



REED COLLEGE

REACTOR FACILITY

3203 Southeast

Woodstock Boulevard

Portland, Oregon

97202-8199

Oct. 30, 2019

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<http://reactor.reed.edu>

ATTN: Document Control Desk
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001
Docket: 50-288
License No: R-112

Enclosed are the following

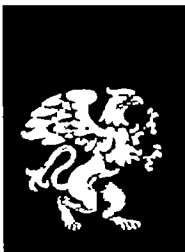
1. Financial Assurance for Reed Institute dba Reed College
2. Financial Statements for The Reed Institute June 30, 2019 and 2018.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on Oct 30, 2019

Melinda Krahenbuhl, Ph.D.
Director, Reed Research Reactor

ADZO
MDD4
NRR



REED COLLEGE

October 28, 2019

Financial Assurance for Cost of Decommissioning Activities Self-Guarantee Agreement

OFFICE OF
THE TREASURER

3203 Southeast
Woodstock Boulevard

Portland, Oregon

97202-8199

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The guarantee is made by Reed College, a non-profit college, organized under the laws of the State of Oregon, herein referred to as the "guarantor" to the U.S. Nuclear Regulatory Commission (NRC), on behalf of the college as licensee.

Recitals

1. The guarantor has full authority and capacity to enter into this self-guarantee under the by-laws of the trustees of Reed College.
2. This self-guarantee is being issued to comply with regulations issued by the NRC, an agency of the U.S. Government, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974. NRC has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 50, which require that a holder of, or an applicant for, a materials license issued pursuant to 10 CFR Part 50 provide assurance that funds will be available when needed for required decommissioning activities.
3. The self-guarantee is issued to provide financial assurance for decommissioning activities for the licenses and facilities shown.

License# and Docket #	License description	Certified amounts of 2018 Cost estimates
R-112 50-288	Research and test reactor and related facilities located at Reed College Portland Oregon 97202	\$2,420,100
	Subtotal	\$2,420,100
	25% Contingency fund	\$605,025
	Total Estimated Cost	\$3,025,125

4. The Guarantor meets or exceeds the following financial test for a nonprofit College that issues bonds. Specifically, the most recent rating as of October 2019 for the college is Aa2/VMIG 1 by Moody's Investor Services, and guarantor agrees to comply with all notification requirements as specified in 10 CFR Part 50, and Appendix A to 10 CFR Part 30.
5. The guarantor does not have a parent company holding majority control of its voting stock.
6. Decommissioning activities as used below refer to activities required by 10 CFR Part 50 for decommissioning of the facilities identified.
7. Pursuant to the guarantor's authority to enter into this guarantee, the guarantor guarantees to the NRC that the guarantor shall:

- a. Carry out the required decommissioning activities, as required by the license listed above.
8. The guarantor agrees to submit audited financial statements annually within 90 days of the completion of the guarantor's fiscal year audit.
9. The guarantor agrees that if, at the end of any fiscal year before termination of this self-guarantee, it fails to meet the self-guarantee financial test criteria, it shall send in 90 days of the end of the fiscal year, by certified mail to the NRC, that it intends to provide alternative financial assurance as specified in 10 CFR Part 30. Within 120 days after the end of the fiscal year, the guarantor shall establish such financial assurance.
10. The guarantor agrees that if it determines, at any time, other than as described in Recital 9, that it no longer meets the self-guarantee financial test criteria or it is disallowed from continuing as a self-guarantor, it shall establish alternative financial assurance as specified in 10 CFR Part 50 within 30 days.
11. The guarantor as well as its successors and assigns, agrees to remain bound jointly and severally under this guarantee notwithstanding any or all of the following: amendment or modification of the license or NRC approved decommission funding plan for that facility, the extension or reduction of the time of performance of required activities, or any other modification or alteration of an obligation of the licenses pursuant to 10 CFR Parts 50 and 70.
12. The guarantor agrees that it shall be liable for all litigation costs incurred by the NRC in any successful effort to enforce the agreement against the guarantor.
13. The guarantor agrees to remain bound under the self-guarantee for as long as it, as licensee, must comply with the applicable financial assurance requirements of 10 CFR Part 50, for the previously listed facilities, except that the guarantor may cancel this self-guarantee by sending notice by certified mail to the NRC, such cancellation to become effective not before an alternative financial assurance mechanism has been put in place by the guarantor.
14. The guarantor agrees that if it, as licensee, fails to provide alternative financial assurance as specified in 10 CFR Parts 50 and 70 and obtain written approval of such assurance from the NRC within 90 days after a notice of cancellation by the guarantor is received by the NRC from the guarantor, the guarantor shall make full payment under self-guarantee.
15. The guarantor expressly waives notice of acceptance of this self-guarantee by the NRC. The guarantor expressly waives notice of amendments or modifications of decommissioning requirements.
16. If the guarantor files financial reports with the U.S. Securities and Exchange Commission, then it shall promptly submit them to its independent auditor and to the NRC during each year in which this self-guarantee is in effect
17. The guarantor agrees that if, at any time before termination of this self-guarantee, its most recent bond issuance ceased to be rated in the category of "A" or above by either Standard & Poor's or Moody's, it shall provide notice in writing of such fact to NRC within 20 days of publication of the change by the rating service.

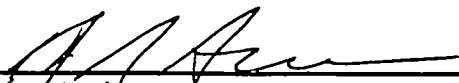
I hereby certify that this self-guarantee is true and correct to the best of my knowledge.

- a. Carry out the required decommissioning activities, as required by the license listed above.
8. The guarantor agrees to submit audited financial statements annually within 90 days of the completion of the guarantor's fiscal year audit.
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I hereby certify that this self-guarantee is true and correct to the best of my knowledge.

