



THE REED INSTITUTE

Financial Statements

June 30, 2014 and 2013

(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:

Report on the Financial Statements

We have audited the accompanying statements of financial position of The Reed Institute (an Oregon nonprofit corporation) as of June 30, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2014 and 2013, 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 10, 2014

THE REED INSTITUTE
Statements of Financial Position
June 30, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 6,506,607	7,084,290
Accounts receivable – student and other (note 8)	852,073	1,255,242
Short-term investments (note 3)	104,592	5,261,852
Contributions receivable, net of allowance \$37,000 in 2014 and \$39,000 in 2013 (note 8)	703,856	732,123
Prepaid expenses and other assets	4,659,873	4,172,093
Total current assets	12,827,001	18,505,600
Noncurrent assets:		
Cash and cash equivalents whose use is limited	6,174,350	8,094,178
Accounts receivable noncurrent – student and other, net of allowance of \$60,239 in 2014 and \$60,239 in 2013 (note 8)	5,088,951	5,071,786
Property, plant, and equipment, net (note 4)	138,782,755	133,522,663
Contributions receivable – noncurrent net of allowance of \$587,000 in 2014 and \$669,000 in 2013 (note 8)	11,120,028	12,679,319
Funds held in trust by others (note 7)	1,172,563	938,899
Long-term investments (note 3)	576,758,467	513,007,543
Other assets	480,865	537,999
Total noncurrent assets	739,577,979	673,852,387
Total assets	\$ 752,404,980	692,357,987
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,329,393	7,469,516
Postretirement benefits payable (note 6)	794,443	746,693
Debt and capital leases, current portion (note 5)	41,601,305	1,276,530
Deferred revenue	1,413,955	1,841,735
Total current liabilities	50,139,096	11,334,474
Long-term liabilities:		
Liability for split-interest agreements	11,177,015	9,517,576
Postretirement benefits payable (note 6)	24,705,839	23,231,417
Refundable loan programs	2,756,743	2,812,342
Asset retirement obligation	3,053,284	3,023,307
Debt and capital leases, net of current portion (note 5)	39,819,982	82,631,287
Other liabilities	2,149,050	2,382,635
Total long-term liabilities	83,661,913	123,598,564
Total liabilities	133,801,009	134,933,038
Net assets (note 9):		
Unrestricted	358,720,805	318,214,151
Temporarily restricted	95,501,981	77,071,769
Permanently restricted	164,381,185	162,139,029
Total net assets	618,603,971	557,424,949
Total liabilities and net assets	\$ 752,404,980	692,357,987

See accompanying notes to financial statements.

