KPMG

THE REED INSTITUTE

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

THE REED INSTITUTE

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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 (an Oregon nonprofit corporation) as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of The Reed Institute as of June 30, 2018 and 2017, and the change in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 8, 2018

THE REED INSTITUTE

Statements of Financial Position

June 30, 2018 and 2017

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	3,439,719	24,905,675
Accounts receivable, net		732,569	968,893
Contributions receivable, net		3,025,334	2,854,515
Funds held by trustee		25,211,452	—
Short-term investments		9,448,087	—
Prepaid expenses and other assets		629,164	484,514
Total current assets		42,486,325	29,213,597
Noncurrent assets:			
Cash and cash equivalents whose use is limited		2,197,463	1,689,109
Accounts receivable, net		3,871,719	3,931,953
Contributions receivable, net		5,209,698	4,167,395
Funds held in trust by others		1,291,022	1,228,996
Funds held by trustee		912,000	—
Long-term investments		624,507,788	577,529,136
Property, plant, and equipment, net		145,826,934	139,655,796
Other assets		201,637	243,424
Total noncurrent assets		784,018,261	728,445,809
Total assets	$	826,504,586	757,659,406
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	8,407,632	7,464,420
Postretirement benefits payable		1,077,870	992,668
Debt		1,190,170	37,633,263
Deferred revenue		1,207,121	1,143,600
Total current liabilities		11,882,793	47,233,951
Long-term liabilities:			
Liability for split-interest agreements		11,783,120	12,506,606
Postretirement benefits payable		25,354,183	25,687,765
Refundable loan programs		1,820,048	2,611,364
Asset retirement obligation		3,073,572	3,049,161
Debt, net of current portion		109,036,729	39,540,603
Other liabilities		2,273,528	2,704,198
Total long-term liabilities		153,341,180	86,099,697
Total liabilities		165,223,973	133,333,648
Net assets:			
Unrestricted		367,086,209	347,090,979
Temporarily restricted		115,378,177	105,400,313
Permanently restricted		178,816,227	171,834,466
Total net assets		661,280,613	624,325,758
Total liabilities and net assets	$	826,504,586	757,659,406

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018
Revenues, gains, and other support:				
Tuition and fees	$ 74,619,894	—	—	74,619,894
Less college-funded scholarships	(26,359,478)	—	—	(26,359,478)
Net tuition and fees	48,260,416	—	—	48,260,416
Auxiliary enterprises	14,910,012	—	—	14,910,012
Gifts and private grants	15,307,645	255,052	3,726,857	19,289,554
Government grants, contracts, and student aid	1,280,240	—	—	1,280,240
Investment return on endowment, distributed	15,110,710	12,268,558	—	27,379,268
Other investment gains	398,887	—	—	398,887
Other revenues and additions	1,049,290	—	4,420	1,053,710
Subtotal	48,056,784	12,523,610	3,731,277	64,311,671
Net assets released from restrictions	12,053,203	(12,053,203)	—	—
Total revenues, gifts, and other support	108,370,403	470,407	3,731,277	112,572,087
Expenses:				
Educational and general:				
Instruction	34,652,078	—	—	34,652,078
Research	1,274,216	—	—	1,274,216
Academic support	10,774,320	—	—	10,774,320
General institutional support	17,261,320	—	—	17,261,320
Student services	9,020,829	—	—	9,020,829
Public affairs	5,920,013	—	—	5,920,013
Total educational and general	78,902,776	—	—	78,902,776
Auxiliary enterprises	17,161,037	—	—	17,161,037
Total expenses	96,063,813	—	—	96,063,813
Increase from operations	12,306,590	470,407	3,731,277	16,508,274
Nonoperating activity:				
Endowment gains, net of amounts distributed	14,636,205	9,140,569	—	23,776,774
Change in value of split-interest agreements	—	366,888	311,769	678,657
Net period benefit cost, net of service cost	(66,749)	—	—	(66,749)
Loss on defeasance	(4,985,976)	—	—	(4,985,976)
Other deductions and transfers	(1,894,840)	—	2,938,715	1,043,875
Total nonoperating activity	7,688,640	9,507,457	3,250,484	20,446,581
Increase in net assets	19,995,230	9,977,864	6,981,761	36,954,855
Net assets, beginning of year	347,090,979	105,400,313	171,834,466	624,325,758
Net assets, end of year	$ 367,086,209	115,378,177	178,816,227	661,280,613

See accompanying notes to financial statements.

