THE REED INSTITUTE

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

THE REED INSTITUTE

Table of Contents

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, 2020 and 2019, 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, 2020 and 2019, 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.

KPMG LLP

October 5, 2020

THE REED INSTITUTE

Statements of Financial Position

June 30, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	16,718,753	11,723,412
Accounts receivable, net		1,374,144	1,046,231
Contributions receivable, net		3,873,267	2,002,294
Funds held by trustee		—	2,240,622
Short-term investments		14,982,355	13,531,888
Prepaid expenses and other assets		850,100	888,714
Total current assets		37,798,619	31,433,161
Noncurrent assets:			
Cash and cash equivalents whose use is limited		539,546	884,647
Accounts receivable, net		2,868,916	3,312,233
Contributions receivable, net		8,162,478	3,420,519
Funds held in trust by others		1,315,648	1,289,557
Long-term investments		617,872,507	625,096,574
Property, plant, and equipment, net		163,180,074	162,601,568
Other assets		169,344	188,782
Total noncurrent assets		794,108,513	796,793,880
Total assets	$	831,907,132	828,227,041
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	8,452,337	8,581,571
Postretirement benefits payable		923,878	852,376
Debt, current portion		1,869,830	1,809,830
Deferred revenue		2,905,560	1,517,153
Total current liabilities		14,151,605	12,760,930
Long-term liabilities:			
Liability for split-interest agreements		11,064,975	11,683,765
Postretirement benefits payable		33,174,581	29,328,566
Refundable loan programs		1,076,622	1,863,723
Asset retirement obligation		5,923,001	3,101,047
Debt, net of current portion		104,807,408	106,677,239
Other liabilities		1,721,958	1,869,103
Total long-term liabilities		157,768,545	154,523,443
Total liabilities		171,920,150	167,284,373
Net assets:			
Without donor restrictions		360,030,973	366,475,437
With donor restrictions:			
Time or purpose		108,303,229	111,659,446
Perpetual		191,652,780	182,807,785
Total net assets with donor restrictions		299,956,009	294,467,231
Total net assets		659,986,982	660,942,668
Total liabilities and net assets	$	831,907,132	828,227,041

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2020

		Without donor restrictions	With donor restrictions	Total 2020
Revenues, gains, and other support:				
Tuition and fees, net of $29,393,734 in college-funded scholarships	$	52,914,873	—	52,914,873
Auxiliary enterprises		13,105,738	—	13,105,738
Gifts and private grants		12,461,832	13,996,448	26,458,280
Government grants, contracts, and student aid		1,867,328	—	1,867,328
Endowment return, appropriated for spending		15,370,000	12,654,580	28,024,580
Other investment gains		823,892	—	823,892
Other revenues and additions		1,946,196	62,717	2,008,913
Subtotal		45,574,986	26,713,745	72,288,731
Net assets released from restrictions		12,325,042	(12,325,042)	—
Total revenues, gifts, and other support		110,814,901	14,388,703	125,203,604
Expenses:				
Educational and general:				
Instruction		37,757,300	—	37,757,300
Research		1,752,061	—	1,752,061
Academic support		14,295,261	—	14,295,261
General institutional support		9,228,648	—	9,228,648
Student services		13,308,290	—	13,308,290
College relations		7,782,074	—	7,782,074
Total educational and general		84,123,634	—	84,123,634
Auxiliary enterprises		18,482,876	—	18,482,876
Total operating expenses		102,606,510	—	102,606,510
Increase from operations		8,208,391	14,388,703	22,597,094
Nonoperating activity:				
Endowment return, net of amounts appropriated for spending		(10,341,499)	(8,618,495)	(18,959,994)
Change in value of split-interest agreements		—	(732,444)	(732,444)
Net period benefit cost, net of service cost		(3,975,351)	—	(3,975,351)
Other deductions and transfers		(336,005)	451,014	115,009
Total nonoperating activity		(14,652,855)	(8,899,925)	(23,552,780)
(Decrease) increase in net assets		(6,444,464)	5,488,778	(955,686)
Net assets, beginning of year		366,475,437	294,467,231	660,942,668
Net assets, end of year	$	360,030,973	299,956,009	659,986,982