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2014</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 62,110,883	—	—	62,110,883
Less college-funded scholarships	(22,800,465)	—	—	(22,800,465)
Net tuition and fees	<u>39,310,418</u>	<u>—</u>	<u>—</u>	<u>39,310,418</u>
Auxiliary enterprises	13,234,897	—	—	13,234,897
Gifts and private grants	11,501,436	2,906,083	125,803	14,533,322
Government grants, contracts, and student aid	1,269,601	—	—	1,269,601
Realized and unrealized gains	46,756,262	26,145,122	—	72,901,384
Other investment gains (losses)	(375,541)	—	276,828	(98,713)
Other revenues and additions	<u>2,136,325</u>	<u>—</u>	<u>23,820</u>	<u>2,160,145</u>
Subtotal	74,522,980	29,051,205	426,451	104,000,636
Net assets released from restrictions	<u>9,921,004</u>	<u>(9,921,004)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>123,754,402</u>	<u>19,130,201</u>	<u>426,451</u>	<u>143,311,054</u>
Expenses:				
Educational and general:				
Instruction	31,123,091	—	—	31,123,091
Research	1,331,839	—	—	1,331,839
Academic support	9,301,215	—	—	9,301,215
General institutional support	15,952,198	—	—	15,952,198
Student services	6,641,523	—	—	6,641,523
Public affairs	<u>5,471,642</u>	<u>—</u>	<u>—</u>	<u>5,471,642</u>
Total educational and general	69,821,508	—	—	69,821,508
Auxiliary enterprises	<u>14,983,570</u>	<u>—</u>	<u>—</u>	<u>14,983,570</u>
Total expenses	<u>84,805,078</u>	<u>—</u>	<u>—</u>	<u>84,805,078</u>
Increase from operations	<u>38,949,324</u>	<u>19,130,201</u>	<u>426,451</u>	<u>58,505,976</u>
Nonoperating activity:				
Other interest expense	(133,632)	—	—	(133,632)
Change in value of split-interest agreements	—	1,302,448	1,704,371	3,006,819
Decrease in underwater endowments	1,710,101	(1,710,101)	—	—
Other additions (deductions)	<u>(19,139)</u>	<u>(292,336)</u>	<u>111,334</u>	<u>(200,141)</u>
Total nonoperating activity	<u>1,557,330</u>	<u>(699,989)</u>	<u>1,815,705</u>	<u>2,673,046</u>
Increase in net assets	40,506,654	18,430,212	2,242,156	61,179,022
Net assets, beginning of year	<u>318,214,151</u>	<u>77,071,769</u>	<u>162,139,029</u>	<u>557,424,949</u>
Net assets, end of year	\$ <u><u>358,720,805</u></u>	\$ <u><u>95,501,981</u></u>	\$ <u><u>164,381,185</u></u>	\$ <u><u>618,603,971</u></u>

See accompanying notes to financial statements.

