equipment and collections were $14.8 million in fiscal year 2004, including library and museum collections of $3.0 million, and buildings and construction of $11.0 million. These additions are offset by $12.7 million in depreciation expense.

Ten Years in Review

	2004	2003	2002	1999	1994
Assets, Liabilities and Net Assets (000s)					
Total assets	$1,462,974	$1,450,710	$1,451,544	$1,209,154	$660,181
Total plant assets	270,627	266,392	239,396	145,466	153,628
Endowment funds market value	924,464	823,915	851,253	884,782	442,071
Life income funds market value	45,306	43,098	41,003	42,823	23,346
Long-term debt	74,493	75,299	76,185	34,180	43,790
Net assets	1,222,805	1,122,727	1,154,349	1,132,648	579,215
Income and Expense (000s)					
Undergraduate comprehensive fees	$99,159	$93,435	$89,176	$73,311	$60,208
Undergraduate scholarships	35,618	32,730	28,572	21,844	16,191
Net	63,541	60,705	60,604	51,467	44,017
Unrestricted gifts and grants	19,264	22,772	23,396	22,798	8,477
Restricted gifts and grants	17,783	11,980	18,700	31,063	22,040
Total operating expenses	157,619	166,413	153,832	117,078	88,970
Salaries and wages	76,343	77,923	71,283	59,229	47,987
Staff benefits	20,836	21,271	18,665	14,332	12,039
Other Statistics					
Undergraduate FTE	2,738	2,743	2,743	2,548	2,542
Faculty FTE	295.0	295.0	289.3	263.1	261.1
Student-faculty ratio	8.7	8.7	8.9	9.7	9.7
Comprehensive fee	$37,034	$34,936	$33,110	$29,240	$24,080
Net cost per student	$53,000	$53,000	$49,400	$41,400	$28,600
Fee as percent of cost per student	69.9%	65.9%	67.0%	70.6%	84.2%
Students receiving scholarships	64.5%	64.1%	62.8%	59.3%	53.9%
Operations supported by endowment	27.9%	28.8%	30.1%	27.1%	22.7%
Endowment per student	$321,615	$286,900	$296,870	$337,825	$168,355
Endowment spending as percent of market value	5.2%	5.7%	5.2%	4.0%	4.8%

Report of Independent Auditors

To the Trustees of Smith College
Northampton, Massachusetts

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Smith College (the "college") at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers

Boston, Massachusetts
September 14, 2004

Statements of Financial Position

June 30, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents	$37,623,456	$48,295,550
Collateral held for loaned securities	102,793,867	189,451,113
Contributions and accounts receivable, net	35,578,162	36,213,619
Other assets	5,224,548	7,437,312
Loans receivable, net	9,245,970	9,547,574
Investments	1,001,881,061	893,373,282
Land, buildings, equipment and collections, net	270,627,126	266,391,625
Total assets	$1,462,974,190	$1,450,710,075
Liabilities		
Accounts payable and accrued liabilities	$20,868,146	$26,359,948
Payable under securities loan agreements	102,793,867	189,451,113
Life income obligation	17,662,738	16,938,763
Deferred income	3,780,176	3,618,381
Deposits and agency funds	20,570,867	16,315,386
Bonds payable	74,493,459	75,299,113
Total liabilities	$240,169,253	$327,982,704
Net Assets		
Unrestricted	458,372,432	427,537,704
Temporarily restricted	488,820,322	434,393,247
Permanently restricted	275,612,183	260,796,420
Total net assets	$1,222,804,937	$1,122,727,371
Total liabilities and net assets	$1,462,974,190	$1,450,710,075

See accompanying notes to financial statements.

