THE REED INSTITUTE

Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016, 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 9, 2017

THE REED INSTITUTE

Statements of Financial Position

June 30, 2017 and 2016

Assets		2017	2016
Current assets:			
Cash and cash equivalents	$	24,905,675	28,413,637
Accounts receivable, net		968,893	1,120,446
Short-term investments		—	38,457
Contributions receivable, net		2,854,515	2,285,487
Prepaid expenses and other assets		498,861	5,344,974
Total current assets		29,227,944	37,203,001
Noncurrent assets:			
Cash and cash equivalents whose use is limited		1,689,109	6,612,228
Accounts receivable, net		3,931,953	4,794,150
Property, plant, and equipment, net		139,655,796	138,143,237
Contributions receivable, net		4,167,395	10,975,749
Funds held in trust by others		1,228,996	1,186,829
Long-term investments		577,529,136	517,493,177
Other assets		538,725	571,902
Total noncurrent assets		728,741,110	679,777,272
Total assets	$	757,969,054	716,980,273
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	7,464,420	6,910,161
Postretirement benefits payable		992,668	957,470
Debt and capital leases, current portion		37,647,610	1,405,614
Deferred revenue		1,143,600	1,731,700
Total current liabilities		47,248,298	11,004,945
Long-term liabilities:			
Liability for split-interest agreements		12,506,606	11,173,892
Postretirement benefits payable		25,687,765	28,964,429
Refundable loan programs		2,611,364	2,650,528
Asset retirement obligation		3,049,161	3,069,992
Debt and capital leases, net of current portion		39,835,904	77,469,739
Other liabilities		2,704,198	2,005,751
Total long-term liabilities		86,394,998	125,334,331
Total liabilities		133,643,296	136,339,276
Net assets, as adjusted in 2016:			
Unrestricted		347,090,979	317,728,855
Temporarily restricted		105,400,313	93,941,378
Permanently restricted		171,834,466	168,970,764
Total net assets		624,325,758	580,640,997
Total liabilities and net assets	$	757,969,054	716,980,273

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	33,766,584	—	—	33,766,584
Research	1,253,613	—	—	1,253,613
Academic support	10,765,205	—	—	10,765,205
General institutional support	16,498,209	—	—	16,498,209
Student services	8,097,107	—	—	8,097,107
Public affairs	6,145,103	—	—	6,145,103
Total educational and general	76,525,821	—	—	76,525,821
Auxiliary enterprises	16,221,009	—	—	16,221,009
Total expenses	92,746,830	—	—	92,746,830
Increase (decrease) from operations	9,014,967	(4,123,113)	2,335,918	7,227,772
Nonoperating activity:				
Endowment gains, net of amounts distributed	19,513,819	15,634,807	—	35,148,626
Change in value of split-interest agreements	—	1,342,597	169,234	1,511,831
Decrease in underwater endowments	1,447,309	(1,447,309)	—	—
Other deductions and transfers	(613,971)	51,953	358,550	(203,468)
Total nonoperating activity	20,347,157	15,582,048	527,784	36,456,989
Increase in net assets	29,362,124	11,458,935	2,863,702	43,684,761
Net assets, beginning of year, as adjusted	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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Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2016
Revenues, gains, and other support:				
Tuition and fees	$ 67,961,670	—	—	67,961,670
Less college-funded scholarships	(26,224,614)	—	—	(26,224,614)
Net tuition and fees	41,737,056	—	—	41,737,056
Auxiliary enterprises	14,373,631	—	—	14,373,631
Gifts and private grants	17,065,936	4,774,421	6,189,339	28,029,696
Government grants, contracts, and student aid	2,166,088	—	—	2,166,088
Investment return on endowment, distributed	15,628,822	10,386,633	—	26,015,455
Other investment losses	(274,640)	—	—	(274,640)
Other revenues and additions	2,358,261	—	5,419	2,363,680
Subtotal	51,318,098	15,161,054	6,194,758	72,673,910
Net assets released from restrictions	15,343,419	(15,343,419)	—	—
Total revenues, gifts, and other support	108,398,573	(182,365)	6,194,758	114,410,966
Expenses:				
Educational and general:				
Instruction	34,657,624	—	—	34,657,624
Research	2,017,445	—	—	2,017,445
Academic support	10,212,518	—	—	10,212,518
General institutional support	17,983,559	—	—	17,983,559
Student services	7,242,076	—	—	7,242,076
Public affairs	5,835,173	—	—	5,835,173
Total educational and general	77,948,395	—	—	77,948,395
Auxiliary enterprises	16,194,428	—	—	16,194,428
Total expenses	94,142,823	—	—	94,142,823
Increase (decrease) from operations	14,255,750	(182,365)	6,194,758	20,268,143
Nonoperating activity:				
Endowment gains, net of amounts distributed	(33,407,736)	(24,560,009)	(1,604,762)	(59,572,507)
Change in value of split-interest agreements	—	572,180	(99,835)	472,345
Increase in underwater endowments	(3,384,731)	3,384,731	—	—
Other deductions	(275,596)	(1,510)	(9,067)	(286,173)
Total nonoperating activity	(37,068,063)	(20,604,608)	(1,713,664)	(59,386,335)
Increase (decrease) in net assets, as adjusted	(22,812,313)	(20,786,973)	4,481,094	(39,118,192)
Net assets, beginning of year, as adjusted	340,541,168	114,728,351	164,489,670	619,759,189
Net assets, end of year	$ 317,728,855	93,941,378	168,970,764	580,640,997