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2013</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 59,506,803	—	—	59,506,803
Less college-funded scholarships	<u>(21,171,230)</u>	<u>—</u>	<u>—</u>	<u>(21,171,230)</u>
Net tuition and fees	<u>38,335,573</u>	<u>—</u>	<u>—</u>	<u>38,335,573</u>
Auxiliary enterprises	12,856,028	—	—	12,856,028
Gifts and private grants	4,849,951	407,617	6,373,099	11,630,667
Government grants, contracts, and student aid	1,253,642	—	—	1,253,642
Realized and unrealized gains	37,741,807	18,646,049	—	56,387,856
Other investment (losses)/gains	(328,458)	—	—	(328,458)
Other revenues and additions	<u>1,502,449</u>	<u>—</u>	<u>16,190</u>	<u>1,518,639</u>
Subtotal	<u>57,875,419</u>	<u>19,053,666</u>	<u>6,389,289</u>	<u>83,318,374</u>
Net assets released from restrictions	<u>10,474,983</u>	<u>(10,474,983)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>106,685,975</u>	<u>8,578,683</u>	<u>6,389,289</u>	<u>121,653,947</u>
Expenses:				
Educational and general:				
Instruction	28,952,979	—	—	28,952,979
Research	1,198,020	—	—	1,198,020
Academic support	8,217,127	—	—	8,217,127
General institutional support	15,143,674	—	—	15,143,674
Student services	6,447,472	—	—	6,447,472
Public affairs	<u>5,647,331</u>	<u>—</u>	<u>—</u>	<u>5,647,331</u>
Total educational and general	<u>65,606,603</u>	<u>—</u>	<u>—</u>	<u>65,606,603</u>
Auxiliary enterprises	<u>15,236,041</u>	<u>—</u>	<u>—</u>	<u>15,236,041</u>
Total expenses	<u>80,842,644</u>	<u>—</u>	<u>—</u>	<u>80,842,644</u>
Increase from operations	<u>25,843,331</u>	<u>8,578,683</u>	<u>6,389,289</u>	<u>40,811,303</u>
Nonoperating activity:				
Other interest expense	(129,163)	—	—	(129,163)
Change in value of split-interest agreements	—	829,972	524,475	1,354,447
Decrease in underwater endowments	2,934,815	(2,934,815)	—	—
Other additions (deductions)	<u>(354,412)</u>	<u>41,739</u>	<u>134,580</u>	<u>(178,093)</u>
Total nonoperating activity	<u>2,451,240</u>	<u>(2,063,104)</u>	<u>659,055</u>	<u>1,047,191</u>
Increase in net assets	<u>28,294,571</u>	<u>6,515,579</u>	<u>7,048,344</u>	<u>41,858,494</u>
Net assets, beginning of year	<u>289,919,580</u>	<u>70,556,190</u>	<u>155,090,685</u>	<u>515,566,455</u>
Net assets, end of year	\$ <u><u>318,214,151</u></u>	\$ <u><u>77,071,769</u></u>	\$ <u><u>162,139,029</u></u>	\$ <u><u>557,424,949</u></u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 61,179,022	41,858,494
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization costs	4,680,816	4,188,970
Contributions restricted for long-term investment	(4,420,840)	(7,599,391)
Noncash contributions	(4,158,312)	(1,087,570)
Net realized and unrealized gains on investments	(71,972,813)	(53,098,045)
Net realized and unrealized gains on split-interest agreements	(2,773,155)	(1,299,499)
Change in value of split-interest agreements	(233,664)	(54,948)
Change in asset retirement obligation	29,977	33,163
Change in fair value of derivative instruments	(233,585)	(871,842)
Changes in operating assets and liabilities that provided (used) cash:		
Cash whose use is limited	1,919,828	2,593,305
Accounts receivable	386,004	(121,748)
Contributions receivable	1,587,558	3,169,629
Prepaid and other	(460,900)	(362,379)
Accounts payable and accrued liabilities	(1,140,123)	556,479
Postretirement	1,522,172	648,358
Deferred revenue	(427,780)	747,295
Net cash used in operating activities	(14,515,795)	(10,699,729)
Cash flows from investing activities:		
Proceeds from maturities/sales of investments	228,389,564	211,905,632
Purchases of investments	(206,732,589)	(211,004,590)
Contracts receivable collected	46,532	59,940
Contracts receivable advanced	(16,278)	—
Proceeds from disposal of equipment	—	55,000
Purchase of property, plant, and equipment	(9,940,908)	(21,251,287)
Net cash provided by (used in) investing activities	11,746,321	(20,235,305)
Cash flows from financing activities:		
Contributions restricted for long-term investment	4,420,840	7,599,391
Payment of debt principal/capital lease obligations	(2,486,530)	(91,941)
Payments on split-interest agreements	(1,346,359)	(1,219,992)
Increase (decrease) in obligations for split-interest agreements	1,659,439	(777,067)
Changes in governmental loan funds	(55,599)	(54,003)
Changes in deposit with bond trustee	—	12,804,568
Net cash provided by financing activities	2,191,791	18,260,956
Net decrease in cash and cash equivalents	(577,683)	(12,674,078)
Cash and cash equivalents, beginning of year	7,084,290	19,758,368
Cash and cash equivalents, end of year	\$ 6,506,607	7,084,290
Supplemental disclosure of cash flow information:		
Interest paid	\$ 2,046,182	2,086,807

See accompanying notes to financial statements.

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Notes to Financial Statements
June 30, 2014 and 2013

(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 and changes in net assets. 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) 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 (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.

(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, 2014 and 2013, respectively.

	2014	2013
Maturation of planned giving agreements	\$ 32,086	399,594
Passage of time	981,258	2,067,434
Endowment earnings appropriated for expenditure	8,907,660	8,007,955
Total net assets released from restrictions	\$ 9,921,004	10,474,983

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.

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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)*, 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 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 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.

(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

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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, *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 estimated 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(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, *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 Subtopic 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As Reed College is exempt from taxation under 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 Subtopic 740-10 did not have a significant impact on the Reed College’s financial statements.

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(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, except for certain cash and cash equivalents 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.

(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 *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.

(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 covers up to \$250,000 per depositor, for each account ownership category.