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total 2019
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	6,052,840	5,201,143	11,253,983
Government grants, contracts, and student aid	1,534,536	—	1,534,536
Endowment return, appropriated for spending	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 operating expenses	98,903,244	—	98,903,244
Increase from operations	8,822,126	2,268,287	11,090,413
Nonoperating activity:			
Endowment return, net of amounts appropriated for spending	(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	$ 366,475,437	294,467,231	660,942,668

See accompanying notes to financial statements.

THE REED INSTITUTE

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Decrease in net assets	$	(955,686)	(337,945)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:			
Depreciation and amortization		6,282,223	5,620,806
Amortization of bond premium and issuance cost		(274,830)	(274,830)
Loss on disposal of assets		269,486	—
Contributions restricted for long-term investment		(4,189,009)	(1,215,563)
Noncash contributions		(5,224,315)	(5,779,150)
Net realized and unrealized gain on investments and split-interest agreements		(9,311,881)	(21,460,357)
Actuarial adjustments of liabilities for split-interest agreements		130,952	784,252
Change in asset retirement obligation		27,475	27,475
Changes in operating assets and liabilities that provided (used) cash:			
Accounts receivable		115,404	245,824
Contributions receivable		(6,612,932)	2,812,219
Prepaid and other		39,415	(261,540)
Accounts payable and accrued liabilities		(129,234)	173,939
Postretirement benefits payable		3,917,517	3,748,889
Deferred revenue		1,388,407	310,032
Other liabilities		(147,145)	(404,425)
Net cash used in operating activities		(14,674,153)	(16,010,374)
Cash flows from investing activities:			
Proceeds from maturities/sales of investments		144,777,579	135,645,264
Purchases of investments		(125,463,922)	(115,538,846)
Contracts receivable collected		30,970	35,745
Contracts receivable advanced		(12,333)	(20,900)
Purchase of property, plant, and equipment		(4,335,735)	(22,395,440)
Net cash provided by (used in) investing activities		14,996,559	(2,274,177)
Cash flows from financing activities:			
Contributions restricted for long-term investment		4,189,009	1,215,563
Payment of debt principal		(1,535,000)	(1,465,000)
Payments on split-interest agreements		(1,385,489)	(1,351,840)
Investment income subject to split-interest agreements		404,632	445,571
New liabilities related to split-interest agreements		55,200	101,066
Changes in governmental loan funds		(787,101)	43,675
Draw on deposit with bond trustee		2,240,623	23,882,830
Net cash provided by financing activities		3,181,874	22,871,865
Net increase in cash and cash equivalents		3,504,280	4,587,314
Cash and cash equivalents and cash whose use is limited, beginning of year		15,904,492	11,317,178
Cash and cash equivalents and cash whose use is limited, end of year	$	19,408,772	15,904,492
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$	3,403,539	2,382,281
Asset retirement obligations		2,794,479	—

See accompanying notes to financial statements.

(1) Background

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

(2) Summary of Significant Accounting Policies

(a) 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 by either 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 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 12 for further disclosures.

(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, 2020 and 2019, respectively, are as follows:

		2020	2019
Tuition and fees	$	82,308,607	80,740,753
College-funded scholarships		(29,393,734)	(28,992,930)
Net tuition and fees	$	52,914,873	51,747,823

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.

(Continued)

Auxiliary enterprises – Auxiliary enterprises consist 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 include 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 the price for which the asset could be exchanged or settled on the measurement date.

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.

(Continued)

(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 $5,585,860 and $6,089,907 as of June 30, 2020 and 2019, respectively. The amount included to meet future payments under gift annuity contracts in liability for split-interest agreements was $2,533,491 and $2,657,028 as of June 30, 2020 and 2019, 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.