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets, as adjusted in 2016	$	43,684,761	(39,118,192)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization costs		5,542,900	5,295,988
Loss on disposal of assets		9,839	—
Contributions restricted for long-term investment		(1,498,457)	(6,332,971)
Noncash contributions		(3,371,057)	(5,727,979)
Net realized and unrealized (gains) losses on investments		(63,792,183)	34,075,424
Net realized and unrealized (gains) losses on split-interest agreements		(2,066,518)	905,613
Change in value of split-interest agreements		(42,167)	4,148
Change in asset retirement obligation		(20,831)	(9,876)
Changes in operating assets and liabilities that provided (used) cash:			
Cash whose use is limited		4,923,119	(440,298)
Accounts receivable		1,013,750	2,698,335
Contributions receivable		6,239,326	(3,981,532)
Prepaid and other		4,869,923	(426,916)
Accounts payable and accrued liabilities		554,259	1,201,755
Postretirement		(3,241,466)	3,389,356
Deferred revenue		(588,100)	(228,420)
Other liabilities		698,447	77,505
Net cash used in operating activities		(7,084,455)	(8,618,060)
Cash flows from investing activities:			
Proceeds from maturities/sales of investments		68,326,509	165,945,807
Purchases of investments		(57,852,382)	(143,100,879)
Contracts receivable collected		48,367	40,103
Contracts receivable advanced		(39,000)	(73,132)
Purchase of property, plant, and equipment		(7,065,298)	(3,693,892)
Net cash provided by investing activities		3,418,196	19,118,007
Cash flows from financing activities:			
Contributions restricted for long-term investment		1,498,457	6,332,971
Payment of debt principal/capital lease obligations		(1,391,839)	(1,340,614)
Payments on split-interest agreements		(1,241,871)	(1,275,966)
Increase in obligations for split-interest agreements		1,332,714	77,023
Changes in governmental loan funds		(39,164)	(48,313)
Net cash provided by financing activities		158,297	3,745,101
Net (decrease) increase in cash and cash equivalents		(3,507,962)	14,245,048
Cash and cash equivalents, beginning of year		28,413,637	14,168,589
Cash and cash equivalents, end of year	$	24,905,675	28,413,637
Supplemental disclosure of cash flow information:			
Interest paid	$	2,255,832	2,071,165

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 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.

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.

(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, 2017 and 2016, respectively.