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(3) Investments

The fair value of investments at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Investments:		
Long-term government bonds	\$ 25,000	25,000
Bond funds	19,861,676	25,369,871
Corporate bonds	1,996,740	1,968,060
Equity mutual funds	107,618,626	95,441,286
Hedge funds	297,254,925	253,405,577
Private equity	139,622,099	128,432,723
REITs	3,333,711	2,462,617
Real estate	3,522,313	3,681,161
Money market and other	3,627,969	7,483,100
Total investments	<u>\$ 576,863,059</u>	<u>518,269,395</u>

At June 30, 2014 and 2013, Reed College has approximately \$437 million and \$382 million, respectively, of investments that are not readily marketable (alternative investments). These investments represent 76% and 74% of total investments and 71% and 68% of total net assets at June 30, 2014 and 2013, 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, 2014, Reed College has committed \$280,676,624 to private equity partnerships and hedge funds. As of June 30, 2014, Reed College has funded \$219,353,502 of these commitments leaving an unfunded balance of \$61,323,122. These commitments are callable by the general partners/advisers between now and 2024. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

Included in investments are \$25,659,799 and \$19,761,009 of planned giving trusts held in mutual funds that are not available for spending as of June 30, 2014 and 2013, respectively.

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Within private equity and hedge funds, Reed College has funds invested in fifty-seven and forty-four limited partnerships, respectively, with ownership interests ranging from 0.02% to 16.57% at June 30, 2014 and 0.02% to 16.57% at June 30, 2013. Included in the assets of the various partnerships at times there are certain positions of derivative financial instruments.

Total investment income and realized and unrealized gains on investments that are not readily marketable was approximately \$51,347,000 and \$40,243,000 for the years ended June 30, 2014 and 2013, respectively.

(4) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 14,482,214	14,482,214
Buildings	183,687,925	152,391,052
Construction in progress	5,600,861	27,763,514
Equipment, furniture, and fixtures	14,125,246	13,318,558
	<u>217,896,246</u>	<u>207,955,338</u>
Less accumulated depreciation	<u>(79,113,491)</u>	<u>(74,432,675)</u>
Net property, plant, and equipment	<u>\$ 138,782,755</u>	<u>133,522,663</u>

Depreciation expense was \$4,486,684 and \$4,035,028 for the years ended June 30, 2014 and 2013, 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 carrying values of assets under capital lease at June 30, 2014 and 2013 are \$97,679 and \$206,010, respectively. Amortization costs of \$108,331 and \$108,742 are included in accumulated depreciation for the years ended June 30, 2014 and 2013, respectively.

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

2015	\$ 86,790
2016	36,899
2017	<u>15,370</u>
	139,059
Less amount representing interest	<u>(6,056)</u>
	<u>\$ 133,003</u>

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(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 2008 Bond Issue should the bonds fail to remarket. The Liquidity Facility agreement remains in effect until April 22, 2015, unless renewed or terminated pursuant to the conditions set forth in the 2008 Liquidity Facility. The 2008 Bonds have been classified as current portion of long-term debt as of June 30, 2014 due to the existing liquidity facility being scheduled to expire within the next fiscal year. Management plans to renew or extend the terms of the liquidity facility prior to the April 2015 expiration date. This classification of the 2008 Bonds has no impact on the scheduled maturity dates and principal payments outlined in the table below.

