



THE REED INSTITUTE

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Trustees
The Reed Institute:

We have audited the accompanying statements of financial position of The Reed Institute as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of The Reed Institute's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Reed Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Reed Institute as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 25, 2011

THE REED INSTITUTE
 Statements of Financial Position
 June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 10,142,365	5,453,008
Accounts receivable – student and other (note 8)	236,847	440,825
Short-term investments (note 3)	1,264,818	4,022,462
Contributions receivable, net of allowance \$27,000 in 2011 and \$44,000 in 2010 (note 8)	504,456	840,147
Prepaid expenses and other assets	3,364,072	2,921,645
Total current assets	15,512,558	13,678,087
Noncurrent assets:		
Cash and cash equivalents whose use is limited	2,308,107	2,196,869
Accounts receivable noncurrent – student and other, net of allowance of \$60,000 in 2011 and 2010 (note 8)	4,993,653	4,960,440
Property, plant, and equipment, net (note 4)	111,919,299	113,494,638
Contributions receivable – noncurrent net of allowance of \$995,000 in 2011 and \$906,000 in 2010 (note 8)	18,882,999	17,194,361
Funds held in trust by others (note 7)	13,171,845	12,862,568
Funds held by trustee (note 3)	17,884,144	—
Long-term investments (note 3)	447,385,039	395,489,129
Other assets	548,214	528,449
Total noncurrent assets	617,093,300	546,726,454
Total assets	\$ 632,605,858	560,404,541
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,362,287	4,735,810
Postretirement benefits payable (note 6)	611,371	613,699
Debt and capital leases, current portion (note 5)	1,220,195	46,937,723
Deferred revenue	980,452	1,130,667
Total current liabilities	8,174,305	53,417,899
Long-term liabilities:		
Liability for split interest agreements	10,757,649	10,396,922
Postretirement benefits payable (note 6)	15,188,196	17,826,555
Refundable loan programs	2,920,745	2,976,859
Asset retirement obligation	2,956,981	2,925,560
Debt and capital leases, net of current portion (note 5)	83,895,011	18,607,426
Other liabilities	2,368,419	2,729,849
Total long-term liabilities	118,087,001	55,463,171
Total liabilities	126,261,306	108,881,070
Net assets (note 9):		
Unrestricted	278,001,047	242,133,572
Temporarily restricted	91,185,175	75,032,769
Permanently restricted	137,158,330	134,357,130
Total net assets	506,344,552	451,523,471
Total liabilities and net assets	\$ 632,605,858	560,404,541

See accompanying notes to financial statements.

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2011</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 55,497,789	—	—	55,497,789
Less college-funded scholarships	(20,111,171)	—	—	(20,111,171)
Net tuition and fees	<u>35,386,618</u>	<u>—</u>	<u>—</u>	<u>35,386,618</u>
Auxiliary enterprises	12,713,380	—	—	12,713,380
Gifts and private grants	9,313,221	4,099,694	627,228	14,040,143
Government grants, contracts, and student aid	1,536,926	—	—	1,536,926
Realized and unrealized gains and losses	34,584,767	25,604,992	—	60,189,759
Other investment income	(1,093,462)	—	—	(1,093,462)
Other revenues and additions	1,722,320	—	53,152	1,775,472
Subtotal	<u>58,777,152</u>	<u>29,704,686</u>	<u>680,380</u>	<u>89,162,218</u>
Net assets released from restrictions	<u>10,613,598</u>	<u>(10,613,598)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>104,777,368</u>	<u>19,091,088</u>	<u>680,380</u>	<u>124,548,836</u>
Expenses:				
Educational and general:				
Instruction	25,535,650	—	—	25,535,650
Research	1,106,266	—	—	1,106,266
Academic support	8,142,617	—	—	8,142,617
General institutional support	11,259,607	—	—	11,259,607
Student services	5,772,326	—	—	5,772,326
Public affairs	5,286,251	—	—	5,286,251
Total educational and general	<u>57,102,717</u>	<u>—</u>	<u>—</u>	<u>57,102,717</u>
Auxiliary enterprises	<u>15,828,289</u>	<u>—</u>	<u>—</u>	<u>15,828,289</u>
Total expenses	<u>72,931,006</u>	<u>—</u>	<u>—</u>	<u>72,931,006</u>
Increase from operations	<u>31,846,362</u>	<u>19,091,088</u>	<u>680,380</u>	<u>51,617,830</u>
Nonoperating activity:				
Other interest expense	(119,082)	—	—	(119,082)
Change in value of split interest agreements	—	2,333,036	1,169,871	3,502,907
Recovery of underwater endowments	4,232,829	(4,232,829)	—	—
Other additions (deductions)	(92,634)	(1,038,889)	950,949	(180,574)
Total nonoperating activity	<u>4,021,113</u>	<u>(2,938,682)</u>	<u>2,120,820</u>	<u>3,203,251</u>
Increase in net assets	<u>35,867,475</u>	<u>16,152,406</u>	<u>2,801,200</u>	<u>54,821,081</u>
Net assets, beginning of year	<u>242,133,572</u>	<u>75,032,769</u>	<u>134,357,130</u>	<u>451,523,471</u>
Net assets, end of year	\$ <u>278,001,047</u>	<u>91,185,175</u>	<u>137,158,330</u>	<u>506,344,552</u>

See accompanying notes to financial statements.