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2017
Revenues, gains, and other support:				
Tuition and fees	$ 70,289,302	—	—	70,289,302
Less college-funded scholarships	(27,318,508)	—	—	(27,318,508)
Net tuition and fees	42,970,794	—	—	42,970,794
Auxiliary enterprises	14,349,743	—	—	14,349,743
Gifts and private grants	9,764,660	211,542	2,331,685	12,307,887
Government grants, contracts, and student aid	1,267,194	—	—	1,267,194
Investment return on endowment, distributed	15,116,804	12,142,834	—	27,259,638
Other investment gains	356,186	—	—	356,186
Other revenues and additions	1,458,927	—	4,233	1,463,160
Subtotal	42,313,514	12,354,376	2,335,918	57,003,808
Net assets released from restrictions	16,477,489	(16,477,489)	—	—
Total revenues, gifts, and other support	101,761,797	(4,123,113)	2,335,918	99,974,602
Expenses:				
Educational and general:				
Instruction	34,960,966	—	—	34,960,966
Research	1,253,613	—	—	1,253,613
Academic support	10,765,205	—	—	10,765,205
General institutional support	18,398,882	—	—	18,398,882
Student services	8,097,107	—	—	8,097,107
Public affairs	6,145,103	—	—	6,145,103
Total educational and general	79,620,876	—	—	79,620,876
Auxiliary enterprises	16,221,009	—	—	16,221,009
Total expenses	95,841,885	—	—	95,841,885
Increase (decrease) from operations, as adjusted	5,919,912	(4,123,113)	2,335,918	4,132,717
Nonoperating activity:				
Endowment gains, net of amounts distributed	20,961,128	14,187,498	—	35,148,626
Change in value of split-interest agreements	—	1,342,597	169,234	1,511,831
Net period benefit cost, net of service cost	3,095,055	—	—	3,095,055
Other deductions and transfers	(613,971)	51,953	358,550	(203,468)
Total nonoperating activity, as adjusted	23,442,212	15,582,048	527,784	39,552,044
Increase in net assets	29,362,124	11,458,935	2,863,702	43,684,761
Net assets, beginning of year	317,728,855	93,941,378	168,970,764	580,640,997
Net assets, end of year	$ 347,090,979	105,400,313	171,834,466	624,325,758

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	36,954,855	43,684,761
Adjustments to reconcile increase in net assets to net cash used in operating activities:			
Depreciation and amortization costs		5,614,985	5,542,900
Loss on defeasance		4,985,976	—
Loss on disposal of assets		448,036	9,839
Contributions restricted for long-term investment		(2,885,175)	(1,498,457)
Noncash contributions		(5,583,481)	(3,371,057)
Net realized and unrealized gains on investments		(50,695,570)	(63,792,183)
Net realized and unrealized gains on split-interest agreements		(1,773,480)	(2,066,518)
Change in value of split-interest agreements		(62,026)	(42,167)
Change in asset retirement obligation		24,411	(20,831)
Changes in operating assets and liabilities that provided (used) cash:			
Cash whose use is limited		(508,354)	4,923,119
Accounts receivable		296,558	1,013,750
Contributions receivable		(1,213,122)	6,239,326
Prepaid and other		(146,172)	4,869,923
Accounts payable and accrued liabilities		943,212	554,259
Postretirement benefits payable		(248,380)	(3,241,466)
Deferred revenue		63,521	(588,100)
Other liabilities		(430,670)	698,447
Net cash used in operating activities		(14,214,876)	(7,084,455)
Cash flows from investing activities:			
Proceeds from maturities/sales of investments		178,181,595	68,326,509
Purchases of investments		(175,162,217)	(57,852,382)
Contracts receivable collected		43,309	48,367
Contracts receivable advanced		—	(39,000)
Purchase of property, plant, and equipment		(12,447,589)	(7,065,298)
Net cash (used in) provided by investing activities		(9,384,902)	3,418,196
Cash flows from financing activities:			
Contributions restricted for long-term investment		2,885,175	1,498,457
Issuance of new debt		73,913,650	—
Payment of debt principal/capital lease obligations		(45,633,163)	(1,391,839)
Payments on split-interest agreements		(1,393,586)	(1,241,871)
Increase in obligations for split-interest agreements		(723,486)	1,332,714
Changes in governmental loan funds		(791,316)	(39,164)
Change in deposit with bond trustee		(26,123,452)	—
Net cash provided by financing activities		2,133,822	158,297
Net decrease in cash and cash equivalents		(21,465,956)	(3,507,962)
Cash and cash equivalents, beginning of year		24,905,675	28,413,637
Cash and cash equivalents, end of year	$	3,439,719	24,905,675
Supplemental disclosure of cash flow information:			
Interest paid	$	2,106,638	2,255,832

See accompanying notes to financial statements.

(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 25 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 and changes in net assets. Restrictions related to contributions for the purchase of capital additions are released when the asset is placed in service.

Reed College follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, 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 and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 10 for further disclosures.

(Continued)

(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.

(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.

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, monies, 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 Topic 820, *Fair Value Measurement*, Reed College has adopted the measurement provisions of FASB ASC Subtopic 820-10, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, for certain investments in funds that do not have readily determinable fair values including private investments, fixed income investments, absolute return investments, and investments in equities. Net asset value (NAV), in many instances may not equal fair value that would be calculated pursuant to ASC Topic 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 a 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.

Reed College maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total held in separate reserve funds was $6,097,946 and $5,866,005 as of June 30, 2018 and 2017, respectively. The amount included to meet future payments under gift annuity contracts in liability for split-interest agreements was $2,638,687 and $2,674,565 as of June 30, 2018 and 2017, respectively.