Notes payable are summarized as follows:

	<u>2014</u>	<u>2013</u>
2008 State of Oregon notes	\$ 41,710,000	44,105,000
2011 State of Oregon notes	40,030,000	40,030,000
	81,740,000	84,135,000
Less discount	(416,392)	(433,193)
Total	\$ <u>81,323,608</u>	<u>83,701,807</u>

Principal payments on the notes payable become due as follows:

	<u>2011 State of Oregon notes</u>	<u>2008 State of Oregon notes</u>	<u>Total</u>
2015	\$ —	1,265,000	1,265,000
2016	—	1,310,000	1,310,000
2017	—	1,375,000	1,375,000
2018	—	1,415,000	1,415,000
2019	—	1,465,000	1,465,000
Thereafter	40,030,000	34,880,000	74,910,000
	\$ <u>40,030,000</u>	<u>41,710,000</u>	<u>81,740,000</u>

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

	2014	2013
Interest	\$ 2,046,183	2,086,807
Amortization of discount and issuance costs	31,149	31,149
Total interest expensed	\$ 2,077,332	2,117,956

Notes payable discount, net of amortization was \$416,392 and \$433,193 at June 30, 2014 and 2013, respectively. Issuance costs, net of amortization were \$352,689 and \$367,037 at June 30, 2014 and 2013, respectively. Amortization is calculated over the life of the notes. The fair value of the notes payable at June 30, 2014 and 2013 was approximately \$86,063,564 and \$85,662,154, 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 the 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, 2014 and 2013, \$532,938 and \$559,929 was paid, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains (losses). The change in unrealized gain and loss on the swap agreements for the years ended June 30, 2014 and 2013 was a gain of \$233,585 and a gain of \$871,842, respectively, and is recorded in the statements of activities and changes in net assets as realized and unrealized gains. The fair value of the swap agreement as of June 30, 2014 and 2013 was a liability of \$2,149,050 and \$2,382,635, 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 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 \$3,266,429 and \$3,251,255 for the years ended June 30, 2014 and 2013, respectively, and are

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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 administered by Pioneer Educators Health Trust (PEHT) and 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 fifty-five with at least ten 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 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 \$753,292 and \$726,709 for the years ended June 30, 2014 and 2013, respectively, and are included in education and general expenses in the accompanying statements of activities and changes in net assets.

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

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 23,978,110	23,329,752
Service cost	471,440	445,567
Interest cost	1,104,535	1,144,831
Benefits paid	(746,693)	(741,405)
Actuarial gain (loss)	692,890	(200,635)
Benefit obligation at end of year and funded status	<u>\$ 25,500,282</u>	<u>23,978,110</u>
Amounts recognized in the balance sheet consist of:		
Postretirement benefits payable – current	\$ 794,443	746,693
Postretirement benefits payable	<u>24,705,839</u>	<u>23,231,417</u>
	<u>\$ 25,500,282</u>	<u>23,978,110</u>

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

	<u>2014</u>	<u>2013</u>
Interest cost	\$ 1,104,535	1,144,831
Service cost	<u>471,440</u>	<u>445,567</u>
Net periodic benefit cost	<u>\$ 1,575,975</u>	<u>1,590,398</u>

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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, 2014 and 2013, as measured at June 30:

	2014	2013
Benefit obligation:		
Weighted average discount rate	4.40%	4.85%
Rate of increase in per capita cost of covered healthcare benefits	7.5% trending to 4% in 2022	8% trending to 4% in 2021
Net periodic benefit cost:		
Weighted average discount rate	4.85%	4.15%
Rate of increase in per capita cost of covered healthcare benefits	8% trending to 4% in 2022	7% trending to 4% in 2016

Reed College’s policy is to fund the plan as claims payments are made. In the 2014-2015 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, \$794,443 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:	
2015	\$ 794,443
2016	873,559
2017	944,153
2018	1,015,902
2019	1,092,257
2020–2022	6,421,508

(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 \$256,061 and \$314,667 for fiscal years ended June 30, 2014 and 2013, respectively, and are included in education and general expenses in the accompanying statements of activities and changes in net assets.

(7) Funds Held in Trust by Others

Reed College has been named beneficiary of a portion of the remainder of three trusts in 2014 and four trusts in 2013 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, 2014 and 2013, the trusts receivable were \$1,172,563 and \$938,899, respectively, and were included under funds held in trust by others, noncurrent, in the statement of financial position.