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2010</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 53,238,793	—	—	53,238,793
Less college-funded scholarships	(18,857,307)	—	—	(18,857,307)
Net tuition and fees	<u>34,381,486</u>	<u>—</u>	<u>—</u>	<u>34,381,486</u>
Auxiliary enterprises	11,611,738	—	—	11,611,738
Gifts and private grants	11,105,179	803,421	18,789,974	30,698,574
Government grants, contracts, and student aid	1,626,498	—	—	1,626,498
Realized and unrealized gains and losses	20,560,032	14,617,244	—	35,177,276
Other investment income	(385,946)	—	—	(385,946)
Other revenues and additions	1,058,831	—	537	1,059,368
Subtotal	<u>45,576,332</u>	<u>15,420,665</u>	<u>18,790,511</u>	<u>79,787,508</u>
Net assets released from restrictions	<u>11,987,486</u>	<u>(11,987,486)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>91,945,304</u>	<u>3,433,179</u>	<u>18,790,511</u>	<u>114,168,994</u>
Expenses:				
Educational and general:				
Instruction	26,423,932	—	—	26,423,932
Research	979,161	—	—	979,161
Academic support	7,428,119	—	—	7,428,119
General institutional support	13,364,385	—	—	13,364,385
Student services	5,351,866	—	—	5,351,866
Public affairs	4,505,985	—	—	4,505,985
Total educational and general	<u>58,053,448</u>	<u>—</u>	<u>—</u>	<u>58,053,448</u>
Auxiliary enterprises	14,535,176	—	—	14,535,176
Total expenses	<u>72,588,624</u>	<u>—</u>	<u>—</u>	<u>72,588,624</u>
Increase from operations	<u>19,356,680</u>	<u>3,433,179</u>	<u>18,790,511</u>	<u>41,580,370</u>
Nonoperating activity:				
Other interest expense	(118,176)	—	—	(118,176)
Change in value of split interest agreements	—	3,257,079	326,873	3,583,952
Recovery of underwater endowments	—	—	—	—
Other additions (deductions)	(1,180,773)	—	1,007,174	(173,599)
Total nonoperating activity	<u>(1,298,949)</u>	<u>3,257,079</u>	<u>1,334,047</u>	<u>3,292,177</u>
Increase in net assets	18,057,731	6,690,258	20,124,558	44,872,547
Net assets, beginning of year	<u>224,075,841</u>	<u>68,342,511</u>	<u>114,232,572</u>	<u>406,650,924</u>
Net assets, end of year	\$ <u>242,133,572</u>	<u>75,032,769</u>	<u>134,357,130</u>	<u>451,523,471</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 54,821,081	44,872,547
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization costs	4,288,239	4,303,785
Contributions restricted for long-term investment	(10,580,169)	(23,394,525)
Noncash contributions	(1,075,568)	(3,005,791)
Net realized and unrealized losses on investments	(59,828,329)	(35,745,750)
Change in value of split interest agreements	(3,502,907)	(3,583,952)
Change in fair value of derivative instruments	(361,430)	568,474
Change in asset retirement obligation	31,421	33,210
Changes in operating assets and liabilities:		
(Increase) decrease in cash and cash equivalents whose use is limited	(111,238)	11,386
(Increase) decrease in accounts receivable – students and other	170,765	(128,224)
(Increase) decrease in contributions receivable	(1,352,947)	3,037,541
Increase in prepaid expenses and other assets	(442,427)	(385,551)
(Decrease) increase in accounts payable and accrued liabilities	626,477	(210,332)
(Decrease) increase in postretirement benefits payable	(2,640,687)	2,154,571
Increase (decrease) in deferred revenue	(150,215)	93,779
Net cash used in operating activities	(20,107,934)	(11,378,832)
Cash flows from investing activities:		
Proceeds from maturities/sales of investments	311,884,850	282,004,920
Purchases of investments	(295,680,607)	(292,362,421)
Contracts receivable advanced	(27,500)	(61,774)
Contracts receivable collected	35,246	24,720
Purchase of property, plant, and equipment	(2,740,411)	(2,231,260)
Net cash provided by (used in) investing activities	13,471,578	(12,625,815)
Cash flows from financing activities:		
Contributions restricted for long-term investment	10,580,169	23,394,525
Issuance of debt	40,030,000	—
Payment of debt principal and capital lease obligations	(20,459,943)	(588,781)
Payments of obligations for split interest agreements	(1,244,982)	(1,395,759)
Increase in obligations for split interest agreements	360,727	996,093
Changes in governmental loan funds	(56,114)	(42,925)
Changes in deposit with bond trustee	(17,884,144)	—
Net cash provided by financing activities	11,325,713	22,363,153
Net increase (decrease) in cash and cash equivalents	4,689,357	(1,641,494)
Cash and cash equivalents, beginning of year	5,453,008	7,094,502
Cash and cash equivalents, end of year	\$ 10,142,365	5,453,008
Supplemental disclosures:		
Interest paid	\$ 1,773,491	1,279,657
Assets acquired under capital leases	23,658	389,869

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2011 and 2010

(1) Background

The Reed Institute (Reed College) was founded in 1908 by Simeon and Amanda Reed, with one central commitment: to provide a balanced, comprehensive education in liberal arts and sciences, fulfilling the highest standards of intellectual excellence. Reed College offers a B.A. in one of 22 major fields and numerous interdisciplinary fields, as well as a master of arts in liberal studies degree. The Reed College educational program pays particular attention to a balance between broad study in the various areas of human knowledge and close, in-depth study in a recognized academic discipline.