Statements of Activities

For the years ended June 30, 2004 and 2003

	2004	2003
Changes in Unrestricted Net Assets		
Operating Revenues and Other Additions		
Student income: Tuition and other fees	$87,191,405	$81,293,283
Room and board fees	26,533,033	24,969,054
	113,724,438	106,262,337
Student aid	(38,456,884)	(35,385,814)
Student income, net	75,267,554	70,876,523
Gifts	19,263,797	22,771,542
Investment return supporting operations	24,852,043	27,719,856
Other income	9,083,424	9,271,536
Net assets released from restrictions	35,855,995	36,996,263
Total operating revenues	$164,322,813	$167,635,720
Operating Expenses		
Instruction	63,647,260	64,327,370
Academic support	28,077,360	25,480,898
Student services	18,243,598	18,281,861
Auxiliary enterprises	24,000,514	29,240,382
General and administrative	23,650,407	29,082,289
Total expenses	157,619,139	$166,412,800
Operating subtotal	$6,703,674	1,222,920
Non-Operating Revenues and Other Changes		
Investment return increasing (reducing) long-term investment	24,131,054	(14,653,085)
Non-operating revenues and other changes subtotal	$24,131,054	$(14,653,085)
Increase (decrease) in unrestricted net assets	$30,834,728	$(13,430,165)
Changes in Temporarily Restricted Net Assets		
Gifts	7,148,733	6,149,123
Investment return	79,768,661	4,200,317
Change in life income funds	3,365,676	1,693,383
Net assets released from restrictions	(35,855,995)	(36,996,263)
Increase (decrease) in temporarily restricted net assets	$54,427,075	$(24,953,440)
Changes in Permanently Restricted Net Assets		
Gifts	10,634,053	5,831,191
Investment return	3,284,252	241,315
Change in life income funds	897,458	689,888
Increase in permanently restricted net assets	$14,815,763	$6,762,394
Total increase (decrease) in net assets	$100,077,566	$(31,621,211)
Net assets, beginning of year	1,122,727,371	1,154,348,582
Net assets, end of year	$1,222,804,937	$1,122,727,371

See accompanying notes to financial statements.

Statements of Cash Flows

For the years ended June 30, 2004 and 2003

		2004		2003
Cash Flows From Operating Activities				
Increase (decrease) in net assets	$	100,077,566	$	(31,621,211)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:				
Depreciation and amortization		12,732,029		12,063,187
Net unrealized and realized gains on investments		(118,226,271)		(751,329)
Actuarial change in life income obligation		723,975		1,502,043
Decrease (increase) in assets:				
Contributions and accounts receivable, net		635,457		5,893,447
Other assets		2,175,089		840,873
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities		(2,002,481)		8,229,908
Deferred income		161,795		(425,606)
Deposits and agency funds		4,173,703		(497,163)
Capital gifts		(14,894,499)		(14,833,062)
Loss on disposal		267,116		-
Contributions of property		(2,540,152)		(1,852,798)
Net cash used in operating activities	$	(16,716,673)	$	(21,451,711)
Cash Flows From Investing Activities				
Purchases of plant and equipment	$	(18,146,794)	$	(37,854,134)
Proceeds from loan collections		2,474,224		2,447,291
Loans issued		(2,172,620)		(2,130,431)
Purchases of investments		(931,048,914)		(387,207,338)
Sales and maturities of investments		940,767,406		421,672,392
Net cash (used in) provided by investing activities	$	(8,126,698)	$	(3,072,220)
Cash Flows From Financing Activities				
Contributions to endowment	$	8,926,518	$	6,325,500
Contributions to life income agreements		1,707,535		2,145,422
Contributions to plant		4,260,446		6,362,140
Federal contribution Perkins loan funds		81,778		80,211
Payments on long-term debt		(805,000)		(885,000)
Net cash provided by financing activities	$	14,171,277	$	14,028,273
Net change in cash and cash equivalents	$	(10,672,094)	$	(10,495,658)
Cash and cash equivalents, beginning of year	$	48,295,550	$	58,791,208
Cash and cash equivalents, end of year	$	37,623,456	$	48,295,550
Supplemental disclosures:				
Interest paid	$	3,430,110	$	3,276,385
Gifts in kind		2,540,152		1,852,798
Purchases of plant and equipment included in accounts payable		1,051,579		4,540,900
Collateral received for loaned securities		102,793,867		189,451,113

See accompanying notes to financial statements.

Notes to Financial Statements

1. Accounting Policies

Organization

Smith College is a private liberal arts college for women, providing academic, residential and other services to a diverse student population. The college is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3).

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues, gains and expenses recognized during the reporting periods. Actual results may differ from those estimates. Significant estimates include the allowance for uncollectible contributions and accounts receivable, the allowance for uncollectible loans receivable, the valuation of nonmarketable securities, accrued compensation and benefits, and the actuarial assumptions regarding life income obligations.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined as follows:

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the college. Generally, the donors of these assets permit the college to use all or part of the income earned and gains realized on these assets. Such assets primarily include the college's permanent endowment funds.

Temporarily Restricted: Net assets whose use by the college is subject to donor-imposed stipulations or limitations by law that can be fulfilled by actions of the college or that expire by the passage of time.