		2017	2016
Endowment earnings appropriated for expenditure	$	12,142,834	10,386,633
Maturation of planned giving agreements		952,243	3,951,054
Passage of time and other		3,382,412	1,005,732
Total net assets released from restrictions	$	16,477,489	15,343,419

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)*, to 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 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 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, *Derivative 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) 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, *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.

(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 revenue consists primarily 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, 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. Federal depository insurance coverage covers up to $250,000 per depositor, for each account ownership category.

(p) 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. GAAP and International Financial Reporting Standards (IFRS). The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 is currently evaluating the impact of ASU 2014-09, including the methods of implementation, which is effective for the fiscal year beginning on July 1, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception to 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. Reed College is currently evaluating the impact of ASU 2016-02, which is effective for the fiscal year beginning on July 1, 2019 with retrospective application to the earliest presented period.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, 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 is currently evaluating the impact of ASU 2016-14, including the methods of implementation, which is effective for the fiscal year beginning July 1, 2018.

(q) 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.

(r) Change in Accounting Policy

During the year ended June 30, 2017, Reed College elected to adopt an accounting policy wherein both unrealized and realized investment gains and losses will be allocated ratably across all endowment funds. Prior to fiscal 2017, Reed College reported its endowment spend that was a larger proportion of its donor restricted assets rather than an even spend across all endowments which was driven primarily by all realized gains being recorded annually to unrestricted net assets prior to further releases from restriction being processed. The new policy is preferable as it better reflects the operational processes related to Reed College's spending policy on individual endowments and appropriation of earnings for expenditure.

Unrestricted and temporarily restricted net assets as of the beginning of fiscal year 2016 were retrospectively adjusted to reflect the change in accounting principle resulting in an increase of temporarily restricted net assets and a decrease of unrestricted net assets of approximately $32,600,000. Additionally, investment return was retrospectively adjusted resulting in an increase in temporarily restricted net assets and a decreased of unrestricted net assets of approximately $13,000,000 for the year ended June 30, 2016. The change did not have an impact on total net assets, total increase or decrease in net assets, or cash flows for the year ended June 30, 2016.

(3) Investments

The fair value of investments at June 30, 2017 and 2016 are as follows:

		2017	2016
Investments:			
Cash and cash equivalents	$	3,183,982	2,661,798
Fixed income		59,536,313	48,474,169
Public equities		198,579,360	171,182,674
Absolute return		129,249,069	129,894,261
Private real estate		15,291,750	9,482,036
Private real assets		52,474,922	44,172,071
Private equity		93,607,067	88,142,770
Funds held in trust		24,123,298	21,753,080
Other		1,483,375	1,768,775
Total investments	$	577,529,136	517,531,634

The overall investment objective of Reed College 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, 2017 and 2016, Reed College has approximately $475 million and $427 million, respectively, of investments that are not readily marketable (alternative investments). These investments represent 82% and 83% of total investments and 76% and 74% of total net assets at June 30, 2017 and 2016, 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, 2017 and June 30, 2016. 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 12 for investment fair value and liquidity measurements.

Reed College has funds invested in 94 and 79 limited partnerships, respectively, at June 30 2017 and June 30 2016, 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, 2017, Reed College has unfunded commitments of approximately $99,900,000. These commitments are callable by the general partners/advisers between June 30, 2017 and 2027. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

Included in funds held in trust investments are $24,123,298 and $21,753,080 of planned giving trusts held in mutual funds and other investments that are not available for spending as of June 30, 2017 and 2016, respectively.

Total investment income and realized and unrealized gains (losses) on investments that are not readily marketable was $52,781,643 and ($28,567,515) for the years ended June 30, 2017 and 2016, respectively.