(2) Summary of Significant Accounting Policies

(a) *Accrual Basis*

The financial statements of Reed College have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) *Basis of Presentation*

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The definitions used to classify and report net assets are as follows:

- **Unrestricted net assets** – net assets that are not subject to donor-imposed stipulations or donor-restricted contributions whose restrictions are met in the same reporting period.
- **Temporarily restricted net assets** – net assets subject to donor-imposed stipulations that will be met either by actions of Reed College or the passage of time.
- **Permanently restricted net assets** – net assets subject to donor-imposed stipulations that they be permanently maintained by Reed College. Generally, the donors of these assets permit Reed College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets with the exception of activity related to life income agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets and are reported as “net assets released from restriction” in the statements of activities. Restrictions related to contributions for the purchase of capital additions are released when the asset is placed in service.

Income and net gains on investments of endowment and similar funds are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or Reed College’s interpretation of relevant state law require they be added to the principal of a permanently restricted net asset.

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- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or if endowment income has not yet been appropriated for expenditure.
- Increases in unrestricted net assets in all other cases.

Reed College follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 10 for further disclosures.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for student and contributions receivables; and the valuation of the interest rate swaps, investments, split-interest agreements, and actuarial assumptions. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(d) Revenues

The principal sources of revenue, consisting of tuition, room and board, various other educational fees, unrestricted income from funds functioning as endowment, unrestricted gifts, and net assets released from restrictions, are accounted for in unrestricted net assets. Unrestricted net assets also include revenue from grants, auxiliary enterprises, and gains on disposal of assets.

The following assets have become available for general operating purposes from release from donor restrictions through the passage of time and through the maturation of various planned giving agreements for the years ended June 30, 2011 and 2010, respectively.

	2011	2010
Maturation of planned giving agreements	\$ 500,994	262,137
Passage of time	(61,509)	1,112,514
Endowment earnings appropriated for expenditure	10,174,113	10,612,835
Total net assets released from restrictions	\$ 10,613,598	11,987,486

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With a few exceptions, the monies in the endowment and similar funds are invested as a pool, and the related income of the pool is distributed to each participating fund based upon a spending formula and its relative proportion of the pool.

In addition, moneys, which are not required to meet short-term demands, are combined and invested. The income earned on these intermediate investments is allocated to each participating fund based upon its relative proportion of the combined investment.

(e) ***Investments***

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. In conjunction with the adoption of FASB ASC No. 820, Reed College has adopted the measurement provisions of FASB ASC No. 820-10, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, and real estate. Net asset value (NAV), in many instances may not equal fair value that would be calculated pursuant to ASC No. 820.

Realized and unrealized gains and losses arising from the sale, collection, or other disposition of investments, as well as all dividends, interest, and other investment income, are shown in the statements of activities and changes in net assets. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period that the gains and income are recognized. Losses on investments related to gifts that the donor required to be invested in perpetuity (i.e., endowment funds) are classified as decreases in temporarily restricted net assets until the investments fall below the original gift at which point they decrease unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as increases in unrestricted net assets.

(f) ***Split-Interest Agreements***

Reed College has been named as a beneficiary for various split-interest agreements. Each agreement provides for contractual payments to stated beneficiaries for their lifetimes, after which remaining principal and interest revert to Reed College. Assets contributed are recorded at fair value. In addition, Reed College has recognized the present value of estimated future payments to be made to beneficiaries over their expected lifetimes as a long-term liability. The present values of these estimated payments were determined on the basis of published actuarial factors for ages of the respective beneficiaries discounted using the risk-free rate adjusted for mortality uncertainties and are not changed after the date of the gift. Annual adjustments are made between the liability and the net assets to record actuarial gains or losses. Differences between the assets contributed and the expected payments to be made to beneficiaries have been recorded as contribution revenue in the year established. These donations are either temporarily restricted on the basis of time or permanently restricted based on the intent of the donor.

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June 30, 2011 and 2010

(g) Contributions Receivable

Unconditional promises to give (contributions) are recorded as gifts and private grant income and contributions receivable. Promises to give are not recognized until they become unconditional, that is, when the donor-imposed restrictions are substantially met. Contributions other than cash are recorded at their estimated fair value. Management estimates an allowance for uncollectible contributions based on risk factors such as prior collection history, type of contribution, and the nature of the fund-raising activity. Contributions are generally receivable within five years of the date the commitment was made and were discounted to present value using a discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

(h) Derivative Instruments

Reed College accounts for derivatives in accordance with FASB ASC No. 815-10, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the statements of financial position at their respective fair values. Changes in the fair value are recognized in unrealized gains and losses, unrestricted, in the statements of activities and changes in net assets.

(i) Property, Plant, and Equipment, Net

Property, plant, and equipment are stated at cost at the date of acquisition, if purchased, or at fair market value, at the date of receipt, if acquired by donation. Equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (twenty to fifty years) and equipment and furnishings (five years). Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Routine repair and maintenance expenses and equipment replacement costs are expensed as incurred.

(j) Donated Materials

Donated materials are included in the statements of activities and changes in net assets as "Gifts and private grants" at their estimated fair values at date of receipt. These materials are subsequently expensed when used.

(k) Income Tax Status

The Internal Revenue Service has recognized Reed College as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business income under Sections 511 through 515. Management believes that unrelated business income tax, if any, is immaterial and therefore, no tax provision has been made. Reed College accounts for income taxes in accordance with FASB ASC No. 740-10, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. ASC No. 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As Reed College is exempt from taxation under

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Section 501(c)(3) of the Internal Revenue Code as a qualified educational institution and is generally not subject to federal or state income taxes, the adoption of ASC No. 740-10 did not have a significant impact on the Reed College's financial statements.

(l) Cash and Cash Equivalents

Cash and cash equivalents represent cash in bank and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

(m) Deferred Revenue

Deferred revenues consist primarily of prepayments of tuition and fees related to future academic years.