Unrestricted: Net assets that are not subject to donor-imposed stipulations or limitations by law. Net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Contributions are reported as increases in the appropriate category of net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Revenues from other sources are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Items where the restriction is met in the same year are shown as unrestricted activities rather than initially reported in temporarily restricted. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received with donor-imposed restrictions are reported as permanently or temporarily restricted revenues depending on the specific restriction. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a risk-free rate appropriate for the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. Allowance is made for uncollectible contributions based upon management's judgement and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets of endowment and similar funds and life income funds are included in long-term investments. Cash and cash equivalents are reported at cost which approximates fair value.

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices. Private equities and certain other nonmarketable securities are valued using current estimates of fair value provided by the general partner or investment manager for the respective funds. Certain alternative investments are carried at estimated fair value as of March 31, 2004 (and 2003), as adjusted for cash receipts, cash disbursements and securities distributions through June 30, 2004 (and 2003). Securities carried at estimated fair value represented 43 percent and 20 percent of the college's investments as of June 30, 2004, and June 30, 2003, respectively. One limited partnership fund represents 19 percent of investments as of June 30, 2004. Purchases and sales of investments are recorded at the trade date of the transaction. Realized investment gains and losses are recorded utilizing the average cost method for all investments except where specific identification is required by law. Investments include the beneficial interests in perpetual trusts and interest in the net assets of the Alumnae Association of Smith College (Alumnae Association). Beneficial interest in a 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 and the Smith Students' Aid Society, Inc., are invested with the college's pooled endowment.

The college uses the Total Return Concept. Under this concept, substantially all of the college's investments are pooled for investing purposes. Yield (interest and dividends) and a prudent portion of appreciation are distributed for operating purposes. Temporarily restricted appreciation so utilized is released to unrestricted revenues as expenses are incurred.

As of June 30, 2004 and 2003, the college had loaned certain securities, returnable on demand, with a fair value of approximately $100,614,493 and $184,823,000 respectively, to several financial institutions that have deposited collateral with respect to such securities of $102,793,867 and $189,451,113 respectively. The college receives income on the invested collateral and also continues to receive interest and dividends from the securities on loan.

Derivative financial instruments are utilized by the college to equitize cash held by investment managers and to manage currency exchange risks arising from investments in nonderivative foreign assets in proportion to the asset at risk. Such instruments consist of S&P 500 futures and forward foreign exchange contracts entered into as part of the investment portfolio of the college's endowment fund. On June 30, 2004, the notional amount of open positions on S&P 500 futures and forward foreign exchange contracts was approximately $7,666,650 and $31,433,994 respectively, and on the same date, the fair value of the S&P futures and the forward foreign exchange contracts, recorded as part of the college's investments, was $31,050 and $(722,912), respectively.

In connection with the issuance of the Series 2001 and Series 2002 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 of 4.39 percent on the Series 2001 bonds and 4.66 percent on the Series 2002 bonds. 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 and Series 2002 bonds. On June 30, 2004 and 2003, the fair value of the interest rate swaps, recorded as part of the college's accounts payable and accrued liabilities, was $6,639,105 and $10,436,995 respectively.

Land, buildings, equipment and collections are recorded at cost. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Equipment, works of art and other assets contributed to the college are capitalized at fair value at the date of the gift. Collection purchases are recorded at cost. The Museum of Art maintains a collection of art for educational purposes.

Life income obligation results from annuity and life income agreements that are primarily irrevocable charitable remainder agreements. The college holds the assets for those classified as annuities and outside trustees hold the assets for those classified as life income agreements. 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. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

Endowment and similar funds represent resources that have been restricted by the donor or designated by the Trustees that will be invested to provide future revenue to the college to support its programs and activities.

Certain reclassifications have been made to 2003 accounts to conform with the 2004 presentation.

2. Contributions and Accounts Receivable

Contributions and accounts receivable consist of the following items at June 30:

	2004	2003
Students, employees, other	$ 2,595,386	$ 1,738,193
Contributions expected to be collected		
within: One year	14,761,178	13,327,011
One to five years	7,020,663	10,241,823
Over five years	23,734,956	26,355,936
Less: Allowance for uncollectible accounts		
and unamortized discount	(12,534,021)	(15,449,344)
	$ 35,578,162	$ 36,213,619

3. Loans Receivable

Loans receivable consists of the following items at June 30:

	2004	2003
Student loans	$ 7,767,426	$ 7,804,445
Employee loans and mortgages	2,844,764	2,971,020
Less: Allowance for uncollectible loans	(1,366,220)	(1,227,891)
	$ 9,245,970	$ 9,547,574

4. Investments

Investments are composed of the following at June 30:

	Pooled	Other	Outside Trustees	2004 Total	2003 Total
Cash and cash equivalents	$ 83,641,049	$ 6,000	$	$ 83,647,049	$ 15,460,163
Fixed income securities	76,522,572	2,281,333		78,803,905	171,214,017
Equity securities	375,801,726			375,801,726	461,547,836
Limited partnerships/ other	428,975,199	554,148		429,529,347	200,657,802
Funds held by bond trustee			741,908	741,908	744,376
Life income funds			19,493,528	19,493,528	19,175,982
Interest in the net assets of					
the Alumnae Association			14,311,261	14,311,261	12,931,736
Beneficial interests			15,320,921	15,320,921	12,742,158
Due to brokers	(47,946,928)			(47,946,928)	(34,181,944)
Due from brokers	32,178,344			32,178,344	33,081,156
Total investments	$949,171,962	$2,841,481	$49,867,618	$1,001,881,061	$893,373,282

Investment return is composed of the following for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
Dividends and Interest	$ 16,478,914	$ 234,181	$ 215,279	$ 16,928,374	$ 21,819,725
Realized Gains (Losses)	16,594,359	29,670,960	-	46,265,319	30,418
Unrealized Gains (Losses)	18,833,681	49,863,520	3,263,751	71,960,952	720,911
Fees	(2,923,857)	-	(194,778)	(3,118,635)	(5,062,651)
	$ 48,983,097	$79,768,661	$ 3,284,252	$ 132,036,010	$ 17,508,403

The total return appropriation on pooled endowment funds under the college's spending policy comprised the following for the years ended June 30:

	2004	2003
Dividends and interest	$ 14,290,078	$ 18,209,791
Investment fees	(2,783,656)	(4,962,628)
	11,506,422	13,247,163
Accumulated gains distributed:		
Unrestricted	10,030,070	10,174,768
Temporarily restricted	24,076,811	24,151,031
	34,106,881	34,325,799
	$ 45,613,303	$ 47,572,962

	2004	2003
Outstanding commitments to limited partnerships:	$101,147,319	$121,760,443

5. Land, Buildings, Equipment and Collections

Land, buildings, equipment and collections are as follows at June 30:

Cost	Useful Lives	2004	2003
Land		$ 4,728,623	$ 4,728,623
Land improvements	10–30 years	5,054,354	4,999,775
Buildings	40–70 years	316,278,360	281,185,312
Works of art	100 years	28,605,331	26,056,176
Library books	15 years	35,726,896	32,918,781
Equipment	5–12 years	21,123,289	23,568,924
		411,516,853	373,457,591
Accumulated depreciation		(142,269,632)	(133,245,153)
		269,247,221	240,212,438
Construction in progress		1,379,905	26,179,187
		$270,627,126	$266,391,625

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following items at June 30:

	2004	2003
General payables	$ 3,059,747	$ 3,769,597
Interest rate swaps	6,639,105	10,436,995
Facilities, construction, repairs	2,881,865	5,577,978
Payroll related	1,613,489	1,682,497
Compensated absences	2,936,494	3,087,672
Retirement and separation plans	3,737,446	1,805,209
	$20,868,146	$26,359,948

7. Life Income Assets, Obligations and Net Assets

Life income funds consist of the following items at June 30:

	Annuities (held by College)		Life Income (College Trustee)		Life Income (Individual Trustee)	
	2004	2003	2004	2003	2004	2003
Assets:						
Cash/Investments	$25,812,820	$23,921,744	$19,493,528	$19,175,982		
Contributions receivable					$ 23,679,881	$ 26,355,936
Discount/Allowance					(10,637,394)	(11,874,869)
Obligation:						
Obligation	(9,946,612)	(9,963,516)	(7,716,126)	(6,975,247)		
	$15,866,208	$13,958,228	$11,777,402	$12,200,735	$13,042,487	$14,481,067
Net Assets:						
Temporary	$6,864,250	$6,363,077	$ 3,831,549	$ 4,858,710	$ 9,557,550	$ 7,842,416
Permanent	9,001,958	7,595,151	7,945,853	7,342,025	3,484,937	6,638,651
	$15,866,208	$13,958,228	$11,777,402	$12,200,735	$13,042,487	$14,481,067

8. Deposits and Agency Funds

Deposits and agency funds consist of the following items at June 30:

	2004	2003
Student deposits	$ 723,436	$ 703,779
Alumnae Association	14,590,975	13,129,633
Smith Students' Aid Society	2,882,229	-
Other deposits	69,038	155,675
Perkins loan program	2,305,189	2,326,299
	$20,570,867	$16,315,386

9. Bonds Payable

The college has the following general long-term obligations as of June 30:

Series	Final Year of Maturity	Interest Rates	2004	2003
Massachusetts Development Finance Agency:				
2000	2010	4.6%-5.75%	$ 6,855,000	$ 7,545,000
2001	2024	Variable	32,961,000	32,961,000
2002	2029	Variable	34,675,000	34,790,000
			74,491,000	75,296,000
Unamortized premium			2,459	3,113
			$74,493,459	$75,299,113

The average interest rate on the Series 2001 and Series 2002 bond issues, during fiscal 2004, were 0.96 percent and 0.96 percent respectively, with June 30, 2004, rates of 1.07 percent and 1.07 percent respectively.