(4) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2017 and 2016 consist of the following:

		2017	2016
Land and land improvements	$	14,482,214	14,482,214
Buildings		202,441,649	196,754,713
Construction in progress		2,307,872	1,675,518
Equipment, furniture, and fixtures		15,175,865	14,572,972
		234,407,600	227,485,417
Less accumulated depreciation		(94,751,804)	(89,342,180)
Net property, plant, and equipment	$	139,655,796	138,143,237

Depreciation expense was $5,542,900 and $5,295,988 for the years ended June 30, 2017 and 2016, respectively, and is allocated to the functional expenses based on the relative square footage of the department.

(5) 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.

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 was renewed in May 2015 for an additional three years and remains in effect until June 2, 2018, 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, 2017 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 June 2018 expiration date. This classification of the 2008 bonds has no impact on the scheduled maturity dates and principal payments outlined in the following table.

Notes payable are summarized as follows:

		2017	2016
2008 State of Oregon notes	$	37,760,000	39,135,000
2011 State of Oregon notes		40,030,000	40,030,000
		77,790,000	79,165,000
Less discount		(365,988)	(382,789)
Total	$	77,424,012	78,782,211

Principal payments on the notes payable become due as follows:

		2011 State of Oregon notes	2008 State of Oregon notes	Total
2018	$	—	1,415,000	1,415,000
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
Thereafter		40,030,000	30,080,000	70,110,000
	$	40,030,000	37,760,000	77,790,000

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

		2017	2016
Interest	$	2,255,832	2,102,314
Amortization of discount and issuance costs		31,149	31,149
Total interest expensed	$	2,286,981	2,133,463

Issuance costs, net of amortization were $309,648 and $323,995 at June 30, 2017 and 2016, respectively and are included in other assets in the accompanying statements of financial position. Amortization is calculated over the life of the notes. The fair value of the notes payable at June 30, 2017 and 2016 was approximately $81,524,000 and $84,647,000, respectively.

(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, 2017 and 2016, $584,163 and $464,691 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, 2017 and 2016 was a gain of $679,911 and a loss of $77,505, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains (losses). The fair value of the swap agreement as of June 30, 2017 and 2016 was a liability of $1,325,840 and $2,005,751, respectively, and 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 $3,522,177 and $3,482,568 for the years ended June 30, 2017 and 2016, 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 $673,927 and $807,484 for the years ended June 30, 2017 and 2016, 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:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	29,921,899	26,532,543
Service cost		440,767	527,516
Interest cost		1,047,559	1,059,953
Benefits paid		(673,927)	(807,484)
Actuarial (gain) loss		(4,055,865)	2,609,371
Benefit obligation at end of year and funded status	$	26,680,433	29,921,899
Amounts recognized in the balance sheet consist of:			
Postretirement benefits payable – current	$	992,668	957,470
Postretirement benefits payable		25,687,765	28,964,429
	$	26,680,433	29,921,899

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

		2017	2016
Interest cost	$	1,047,559	1,059,953
Service cost		440,767	527,516
Amortization of loss		—	162,163
Net periodic benefit cost	$	1,488,326	1,749,632

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, 2017 and 2016, as measured at June 30:

	2017	2016
Benefit obligation:		
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
Net periodic benefit cost:		
Weighted average discount rate	3.6 %	3.6 %
Rate of increase in per capita cost of covered healthcare benefits	6.5% trending to 4.0% in 2022	7.0% trending to 4.0% in 2022

Reed College's policy is to fund the plan as claims payments are made. In the 2017–2018 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, $992,668 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:		
2018	$	992,668
2019		1,041,516
2020		1,077,319
2021		1,115,622
2022		1,151,658
2023–2027		6,366,013

(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 $694,692 and $673,899 for fiscal years ended June 30, 2017 and 2016, 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 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, 2017 and 2016, the trusts receivable were $1,228,996 and $1,186,829, respectively, and were reported as noncurrent funds held in trust by others in the statements of financial position.