(n) Postretirement Benefits

Reed College has a noncontributory postretirement medical benefit plan covering participating employees upon their retirement. Reed College maintains a postretirement medical benefit plan and accounts for the plan within the framework of FASB ASC Nos. 715 and 958, *Employer' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Reed College records annual amounts relating to its postretirement medical benefit plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, and healthcare cost trend rates. Reed College reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. Reed College believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

(o) Concentration of Risk

Reed College's standard financial instruments include commercial paper, U.S. government and agency securities, corporate obligations, equity securities, mutual funds, hedge funds, private equity, and real estate. These financial instruments may subject Reed College to concentrations of risk. Federal depository insurance coverage was expanded effective January 1, 2011 to provide unlimited insurance coverage to all depositors.

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Notes to Financial Statements
June 30, 2011 and 2010

(3) Investments

The fair value of investments at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Investments:		
Short-term government bonds	\$ —	3,999,512
Long-term government bonds	25,000	25,000
Corporate bonds	—	21,360,307
Bond funds	17,601,315	24,647,107
Small cap equity funds	3,620,291	2,844,593
Large cap equity funds	57,637,460	31,279,913
Exchange-traded funds	14,997,623	19,419,977
Hedge funds	215,722,836	179,313,253
Private equity	127,854,961	106,016,376
REITs	2,503,853	2,012,712
Real estate	5,466,779	5,505,614
Money market and other	3,219,739	3,087,227
	<u>448,649,857</u>	<u>399,511,591</u>
Total investments	\$ <u>448,649,857</u>	<u>399,511,591</u>

At June 30, 2011 and 2010, Reed College has approximately \$348 million and \$291 million, respectively, of investments that are not readily marketable (alternative investments). These investments represent 77% and 73% of total investments and 69% and 64% of total net assets at June 30, 2011 and 2010, respectively. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. See note 12 for investment fair value measurements.

The alternative investments are reported at net asset value (NAV). These investments are redeemable at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Reed College interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Reed College interest in the funds.

At June 30, 2011, Reed College has committed \$221,683,750 to private equity partnerships and hedge funds. As of June 30, 2011, Reed College has funded \$174,429,784 of these commitments leaving an unfunded balance of \$47,253,966. These commitments are callable by the general partners/advisors between now and 2017. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

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Included in investments are \$19,844,271 and \$17,422,293 of planned giving trusts held in equity mutual funds that are not available for spending as of June 30, 2011 and 2010, respectively.

Within private equity and hedge funds, Reed College has funds invested in twenty-nine and twenty-eight limited partnerships, respectively, with ownership interests ranging from 0.04% to 5.55% at June 30, 2011 and 0.04% to 13.31% at June 30, 2010. Included in the assets of the various partnerships at times there are certain positions of derivative financial instruments.

At June 30, 2011, Reed College had funds held by trustee of \$17,884,144, which was the remaining unspent proceeds from the 2011 State of Oregon notes. The funds held by trustee will be spent on qualifying expenditures on capital projects.

Total investment income and realized and unrealized gains on investments that are not readily marketable was \$42,787,651 and \$28,665,949 for the years ended June 30, 2011 and 2010, respectively.

(4) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 13,787,212	13,304,552
Buildings	150,566,850	149,102,824
Construction in progress	1,878,687	1,258,127
Equipment, furniture, and fixtures	11,557,085	11,407,436
	<u>177,789,834</u>	<u>175,072,939</u>
Less accumulated depreciation	<u>(65,870,535)</u>	<u>(61,578,301)</u>
Net property, plant, and equipment	<u>\$ 111,919,299</u>	<u>113,494,638</u>

Depreciation expense was \$4,197,690 and \$4,148,074 for the years ended June 30, 2011 and 2010, respectively, and is allocated to the functional expenses based on the relative square footage of the department.

(5) Long-Term Debt

(a) Capital Lease Obligations

Reed College leases copiers over various terms. The book values of assets under capital lease at June 30, 2011 and 2010 are \$302,002 and \$372,745, respectively. Amortization costs of \$94,402 and \$51,324 are included in accumulated depreciation for the years ended June 30, 2011 and 2010, respectively.

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The payment schedule for the capital lease obligation is as follows:

2012	\$	126,482
2013		103,556
2014		103,136
2015		49,891
		383,065
Less amount representing interest		(45,135)
	\$	337,930

(b) Notes Payable

During 2008, Reed College refinanced the 2006 and the 2007 State of Oregon Bonds in the amount of \$47,060,000. The 2008 State of Oregon notes mature on July 1, 2038 and bear interest based on a weekly basis set through the remarketing process.

Effective March 22, 2011, Reed College refinanced the 2000 State of Oregon Bonds in the amount of \$19,080,000 and borrowed an additional \$20,950,000 to be used to finance the construction of a new performing arts building.

Wells Fargo Bank is the liquidity facility provider for the 2011 Bond Issue should the bonds fail to remarket. The Liquidity Facility agreement remains in effect until April 22, 2012, unless renewed or terminated pursuant to the conditions set forth in the 2008 Liquidity Facility.