On February 7, 2002, the college utilized $34,753,298 of the proceeds from the Series 2002 revenue bonds to advance refund a portion of the Series 2000 bond issue. The Refunding Trust Fund is invested in cash and Government obligations and will provide for future payments of principal, redemption premium, and interest on the advance refunded Series 2000 bonds. In order to meet these obligations, the amount deposited in escrow was greater than the par value of the advance refunded Series 2000 bonds. The outstanding principal of the defeased Series 2000 bonds, at June 30, 2004, which is not reflected in the college's financial statements, was $32,035,000.

On March 7, 2001, the college utilized $33,482,020 of the proceeds from the Series 2001 revenue bonds and $327,500 in the Series D Debt Service Fund to advance refund the Series D bond issue. The Refunding Trust Fund is invested in cash and Government obligations and will provide for future payments of principal, redemption premium, and interest on the Series D bonds. In order to meet these obligations, the amount deposited in escrow was greater than the par value of the Series D bonds. The outstanding principal of the defeased Series D bonds, at June 30, 2004, which is not reflected in the college's financial statements, was $29,715,000.

The fair value of the Series 2000 bonds payable as of June 30, 2004 is approximately $7,273,736. The fair value of the Series 2001 and 2002 bonds payable as of June 30, 2004 approximates the total outstanding principal balance. Aggregate principal payments due on these bonds during each of the next five years, ending June 30, and thereafter are as follows:

2005	2006	2007	2008	2009	Thereafter	Total
$1,577,000	$1,901,000	$1,988,000	$2,079,000	$2,175,000	$64,771,000	$74,491,000

10. Net Assets

Net assets at June 30 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2004	Total 2003
Endowment					
Permanent endowment			$244,479,260	$ 244,479,260	$ 229,538,531
Net appreciation on permanent endowment		$410,304,546		410,304,546	349,960,579
Term endowment		4,304,938		4,304,938	4,872,873
Quasi-endowment	$258,252,363	7,122,645		265,375,008	239,543,366
	258,252,363	421,732,129	244,479,260	924,463,752	823,915,349
Life income funds		20,253,349	20,432,748	40,686,097	40,640,030
Plant funds	177,971,775	4,060,079		182,031,854	169,750,904
Loan funds			6,025,815	6,025,815	5,812,255
Other funds	22,148,294	42,774,765	4,674,360	69,597,419	82,608,833
	$458,372,432	$488,820,322	$275,612,183	$1,222,804,937	$1,122,727,371

Included in unrestricted, temporarily restricted and permanently restricted net assets are the college's endowment and similar funds and life income funds. The per share market value of the college's pooled endowment fund at June 30, 2004 was $4,828 ($4,394 at June 30, 2003). The total endowment shares in the endowment fund (including annuity funds) were 196,693 at June 30, 2004 (192,482 at June 30, 2003).

As a result of market declines, the fair value of certain donor-restricted endowments was less than the historical book value of such funds by $23,491 at June 30, 2004 ($3,517,840 at June 30, 2003). These unrealized losses have been recorded as reductions of unrestricted net assets. Future market gains will be used to restore this reduction in unrestricted net assets before any net appreciation above the historical book value of such funds increases temporarily restricted net assets.

Temporarily restricted net assets released to unrestricted net assets were as follows:

	2003–04	2002–03
Total return distribution	$23,855,731	$23,854,956
Program services	12,000,264	13,141,307
	$35,855,995	$36,996,263

11. Pension Plan

The college has a defined contribution retirement plan for substantially all its employees. The plan is administered by independent trustees to whom all funds are transferred for investment purposes and benefit payments. All employees are eligible to participate after meeting certain eligibility requirements. College contributions to the plan are based upon a percentage of salaries. The college's contribution to the retirement plan amounted to approximately $6,768,000 in 2003–04 ($6,683,000 in 2002–03).

3554-11/04 DESIGN: JOHN EUE

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