Effective date October 28, 2019

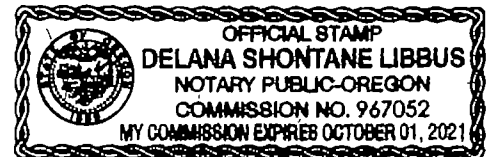
Reed College by:



Lorraine Arvin
Vice President and Treasurer


State of Oregon

County of Multnomah

Signed before me this 28th day of October 2019




~~Patricia Blessington Heneghan~~, Notary Public – State of Oregon

 Delana Shontane Libbus
10/28/19 Commission no. 967052
Expires 10/01/21



THE REED INSTITUTE

Financial Statements

June 30, 2019 and 2018

(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 financial statements of The Reed Institute (an Oregon nonprofit corporation), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(r) to the financial statements, in 2019, the Reed Institute adopted new accounting guidance in Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

KPMG LLP

October 7, 2019

THE REED INSTITUTE
Statements of Financial Position
June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 11,723,412	3,439,719
Accounts receivable, net	1,046,231	732,569
Contributions receivable, net	2,002,294	3,025,334
Funds held by trustee	2,240,622	25,211,452
Short-term investments	13,531,888	9,448,087
Prepaid expenses and other assets	888,714	629,164
Total current assets	31,433,161	42,486,325
Noncurrent assets		
Cash and cash equivalents whose use is limited	884,647	2,197,463
Accounts receivable, net	3,312,233	3,871,719
Contributions receivable, net	3,420,519	5,209,698
Funds held in trust by others	1,289,557	1,291,022
Funds held by trustee	—	912,000
Long-term investments	625,096,574	624,507,788
Property, plant, and equipment, net	162,601,568	145,826,934
Other assets	188,782	201,637
Total noncurrent assets	796,793,880	784,018,261
Total assets	\$ 828,227,041	826,504,586
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,581,571	8,407,632
Postretirement benefits payable	852,376	1,077,870
Debt, current portion	1,809,830	1,190,170
Deferred revenue	1,517,153	1,207,121
Total current liabilities	12,760,930	11,882,793
Long-term liabilities:		
Liability for split-interest agreements	11,683,765	11,783,120
Postretirement benefits payable	29,328,566	25,354,183
Refundable loan programs	1,863,723	1,820,048
Asset retirement obligation	3,101,047	3,073,572
Debt, net of current portion	106,677,239	109,036,729
Other liabilities	1,869,103	2,273,528
Total long-term liabilities	154,523,443	153,341,180
Total liabilities	167,284,373	165,223,973
Net assets		
Without donor restrictions	366,475,437	367,385,528
With donor restrictions:		
Time or purpose	111,659,446	115,078,858
Perpetual	182,807,785	178,816,227
Total with donor restrictions	294,467,231	293,895,085
Total net assets	660,942,668	661,280,613
Total liabilities and net assets	\$ 828,227,041	826,504,586

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2019</u>
Revenues, gains, and other support			
Tuition and fees, net of \$28,992,930 in college-funded scholarships	\$ 51,747,823	—	51,747,823
Auxiliary enterprises	15,083,123	—	15,083,123
Gifts and private grants	8,052,840	5,201,143	11,253,983
Government grants, contracts, and student aid	1,534,536	—	1,534,536
Investment return on endowment, distributed	15,209,080	12,367,505	27,576,585
Other investment gains	1,222,591	—	1,222,591
Other revenues and additions	1,570,822	4,194	1,575,016
Subtotal	40,672,992	17,572,842	58,245,834
Net assets released from restrictions	15,304,555	(15,304,555)	—
Total revenues, gifts, and other support	107,725,370	2,268,287	109,993,657
Expenses			
Educational and general:			
Instruction	37,139,203	—	37,139,203
Research	1,570,330	—	1,570,330
Academic support	13,180,403	—	13,180,403
General institutional support	8,628,238	—	8,628,238
Student services	12,606,487	—	12,606,487
College relations	7,830,345	—	7,830,345
Total educational and general	80,955,006	—	80,955,006
Auxiliary enterprises	17,948,238	—	17,948,238
Total expenses	98,903,244	—	98,903,244
Increase from operations	8,822,126	2,268,287	11,090,413
Nonoperating activity:			
Endowment losses, net of amounts distributed	(5,735,667)	(2,360,010)	(8,095,677)
Change in value of split-interest agreements	—	518,999	518,999
Net period benefit cost, net of service cost	(4,152,615)	—	(4,152,615)
Other deductions and transfers	156,065	144,870	300,935
Total nonoperating activity	(9,732,217)	(1,696,141)	(11,428,358)
(Decrease) increase in net assets	(910,091)	572,146	(337,945)
Net assets, beginning of year	367,385,528	293,895,085	661,280,613
Net assets, end of year	\$ 368,475,437	294,467,231	660,942,668

See accompanying notes to financial statements

THE REED INSTITUTE
Statement of Activities and Changes in Net Assets
Year ended June 30, 2018