Notes payable are summarized as follows:

		2011	2010
2000 State of Oregon notes	\$	—	19,080,000
2008 State of Oregon notes		45,250,000	46,710,000
2011 State of Oregon notes		40,030,000	—
		85,280,000	65,790,000
Less discount		(466,796)	(617,597)
Total	\$	84,813,204	65,172,403

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Principal payments on the notes payable become due as follows:

	2011 State of Oregon notes	2008 State of Oregon notes	Total
2012	\$ —	1,145,000	1,145,000
2013	—	1,185,000	1,185,000
2014	—	1,210,000	1,210,000
2015	—	1,265,000	1,265,000
2016	—	1,310,000	1,310,000
Thereafter	40,030,000	39,135,000	79,165,000
	<u>\$ 40,030,000</u>	<u>45,250,000</u>	<u>85,280,000</u>

Interest on the State of Oregon notes payable bonds and amortization of discount and issuance costs are as follows:

	2011	2010
Interest	\$ 1,773,491	1,279,657
Amortization of discount and issuance costs	32,315	63,695
Total interest expensed	<u>\$ 1,805,806</u>	<u>1,343,352</u>

Notes payable discount, net of amortization was \$466,796 and \$617,597 at June 30, 2011 and 2010, respectively. Issuance costs, net of amortization were \$395,731 and \$328,260 at June 30, 2011 and 2010, respectively. Amortization is calculated over the life of the notes. The fair market value of the notes payable at June 30, 2011 and 2010 was \$88,150,675 and \$66,801,549, respectively.

(c) Interest Rate Risk Management

In order to take advantage of fluctuations in long-term interest rates, Reed College has entered into an interest rate swap agreement with a notional amount \$16,650,000, which allows Reed College to change the variable interest rate to a fixed interest rate on State of Oregon notes payable.

In June 2006, Reed College issued \$16.65 million of auction rate debt through the Oregon Facilities Authority. The College entered into an interest rate swap of like term, amortization, and notional amount with an investment bank to hedge this underlying variable rate debt. Reed College has subsequently refinanced the 2006 notes, however, retained this swap arrangement for interest rate risk management. Pursuant to this swap, Reed College works with a consulting firm to aid in monitoring changes in interest rates and the impact they may have on long-term debt.

During the years ended June 30, 2011 and 2010, \$603,274 and \$597,429 was paid, respectively, and is recorded in the statements of activities and changes in net assets as other investment expense. The change in unrealized gain and loss on the swap agreements for the years ended June 30, 2011 and 2010 was a gain of \$361,430 and a loss of \$568,474, respectively, and is recorded in the statements of activities and changes in net assets as realized and unrealized gains and losses. The fair value of

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the swap agreement as of June 30, 2011 and 2010 was a liability of \$2,368,419 and \$2,729,849, respectively, which is recorded in the statements of financial position as other long-term liabilities.

(6) Retirement and Postretirement Benefits

(a) Retirement Plan

Reed College has a defined contribution noncontributory pension plan administered through Teachers Insurance and Annuity Association – College Retirement Equities Fund. Certain employees are eligible to participate and must be employed one year and have attained the age of twenty-one. All contributions vest immediately with the employee at the rate of 10% of the participating employees' monthly compensation. Reed College's policy is to fund pension expenses as incurred. Expenditures relating to the plan were \$2,842,395 and \$2,725,874 for the years ended June 30, 2011 and 2010, respectively, and are included in education and general expenses in the accompanying statements of activities.

(b) Defined Benefit Retiree Medical Insurance Plan

Reed College maintains a defined benefit retiree medical insurance plan, which is administered by Pioneer Educators Health Trust (PEHT) and is not funded. In order to participate, employees hired prior to September 2, 2001 must retire from Reed College at or after age fifty-five with at least ten years of continuous service. Employees hired after September 1, 2001 through June 30, 2006 must retire from Reed College at or after age fifty-five with twenty years of continuous service. Employees are covered for the lowest premium plan for his or her lifetime and spouses/domestic partners are covered at the rate of fifty percent of the lowest premium plan for his or her lifetime. Employer premium expenses were \$847,997 and \$744,937 for the years ended June 30, 2011 and 2010, respectively, and are included in education and general expenses in the accompanying statements of activities.

The accrued liability for postretirement benefits at year-end is as follows:

	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 18,440,254	16,285,683
Service cost	308,719	404,355
Interest cost	921,886	1,060,804
Benefits paid	(613,699)	(644,583)
Actuarial gain	(3,257,593)	1,333,995
Benefit obligation at end of year	15,799,567	18,440,254
Funded status	\$ 15,799,567	18,440,254
Amounts recognized in the balance sheet consist of:		
Postretirement benefits payable-current	\$ 611,371	613,699
Postretirement benefits payable	15,188,196	17,826,555
	\$ 15,799,567	18,440,254

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Net periodic benefit cost for the years ended June 30 included the following components:

	2011	2010
Interest cost	\$ 921,886	1,060,804
Service cost	308,719	404,355
Amortization of gain	(332,087)	(48,748)
Net periodic benefit cost	\$ 898,518	1,416,411

Reed College used the following actuarial assumptions to determine its employee benefit obligations at and net periodic benefit cost for the years ended June 30, 2011 and 2010, as measured at June 30:

	2011	2010
Benefit obligation:		
Weighted average discount rate	5.95%	5.85%
Rate of increase in per capita cost of covered healthcare benefits	7% trending to 4% in 2016	8% trending to 5% in 2015
Net periodic benefit cost:		
Weighted average discount rate	5.85%	7.00%
Rate of increase in per capita cost of covered healthcare benefits	8% trending to 5% in 2015	8% trending to 5% in 2014

Reed College's policy is to fund the plan as claims payments are made. In the 2011-2012 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, \$611,371 to the plan. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending June 30:

Year:	
2012	\$ 611,371
2013	664,414
2014	707,384
2015	746,494
2016	791,739
2017 – 2021	4,669,766

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides an employer subsidy of 28% of gross annual prescription drug costs between \$250 and \$5,000 for actuarially equivalent plans. FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, requires that the estimated impact of this subsidy be reflected in the Accrued Postretirement Benefit Obligation (APBO) for periods beginning after June 15, 2004. This reduction in APBO reduces the net periodic postretirement benefit cost due to corresponding reductions in the service cost and interest cost. Actuaries have determined that the Reed College

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Postretirement Medical Plans are actuarially equivalent to the Medicare Part D plan. Reed College applied for the employer subsidy.