(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 Subtopic 815-10, *Derivatives and Hedging – Overall*, as amended, which requires that all derivative instruments be recorded on the statements of financial position at their estimated fair values. Changes in the fair value are recognized in the statements of activities and changes in net assets as other investment gains (losses).

(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 (20 to 50 years) and equipment and furnishings (5 years). 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) Capitalized Interest

Interest costs incurred on debt during the construction of major projects exceeding one year are capitalized. During fiscal years 2018 and 2017, the amount of interest capitalized amounted to $644,658 and $0, respectively.

(k) 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.

(l) Income Tax Status

The Internal Revenue Service has recognized Reed College as exempt from tax under the provisions of Section 501(a) as an organization described under 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 Subtopic 740-10, *Income Taxes – Overall*, 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 Subtopic 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. Reed College does not have any uncertain tax positions.

(m) 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, except for certain cash and cash equivalents held by trustee and amounts included in the investment portfolio that are intended to be invested on a long-term basis. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

(n) Deferred Revenue

Deferred revenue consists primarily of tuition and fees related to future academic years.

(o) 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 Topic 958-715, *Not-for-Profit Entities – Compensation – Retirement Benefits*.

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.

(p) Concentration of Risk

Reed College's standard financial instruments include commercial paper, U.S. government and agency securities, corporate obligations, mutual funds, commingled funds, limited partnerships, private equity, private real assets, and private real estate. These financial instruments may subject Reed College to concentrations of risk.

(q) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards (IFRS). The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. Reed College has evaluated the impact of ASU 2014-09 and is implementing this ASU beginning July 1, 2018. Management will include new disclosures in 2019 in accordance with Topic 606. The adoption of Topic 606 will not have a significant impact on Reed College's results of operations.

In January 2016, the FASB issues ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU contains the following key aspects relevant to not-for-profit entities: (A) Entities must measure equity investments with readily determinable fair values at fair value and recognize changes in fair value in net income; (B) Entities have the option to either measure equity investments without readily determinable fair values at fair value or at cost adjusted for changes in observable prices minus impairment. Changes in measurement under either alternative must be recognized in net income; and (C) Entities that elect the fair value option for financial liabilities must recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. In addition, the standard allows not-for-profit entities to early adopt a provision that eliminates previously required disclosures of the fair values of financial instruments measured at amortized cost. Reed College has evaluated the full impact of ASU 2016-001, including the methods of implementation, which is effective for the year beginning July 1, 2018. Reed College adopted the provision which exempts all not-for-profit entities from the requirement to disclose the fair value of financial instruments measured at amortized cost and adopted that provision effective for the year ending on June 30, 2018. The adoption of this provision also resulted in an amendment of the disclosure for the year ended June 30, 2017, as the elimination of the fair value of debt has been retrospectively applied. The other provisions of the ASU will not have a significant impact on the Corporation's financial assets and liabilities.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with the exception of short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale-leaseback transactions. Because of the number of leases Reed College utilizes to support its operations, the adoption of ASU 2016-02 is not expected to have a significant impact on Reed College's financial position and results of operations. Reed College is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-02, which is effective for the fiscal year beginning on July 1, 2019 with modified retrospective application to the earliest presented period.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (NFPs)*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit financial statements. This ASU contains the following key aspects: (A) Reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) Requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) Requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) Retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. Reed College has evaluated the impact of ASU No. 2016-14 and will be implementing this ASU for the year beginning July 1, 2018. The impact of adoption will result in enhanced disclosures about the classification of expenses and management of liquid resources.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for the College’s fiscal year beginning July 1, 2019. Early adoption is permitted, Reed College is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2016-18.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires a company to present service cost separately from the other components of net benefit cost. This ASU is effective for nonpublic entities for annual periods beginning after December 15, 2018, with early adoption allowed. Reed College adopted ASU No. 2017-07 for the year ended June 30, 2018. As a result of the adoption of the ASU, Reed College modified its financial statements and disclosures, including a retrospective reclassification of balances for the year ended June 30, 2017.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to Topic 606 and (2) determining whether a contribution is conditional. The amendments in this Update are to be applied on a modified prospective basis and are effective for Reed College’s fiscal year beginning July 1, 2018. Early adoption is permitted. The College has evaluated the extent of the anticipated impact of the adoption of ASU No. 2018-08. The adoption of ASU No. 2018-08 will not have a significant impact on Reed College’s financial statements.

(r) Reclassifications

Certain items previously reported in the prior year financial statements have been reclassified to conform to current year financial statement presentation. These reclassifications had no effect on Reed College's financial position, activities and changes in net assets, or cash flows.

(3) Investments

The fair value of investments at June 30, 2018 and 2017 are as follows:

		2018	2017
Investments:			
Cash and cash equivalents	$	10,266,880	3,183,982
Fixed income		73,869,648	59,536,313
Public equities		207,667,456	198,579,360
Absolute return		131,704,534	129,249,069
Private equity		109,977,743	93,607,067
Private real assets		55,455,340	52,474,922
Private real estate		18,397,989	15,291,750
Funds held in trust		24,900,925	24,123,298
Funds held by trustee		26,123,452	—
Other		1,715,360	1,483,375
Total investments	$	660,079,327	577,529,136

The overall investment objective for Reed College's endowment is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. Reed College diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees Reed College's investment program in accordance with established guidelines.