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(8) Contributions and Accounts Receivable

Contributions receivable consist of the following:

	<u>2014</u>	<u>2013</u>
Annual fund	\$ 1,358,869	1,449,016
Campaign fund	547,470	248,530
Endowment fund	8,323,632	10,412,889
Plant fund	<u>2,769,372</u>	<u>2,705,649</u>
Gross contributions receivable	<u>\$ 12,999,343</u>	<u>14,816,084</u>

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

	<u>2014</u>	<u>2013</u>
Current:		
Gross contributions receivable	\$ 740,856	771,123
Less allowance for doubtful accounts	<u>(37,000)</u>	<u>(39,000)</u>
Total current net contributions receivable	<u>703,856</u>	<u>732,123</u>
Long-term (one to five years):		
Gross contributions receivable	12,258,487	14,044,961
Less allowance for doubtful accounts	<u>(587,000)</u>	<u>(669,000)</u>
Net long-term contributions receivable	11,671,487	13,375,961
Less discount to present value	<u>(551,459)</u>	<u>(696,642)</u>
Total long-term net contributions receivable	<u>11,120,028</u>	<u>12,679,319</u>
Total net contributions receivable	<u>\$ 11,823,884</u>	<u>13,411,442</u>

Reed College expects to receive \$4,447,881 in fiscal year 2015 and \$7,376,003 over the following three fiscal years, related to receivables outstanding at June 30, 2014.

Contributions receivable due in excess of one year are discounted at 0.743% to 1.552% and 0.267% to 0.776% for the years ended June 30, 2014 and 2013, respectively.

Of the net unconditional promises to give included above, \$9,475,835 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, 2014:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ (3,831)	—	—	—	(3,831)
Related parties	—	24,080	—	464,938	489,018
Other receivables	190,196	176,690	—	—	366,886
	<u>186,365</u>	<u>200,770</u>	<u>—</u>	<u>464,938</u>	<u>852,073</u>
Noncurrent:					
Student accounts receivable	—	—	8,597	—	8,597
Reed loans	—	—	1,237,070	—	1,237,070
	<u>—</u>	<u>—</u>	<u>8,597</u>	<u>—</u>	<u>8,597</u>
	<u>—</u>	<u>—</u>	<u>3,903,847</u>	<u>—</u>	<u>3,903,847</u>
	<u>—</u>	<u>—</u>	<u>5,149,190</u>	<u>—</u>	<u>5,149,190</u>
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	<u>\$ 186,365</u>	<u>200,770</u>	<u>5,088,951</u>	<u>464,938</u>	<u>5,941,024</u>

Accounts receivable consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ 34,623	—	—	—	34,623
Related parties	—	161,087	—	676,230	837,317
Other receivables	186,069	197,233	—	—	383,302
	<u>220,692</u>	<u>358,320</u>	<u>—</u>	<u>676,230</u>	<u>1,255,242</u>
Noncurrent:					
Student accounts receivable	—	—	21,481	—	21,481
Reed loans	—	—	1,230,494	—	1,230,494
Related parties	—	—	4,175	—	4,175
Federal perkins loans	—	—	3,875,875	—	3,875,875
	<u>—</u>	<u>—</u>	<u>5,132,025</u>	<u>—</u>	<u>5,132,025</u>
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	<u>\$ 220,692</u>	<u>358,320</u>	<u>5,071,786</u>	<u>676,230</u>	<u>6,327,028</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, 2014 and 2013, net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Unrestricted:		
Operating	\$ 4,235,170	7,175,458
Designated for special programs	11,281,607	10,061,408
Institutional loan programs	4,842,199	4,696,125
Funds functioning as endowment	126,491,681	121,627,459
Accumulated quasi-endowment gains	168,352,248	133,447,849
Net investment in plant	43,517,900	41,205,852
Total unrestricted	<u>\$ 358,720,805</u>	<u>318,214,151</u>
Temporarily restricted:		
Educational and general programs	\$ 11,505,112	10,490,066
Annuity and life income funds	11,113,433	8,501,862
Accumulated endowment gains	70,289,646	55,557,331
Other temporarily restricted net assets	2,593,790	2,522,510
Total temporarily restricted	<u>\$ 95,501,981</u>	<u>77,071,769</u>
Permanently restricted:		
True endowment funds	\$ 159,809,527	159,401,100
Annuity and life income funds	4,571,658	2,737,929
Total permanently restricted	<u>\$ 164,381,185</u>	<u>162,139,029</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.