	Without donor restrictions	With donor restrictions	Total 2018
Revenues, gains, and other support:			
Tuition and fees, net of \$26,359,478 in college-funded scholarships	\$ 48,260,416	—	48,260,416
Auxiliary enterprises	14,910,012	—	14,910,012
Gifts and private grants	15,307,645	3,981,909	19,289,554
Government grants, contracts, and student aid	1,280,240	—	1,280,240
Investment return on endowment, distributed	15,110,710	12,268,558	27,379,268
Other investment gains	398,887	—	398,887
Other revenues and additions	1,774,154	4,420	1,778,574
Subtotal	48,781,648	16,254,887	65,036,535
Net assets released from restrictions	12,053,203	(12,053,203)	—
Total revenues, gifts, and other support	109,095,267	4,201,684	113,296,951
Expenses			
Educational and general:			
Instruction	35,113,051	—	35,113,051
Research	1,314,647	—	1,314,647
Academic support	13,581,539	—	13,581,539
General institutional support	9,106,749	—	9,106,749
Student services	12,331,777	—	12,331,777
College relations	7,752,499	—	7,752,499
Total educational and general	79,200,262	—	79,200,262
Auxiliary enterprises	17,588,415	—	17,588,415
Total expenses	96,788,677	—	96,788,677
Increase from operations	12,306,590	4,201,684	16,508,274
Nonoperating activity:			
Endowment gains, net of amounts distributed	14,132,033	9,644,741	23,776,774
Change in value of split-interest agreements	—	678,657	678,657
Net period benefit cost, net of service cost	(66,749)	—	(66,749)
Loss on defeasance	(4,985,976)	—	(4,985,976)
Other deductions and transfers	(1,894,840)	2,938,715	1,043,875
Total nonoperating activity	7,184,468	13,262,113	20,446,581
Increase in net assets	19,491,058	17,463,797	36,954,855
Net assets, beginning of year	347,894,470	276,431,288	624,325,758
Net assets, end of year	\$ 367,385,528	293,895,085	661,280,613

See accompanying notes to financial statements.

THE REED INSTITUTE
Statements of Cash Flows
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (337,945)	36,954,855
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization costs	5,345,976	5,614,985
Loss on defeasance	—	4,985,978
Loss on disposal of assets	—	448,036
Contributions restricted for long-term investment	(273,104)	(2,938,319)
Noncash contributions	(5,779,150)	(5,060,353)
Net realized and unrealized gains on investments and split-interest agreements	(21,460,357)	(51,982,036)
Actuarial adjustments of liabilities for split-interest agreements	784,252	1,051,978
Change in asset retirement obligation	27,475	24,411
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	245,824	298,558
Contributions receivable	2,812,219	(1,213,122)
Prepaid and other	(261,540)	(148,172)
Accounts payable and accrued liabilities	173,939	943,212
Postretirement benefits payable	3,748,889	(248,380)
Deferred revenue	310,032	83,521
Other liabilities	(404,425)	(430,670)
Net cash used in operating activities	<u>(15,067,915)</u>	<u>(11,635,520)</u>
Cash flows from investing activities		
Proceeds from maturities/sales of investments	138,028,827	175,340,349
Purchases of investments	(115,538,848)	(175,162,217)
Contracts receivable collected	35,745	43,309
Contracts receivable advanced	(20,900)	—
Purchase of property, plant, and equipment	<u>(22,395,440)</u>	<u>(12,447,589)</u>
Net cash provided by (used in) investing activities	<u>109,386</u>	<u>(12,226,148)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	273,104	2,938,319
Issuance of new debt	—	73,913,650
Payment of debt principal	(1,465,000)	(45,633,163)
Payments on split-interest agreements	(1,351,840)	(1,393,588)
Investment income subject to split-interest agreements	445,571	(217,291)
New liabilities related to split-interest agreements	101,066	210,905
Changes in governmental loan funds	43,675	(791,316)
Change in deposit with bond trustee	<u>23,882,830</u>	<u>(26,123,452)</u>
Net cash provided by financing activities	<u>21,929,406</u>	<u>2,904,066</u>
Net decrease in cash and cash equivalents	6,970,877	(20,957,602)
Cash and cash equivalents and cash whose use is limited, beginning of year	<u>5,637,182</u>	<u>26,594,784</u>
Cash and cash equivalents and cash whose use is limited, end of year	<u>\$ 12,608,059</u>	<u>5,637,182</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 2,382,281	1,461,980

See accompanying notes to financial statements

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2019 and 2018

(1) Background

The Reed Institute (Reed College) was founded in 1908 by Simeon and Amanda Reed, with one central commitment: to provide a balanced, comprehensive education in liberal arts and sciences, fulfilling the highest standards of intellectual excellence. Reed College offers a B.A. in one of 25 major fields and numerous interdisciplinary fields, as well as a master of arts in liberal studies degree. The Reed College educational program pays particular attention to a balance between broad study in the various areas of human knowledge and close, in-depth study in a recognized academic discipline.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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:

- Without donor restrictions – Net assets that are not subject to donor-imposed stipulations or donor-restricted contributions whose restrictions are met in the same reporting period
- With donor restrictions: time or purpose – Net assets subject to donor-imposed stipulations that will be met either by actions of Reed College or the passage of time
- With donor restrictions: perpetual – 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 net assets without donor restrictions unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in net assets without donor restrictions except for activity related to life income agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted either by donor stipulation or by law. Expirations of restrictions on net assets when 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 11 for further disclosures.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2019 and 2018

(c) *Measure of Operations*

Reed College's increase from operations includes all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restriction to support operating expenditures, and transfers from board-designated and other nonoperating funds to support current operating activities. The measure of operations excludes investment return in excess of amounts made available for current use.

(d) *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

(e) *Revenue Recognition*

Tuition and fees – Reed College's operating revenue is primarily derived from academic programs provided to undergraduate students. Tuition and fees revenue is earned for these educational services delivered during an academic term. Tuition and fees are earned over the applicable term and are not considered separate performance obligations. Reed College provides financial assistance in the form of scholarships or grants based on the recipients' demonstrated need. The financial assistance is reflected as a reduction of tuition and fees revenues and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student.