(Continued)

(k) Capitalized Interest

Interest costs incurred on debt during the construction of major projects exceeding one year are capitalized. During fiscal years 2020 and 2019, the amount of interest capitalized amounted to $0 and $1,129,347, 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*, 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. Certain cash equivalents held by trustee and amounts included in the investment portfolio are intended to be invested on a long-term basis and are not included in the statements of cash flows. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

Cash and cash equivalents reported in the statements of cash flows at June 30, 2020 and 2019 were comprised of the following:

		2020	2019
Cash and cash equivalents	$	16,718,753	11,723,412
Cash and cash equivalents whose use is limited		539,546	884,647
Cash held for long-term investment		2,150,473	3,296,433
Total cash and cash equivalents reported in the statements of cash flows	$	19,408,772	15,904,492

During 2020, Reed College determined investments included cash of $5,679,996 at July 1, 2018 and $3,296,433 of cash at June 30, 2019 that was not included in the statements of cash flows for the year ended June 30, 2019. These amounts have been reclassified in the statements of cash flows for the year ended June 30, 2019.

(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.

(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 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. 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 ASU No. 2016-02 will not have a significant impact on the statements of financial position, the results of operations, or cash flows. The ASC Topic 842 effective date was deferred by the FASB for certain entities due to the COVID-19 pandemic. Under ASU No. 2020-05, the adoption date for public not-for-profit entities that have not yet issued their financial statements was deferred by one year to fiscal years beginning after December 15, 2019. Reed College will implement ASC Topic 842 beginning July 1, 2020. Reed College will include new disclosures in fiscal year 2021 in accordance with Topic 842.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. The amendments in ASU No. 2018-13, which remove, modify, or add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements, are effective for the year ending June 30, 2021.

(Continued)

The adoption of this guidance will not impact Reed College's statements of financial position, the results of operations, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which applies to all entities that are a customer in a hosting arrangement that is a service contract. The amendments in ASU No. 2018-14, which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, are effective for the year ending June 30, 2022. Reed College does not expect adoption of this guidance to have a material effect on its statements of financial position, the results of operations, or cash flows.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,* which applies to all employers that sponsor defined-benefit pension or other postretirement plans. The amendments in ASU No. 2018-14, which remove, modify, or add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements, are effective for the year ending June 30, 2021. The adoption of this guidance will not impact Reed College's statements of financial position, the results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, with certain amendments made to the standard in November 2018 through ASU No. 2018-9, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses and ASU No. 2019-10 Financial Instruments – Credit Losses, Derivatives and Hedging, and Leases: Effective Dates,* which applies to entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments in ASU No. 2016-13 require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in ASU 2016-13 are effective for the year ending June 30, 2023. Reed College is currently evaluating the impact this guidance will have on its statements of financial position, the results of operations, or cash flows.

(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.

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce, and financial markets globally, including in the United States. Commencing March 30, 2020, course instruction was conducted virtually and most students were required to move off of campus. Reed College provided prorated refunds of room and board of $2.8 million in fiscal year 2020. Students continued to meet their academic requirements for the remainder of the 2019-20 academic year.

For the fall 2020 academic semester, Reed College structured courses as a mix of in-person and online instruction in order to best maintain the strong student-faculty and student-student academic interactions valued in a Reed education. Within these broad categories, many of the in-person courses will include a remote-access option to accommodate students who cannot return to campus. Similarly, many of the online courses will include a local-access option to provide opportunities for smaller group discussion, studio time, and research projects.

Reed College is following guidelines developed by the Centers for Disease Control for congregate housing for the fall 2020 academic semester and has reduced housing density while setting aside one residence hall for students who may need isolation in quarantine. Reed College reduced the maximum population in residence from the full capacity of 1,130 beds to approximately 820, with all rooms being single rooms. On-campus housing is being prioritized for first-year students, incoming transfer students, international students, sophomores, and students with on-campus housing as a disability-related accommodation.

Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for when instruction and campus operations will return to normal. Further, the future financial impact on Reed College from the pandemic cannot be quantified at this time as there is still a high degree of uncertainty as the pandemic continues to evolve. Reed College continues to assess the potential impact of legislation, the impact of stimulus measures, and the impact of other laws, regulations, and guidance related to COVID-19 on the business, results of operations, financial condition, and cash flows.

(Continued)

As of June 30, 2020, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

		2020
Financial assets at year-end:		
Cash and cash equivalents	$	16,718,753
Current accounts receivable, net		1,374,144
Current contributions receivable, net		3,873,267
Investments		634,170,510
Total financial assets at year-end		656,136,674
Less amounts not available to meet general expenditures within one year:		
Restricted by donors for use in future periods		15,352,908
Board-designated endowment		280,889,636
Future expendable donor-restricted endowment		78,344,347
Donor-restricted endowment to be retained in perpetuity		185,860,014
Annuity and life income funds		23,579,080
Financial assets available to meet general expenditures within one year	$	72,110,689

In addition, at June 30, 2020, Reed College had $280,889,636 of board-designated endowments that, with the board’s approval, could be made available for operations.

(4) Investments

The fair value of investments at June 30, 2020 and 2019 is as follows:

		2020	2019
Investments:			
Cash and cash equivalents	$	2,150,473	3,296,433
Fixed income		60,398,164	74,180,284
Public equities		223,371,304	220,795,803
Absolute return		124,167,318	120,724,359
Private equity		133,601,248	116,337,370
Private real assets		39,825,908	54,934,176
Private real estate		24,377,878	21,444,030
Funds held in trust		23,579,080	24,994,403
Funds held by trustee		—	2,240,622
Other		2,699,137	3,211,161
Total investments	$	634,170,510	642,158,641

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 the following:

- 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 consists 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, 2020 and 2019, Reed College has approximately $490 million and $491 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 77% of total investments and 74% and 74% of total net assets at June 30, 2020 and 2019, 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, 2020 and 2019. 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 128 and 116 limited partnerships at June 30, 2020 and 2019, 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, 2020, Reed College has unfunded commitments of approximately $124,348,969. These commitments are callable by the general partners/advisers between June 30, 2020 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 $32,274,680 and $31,155,309 of operating funds at June 30, 2020 and 2019, respectively, used to manage Reed College's operating liquidity.

Included in funds held in trust investments are $23,579,080 and $24,994,403 of planned giving trusts held in mutual funds and other investments that are not available for spending as of June 30, 2020 and 2019, 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 were spent on qualifying expenditures of capital projects.

Total investment income, excluding funds held in trust investments, was $9,888,478 and $20,703,499 for the years ended June 30, 2020 and 2019, 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.

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 that do not have a readily determinable fair value are carried at fair value utilizing 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.

(Continued)

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.

Investments valued utilizing NAV 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, 2020:

		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	$	2,150,473	2,150,473	—	—
Fixed income		51,122,625	51,122,625	—	—
Public equities		65,011,168	65,011,168	—	—
Funds held in trust		23,579,080	—	22,890,080	689,000
Other		2,699,137	80,162	—	2,618,975
Total		144,562,483	118,364,428	22,890,080	3,307,975
Investments where NAV was used as a practical expedient to measure fair value:					
Absolute return		124,167,318	—	—	—
Fixed income		9,275,539	—	—	—
Private equity		133,601,248	—	—	—
Private real assets		39,825,908	—	—	—
Private real estate		24,377,878	—	—	—
Public equities		158,360,136	—	—	—
Total		489,608,027	—	—	—
Total investments and other assets	$	634,170,510	118,364,428	22,890,080	3,307,975
Liabilities:					
Interest rate swap	$	877,956	—	877,956	—

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

		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	$	3,296,433	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	—

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.

The shares and units held by a trustee in registered investment funds are classified in Level 2, because while the underlying securities are marketable, Reed College does not have the ability to redeem its interest at or near the date of the statements of financial position.