In August 2008, the FASB issued FASB ASC Subtopic 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC Subtopic 958-205 was effective for fiscal years 2014 and 2013 for Reed

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College. The major change in net assets classification resulting from ASC Subtopic 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 450 individual funds of which approximately 65%, or 291, 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 5.25% and 5.3% over a rolling 13-quarter moving average of the fair value or market value of endowment assets for fiscal years 2014 and 2013, respectively. 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 \$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 \$366,018 and \$2,076,119 for the years ended at June 30, 2014 and 2013, 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, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (366,018)	81,449,103	159,809,527	240,892,612
Board-designated endowment funds	<u>294,414,691</u>	<u>—</u>	<u>—</u>	<u>294,414,691</u>
Total funds	<u>\$ 294,048,673</u>	<u>81,449,103</u>	<u>159,809,527</u>	<u>535,307,303</u>

Endowment net assets by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,076,119)	65,921,743	159,401,101	223,246,725
Board-designated endowment funds	<u>257,151,427</u>	<u>—</u>	<u>—</u>	<u>257,151,427</u>
Total funds	<u>\$ 255,075,308</u>	<u>65,921,743</u>	<u>159,401,101</u>	<u>480,398,152</u>

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Changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2013	\$ 255,075,308	65,921,743	159,401,101	480,398,152
Investment return:				
Net investment gain	180,276	840,404	—	1,020,680
Net appreciation of investments	47,136,677	24,435,019	—	71,571,696
Contributions	—	—	(162,352)	(162,352)
Contributions from trust terminations	32,086	—	451,136	483,222
Appropriation of endowment assets for expenditure	(13,207,812)	(9,748,063)	—	(22,955,875)
Transfers to create board-designated endowment fund	4,957,778	—	—	4,957,778
Transfers and other reclassifications	(125,640)	—	119,642	(5,998)
Endowment net assets, June 30, 2014	<u>\$ 294,048,673</u>	<u>81,449,103</u>	<u>159,809,527</u>	<u>535,307,303</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 226,926,039	58,218,464	151,936,022	437,080,525
Investment return:				
Net investment gain	426,675	1,991,294	—	2,417,969
Net appreciation of investments	37,076,081	15,711,234	—	52,787,315
Contributions	—	—	6,307,538	6,307,538
Contributions from trust terminations	399,594	—	965,029	1,364,623
Appropriation of endowment assets for expenditure	(10,303,385)	(9,999,249)	—	(20,302,634)
Transfers to create board-designated endowment fund	672,379	—	—	672,379
Transfers and other reclassifications	(122,075)	—	192,512	70,437
Endowment net assets, June 30, 2013	<u>\$ 255,075,308</u>	<u>65,921,743</u>	<u>159,401,101</u>	<u>480,398,152</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 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

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\$537,644. 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 \$171,174. As of June 30, 2014 and 2013, 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 and changes in net assets, or cash flows.

(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.

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 Reed College's long-term debt is measured using quoted offered-side prices when quoted market prices are available.