(8) Contributions and Accounts Receivable

Contributions receivable consist of the following:

		2017	2016
Annual fund	$	1,293,184	1,477,429
Campaign		2,530,025	4,262,176
Endowment		3,478,942	7,791,981
Facilities		175,000	834,712
Gross contributions receivable	$	7,477,151	14,366,298

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

	2017	2016
Current:		
Gross contributions receivable	$ 2,940,515	2,405,487
Less allowance for doubtful accounts	(86,000)	(120,000)
Total current net contributions receivable	2,854,515	2,285,487
Long-term (one to five years):		
Gross contributions receivable	4,536,636	11,960,811
Less allowance for doubtful accounts	(285,000)	(579,000)
Net long-term contributions receivable	4,251,636	11,381,811
Less discount to present value	(84,241)	(406,062)
Total long-term net contributions receivable	4,167,395	10,975,749
Total net contributions receivable	$ 7,021,910	13,261,236

Reed College expects to receive $2,940,515 in fiscal year 2018 and $4,536,636 over the following three fiscal years, related to receivables outstanding at June 30, 2017.

Contributions receivable due in excess of one year are discounted at 1.07% to 1.62% and 0.784% to 1.439% for the years ended June 30, 2017 and 2016, respectively.

Of the net unconditional promises to give included above, $3,612,115 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, 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

Accounts receivable consist of the following at June 30, 2016:

	Unrestricted	Restricted	Loan fund	Endowment	Total
Current:					
Student accounts receivable	$ 82,653	—	—	—	82,653
Related parties	—	11,336	—	305,481	316,817
Other receivables	261,058	454,435	—	5,483	720,976
	343,711	465,771	—	310,964	1,120,446
Noncurrent:					
Student accounts receivable	—	—	10,750	—	10,750
Reed loans	—	—	1,199,492	—	1,199,492
Related parties	—	—	4,310	—	4,310
Federal Perkins loans	—	—	3,639,837	—	3,639,837
	—	—	4,854,389	—	4,854,389
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	$ 343,711	465,771	4,794,150	310,964	5,914,596

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.

(9) Net Assets

At June 30, 2017 and 2016, as adjusted, net assets consisted of the following:

		2017	2016
Unrestricted:			
Operating and designated for special programs	$	13,616,276	16,548,533
Institutional loan programs		6,195,624	5,251,727
Funds functioning as endowment		109,797,816	100,250,436
Accumulated quasi-endowment gains		159,683,982	141,486,018
Net investment in plant		57,797,281	54,192,141
Total unrestricted	$	347,090,979	317,728,855
Temporarily restricted:			
Educational and general programs	$	13,175,206	13,034,252
Annuity and life income funds		8,486,107	7,958,334
Accumulated endowment gains		79,977,836	66,809,331
Other temporarily restricted net assets		3,761,164	6,139,461
Total temporarily restricted	$	105,400,313	93,941,378
Permanently restricted:			
True endowment funds	$	166,759,460	165,167,675
Annuity and life income funds		5,075,006	3,803,089
Total permanently restricted	$	171,834,466	168,970,764

(10) Endowments

At June 30, 2017, Reed College’s endowment consisted of approximately 475 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 $803,491 and $2,250,799 for the years ended at June 30, 2017 and 2016, 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 5.20% and 5.25% over a rolling 13-quarter moving average of the fair value or market value of the endowment assets for fiscal years 2017 and 2016, respectively.

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

Endowment net assets by type of fund as of June 30, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2,250,800)	66,809,331	165,167,675	229,726,206
Board-designated endowment funds		243,987,254	—	—	243,987,254
Total funds, as adjusted	$	241,736,454	66,809,331	165,167,675	473,713,460

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2016, as adjusted	$	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		34,265,949	27,484,712	—	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		2,842,865	(2,466,302)	288,629	665,192
Endowment net assets, June 30, 2017	$	269,481,798	79,977,836	166,759,460	516,219,094