The primary inputs into the valuation of interest rate swaps are interest yield curves, interest rate volatility, and credit spreads. Reed College's interest rate swaps are classified within Level 2 of the fair value hierarchy, since all significant inputs are corroborated by market observable data.

Investments classified in Level 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 Level 3, some of the underlying securities are marketable or not difficult to value. Investments classified as Level 3 also consist of donated real estate holdings, which are recorded at the appraised value at the date of receipt.

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, 2020 and 2019, respectively:

Balance at June 30, 2018	$	2,934,513
Total realized and unrealized gains		(14,280)
Purchases, issuances, and settlements (net)		(203,206)
Balance at June 30, 2019		2,717,027
Total realized and unrealized gains		50,712
Purchases, issuances, and settlements (net)		540,236
Balance at June 30, 2020	$	3,307,975

(Continued)

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2020:

		Fair value	Lockup period	Redemption frequency	Redemption notice period
Absolute return	$	2,430,870	Liquidating	N/A	N/A
Public equities		59,995,856	1 month	Semimonthly	9–15 days
Public equities		21,026,503	1 month	Monthly	5 days
Absolute return		8,765,397	1 month	Monthly	30 days
Public equities		77,337,777	3 months	Monthly	60 days
Absolute return		91,918,150	3 months	Quarterly	30–75 days
Absolute return		21,052,901	9 months	Annually	60–90 days
Fixed income		9,275,539	—	Illiquid	—
Private equity		133,601,248	—	Illiquid	—
Private real assets		24,377,878	—	Illiquid	—
Private real estate		39,825,908	—	Illiquid	—
Total investments where NAV was used as a practical expedient to measure fair value	$	489,608,027			

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

		Fair value	Lockup period	Redemption frequency	Redemption notice period
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		21,213,096	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		54,934,176	—	Illiquid	—
Total investments where NAV was used as a practical expedient to measure fair value	$	491,112,558			

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, 2020. 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, 2020 and 2019 consist of the following:

		2020	2019
Land and land improvements	$	14,219,852	14,219,852
Buildings		244,071,219	209,153,416
Equipment, furniture, and fixtures		16,761,342	16,286,327
Construction in progress		—	28,651,551
		275,052,413	268,311,146
Less accumulated depreciation		(111,872,339)	(105,709,578)
Net property, plant, and equipment	$	163,180,074	162,601,568

Depreciation expense was $6,282,223 and $5,620,806 for the years ended June 30, 2020 and 2019, 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. As of June 30, 2020, Reed College had $41,035,300 on deposit with the trustee. The defeased bonds and the related trust are not reflected in the accompanying financial statements. On July 1, 2020, Reed College redeemed the outstanding bonds in full using the proceeds of the escrow trust account.

Notes payable are summarized as follows:

	2020	2019
2008 State of Oregon notes	$ 33,345,000	34,880,000
2017 State of Oregon notes	65,650,000	65,650,000
	98,995,000	100,530,000
Unamortized premium	8,095,633	8,388,517
Unamortized issuance costs	(413,395)	(431,448)
Total long-term debt	106,677,238	108,487,069
Less amounts due within one year	1,869,830	1,809,830
Total long-term debt due after one year	$ 104,807,408	106,677,239

Principal payments on the notes payable become due as follows:

		2017 State of Oregon notes	2008 State of Oregon notes	Total
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
2025		—	1,865,000	1,865,000
Thereafter		65,650,000	24,700,000	90,350,000
	$	65,650,000	33,345,000	98,995,000

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

		2020	2019
Interest	$	3,403,539	3,511,628
Amortization of premium, discount, and issuance costs		(274,830)	(274,830)
Less amounts capitalized		—	(1,129,347)
Total interest cost recorded in the statement of activities	$	3,128,709	2,107,451

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 $7,750,000 and $8,875,000 at June 30, 2020 and 2019, 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, 2020 and 2019, $216,302 and $201,337 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, 2020 and 2019 was a loss of $44,124 and $9,120, 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, 2020 and 2019 was a liability of $877,956 and $833,832, respectively, and is recorded in the statements of financial position as other long-term liabilities.