The amount of tuition and fees and college-funded scholarships for the years ended June 30, 2019 and 2018, respectively, are as follows:

	Years ended	
	June 30, 2019	June 30, 2018
Tuition and fees	\$ 80,740,753	74,619,894
College-funded scholarships	(28,992,930)	(26,359,478)
Net tuition and fees	\$ 51,747,823	48,260,416

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body. Reed College's academic terms consist of fall and spring. The academic terms have start and end dates that fall within Reed College's fiscal year.

Reed College bills tuition and fees in advance of each academic term and recognizes the tuition and fee revenue on a straight-line basis, as the educational services are performed, over the academic term. Students are typically entitled to a partial refund through approximately the first half of an academic term.

Students pay tuition and fees (net of scholarships) through a variety of funding sources, including, among others, federal loan and grant programs, state grant programs, institutional payment plans, private and institutional scholarships and borrowings, and cash payments.

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2019 and 2018

Auxiliary enterprises – Auxiliary enterprises consists primarily of fees for room and dining services (board) during the student's education. Reed College considers room fees and dining services to have separate performance obligations.

Room fees are charged at different rates for dormitories and apartments. Room fees are billed in advance of each academic term and recognized as revenue on a straight-line basis over the period housing is provided. While Reed College believes the residential experience is an integral part of a student's education, it is believed to be a distinct performance obligation from the academic services.

Dining service fees are charged at different rates depending on the meal plan selected for the term of the agreement. Dining services are billed in advance of each academic term and are recognized as revenue ratably over the period during which the dining services are offered.

In addition to room and board, auxiliary services includes revenue earned from the bookstore and for various conference services offered by Reed College. Revenue from the sale of these goods and services is recognized once the performance obligations are complete.

Gifts and private grants – Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional.

Government grants and contracts – Individual governmental and private grant arrangements are nonreciprocal and are, therefore, considered contributions. The granting entity has not received a direct benefit in exchange for the resources provided. Revenue is recognized when the barrier to entitlement is overcome, which is when expenditures associated with each grant are determined to be allowable, and all other significant conditions of the grant are met.

Investment return – Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends), net of investment expenses is included in operating revenues, gains, and other support and nonoperating activities without donor restrictions unless the income or loss is restricted by donor, law, or endowment spending.

(f) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Certain investments 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, *Fair Value Measurement*.

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 net assets without donor restrictions 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 net assets with donor restrictions.

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(g) Split-Interest Agreements

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

Reed College maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts, as required by governing states' laws. The total held in separate reserve funds was \$6,089,907 and \$6,097,946 as of June 30, 2019 and 2018, respectively. The amount included to meet future payments under gift annuity contracts in liability for split-interest agreements was \$2,657,028 and \$2,638,687 as of June 30, 2019 and 2018, respectively.

(h) 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 fundraising 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.

(i) Derivative Instruments

Reed College accounts for derivatives in accordance with FASB ASC Subtopic 815-10, *Derivatives and Hedging – Overall*, 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).

(j) 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.

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(k) Capitalized Interest

Interest costs incurred on debt during the construction of major projects exceeding one year are capitalized. During fiscal years 2019 and 2018, the amount of interest capitalized amounted to \$1,129,347 and \$644,658, respectively.

(l) 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.

(m) 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.

(n) Cash and Cash Equivalents

Cash and cash equivalents represent cash in bank and other highly liquid investments with original maturities of three months or less, except for certain cash and cash equivalents held by trustee and amounts included in the investment portfolio that are intended to be invested on a long-term basis. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

(o) Deferred Revenue

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

(p) 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.

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(q) 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.

(r) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles. The amendments in the ASU were applied retrospectively to each prior reporting period presented. The adoption of Topic 606 did not have a significant impact on Reed College's results of operations.

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (NFPs)*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date, and (D) retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method.

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In 2019, Reed College adopted ASU No. 2016-14. The effects on Reed College's net asset balances at June 30, 2017 as a result of implementing the standard are as follows:

Net asset classifications	ASU 2016-14 Classifications			Total
	Without donor restrictions	With donor restrictions – time or purpose	With donor restrictions – perpetual	
As previously presented:				
Unrestricted	\$ 347,090,979	—	—	347,090,979
Temporarily restricted	—	105,400,313	—	105,400,313
Permanently restricted	—	—	171,834,466	171,834,466
Net assets as previously presented	347,090,979	105,400,313	171,834,466	624,325,758
Reclassifications to implement ASU No. 2016-14				
Underwater endowments	803,491	(803,491)	—	—
Net assets, as reclassified	\$ 347,894,470	104,596,822	171,834,466	624,325,758

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The standard requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. In 2019, Reed College adopted ASU No. 2016-18 and applied the amendments using a retrospective transition method to each period presented.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use asset for all lease obligations, with the exception of short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right-of-use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale-leaseback transactions. Topic 842 is effective for Reed College beginning on July 1, 2019. In 2018, the FASB updated its guidance allowing entities to adopt the provisions of the standard prospectively without adjusting comparative periods. Reed College is planning to adopt this option. Reed College has evaluated the effect of implementation of the standard and determined that the adoption of Topic 842 will not have a significant impact on the statements of financial position, the results of operations or cash flows. Reed College will include new disclosures in fiscal year 2020 in accordance with Topic 842.

(s) 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.

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As part of adopting the new standard ASU No. 2014-16, Reed College evaluated the expenses reported on a functional basis and reclassified some expenses to better reflect the respective functional category. The reclassifications have occurred for both years presented. In addition, Reed College has reclassified certain programmatic expenses that were incorrectly allocated to general institutional support for the year ended June 30, 2018.