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2015, as adjusted	$	274,958,002	88,888,797	160,602,667	524,449,466
Investment return:					
Net investment gain		388,414	314,481	—	702,895
Net depreciation of investments		(18,044,932)	(14,610,253)	(1,604,762)	(34,259,947)
Contributions		—	—	5,973,733	5,973,733
Contributions from trust terminations		451,155	—	201,191	652,346
Appropriation of endowment assets for					—
expenditure		(15,628,822)	(10,386,633)	—	(26,015,455)
Transfers to create board-designated endowment fund		1,455,541	—	—	1,455,541
Transfers and other reclassifications		(1,842,904)	2,602,939	(5,154)	754,881
Endowment net assets, June 30, 2016, as adjusted	$	241,736,454	66,809,331	165,167,675	473,713,460

(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 $394,000. This exposure fluctuates based on changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

On July 1, 1988, Reed College elected to place its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC). CLIC was formed by seven similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a $2,000,000 standby letter of credit of which Reed College is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverages, the maximum contingent liability exposure to Reed College is approximately $151,107. As of June 30, 2017 and 2016, 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.

(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.

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, 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 investments and other assets	$ 578,758,132	77,149,580	24,123,298	2,654,206
Liabilities:				
Interest rate swap	$ 1,325,840			

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016:

		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	$	2,661,798	2,661,798	—	—
Fixed income		31,825,775	31,825,775	—	—
Public equities		32,157,004	32,157,004	—	—
Funds held in trust		21,753,080	—	19,358,080	2,395,000
Other		2,955,604	87,150	—	2,868,454
Total		91,353,261	66,731,727	19,358,080	5,263,454
Investments where NAV was used as a practical expedient to measure fair value:					
Absolute return		129,894,261	—	—	—
Fixed income		16,648,394	—	—	—
Private equity		88,142,770	—	—	—
Private real assets		44,172,071	—	—	—
Private real estate		9,482,036	—	—	—
Public equities		139,025,670	—	—	—
Total investments and other assets	$	518,718,463	66,731,727	19,358,080	5,263,454
Liabilities:					
Interest rate swap	$	2,005,751			

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, 2017 and 2016, respectively:

Balance at June 30, 2015	$	4,909,446
Total realized and unrealized gains		(1,245,992)
Purchases, issuances, and settlements (net)		1,600,000
Balance at June 30, 2016		5,263,454
Total realized and unrealized gains		(334,609)
Purchases, issuances, and settlements (net)		(2,274,639)
Balance at June 30, 2017	$	2,654,206

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
	$	306,865,783			

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2016:

		Fair value	Lockup period	Redemption frequency	Redemption notice period
Absolute return	$	28,209	Liquidating	N/A	N/A
Absolute return and public equities		99,924,373	Monthly	1 month	10–30 days
Absolute return, fixed income, and public equities		113,645,207	Quarterly	3 months	30–75 days
Absolute return		10,800,057	Quarterly	4 months	85 days
Absolute return		9,216,470	Quarterly	5 months	60 days
Absolute return		7,735,664	Quarterly	9 months	90 days
Absolute return		8,213,137	Annually	3 months	60 days
Absolute return		8,612,627	Annually	6 months	90 days
Absolute return		3,909,569	Annually	9 months	45 days
Absolute return		11,527,310	Annually	1 year	60 days
Public equities		6,901,737	Triennial	3 months	60 days
	$	280,514,360			

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, 2017. 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. At June 30, 2017 and 2016, Reed College held $167,965,265 and $146,850,842, respectively, of private limited partnerships and certain fixed income commingled funds that had termination dates that ranged from 2017 to 2027.

(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:

		2017	2016
Dividends and interest	$	429,679	799,791
Beneficiary payments		(1,241,871)	(1,275,966)
Investment fees		(266,354)	(202,661)
Net realized gain		961,958	816,432
Net unrealized gain		1,628,419	334,749
Total change in value	$	1,511,831	472,345

(14) Fund-Raising Expense

Reed College expended $3,246,450 and $3,289,049 for the years ended June 30, 2017 and 2016, 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 9, 2017, the date at which the financial statements were issued, and determined that there are no other items to disclose.