(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 one 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 $3,934,499 and $3,680,506 for the years ended June 30, 2020 and 2019, 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 $567,116 and $812,917 for the years ended June 30, 2020 and 2019, respectively.

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

		2020	2019
Change in benefit obligation:			
Benefit obligation at beginning of year	$	30,180,942	26,432,053
Service cost		509,282	409,191
Interest cost		1,071,307	1,061,839
Benefits paid		(567,116)	(812,917)
Actuarial gain		2,904,044	3,090,776
Benefit obligation at end of year and funded status	$	34,098,459	30,180,942
Amounts recognized in the balance sheet consist of:			
Postretirement benefits payable – current	$	923,878	852,376
Postretirement benefits payable – long term		33,174,581	29,328,566
	$	34,098,459	30,180,942

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

		2020	2019
Service cost	$	509,282	409,191
Interest cost		1,071,307	1,061,839
Recognition of actuarial loss		2,904,044	3,090,776
Net periodic benefit cost	$	4,484,633	4,561,806

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 and net periodic benefit cost for the years ended June 30, 2020 and 2019, as measured at June 30:

	2020	2019
Benefit obligation:		
Weighted average discount rate	2.8 %	3.6 %
Rate of increase in per capita cost of covered healthcare benefits	6.5% trending to 4.0% in 2031	6.5% trending to 4.0% in 2030
Net periodic benefit cost:		
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

Reed College's policy is to fund the plan as claims payments are made. In the 2020-2021 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:

Year(s) ending:		
2021	$	923,878
2022		963,417
2023		999,004
2024		1,076,963
2025		1,173,563
2026–2030		7,050,471

(Continued)

(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 $509,599 and $542,618 for fiscal years ended June 30, 2020 and 2019, 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, 2020 and 2019, the trusts receivable were $1,315,648 and $1,289,557, 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:

		2020	2019
Annual fund	$	2,767,604	700,862
Campaign		4,225,474	1,560,183
Endowment		5,832,183	3,551,261
Facilities		30,000	45,000
Gross contributions receivable	$	12,855,261	5,857,306

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

		2020	2019
Current:			
Gross contributions receivable	$	4,077,267	2,107,294
Less allowance for doubtful accounts		(204,000)	(105,000)
Total current net contributions receivable		3,873,267	2,002,294
Long term (one to five years):			
Gross contributions receivable		8,777,994	3,750,012
Less allowance for doubtful accounts		(429,000)	(180,000)
Net long-term contributions receivable		8,348,994	3,570,012
Less discount to present value		(186,516)	(149,493)
Total long-term net contributions receivable		8,162,478	3,420,519
Total net contributions receivable	$	12,035,745	5,422,813

Contributions receivable due in excess of one year are discounted at 1.14% to 1.19% and 2.52% to 2.57% for the years ended June 30, 2020 and 2019, respectively.

Of the net unconditional promises to give included above, $8,367,027 represents an unconditional promise to give from 12 members of the Reed College board of trustees due in one to three years.

Accounts receivable consist of the following at June 30:

		2020	2019
Current:			
Student accounts receivable	$	459,515	101,675
Related parties		10,813	18,312
Other receivables		903,816	926,244
		1,374,144	1,046,231
Noncurrent:			
Student accounts receivable		3,700	10,216
Reed loans		1,098,218	1,101,991
Related parties		5,494	3,887
Federal Perkins loans		1,821,741	2,256,378
		2,929,153	3,372,472
Less allowance for doubtful accounts		(60,237)	(60,239)
	$	4,243,060	4,358,464

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, 2018. Institutions have the option to either continue to service the outstanding loans and remit excess cash periodically to the Department of Education or liquidate the portfolio, which would include assigning remaining loans to the federal government and forfeiting the institution's remaining net assets (institutional capital contribution). Reed College intends to continue servicing the outstanding Perkins loans.