Investment strategies include:

- Fixed income investments, which consist of commingled funds, bond mutual funds, and a limited partnership that hold securities, the majority of which have maturities greater than one year and are valued based on quoted market prices in active markets. Certain commingled funds and the limited partnership are valued at NAV reported by the fund managers.
- Public equities investments, which consist of mutual funds, commingled funds, and limited partnerships. These are valued based on quoted market prices in active markets, except for certain commingled funds and limited partnerships, which are valued at NAV reported by the fund managers.
- The absolute return portfolio, which is comprised of investments of limited partnership interests in hedge funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. The substrategies within the absolute return portfolio include equity long/short, credit/event driven, market neutral, multistrategy, and global macro. The

majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently, or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flows, industry comparables or some other method. The limited partnership interests are valued at NAV reported by the fund managers.

- Investments in private equity, private real assets and private real estate, which are in the form of limited partnership interests, and typically invest in private assets for which there is no readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private investment managers hold publicly traded securities, these securities are generally valued based on market prices. The limited partnership interests are valued at NAV reported by the fund managers.

At June 30, 2018 and 2017, Reed College has approximately $484 million and $475 million, respectively, of investments that are not readily marketable (alternative investments). These investments represent 73% and 82% of total investments and 73% and 76% of total net assets at June 30, 2018 and 2017, respectively. The alternative investments are reported at NAV as reported by the fund managers, which is used as a practical expedient to estimate the fair value. Reed College believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2018 and 2017. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used if a ready market existed. See note 4 for investment fair value and liquidity measurements.

Reed College has funds invested in 114 and 94 limited partnerships at June 30, 2018 and 2017, respectively. At times there are certain positions of derivative financial instruments included in the assets of the various partnerships. Reed College is obligated under certain limited partnership investment fund agreements to advance funding periodically up to specified levels. At June 30, 2018, Reed College has unfunded commitments of approximately $109,000,000. These commitments are callable by the general partners/advisers between June 30, 2018 and 2028. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

Included in cash and cash equivalents and fixed income are $30,037,986 and $0 of operating funds at June 30, 2018 and 2017, respectively, used to manage Reed College’s operating liquidity.

Included in funds held in trust investments are $24,900,925 and $24,123,298 of planned giving trusts held in mutual funds and other investments that are not available for spending as of June 30, 2018 and 2017, respectively.

At June 30, 2018, Reed College had funds held by trustee of $26,123,452, which was the remaining unspent proceeds from the 2017 State of Oregon notes. The funds held by trustee will be spent on qualifying expenditures of capital projects.

Total investment income, excluding funds held in trust investments, was $51,554,929 and $62,764,450 for the years ended June 30, 2018 and 2017, respectively.

(4) Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities carried at fair values:

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.

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.

Investments which are not readily marketable are valued utilizing NAV as a practical expedient and 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.

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.

ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 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, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available.

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

In accordance with ASU 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value*, investments valued utilizing net asset value as a practical expedient are excluded from the fair value hierarchy.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018:

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Cash and cash equivalents	$	10,266,880	10,266,880	—	—
Fixed income		42,519,751	42,519,751	—	—
Public equities		70,439,200	70,439,200	—	—
Funds held in trust		24,900,925	—	24,900,925	—
Funds held by trustee		26,123,452	26,123,452	—	—
Other		3,006,382	71,869	—	2,934,513
Total		177,256,590	149,421,152	24,900,925	2,934,513
Investments where NAV was used as a practical expedient to measure fair value:					
Absolute return		131,704,534	—	—	—
Fixed income		31,349,897	—	—	—
Private equity		109,977,743	—	—	—
Private real assets		55,455,340	—	—	—
Private real estate		18,397,989	—	—	—
Public equities		137,228,256	—	—	—
Total		484,113,759	—	—	—
Total investments and other assets	$	661,370,349	149,421,152	24,900,925	2,934,513
Liabilities:					
Interest rate swap	$	824,712	—	824,712	—

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2017:

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Cash and cash equivalents	$	3,183,982	3,183,982	—	—
Fixed income		32,246,526	32,246,526	—	—
Public equities		41,660,907	41,660,907	—	—
Funds held in trust		24,123,298	—	24,123,298	—
Other		2,712,371	58,165	—	2,654,206
Total		103,927,084	77,149,580	24,123,298	2,654,206
Investments where NAV was used as a practical expedient to measure fair value:					
Absolute return		129,249,069	—	—	—
Fixed income		27,289,787	—	—	—
Private equity		93,607,067	—	—	—
Private real assets		52,474,922	—	—	—
Private real estate		15,291,750	—	—	—
Public equities		156,918,453	—	—	—
Total		474,831,048	—	—	—
Total investments and other assets	$	578,758,132	77,149,580	24,123,298	2,654,206
Liabilities:					
Interest rate swap	$	1,325,840	—	1,325,840	—

Reed College’s beneficial interest in irrevocable split-interest agreements held or controlled by a third party is classified as Level 1, Level 2, and Level 3 as the fair values are based on a combination of Level 1 inputs (observable market values of the trusts’ investment portfolios), indirect observable inputs (Real Estate Investments Trusts), and significant unobservable inputs (real estate). The fair values are measured at the present value of the future distributions Reed College expects to receive over the term of the agreements.