(3) Financial Assets and Liquidity Resources

Reed College regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Reed College has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt securities. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Reed College considers all expenditures related to its ongoing mission related activities as well as the conduct of services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, Reed College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures.

	<u>2019</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 11,723,412
Current accounts receivable, net	1,046,231
Current contributions receivable, net	2,002,294
Investments	<u>638,628,462</u>
Total financial assets at year-end	653,400,399
Less amounts not available to meet general expenditures within one year.	
Restricted by donors for use in future periods	13,768,129
Board-designated endowment	288,930,801
Future expendable donor-restricted endowment	86,962,842
Donor restricted endowment to be retained in perpetuity	176,999,699
Annuity and life income funds	<u>24,994,403</u>
Financial assets available to meet general expenditures within one year	<u>\$ 61,744,525</u>

In addition, at June 30, 2019, Reed College had \$288,930,801 of board-designated endowments that, with the board's approval, could be made available for operations.

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(4) Investments

The fair value of investments at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Investments:		
Cash and cash equivalents	\$ 3,296,433	10,266,880
Fixed income	74,180,284	73,869,648
Public equities	220,795,803	207,667,456
Absolute return	120,724,359	131,704,534
Private equity	116,337,370	109,977,743
Private real assets	54,934,176	55,455,340
Private real estate	21,444,030	18,397,989
Funds held in trust	24,994,403	24,900,925
Funds held by trustee	2,240,622	26,123,452
Other	3,211,161	3,006,382
Total investments	<u>\$ 642,158,641</u>	<u>661,370,349</u>

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

Investment strategies include:

- Fixed-income investments, which consist of commingled funds, bond mutual funds, and a limited partnership that hold securities, the majority of which have maturities greater than one year and are valued based on quoted market prices in active markets; certain commingled funds and the limited partnership are valued at NAV reported by the fund managers.
- Public equities investments, which consist of mutual funds, commingled funds, and limited partnerships; these are valued based on quoted market prices in active markets, except for certain commingled funds and limited partnerships, which are valued at NAV reported by the fund managers.
- The absolute return portfolio, which is comprised of investments of limited partnership interests in hedge funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short; the substrategies within the absolute return portfolio include equity long/short, credit/event driven, market neutral, multistrategy, and global macro. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently, or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flows, industry comparables, or some other method. The limited partnership interests are valued at NAV reported by the fund managers.

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- 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, 2019 and 2018, Reed College has approximately \$491 million and \$484 million, respectively, of investments that are not readily marketable. These investments, which include the fixed income, public equities, absolute return portfolio, private equity, private real assets, and private real estate, represent 77% and 73% of total investments and 74% and 73% of total net assets at June 30, 2019 and 2018, respectively. These 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, 2019 and 2018. 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 5 for investment fair value and liquidity measurements.

Reed College has funds invested in 116 and 114 limited partnerships at June 30, 2019 and 2018, 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, 2019, Reed College has unfunded commitments of approximately \$103,000,000. These commitments are callable by the general partners/advisers between June 30, 2019 and 2028. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

Included in cash and cash equivalents and fixed income are \$31,155,309 and \$30,037,986 of operating funds at June 30, 2019 and 2018, respectively, used to manage Reed College's operating liquidity.

Included in funds held in trust investments are \$24,994,403 and \$24,900,925 of planned giving trusts held in mutual funds and other investments that are not available for spending as of June 30, 2019 and 2018, respectively.

At June 30, 2019, Reed College had funds held by trustee of \$2,240,622, which was the remaining unspent proceeds from the 2018 State of Oregon notes. The funds held by trustee will be spent on qualifying expenditures of capital projects.

Total investment income, excluding funds held in trust investments, was \$20,703,499 and \$51,554,929 for the years ended June 30, 2019 and 2018, respectively.

(5) Fair Value Measurements

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

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

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Investments: Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Debt securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. Investments in real estate for which fair value is not readily determinable are carried at estimated fair values, if purchased, or at fair value at the date of receipt, if acquired by donation.

Investments that are not readily marketable are valued utilizing NAV as a practical expedient and are carried at estimated fair values. Reed College reviews and evaluates the values provided by the investment managers and estimates the fair value of these investments using the NAV as a practical expedient.

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

ASC Topic 820 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 NAV as a practical expedient are excluded from the fair value hierarchy.

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The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2019:

	<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:				
Cash and cash equivalents	\$ 3,296,433	3,296,433	—	—
Fixed income	44,725,643	44,725,643	—	—
Public equities	72,577,821	72,577,821	—	—
Funds held in trust	24,994,403	—	24,994,403	—
Funds held by trustee	2,240,622	2,240,622	—	—
Other	3,211,161	494,134	—	2,717,027
Total	151,046,083	123,334,653	24,994,403	2,717,027
Investments where NAV was used as a practical expedient to measure fair value:				
Absolute return	120,724,359	—	—	—
Fixed Income	29,454,641	—	—	—
Private equity	116,337,370	—	—	—
Private real assets	54,934,176	—	—	—
Private real estate	21,444,030	—	—	—
Public equities	148,217,982	—	—	—
Total	491,112,558	—	—	—
Total investments and other assets	\$ 642,158,641	123,334,653	24,994,403	2,717,027
Liabilities:				
Interest rate swap	\$ 833,832	—	833,832	—

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

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

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

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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, 2019 and 2018, respectively:

Balance at June 30, 2017	\$	2,654,206
Total realized and unrealized gains		23,182
Purchases, issuances, and settlements (net)		<u>257,125</u>
Balance at June 30, 2018		2,934,513
Total realized and unrealized gains		(14,280)
Purchases, issuances, and settlements (net)		<u>(203,206)</u>
Balance at June 30, 2019	\$	<u>2,717,027</u>

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2019:

	<u>Fair value</u>	<u>Lockup period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Absolute return and fixed income	\$ 21,256,245	Liquidating	N/A	N/A
Public equities	18,086,209	1 month	Semimonthly	15 days
Absolute return	8,115,474	1 month	Monthly	30 days
Public equities	62,171,575	1 month	Monthly	5-15 days
Absolute return	9,308,259	2 months	Quarterly	60 days
Absolute return	78,187,495	3 months	Quarterly	30-75 days
Public equities	67,960,198	3 months	Quarterly	60 days
Absolute return	21,213,098	9 months	Annually	60-90 days
Fixed income	12,098,431	—	Illiquid	—
Private equity	116,337,370	—	Illiquid	—
Private real estate	21,444,030	—	Illiquid	—
Private real assets	<u>54,934,176</u>	—	Illiquid	—

Total investments where
NAV was used as a
practical expedient
to measure fair value \$ 491,112,558

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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, 2018:

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

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, 2019. 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.

(6) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 14,219,852	14,219,852
Buildings	209,153,416	208,270,507
Equipment, furniture, and fixtures	16,286,327	15,597,027
Construction in progress	28,651,551	7,871,750
	268,311,146	245,959,136
Less accumulated depreciation	(105,709,578)	(100,132,202)
Net property, plant, and equipment	\$ <u>162,601,568</u>	<u>145,826,934</u>

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Depreciation expense was \$5,620,806 and \$5,768,913 for the years ended June 30, 2019 and 2018, respectively, and is allocated to the functional expenses based on the relative square footage of the departments.

(7) Long-Term Debt

(a) Notes Payable

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

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

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

Effective December 5, 2017, Reed College refinanced the 2011 State of Oregon bonds in the amount of \$40,030,000 and borrowed an additional \$25,620,000 to be used to finance the construction of a new residence hall. A portion of the bond proceeds was deposited with a trustee in an irrevocable escrow trust account to service the 2011 State of Oregon bonds until July 1, 2020, which is the earliest date the bonds are callable. As of June 30, 2019, Reed College had \$41,902,373 on deposit with the trustee. The defeased bonds and the related trust are not reflected in the accompanying financial statements.

Notes payable are summarized as follows.

	<u>2019</u>	<u>2018</u>
2008 State of Oregon notes	\$ 34,880,000	36,345,000
2017 State of Oregon notes	65,650,000	65,650,000
	100,530,000	101,995,000
Unamortized premium	8,388,517	8,681,400
Unamortized issuance costs	(431,448)	(449,501)
Total	108,487,069	110,226,899
Less amounts due within one year	1,809,830	1,190,170
Total long-term debt due after one year	\$ <u>106,677,239</u>	<u>109,036,729</u>

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Principal payments on the notes payable become due as follows:

	<u>2017 State of Oregon notes</u>	<u>2008 State of Oregon notes</u>	<u>Total</u>
2020	\$ —	1,535,000	1,535,000
2021	—	1,595,000	1,595,000
2022	—	1,670,000	1,670,000
2023	—	1,720,000	1,720,000
2024	—	1,795,000	1,795,000
Thereafter	<u>65,650,000</u>	<u>26,565,000</u>	<u>92,215,000</u>
	<u>\$ 65,650,000</u>	<u>34,880,000</u>	<u>100,530,000</u>

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

	<u>2019</u>	<u>2018</u>
Interest	\$ 3,511,628	2,106,638
Amortization of premium, discount, and issuance costs	(274,830)	(153,928)
Less amounts capitalized	<u>(1,129,347)</u>	<u>(644,658)</u>
Total interest cost recorded in the statement of activities	<u>\$ 2,107,451</u>	<u>1,308,052</u>

Amortization is calculated over the life of the notes.

(b) Interest Rate Risk Management

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 subsequently refinanced the 2006 notes with the 2008 series debt and retained this swap arrangement for interest rate risk management. The notional amount of the swap was \$8,875,000 and \$9,950,000 at June 30, 2019 and 2018, respectively. 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, 2019 and 2018, \$201,337 and \$282,119 was paid, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains. The change in unrealized gain and loss on the swap agreements for the years ended June 30, 2019 and 2018 was a loss of \$9,120 and a gain of \$501,128, respectively, and is recorded in the statements of activities and changes in net assets as other investment gains. The fair value of the swap agreement as of June 30, 2019 and 2018 was a liability of \$833,832 and \$824,712, respectively, and is recorded in the statements of financial position as other long-term liabilities.

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(8) 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 21. 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 \$3,680,506 and \$3,629,026 for the years ended June 30, 2019 and 2018, 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. 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 a Kaiser plan or other plan offered by Emeriti. 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 \$812,917 and \$755,896 for the years ended June 30, 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 26,432,053	26,680,433
Service cost	409,191	440,767
Interest cost	1,061,839	1,047,559
Benefits paid	(812,917)	(755,896)
Actuarial gain	3,090,776	(980,810)
Benefit obligation at end of year and funded status	<u>\$ 30,180,942</u>	<u>26,432,053</u>
Amounts recognized in the balance sheet consist of:		
Postretirement benefits payable – current	\$ 852,376	1,077,870
Postretirement benefits payable	<u>29,328,566</u>	<u>25,354,183</u>
	<u>\$ 30,180,942</u>	<u>26,432,053</u>

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

	<u>2019</u>	<u>2018</u>
Service cost	\$ 409,191	440,767
Interest cost	1,061,839	1,047,559
Recognition of actuarial loss (gain)	<u>3,090,776</u>	<u>(980,810)</u>
Net periodic benefit cost	<u>\$ 4,561,806</u>	<u>507,516</u>

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

Reed College used the following actuarial assumptions to determine its employee benefit obligations at and net periodic benefit cost for the years ended June 30, 2019 and 2018, as measured at June 30.