(11) Net Assets

At June 30, 2020 and 2019, net assets consisted of the following:

	2020	2019
Without donor restrictions:		
Operating and designated for special programs	$ 27,620,963	23,335,653
Institutional loan programs	1,818,495	1,788,740
Funds functioning as endowment	113,609,318	110,741,859
Accumulated quasi-endowment gains	167,280,318	178,188,942
Net investment in plant	49,701,879	52,420,243
Subtotal	360,030,973	366,475,437
With donor restrictions – time or purpose:		
Educational and general programs	15,352,908	13,768,129
Annuity and life income funds	8,032,753	8,788,719
Accumulated endowment gains	78,344,347	86,962,842
Other temporarily restricted net assets	6,573,221	2,139,756
Subtotal	108,303,229	111,659,446
With donor restrictions – perpetual:		
True endowment funds	185,860,014	176,999,699
Annuity and life income funds	5,792,766	5,808,086
Subtotal	191,652,780	182,807,785
Total	$ 659,986,982	660,942,668

(12) Endowments

At June 30, 2020, Reed College's endowment consisted of approximately 535 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 UPMIFA, 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 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, including deficiencies associated with funds where the value of the fund has fallen below the original value of the gift, 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 and 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, 2020 and 2019, funds with an original gift value of $29,666,713 and $11,819,969 were "underwater" by $1,328,215 and $646,279, 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 UPMIFA, 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 5.05% and 5.10% over a rolling 13-quarter moving average of the fair value or market value of the endowment assets for fiscal years 2020 and 2019, respectively.

Endowment net assets by type of fund as of June 30, 2020:

		Without donor restrictions	With donor restrictions – time or purpose	With donor restrictions – perpetual	Total
Donor-restricted endowment funds	$	—	78,344,347	185,860,014	264,204,361
Board-designated endowment funds		280,889,636	—	—	280,889,636
Total funds	$	280,889,636	78,344,347	185,860,014	545,093,997

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

		Without donor restrictions	With donor restrictions – time or purpose	With donor restrictions – perpetual	Total
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	$	288,930,801	86,962,842	176,999,699	552,893,342

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

		Without donor restrictions	With donor restrictions – time or purpose	With donor restrictions – perpetual	Total
Endowment net assets, July 1, 2019	$	288,930,801	86,962,842	176,999,699	552,893,342
Investment return:					
Net investment gain		891,469	770,358	—	1,661,827
Net appreciation of investments		4,137,032	3,265,727	—	7,402,759
Contributions		1,722,926	—	8,346,575	10,069,501
Contributions from trust terminations		10,292	—	312,258	322,550
Appropriation of endowment assets for expenditure		(15,370,000)	(12,654,580)	—	(28,024,580)
Transfers and other reclassifications		567,116	—	201,482	768,598
Endowment net assets, June 30, 2020	$	280,889,636	78,344,347	185,860,014	545,093,997

		Without donor restrictions	With donor restrictions – time or purpose	With donor restrictions – perpetual	Total
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	$	288,930,801	86,962,842	176,999,699	552,893,342

(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 by both their nature and function for the year ended June 30, 2020.

		Academic and research	College relations	General institutional support	Total
Salaries and wages	$	38,049,267	4,677,413	4,194,643	46,921,323
Benefits		12,916,360	1,832,830	1,638,098	16,387,288
Utilities, alterations, and repairs		6,672,268	59,218	225,551	6,957,037
Depreciation		5,936,094	52,374	293,755	6,282,223
Interest and accretion		2,982,221	26,322	147,641	3,156,184
Supplies, services, and other		19,039,578	1,133,917	2,728,960	22,902,455
Total	$	85,595,788	7,782,074	9,228,648	102,606,510

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

	Academic and research	College relations	General institutional support	Total
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	$ 82,444,661	7,830,345	8,628,238	98,903,244

(14) Fundraising Expense

Reed College expended $3,326,799 and $3,316,861 for the years ended June 30, 2020 and 2019, 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 5, 2020, the date at which the financial statements were issued, and determined that there are no other items to disclose.