Treasuries, registered bond mutual funds, registered large cap equity mutual funds, and money market funds are classified in Level 1 of the fair value hierarchy as defined above because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds’ underlying securities. Even though these shares and units in nonregistered investment funds are classified in Levels 2 and 3, some of the underlying securities are marketable or not difficult to value. In addition to evaluating the inputs as described above, Reed College's ability to redeem its interest at or near the date of the statements of financial position is also considered in determining the level in which a fund's fair value measurement is classified. The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

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 years ended June 30, 2018 and 2017, respectively:

Balance at June 30, 2016	$ 5,263,454
Total realized and unrealized losses	(334,609)
Purchases, issuances, and settlements (net)	(2,274,639)
Balance at June 30, 2017	2,654,206
Total realized and unrealized gains	23,182
Purchases, issuances, and settlements (net)	257,125
Balance at June 30, 2018	$ 2,934,513

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2018:

		Fair value	Lockup period	Redemption frequency	Redemption notice period
Absolute return and public equities	$	12,841,173	Liquidating	N/A	N/A
Public equities		81,198,681	1 month	Monthly	5-15 days
Absolute return		9,972,803	2 months	Quarterly	60 days
Absolute return		75,032,160	3 months	Quarterly	30–75 days
Public equities and fixed income		77,267,094	3 months	Quarterly	60 days
Absolute return		8,689,546	6 months	Semi-annually	60 days
Absolute return		3,491,255	6 months	Annually	45 days
Absolute return		22,026,913	9 months	Annually	60-90 days
Fixed income		9,763,062	—	Illiquid	—
Private equity		109,977,743	—	Illiquid	—
Private real estate		18,397,989	—	Illiquid	—
Private real assets		55,455,340	—	Illiquid	—
Total investments where NAV was used as a practical expedient to measure fair value	$	484,113,759			

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2017:

		Fair value	Lockup period	Redemption frequency	Redemption notice period
Absolute return	$	9,633	Liquidating	N/A	N/A
Public equities		17,767,597	15 days	Semi-monthly	15 days
Absolute return and public equities		89,629,013	1 month	Monthly	10–30 days
Absolute return		9,502,211	2 months	Quarterly	60 days
Absolute return, fixed income, and public equities		137,598,912	3 months	Quarterly	30–75 days
Absolute return		9,734,618	4 months	Quarterly	85 days
Absolute return		8,586,941	6 months	Semi-annually	60 days
Absolute return		8,979,471	3 months	Annually	90 days
Absolute return		4,071,800	6 months	Annually	45 days
Absolute return		20,985,587	9 months	Annually	60–90 days
Fixed income		6,591,526	—	Illiquid	—
Private equity		93,607,067	—	Illiquid	—
Private real estate		15,291,750	—	Illiquid	—
Private real assets		52,474,922	—	Illiquid	—
Total investments where NAV was used as a practical expedient to measure fair value	$	474,831,048			

Reed College holds investments in private limited partnerships and certain fixed income commingled funds where NAV is used as a practical expedient to measure fair value at June 30, 2018. These investments do not allow for periodic redemptions, but rather distribute earnings at the discretion of the fund managers and fully liquidate upon the termination date as stated in the agreement. Therefore, these are considered illiquid.

(5) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2018 and 2017 consist of the following:

		2018	2017
Land and land improvements	$	14,219,852	14,482,214
Buildings		208,270,507	202,441,649
Construction in progress		7,871,750	2,307,872
Equipment, furniture, and fixtures		15,597,027	15,175,865
		245,959,136	234,407,600
Less accumulated depreciation		(100,132,202)	(94,751,804)
Net property, plant, and equipment	$	145,826,934	139,655,796

Depreciation expense was $5,768,913 and $5,542,900 for the years ended June 30, 2018 and 2017, respectively, and is allocated to the functional expenses based on the relative square footage of the departments.

(6) Long-Term Debt

(a) 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.

Wells Fargo Bank is the liquidity facility provider for the 2008 Bond Issue should the bonds fail to remarket. The Liquidity Facility agreement was renewed in January 2018 for an additional five years and remains in effect until January 31, 2023, unless renewed or terminated pursuant to the terms and conditions set forth in the agreement.

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.

Effective December 5, 2017, Reed College refinanced the 2011 State of Oregon Bonds in the amount of $40,030,000 and borrowed an additional $25,620,000 to be used to finance the construction of a new residence hall. A portion of the bond proceeds were deposited with a trustee in an irrevocable escrow trust account to service the 2011 State of Oregon Bonds until July 1, 2020, which is the earliest date the bonds are callable. As of June 30, 2018, Reed College had $43,262,923 on deposit with the trustee. The defeased bonds and the related trust are not reflected in the accompanying financial statements.