	<u>2019</u>	<u>2018</u>
Benefit obligation:		
Weighted average discount rate	3.6%	4.1%
Rate of increase in per capita cost of covered healthcare benefits	6.5% trending to 4.0% in 2030	5.5% trending to 4.0% in 2022
Net periodic benefit cost:		
Weighted average discount rate	4.1%	4.0%
Rate of increase in per capita cost of covered healthcare benefits	5.5% trending to 4.0% in 2022	6.0% trending to 4.0% in 2022

Reed College's policy is to fund the plan as claims payments are made. In the 2019–2020 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, \$852,376 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:

Years ending.	
2020	\$ 852,376
2021	944,143
2022	1,001,271
2023	1,041,649
2024	1,117,658
2025–2029	6,855,365

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(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 \$542,618 and \$696,820 for fiscal years ended June 30, 2019 and 2018, respectively, and are included in education and general expenses in the accompanying statements of activities and changes in net assets.

(9) 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, 2019 and 2018, the trusts receivable were \$1,289,557 and \$1,291,022, respectively, and were reported as noncurrent funds held in trust by others in the statements of financial position.

(10) Contributions and Accounts Receivable

Contributions receivable consist of the following.

	<u>2019</u>	<u>2018</u>
Annual fund	\$ 700,862	1,124,502
Campaign	1,560,183	3,146,949
Endowment	3,551,261	4,557,067
Facilities	45,000	60,000
Gross contributions receivable	<u>\$ 5,857,306</u>	<u>8,888,518</u>

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

	<u>2019</u>	<u>2018</u>
Current:		
Gross contributions receivable	\$ 2,107,294	3,184,334
Less allowance for doubtful accounts	<u>(105,000)</u>	<u>(159,000)</u>
Total current net contributions receivable	<u>2,002,294</u>	<u>3,025,334</u>
Long term (one to five years):		
Gross contributions receivable	3,750,012	5,704,184
Less allowance for doubtful accounts	<u>(180,000)</u>	<u>(274,000)</u>
Net long-term contributions receivable	3,570,012	5,430,184

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	<u>2019</u>	<u>2018</u>
Less discount to present value	\$ (149,493)	(220,486)
Total long-term net contributions receivable	<u>3,420,519</u>	<u>5,209,698</u>
Total net contributions receivable	<u>\$ 5,422,813</u>	<u>8,235,032</u>

Contributions receivable due in excess of one year are discounted at 2.52% to 2.57% and 1.92% to 2.30% for the years ended June 30, 2019 and 2018, respectively.

Of the net unconditional promises to give included above, \$2,995,262 represents an unconditional promise to give from 7 members of the Reed College board of trustees due in one to three years.

Accounts receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Current		
Student accounts receivable	\$ 101,675	46,928
Related parties	18,312	61,565
Other receivables	<u>926,244</u>	<u>624,076</u>
	<u>1,046,231</u>	<u>732,569</u>
Noncurrent		
Student accounts receivable	10,216	8,832
Reed loans	1,101,991	1,177,107
Related parties	3,887	5,320
Federal Perkins loans	<u>2,256,378</u>	<u>2,740,699</u>
	<u>3,372,472</u>	<u>3,931,958</u>
Less allowance for doubtful accounts	<u>(60,239)</u>	<u>(60,239)</u>
	<u>\$ 4,358,464</u>	<u>4,604,288</u>

The Federal Perkins Loans and Reed loans are generally payable at interest rates of 5% to 9% over approximately 10 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.

Congress did not renew the Federal Perkins Loan Program after September 2017, and the transition period permitting disbursements ended on June 30, 2019. Institutions have the option to either continue to service the outstanding loans and remit excess cash periodically to the Department of Education or liquidate the portfolio, which would include assigning remaining loans to the federal government and forfeiting the

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institution's remaining net assets (institutional capital contribution). Reed College intends to continue servicing the outstanding Perkins loans.

(11) Net Assets

At June 30, 2019 and 2018, net assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Without donor restrictions.		
Operating and designated for special programs	\$ 23,335,653	12,839,326
Institutional loan programs	1,788,740	2,229,474
Funds functioning as endowment	110,741,859	113,539,137
Accumulated quasi-endowment gains	178,188,942	180,127,677
Net investment in plant	52,420,243	58,649,914
Subtotal	<u>366,475,437</u>	<u>367,385,528</u>
With donor restrictions – time or purpose.		
Educational and general programs	13,768,129	13,560,084
Annuity and life income funds	8,788,719	8,690,172
Accumulated endowment gains	86,962,842	88,819,086
Other temporarily restricted net assets	2,139,756	4,009,516
Subtotal	<u>111,659,446</u>	<u>115,078,858</u>
With donor restrictions – perpetual:		
True endowment funds	176,999,699	173,097,568
Annuity and life income funds	5,808,086	5,718,659
Subtotal	<u>182,807,785</u>	<u>178,816,227</u>
Total	<u>\$ 660,942,668</u>	<u>661,280,613</u>

(12) Endowments

At June 30, 2019, Reed College's endowment consisted of approximately 485 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowments and funds designated by Reed College to function as endowments (quasi-endowments). Quasi-endowment funds do not have donor restrictions and may be expended at the discretion of Reed College. As required by U.S. generally accepted accounting principles, 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 net assets with perpetual donor restrictions (a) the original value of gifts to

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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 net assets with perpetual donor restrictions is classified as net assets with donor imposed time or purpose restrictions 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 net assets with perpetual donor restrictions 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 net assets with donor imposed time or purpose restrictions if the terms of the gift restrict the use of the income or if endowment income has not yet been appropriated for expenditure
- Increases in net assets without donor restrictions in all other cases.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with perpetual donor restrictions. As of June 30, 2019 and 2018, funds with an original gift value of \$11,819,969 and \$6,578,431 were "underwater" by \$646,279 and \$299,319, respectively.