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(b) Fair Value Hierarchy

Reed College adopted FASB ASC Topic 820 *Fair Value Measurements and Disclosures* 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 Topic 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 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.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014:

	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	—	—
Bond funds	19,861,676	14,456,224	5,405,452	—
Corporate bonds	1,996,740	1,996,740	—	—
Equity mutual funds	107,618,626	91,354,379	16,264,247	—
Hedge funds	297,254,925	—	4,633,620	292,621,305

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Private equity	\$ 139,622,099	—	—	139,622,099
REITs	3,333,711	—	3,333,711	—
Real estate	3,522,313	—	—	3,522,313
Money market and other Funds held in trust by others	3,627,969	2,960,886	667,083	—
	<u>1,172,563</u>	<u>—</u>	<u>—</u>	<u>1,172,563</u>
Total	<u>\$ 578,035,622</u>	<u>110,793,229</u>	<u>30,304,113</u>	<u>436,938,280</u>
Liabilities:				
Interest rate swap	\$ 2,149,050	—	2,149,050	—

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2013:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Long-term government bonds	\$ 25,000	25,000	—	—
Bond funds	25,369,871	20,871,409	4,498,462	—
Corporate bonds	1,968,060	—	1,968,060	—
Equity mutual funds	95,441,286	83,235,996	12,205,290	—
Hedge funds	253,405,577	—	4,623,911	248,781,666
Private equity	128,432,723	—	—	128,432,723

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
REITs	\$ 2,462,617	—	2,462,617	—
Real estate	3,681,161	—	—	3,681,161
Money market and other Funds held in trust by others	7,483,100	6,878,298	604,802	—
	<u>938,899</u>	<u>—</u>	<u>—</u>	<u>938,899</u>
Total	<u>\$ 519,208,294</u>	<u>111,010,703</u>	<u>26,363,142</u>	<u>381,834,449</u>
Liabilities:				
Interest rate swap	\$ 2,382,635	—	2,382,635	—

The 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 the 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, the 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.

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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, 2014 and June 30, 2013, respectively:

Balance at June 30, 2012	\$	338,451,573
Total realized and unrealized gains		39,662,498
Purchases, issuances, and settlements (net)		<u>3,720,378</u>
Balance at June 30, 2013		381,834,449
Total realized and unrealized gains		51,070,160
Purchases, issuances, and settlements (net)		<u>4,033,671</u>
Balance at June 30, 2014	\$	<u><u>436,938,280</u></u>

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2014:

	<u>Fair value</u>	<u>Lockup period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 397,621	liquidating	N/A	N/A
Hedge funds	4,633,620	none	Daily	1 day
Hedge funds	5,187,770	3 months	Monthly	90 days
Hedge funds	90,630,351	1 month	Monthly	10–30 days
Hedge funds	6,099,600	12 months	Quarterly	45 days
Hedge funds	146,060,541	3 months	Quarterly	30–75 days
Hedge funds	7,617,539	3 months	Triennial	15 days
Hedge funds	12,713,585	9 months	Semiannually	90 days
Hedge funds	<u>23,914,298</u>	9 months	Annually	60–90 days
	<u><u>\$ 297,254,925</u></u>			

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The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2013:

	<u>Fair value</u>	<u>Lockup period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 1,419,756	liquidating	N/A	N/A
Hedge funds	4,623,911	none	Daily	1 day
Hedge funds	67,567,024	2 month	Monthly	15 days
Hedge funds	140,116,172	3–24 months	Quarterly	30–90 days
Hedge funds	13,489,783	9 months	Semiannually	90 days
Hedge funds	26,188,931	7–9 months	Annually	60–90 days
	<u>\$ 253,405,577</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, 2014. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. At June 30, 2014, Reed held \$139,622,099 of private equity limited partnerships and had termination dates that ranged from 2015 to 2023.

(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:

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 776,985	634,051
Beneficiary payments	(1,346,359)	(1,219,992)
Investment fees	(207,340)	(176,624)
Net realized gain (loss)	312,804	(247,064)
Net unrealized gain	3,470,729	2,364,076
Total change in value	<u>\$ 3,006,819</u>	<u>1,354,447</u>

(14) Fund-Raising Expense

Reed College expended \$2,939,622 and \$3,106,023 for the years ended June 30, 2014 and 2013, 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 10, 2014, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.