(c) Emeriti Retiree Health Plan

Reed College has a defined contribution retiree health plan for employees hired after July 1, 2006. Reed College makes contributions on each eligible employees behalf once the individual reaches the age of 40 years. Employees are also eligible to make discretionary after tax contributions to their account if the individual is 21 years or older. Employees are eligible to receive benefits from the plan if the employee has attained age 55 years or achieved twenty years of continuous service to Reed College. Employer expenses related to this plan were \$223,000 and \$202,000 for fiscal years ended June 30, 2011 and 2010, respectively.

(7) Funds Held in Trust by Others

Reed College has been named beneficiary of a portion of the remainder of four trusts maturing at specified dates in the future. These trusts are administered by other entities. Reed College revalues the receivables using the fair value of expected future cash flows. At June 30, 2011 and 2010, the trusts receivable were \$13,171,845 and \$12,862,568, respectively, and were included under funds held in trust by others, noncurrent.

(8) Contributions and Accounts Receivable

Contributions receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Annual fund	\$ 1,209,759	1,715,385
Campaign fund	178,913	362,954
Endowment fund	14,526,734	17,027,530
Plant fund	<u>5,697,835</u>	<u>1,211,700</u>
Gross contributions receivable	<u>\$ 21,613,241</u>	<u>20,317,569</u>

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Contributions receivable reported on the statements of financial position were as follows:

	2011	2010
Current:		
Gross contributions receivable	\$ 531,456	884,147
Less allowance for doubtful accounts	(27,000)	(44,000)
Total current net contributions receivable	504,456	840,147
Long-term (one to five years):		
Gross contributions receivable	21,081,785	19,433,422
Less allowance for doubtful accounts	(995,000)	(906,000)
Net long-term contributions receivable	20,086,785	18,527,422
Less discount to present value	(1,203,786)	(1,333,061)
Total long-term net contributions receivable	18,882,999	17,194,361
Total net contributions receivable	\$ 19,387,455	18,034,508

Reed College expects to receive \$6,890,814 in fiscal year 2012 and \$12,496,641 over the following three fiscal years, related to receivables outstanding at June 30, 2011.

Contributions receivable due in excess of one year are discounted at 0.923% to 1.754% and 0.09% to 4.7% for the years ended June 30, 2011 and 2010, respectively.

Of the net unconditional promises to give included above, \$13,234,871 represents an unconditional promise to give from 16 members of the Reed College board of trustees due in one to three years.

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Accounts receivable consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ 67,984	—	—	—	67,984
Related parties	—	13,100	—	—	13,100
Other receivables	137,162	18,601	—	—	155,763
	<u>205,146</u>	<u>31,701</u>	<u>—</u>	<u>—</u>	<u>236,847</u>
Noncurrent:					
Student accounts receivable	—	—	27,447	—	27,447
Reed loans	—	—	1,145,084	—	1,145,084
Related parties	—	—	11,726	—	11,726
Federal Perkins loans	—	—	3,869,635	—	3,869,635
	<u>—</u>	<u>—</u>	<u>5,053,892</u>	<u>—</u>	<u>5,053,892</u>
Less allowance for doubtful accounts	<u>—</u>	<u>—</u>	<u>(60,239)</u>	<u>—</u>	<u>(60,239)</u>
	<u>\$ 205,146</u>	<u>31,701</u>	<u>4,993,653</u>	<u>—</u>	<u>5,230,500</u>

Accounts receivable consist of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ 86,194	—	—	—	86,194
Related parties	—	32,053	—	—	32,053
Other receivables	133,021	189,577	—	—	322,598
	<u>219,215</u>	<u>221,630</u>	<u>—</u>	<u>—</u>	<u>440,845</u>
Noncurrent:					
Student accounts receivable	—	—	19,167	—	19,167
Reed loans	—	—	1,180,266	—	1,180,266
Related parties	—	—	16,704	—	16,704
Federal Perkins loans	—	—	3,804,542	—	3,804,542
	<u>—</u>	<u>—</u>	<u>5,020,679</u>	<u>—</u>	<u>5,020,679</u>
Less allowance for doubtful accounts	<u>—</u>	<u>—</u>	<u>(60,239)</u>	<u>—</u>	<u>(60,239)</u>
	<u>\$ 219,215</u>	<u>221,630</u>	<u>4,960,440</u>	<u>—</u>	<u>5,401,285</u>

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The Federal Perkins loans and Reed loans are generally payable at interest rates of 5% to 9% over approximately ten years. Repayment begins after a designated grace period following the student's college attendance. Principal payments, interest, and losses due to cancellation are shared by Reed College and the U.S. government in proportion to their share of funds provided. The Federal Perkins loan program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. government.