Notes payable are summarized as follows:

	2018	2017
2008 State of Oregon notes	$ 36,345,000	37,760,000
2011 State of Oregon notes	—	40,030,000
2017 State of Oregon notes	65,650,000	—
	101,995,000	77,790,000
Unamortized premium (discount)	8,681,400	(365,988)
Unamortized issuance costs	(449,501)	(309,648)
Total	$ 110,226,899	77,114,364

Principal payments on the notes payable become due as follows:

	2017 State of Oregon notes	2008 State of Oregon notes	Total
2019	$ —	1,465,000	1,465,000
2020	—	1,535,000	1,535,000
2021	—	1,595,000	1,595,000
2022	—	1,670,000	1,670,000
2023	—	1,720,000	1,720,000
Thereafter	65,650,000	28,360,000	94,010,000
	$ 65,650,000	36,345,000	101,995,000

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

	2018	2017
Interest	$ 2,106,638	2,255,832
Amortization of premium, discount, and issuance costs	(153,928)	31,149
Total interest cost	$ 1,952,710	2,286,981

Amortization is calculated over the life of the notes.

(b) 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 the State of Oregon notes payable.

In June 2006, Reed College issued $16,650,000 of auction rate debt through the Oregon Facilities Authority. Reed 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, 2018 and 2017, $282,119 and $584,163 was paid, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains. The change in unrealized gain and loss on the swap agreements for the years ended June 30, 2018 and 2017 was a gain of $501,128 and $679,911, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains. The fair value of the swap agreement as of June 30, 2018 and 2017 was a liability of $824,712 and $1,325,840, respectively, and is recorded in the statements of financial position as other long-term liabilities.

(7) Retirement and Postretirement Benefits

(a) Retirement Plan

Reed College has a defined-contribution pension plan administered through Teachers Insurance and Annuity Association – College Retirement Equities Fund. Employees are able to voluntarily contribute funds to this plan beginning on the first day of employment provided they are not students. Employees are eligible for fixed employer contributions the first month following the completion of a year of service, and must have attained the age of twenty-one. Participants are immediately vested in their employee and employer contributions and earnings thereon. Reed College's policy is to fund pension expenses as incurred. Expenditures relating to the plan were $3,629,026 and $3,522,177 for the years ended June 30, 2018 and 2017, respectively, and are included in education and general expenses in the accompanying statements of activities and changes in net assets.

(b) Defined Benefit Retiree Medical Insurance Plan

Reed College maintains a defined benefit retiree medical insurance plan which is not funded. Employees hired after June 30, 2006 do not participate in this plan. In order to participate, employees hired prior to September 2, 2001 must retire from Reed College at or after age 55 with at least 10 years of continuous service. In order to participate, employees hired between September 1, 2001 and June 30, 2006 must retire from Reed College at or after age 55 with 20 years of continuous service.

Participating retirees have the option of continuing to be insured by either Pioneer Educators Health Trust or a supplemental Kaiser plan. Both plans are supplemental to Medicare. Participating retirees who retired prior to September 2, 2001 and spouses/domestic partners are covered for their lifetime. All other participating retirees are covered at the lowest premium plan for their lifetime and spouses/domestic partners are covered at the rate of 50% of the lowest premium plan for their lifetime. Employer premium expenses were $755,896 and $673,927 for the years ended June 30, 2018 and 2017, respectively.

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

		2018	2017
Change in benefit obligation:			
Benefit obligation at beginning of year	$	26,680,433	29,921,899
Service cost		440,767	527,516
Interest cost		1,047,559	1,059,953
Benefits paid		(755,896)	(673,927)
Actuarial gain		(980,810)	(4,155,008)
Benefit obligation at end of year and funded status	$	26,432,053	26,680,433
Amounts recognized in the balance sheet consist of:			
Postretirement benefits payable – current	$	1,077,870	992,668
Postretirement benefits payable		25,354,183	25,687,765
	$	26,432,053	26,680,433

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

		2018	2017
Service cost	$	440,767	527,516
Interest cost		1,047,559	1,059,953
Recognition of actuarial gain		(980,810)	(4,155,008)
Net periodic benefit cost		507,516	(2,567,539)

Service cost is included in education and general expenses and the other components of net periodic postretirement benefit are included in nonoperating activity in the accompanying statements of activities and changes in net assets.

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, 2018 and 2017, as measured at June 30:

	2018	2017
Benefit obligation:		
Weighted average discount rate	4.1%	4.0%
Rate of increase in per capita cost of covered healthcare benefits	5.5% trending to 4.0% in 2022	6.0% trending to 4.0% in 2022
Net periodic benefit cost:		
Weighted average discount rate	4.0%	3.6 %
Rate of increase in per capita cost of covered healthcare benefits	6.0% trending to 4.0% in 2022	6.5% trending to 4.0% in 2022

Reed College's policy is to fund the plan as claims payments are made. In the 2018–2019 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, $1,077,870 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 ending:	
2019	$ 1,077,870
2020	1,110,348
2021	1,142,902
2022	1,171,339
2023	1,193,309
2024–2028	6,577,039

(c) Emeriti Retiree Defined-Contribution Health Plan

Reed College has a defined-contribution retiree health plan for employees hired on or after July 1, 2006. Reed College makes contributions on each eligible employee's 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 and achieved 20 years of continuous service to Reed College. Employer expenses related to this plan were $696,820 and $694,692 for fiscal years ended June 30, 2018 and 2017, respectively, and are included in education and general expenses in the accompanying statements of activities and changes in net assets.