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.

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Pooled endowment spending is determined using the total return concept. The policy on spending endowment income is to spend 5.10% and 5.15% over a rolling 13-quarter moving average of the fair value or market value of the endowment assets for fiscal years 2019 and 2018, respectively.

Endowment net assets by type of fund as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions – time or purpose</u>	<u>With donor restrictions – perpetual</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	86,962,842	176,999,699	263,962,541
Board-designated endowment funds	288,930,801	—	—	288,930,801
Total funds	<u>\$ 288,930,801</u>	<u>86,962,842</u>	<u>176,999,699</u>	<u>552,893,342</u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions – time or purpose</u>	<u>With donor restrictions – perpetual</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	88,819,086	173,097,568	261,916,654
Board-designated endowment funds	293,666,814	—	—	293,666,814
Total funds	<u>\$ 293,666,814</u>	<u>88,819,086</u>	<u>173,097,568</u>	<u>555,583,468</u>

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions – time or purpose</u>	<u>With donor restrictions – perpetual</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ 293,666,814	88,819,086	173,097,568	555,583,468
Investment return:				
Net investment gain	866,839	394,461	—	1,261,300
Net appreciation of investments	8,606,574	9,613,034	—	18,219,608
Contributions	676,977	—	4,256,842	4,933,819
Contributions from trust terminations	773,346	—	180,624	953,970
Appropriation of endowment assets for expenditure	(15,209,080)	(12,367,505)	—	(27,576,585)
Transfers and other reclassifications	(450,669)	503,766	(535,335)	(482,238)
Endowment net assets, June 30, 2019	<u>\$ 288,930,801</u>	<u>86,962,842</u>	<u>176,999,699</u>	<u>552,893,342</u>

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	<u>Without donor restrictions</u>	<u>With donor restrictions – time or purpose</u>	<u>With donor restrictions – perpetual</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 270,285,289	79,174,345	166,759,460	516,219,094
Investment return:				
Net investment gain	183,786	111,102	—	294,888
Net appreciation of investments	29,058,957	21,802,197	—	50,861,154
Contributions	8,183,037	—	3,394,974	11,578,011
Contributions from trust terminations	145,769	—	46,690	192,459
Appropriation of endowment assets for expenditure	(15,110,710)	(12,268,558)	—	(27,379,268)
Transfers to create board-designated endowment fund	1,609,104	—	—	1,609,104
Transfers and other reclassifications	(688,418)	—	2,896,444	2,208,026
Endowment net assets, June 30, 2018	<u>\$ 293,666,814</u>	<u>88,819,086</u>	<u>173,097,568</u>	<u>555,583,468</u>

(13) Functional Classification of Expenses

Academic and research program expenses include instruction, research, academic support, student services, and auxiliary enterprises. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses were allocated among program and supporting functions using a variety of cost allocation techniques, such as square footage and time and effort.

The table below presents expenses both by their nature and their function for the year ended June 30, 2019.

	<u>Academic and research</u>	<u>College relations</u>	<u>General institutional support</u>	<u>Total</u>
Salaries and wages	\$ 36,542,509	4,392,015	3,447,928	44,382,452
Benefits	12,219,223	1,769,087	1,388,813	15,377,123
Utilities, alterations, and repairs	6,067,142	65,895	255,455	6,388,492
Depreciation	5,289,376	50,557	280,873	5,620,806
Interest and accretion	2,008,966	19,214	106,747	2,134,927
Supplies, services, and other	20,317,445	1,533,577	3,148,422	24,999,444
Total	<u>\$ 82,444,661</u>	<u>7,830,345</u>	<u>8,628,238</u>	<u>98,903,244</u>

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The table below presents expenses both by their nature and their function for the year ended June 30, 2018.

	Academic and research	College relations	General Institutional support	Total
Salaries and wages	\$ 35,203,369	4,157,382	3,789,443	43,150,194
Benefits	11,712,920	1,685,049	1,535,935	14,933,904
Utilities, alterations, and repairs	6,915,997	73,718	352,273	7,341,988
Depreciation	5,378,919	50,551	339,443	5,768,913
Interest and accretion	1,257,056	11,827	66,644	1,335,527
Supplies, services, and other	19,461,168	1,773,972	3,023,011	24,258,151
Total	<u>\$ 79,929,429</u>	<u>7,752,499</u>	<u>9,106,749</u>	<u>96,788,677</u>

(14) Fundraising Expense

Reed College expended \$3,316,861 and \$3,169,890 for the years ended June 30, 2019 and 2018, respectively, for payroll and benefits, informational materials, college relations, travel, and special events relating to fundraising activities. These costs are all classified as college relations in the statements of activities and changes in net assets.

(15) Commitments and Contingencies

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.

(16) Subsequent Events

Reed College has evaluated subsequent events from the statement of financial position date through October 7, 2019, the date at which the financial statements were issued, and determined that there are no other items to disclose.