(9) Net Assets

At June 30, 2011 and 2010, net assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Unrestricted:		
Operating	\$ 14,995,927	9,920,435
Designated for special programs	14,577,748	13,388,854
Institutional loan programs	4,358,742	4,157,713
Funds functioning as endowment	101,250,511	99,103,533
Accumulated quasi-endowment gains	107,520,141	82,298,147
Net investment in plant	35,297,978	33,264,890
Total unrestricted	<u>\$ 278,001,047</u>	<u>242,133,572</u>
Temporarily restricted:		
Educational and general programs	\$ 11,649,644	12,251,254
Annuity and life income funds	20,897,125	20,027,536
Accumulated endowment gains	53,412,186	41,644,127
Other temporarily restricted net assets	5,226,220	1,109,852
Total temporarily restricted	<u>\$ 91,185,175</u>	<u>75,032,769</u>
Permanently restricted:		
True endowment funds	\$ 133,461,917	132,183,594
Annuity and life income funds	3,696,413	2,173,536
Total permanently restricted	<u>\$ 137,158,330</u>	<u>134,357,130</u>

(10) Endowments

Through December 31, 2007, Reed College's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, UPMIFA, that serves as a guideline to states using the enacted legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which an organization could not spend from the endowment fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective January 1, 2008, the State of Oregon enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date.

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In August 2008, the FASB issued FASB ASC No. 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds*. ASC 958-205 was effective for fiscal years 2010 and 2009 for Reed College. The major change in net assets classification resulting from ASC 958-205 relates to the portion of the fund not stipulated by the donor to be restricted in perpetuity. In the absence of explicit donor instructions on the use of such funds, the earnings previously classified as either permanently restricted or unrestricted must be reported as temporarily restricted until appropriated for spending

Reed College's endowment consists of approximately 408 individual funds of which approximately 34% or 137 funds are donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of those donor restrictions. Endowment funds are invested on the basis of a total return policy to provide income and to realize appreciation on invested assets. Under this policy, a portion of realized and unrealized gains, in addition to interest and dividend income, can be used to support operations. Investment income used to support operations is allocated from funds that have a fair value in excess of historical value and are utilized in accordance with donor-imposed restrictions.

Reed College spends endowment income and capital gains within a spending policy that preserves principal in accordance with the UPMIFA. The policy on spending endowment income is to spend 5.3% of the average net assets over a rolling 13 quarter period. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to zero. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds with a fair value of associated assets that is less than the original gift amount is \$4,779,648 and \$9,012,447 for the years ended at June 30, 2011 and 2010, respectfully. Future gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

Endowment net assets by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,779,648)	64,949,596	133,461,917	193,631,865
Board-designated endowment funds	212,377,090	—	—	212,377,090
Total funds	<u>\$ 207,597,442</u>	<u>64,949,596</u>	<u>133,461,917</u>	<u>406,008,955</u>

Endowment net assets by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (9,012,447)	53,751,546	132,183,593	176,922,692
Board-designated endowment funds	188,670,907	—	—	188,670,907
Total funds	<u>\$ 179,658,460</u>	<u>53,751,546</u>	<u>132,183,593</u>	<u>365,593,599</u>

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Changes in endowment net assets for the year ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 179,658,460	53,751,546	132,183,593	365,593,599
Investment return:				
Net investment loss	(41,970)	(174,896)	—	(216,866)
Net appreciation of investments	38,243,651	21,372,162	—	59,615,813
Contributions	—	—	554,886	554,886
Contributions from trust terminations	500,994	—	758,224	1,259,218
Appropriation of endowment assets for expenditure	(12,409,677)	(9,999,216)	—	(22,408,893)
Transfers to create donor-designated endowment fund	1,104,145	—	—	1,104,145
Transfers to create board-designated endowment fund	—	—	—	—
Transfers and other reclassifications	541,839	—	(34,786)	507,053
Endowment net assets, June 30, 2011	<u>\$ 207,597,442</u>	<u>64,949,596</u>	<u>133,461,917</u>	<u>406,008,955</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 162,795,885	49,747,137	110,652,188	323,195,210
Investment return:				
Net investment loss	(7,292)	(33,513)	—	(40,805)
Net appreciation of investments	21,322,224	12,998,613	—	34,320,837
Contributions	—	—	18,741,362	18,741,362
Contributions from trust terminations	262,137	—	1,782,332	2,044,469
Other contributions	—	—	1,020,000	1,020,000
Appropriation of endowment assets for expenditure	(13,574,164)	(8,960,691)	—	(22,534,855)
Transfers to create donor-designated endowment fund	5,464,388	—	—	5,464,388
Transfers to create board-designated endowment fund	3,025,314	—	—	3,025,314
Transfers and other reclassifications	369,968	—	(12,289)	357,679
Endowment net assets, June 30, 2010	<u>\$ 179,658,460</u>	<u>53,751,546</u>	<u>132,183,593</u>	<u>365,593,599</u>

(11) Commitments and Contingencies

Reed College has placed certain of its medical and dental insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical and dental insurance to higher education institutions. Under the agreement, member institutions are required to make contributions to the fund at such times and in an amount as determined by

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the board of trustees for the various benefit programs sufficient to provide the benefits, pay the administrative expenses of the Plan, which are not otherwise paid by Reed College directly, and to establish and maintain a minimum reserve as determined by the board of trustees. In the event losses of PEHT exceed its capital and secondary coverage's, the maximum contingent liability exposure to Reed College is approximately \$380,000. This exposure fluctuates based on changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

On July 1, 1988, Reed College elected to place its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC). CLIC was formed by seven similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a \$2,000,000 standby letter of credit of which Reed College is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverages, the maximum contingent liability exposure to Reed College is approximately \$161,254. As of June 30, 2011 and 2010, there were no amounts outstanding against the standby letter of credit.

From time to time, Reed College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, most of these claims and legal actions are covered by insurance and the ultimate disposition of these matters will not have a material effect on Reed College's financial position, statements of activities, or cash flow.