(8) Funds Held in Trust by Others

Reed College has been named beneficiary of a portion of the remainder of three 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, 2018 and 2017, the trusts receivable were $1,291,022 and $1,228,996, respectively, and were reported as noncurrent funds held in trust by others in the statements of financial position.

(Continued)

(9) Contributions and Accounts Receivable

Contributions receivable consist of the following:

		2018	2017
Annual fund	$	1,124,502	1,293,184
Campaign		3,146,949	2,530,025
Endowment		4,557,067	3,478,942
Facilities		60,000	175,000
Gross contributions receivable	$	8,888,518	7,477,151

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

		2018	2017
Current:			
Gross contributions receivable	$	3,184,334	2,940,515
Less allowance for doubtful accounts		(159,000)	(86,000)
Total current net contributions receivable		3,025,334	2,854,515
Long-term (one to five years):			
Gross contributions receivable		5,704,184	4,536,636
Less allowance for doubtful accounts		(274,000)	(285,000)
Net long-term contributions receivable		5,430,184	4,251,636
Less discount to present value		(220,486)	(84,241)
Total long-term net contributions receivable		5,209,698	4,167,395
Total net contributions receivable	$	8,235,032	7,021,910

Contributions receivable due in excess of one year are discounted at 1.92% to 2.30% and 1.07% to 1.62% for the years ended June 30, 2018 and 2017, respectively.

Of the net unconditional promises to give included above, $5,669,394 represents an unconditional promise to give from 6 members of the Reed College board of trustees due in one to three years.

Accounts receivable consist of the following at June 30, 2018:

	Unrestricted	Restricted	Loan fund	Endowment	Total
Current:					
Student accounts receivable	$ 46,928	—	—	—	46,928
Related parties	—	44,464	—	17,101	61,565
Other receivables	195,774	428,302	—	—	624,076
	242,702	472,766	—	17,101	732,569
Noncurrent:					
Student accounts receivable	—	—	8,832	—	8,832
Reed loans	—	—	1,177,107	—	1,177,107
Related parties	—	—	5,320	—	5,320
Federal Perkins loans	—	—	2,740,699	—	2,740,699
	—	—	3,931,958	—	3,931,958
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	$ 242,702	472,766	3,871,719	17,101	4,604,288

Accounts receivable consist of the following at June 30, 2017:

	Unrestricted	Restricted	Loan fund	Endowment	Total
Current:					
Student accounts receivable	$ 246,971	—	—	—	246,971
Related parties	—	38,977	—	190,463	229,440
Other receivables	205,275	235,397	—	51,810	492,482
	452,246	274,374	—	242,273	968,893
Noncurrent:					
Student accounts receivable	—	—	5,276	—	5,276
Reed loans	—	—	1,145,166	—	1,145,166
Related parties	—	—	8,365	—	8,365
Federal Perkins loans	—	—	2,833,385	—	2,833,385
	—	—	3,992,192	—	3,992,192
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	$ 452,246	274,374	3,931,953	242,273	4,900,846

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 cancelations). Such employment cancellations are absorbed in full by the U.S. government.

Congress did not renew the Federal Perkins Loan Program after September 2017, and the transition period permitting disbursements ended on June 30, 2018. Institutions have the option to either continue to service the outstanding loans and remit excess cash periodically to the Department of Education or liquidate the portfolio, which would include assigning remaining loans to the federal government and forfeiting the institution's remaining net assets (institutional capital contribution). Reed College intends to continue servicing the outstanding Perkins loans.

(10) Net Assets

At June 30, 2018 and 2017, net assets consisted of the following:

		2018	2017
Unrestricted:			
Operating and designated for special programs	$	9,637,445	13,616,276
Institutional loan programs		5,431,355	6,195,624
Funds functioning as endowment		113,239,818	109,797,816
Accumulated quasi-endowment gains		180,127,677	159,683,982
Net investment in plant		58,649,914	57,797,281
Total unrestricted	$	367,086,209	347,090,979
Temporarily restricted:			
Educational and general programs	$	13,560,084	13,175,206
Annuity and life income funds		8,690,172	8,486,107
Accumulated endowment gains		89,118,405	79,977,836
Other temporarily restricted net assets		4,009,516	3,761,164
Total temporarily restricted	$	115,378,177	105,400,313
Permanently restricted:			
True endowment funds	$	173,097,568	166,759,460
Annuity and life income funds		5,718,659	5,075,006
Total permanently restricted	$	178,816,227	171,834,466

(11) Endowments

At June 30, 2018, Reed College's endowment consisted of approximately 485 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowments and funds designated by Reed College to function as endowments (quasi-endowments). Quasi-endowment funds do not have donor restrictions and may be expended at the discretion of Reed College. As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The State of Oregon has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), the provisions of which apply to endowment funds. Reed College has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Reed College classifies as permanently restricted net assets: (a) the original value of gifts to donor-restricted endowments and (b) any other amounts added to donor-restricted endowments that donors have stipulated are not expendable. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Reed College in a manner consistent with the standard of prudence prescribed by UPMIFA.