(12) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, and accounts receivable: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Contributions receivable and funds held in trust by others: The fair value is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risks inherent in those cash flows.

Investments: Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Debt securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. Investments in real estate for which fair value is not readily determinable are carried at estimated fair values, if purchased, or at fair value at the date of receipt, if acquired by donation. Alternative investments, which are not readily marketable, are carried at estimated fair values. Reed College reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments using the NAV as a practical expedient.

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Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and Reed College.

Long-term debt: The fair value of the Reed College's long-term debt is measured using quoted offered-side prices when quoted market prices are available.

(b) Fair Value Hierarchy

Reed College adopted FASB ASC No. 820 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC No. 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Reed College has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

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.

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The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Long-term government bonds	\$ 25,000	25,000	—	—
Corporate bonds	—	—	—	—
Bond funds	17,601,315	13,110,327	4,490,988	—
Small cap equity funds	3,620,291	—	3,620,291	—
Large cap equity funds	57,637,460	48,954,476	8,682,984	—
Exchange-traded funds	14,997,623	14,997,623	—	—
Hedge funds	215,722,836	—	14,398,944	201,323,892
Private equity	127,854,961	—	—	127,854,961
REITs	2,503,853	—	2,503,853	—
Real estate	5,466,779	—	—	5,466,779
Money market and other	3,219,739	2,673,584	546,155	—
Funds held in trust by others	13,171,845	—	—	13,171,845
Funds held by trustee	17,884,144	17,884,144	—	—
Total	<u>\$ 479,705,846</u>	<u>97,645,154</u>	<u>34,243,215</u>	<u>347,817,477</u>
Liabilities:				
Interest rate swap	\$ 2,368,419	—	2,368,419	—

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Notes to Financial Statements

June 30, 2011 and 2010

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Short-term government bonds	\$ 3,999,512	3,999,512	—	—
Long-term government bonds	25,000	25,000	—	—
Corporate bonds	21,360,307	—	21,360,307	—
Bond funds	24,647,107	19,627,916	5,019,191	—
Small cap equity funds	2,844,593	—	2,844,593	—
Large cap equity funds	31,279,913	24,113,574	7,166,339	—
Exchange-traded funds	19,419,977	19,419,977	—	—
Hedge funds	179,313,253	—	12,925,410	166,387,843
Private equity	106,016,376	—	—	106,016,376
REITs	2,012,712	—	2,012,712	—
Real estate	5,505,614	—	—	5,505,614
Money market and other	3,087,227	3,087,227	—	—
Funds held in trust by others	12,862,568	—	—	12,862,568
Funds held by trustee	—	—	—	—
Total	<u>\$ 412,374,159</u>	<u>70,273,206</u>	<u>51,328,552</u>	<u>290,772,401</u>
Liabilities:				
Interest rate swap	\$ 2,729,849	—	2,729,849	—

The following table presents Reed College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

Balance at June 30, 2009	\$ 242,479,577
Total realized and unrealized gains	30,475,081
Purchases, issuances, and settlements (net)	<u>17,817,743</u>
Balance at June 30, 2010	290,772,401
Total realized and unrealized gains	44,256,319
Purchases, issuances, and settlements (net)	<u>12,788,757</u>
Balance at June 30, 2011	<u>\$ 347,817,477</u>

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Notes to Financial Statements

June 30, 2011 and 2010

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2011:

	<u>Fair value</u>	<u>Lock-up period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 4,508,830	None	Daily	1 day
Hedge funds	143,478,692	3 – 24 months	Quarterly	30 – 90 days
Hedge funds	16,427,074	11 months	Triannually	120 days
Hedge funds	14,891,962	9 months	Biannually	90 days
Hedge funds	24,851,397	8 – 21 months	Annually	60 – 90 days
Hedge funds	9,890,114	2 months	Monthly	15 days
Hedge funds	1,674,767	In liquidation	N/A	N/A
	<u>\$ 215,722,836</u>			

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2010:

	<u>Fair value</u>	<u>Lock-up period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 4,440,292	None	Daily	1 day
Hedge funds	78,083,879	3-9 months	Quarterly	30 – 90 days
Hedge funds	16,079,810	6-12 months	Triannually	45 – 120 days
Hedge funds	12,358,726	9 months	Biannually	65 days
Hedge funds	57,815,371	3-9 months	Annually	60 – 90 days
Hedge funds	10,535,175	in liquidation		
	<u>\$ 179,313,253</u>			

Reed College holds investments in private equity limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2011. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. At June 30, 2011, \$127,854,961 of private equity limited partnerships and had termination dates that ranged from 2011 to 2017.

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(13) Split-Interest Agreements

The following schedule summarizes the change in value and its presentation in the statements of activities as related to the change in value of split-interest agreements:

	2011	2010
Dividends and interest	\$ 587,672	690,862
Beneficiary payments	(1,244,982)	(1,395,758)
Investment fees	(194,306)	(179,088)
Net realized (loss) gain	186,808	(136,321)
Net unrealized gain	4,167,715	4,604,257
Total change in value	\$ 3,502,907	3,583,952

(14) Fund-Raising Expense

Reed College expended \$2,786,570 and \$2,536,021 for the years ended June 30, 2011 and 2010, respectively, for payroll and benefits, informational materials, travel, and special events relating to fund-raising activities. These costs are all classified as public affairs in the statements of activities and changes in net assets.

(15) Subsequent Events

Reed College evaluated subsequent events after the balance sheet date of June 30, 2011 through October 25, 2011, which was the date the financial statements were issued.