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.
- 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.

If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets are reduced until the accumulated gains associated with a fund are reduced to $0. 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 $299,319 and $803,491 for the years ended at June 30, 2018 and 2017, 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.

Investment and spending policies – To enable broad diversification and economies of scale, Reed College's policy is to pool endowment assets for investment purposes to the fullest extent possible as permitted by gift agreements and applicable government regulations.

Reed College's pooled endowment provides ongoing financial support for operations that will remain stable (or grow) in real or inflation-adjusted terms, as adjusted for new additions to the pooled endowment. The primary investment objective of the pooled endowment is to provide a sustainable maximum level of return consistent with prudent risk levels. The overall, long-term investment goal of the pooled endowment is to achieve an annualized total return that balances short-term spending needs with the preservation of the real (inflation-adjusted) value of assets. Investments are diversified across a wide range of asset classes, including those providing return premiums for illiquidity, so as to provide a balance that will enhance total return under a range of economic scenarios, while avoiding undue risk concentrations in any single asset class or investment category. Sufficient liquidity in the endowment portfolio to meet the spending policy and operational needs, preserve Reed College's desired credit ratings, and maintain compliance with any debt agreements, is also considered when making investment decisions regarding asset allocation.

In accordance with the Act, Reed College considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of Reed College and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of Reed College; and (7) the investment policies of Reed College.

Pooled endowment spending is determined using the total return concept. The policy on spending endowment income is to spend 5.15% and 5.20% over a rolling 13-quarter moving average of the fair value or market value of the endowment assets for fiscal years 2018 and 2017, respectively.

Endowment net assets by type of fund as of June 30, 2018:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(299,319)	89,118,405	173,097,568	261,916,654
Board-designated endowment funds		293,666,814	—	—	293,666,814
Total funds	$	293,367,495	89,118,405	173,097,568	555,583,468

Endowment net assets by type of fund as of June 30, 2017:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(803,491)	79,977,836	166,759,460	245,933,805
Board-designated endowment funds		270,285,289	—	—	270,285,289
Total funds	$	269,481,798	79,977,836	166,759,460	516,219,094

(Continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2017	$ 269,481,798	79,977,836	166,759,460	516,219,094
Investment return:				
Net investment gain	183,786	111,102	—	294,888
Net appreciation of investments	29,563,129	21,298,025	—	50,861,154
Contributions	8,183,037	—	3,394,974	11,578,011
Contributions from trust terminations	145,769	—	46,690	192,459
Appropriation of endowment assets for expenditure	(15,110,710)	(12,268,558)	—	(27,379,268)
Transfers to create board-designated endowment fund	1,609,104	—	—	1,609,104
Transfers and other reclassifications	(688,418)	—	2,896,444	2,208,026
Endowment net assets, June 30, 2018	$ 293,367,495	89,118,405	173,097,568	555,583,468

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2016	$ 241,736,454	66,809,331	165,167,675	473,713,460
Investment return:				
Net investment gain	364,674	292,929	—	657,603
Net appreciation of investments	35,713,258	26,037,403	—	61,750,661
Contributions	1,146,417	—	1,255,381	2,401,798
Contributions from trust terminations	952,243	—	47,775	1,000,018
Appropriation of endowment assets for expenditure	(15,116,804)	(12,142,834)	—	(27,259,638)
Transfers to create board-designated endowment fund	3,290,000	—	—	3,290,000
Transfers and other reclassifications	1,395,556	(1,018,993)	288,629	665,192
Endowment net assets, June 30, 2017	$ 269,481,798	79,977,836	166,759,460	516,219,094

(12) 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 Oregon 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 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 coverages, the maximum contingent liability exposure to Reed College is approximately $464,000. 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. The trustees of the PEHT plan have elected to terminate the plan effective March 14, 2018. The Plan will continue to provide benefits to participants for claims incurred up to March 31, 2019. The final liquidation of the plan is anticipated to be completed by the end of 2020.

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 and changes in net assets, or cash flows.

(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:

		2018	2017
Dividends and interest	$	506,195	429,679
Beneficiary payments		(1,393,586)	(1,241,871)
Investment fees		(207,432)	(266,354)
Net realized gain		1,053,863	961,958
Net unrealized gain		719,617	1,628,419
Total change in value	$	678,657	1,511,831

(14) Fund-Raising Expense

Reed College expended $3,169,890 and $3,246,450 for the years ended June 30, 2018 and 2017, 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 has evaluated subsequent events from the statement of financial position date through October 8, 2018, the date at which the financial statements were issued, and determined that there are no other items to disclose.