THE REED INSTITUTE

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors’ Report Thereon)

Independent Auditors' Report

The Board of Trustees
The Reed Institute:

We have audited the accompanying statements of financial position of The Reed Institute as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of The Reed Institute's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Reed Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 10 to the financial statements, The Reed Institute adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds*. Also discussed in notes 2 and 12, The Reed Institute adopted SFAS No. 157, *Fair Value Measurements*, during 2009.

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Statements of Financial Position

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	7,094,502	14,228,789
Accounts receivable – student and other (note 8)		473,915	364,014
Short-term investments (note 3)		—	103,217
Contributions receivable, net of allowance $33,000 in 2009 and $40,000 in 2008 (note 8)		634,605	758,178
Prepaid expenses and other assets		2,531,139	2,177,474
Total current assets		10,734,161	17,631,672
Noncurrent assets:			
Cash and cash equivalents whose use is limited		2,208,255	2,067,695
Accounts receivable noncurrent – student and other, net of allowance of $60,000 in 2009 and 2008 (note 8)		4,799,126	4,721,657
Property, plant, and equipment, net (note 4)		115,553,119	111,861,840
Contributions receivable – noncurrent net of allowance of $1,077,000 in 2009 and $1,063,000 in 2008 (note 8)		20,437,444	20,191,773
Funds held in trust by others (note 7)		11,096,955	14,419,352
Long-term investments (note 3)		347,188,450	464,411,894
Other assets		510,393	458,578
Total noncurrent assets		501,793,742	618,132,789
Total assets	$	512,527,903	635,764,461
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	4,946,142	7,370,427
Postretirement benefits payable (note 6)		644,583	624,461
Debt and capital leases, current portion (note 5)		1,244,463	1,185,296
Deferred revenue		1,036,888	861,148
Total current liabilities		7,872,076	10,041,332
Long-term liabilities:			
Accrued liabilities		—	36,823
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Statement of Activities and Changes in Net Assets

Year ended June 30, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2009
Revenues, gains (losses), and other support:				
Tuition and fees	$ 51,158,542	—	—	51,158,542
Less college-funded scholarships	(17,711,741)	—	—	(17,711,741)
Net tuition and fees	33,446,801	—	—	33,446,801
Auxiliary enterprises	11,398,173	—	—	11,398,173
Gifts and private grants	6,797,715	798,686	4,830,916	12,427,317
Government grants, contracts, and student aid	1,666,578	—	—	1,666,578
Realized and unrealized gains and losses	(70,322,842)	(29,429,444)	—	(99,752,286)
Other investment income	78,464	—	—	78,464
Other revenues and additions	1,206,859	—	—	1,206,859
Revenues and gains (losses)	(49,175,053)	(28,630,758)	4,830,916	(72,974,895)
Net assets released from restrictions	8,235,197	(8,235,197)	—	—
Total revenues, gains (losses), and other support	(7,493,055)	(36,865,955)	4,830,916	(39,528,094)
Expenses:				
Educational and general:				
Instruction	25,950,171	—	—	25,950,171
Research	1,033,580	—	—	1,033,580
Academic support	7,643,897	—	—	7,643,897
General institutional support	11,432,009	—	—	11,432,009
Student services	5,317,894	—	—	5,317,894
Public affairs	4,793,607	—	—	4,793,607
Total educational and general	56,171,158	—	—	56,171,158
Auxiliary enterprises	15,544,428	—	—	15,544,428
Total expenses	71,715,586	—	—	71,715,586

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Statement of Activities and Changes in Net Assets

Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2008
Revenues, gains, and other support:				
Tuition and fees	$ 49,174,352	—	—	49,174,352
Less college-funded scholarships	(16,278,569)	—	—	(16,278,569)
Net tuition and fees	32,895,783	—	—	32,895,783
Auxiliary enterprises	10,625,648	—	—	10,625,648
Gifts and private grants	10,728,081	1,083,253	16,142,784	27,954,118
Government grants, contracts, and student aid	1,591,217	—	—	1,591,217
Realized and unrealized gains and losses	(14,644,646)	(9,023,106)	—	(23,667,752)
Other investment income	1,348,733	—	—	1,348,733
Other revenues and additions	1,026,168	—	220	1,026,388
Subtotal	10,675,201	(7,939,853)	16,143,004	18,878,352
Net assets released from restrictions	7,575,356	(7,575,356)	—	—
Total revenues, gains, and other support	51,146,340	(15,515,209)	16,143,004	51,774,135
Expenses:				
Educational and general:				
Instruction	25,553,682	—	—	25,553,682
Research	1,225,039	—	—	1,225,039
Academic support	7,910,323	—	—	7,910,323
General institutional support	10,178,604	—	—	10,178,604
Student services	5,210,226	—	—	5,210,226
Public affairs	4,517,507	—	—	4,517,507
Total educational and general	54,595,381	—	—	54,595,381
Auxiliary enterprises	14,958,020	—	—	14,958,020
Total expenses	69,553,401	—	—	69,553,401
(Decrease) increase from operations	(18,407,061)	(15,515,209)	16,143,004	(17,779,266)
Nonoperating activity:				
Other interest expense	(133,776)	—	—	(133,776)
Change in value of split-interest agreements	—	(2,532,869)	(611,487)	(3,144,356)
Other additions (deductions)	791,049	—	(7,137)	783,912
Total nonoperating activity	657,273	(2,532,869)	(618,624)	(2,494,220)
Net asset reclassification based on change in law	(101,563,548)	101,563,548	—	—
(Decrease) increase in net assets	(119,313,336)	83,515,470	15,524,380	(20,273,486)
Net assets, beginning of year	422,879,755	27,641,110	95,565,383	546,086,248
Net assets, end of year	$ 303,566,419	111,156,580	111,089,763	525,812,762

See accompanying notes to financial statements.

THE REED INSTITUTE

(1) Background

The Reed Institute (Reed College) was founded in 1908 by Simeon and Amanda Reed, with one central commitment: to provide a balanced, comprehensive education in liberal arts and sciences, fulfilling the highest standards of intellectual excellence. Reed College offers a B.A. in one of 22 major fields and numerous interdisciplinary fields, as well as a master of arts in liberal studies degree. The Reed College educational program pays particular attention to a balance between broad study in the various areas of human knowledge and close, in-depth study in a recognized academic discipline.

(2) Summary of Significant Accounting Policies

(a) Accrual Basis

The financial statements of Reed College have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The definitions used to classify and report net assets are as follows:

- **Unrestricted net assets** – net assets that are not subject to donor-imposed stipulations or donor-restricted contributions whose restrictions are met in the same reporting period.
- **Temporarily restricted net assets** – net assets subject to donor-imposed stipulations that will be met either by actions of Reed College or the passage of time.
- **Permanently restricted net assets** – net assets subject to donor-imposed stipulations that they be permanently maintained by Reed College. Generally, the donors of these assets permit Reed College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets with the exception of activity related to life income agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets and are reported as “net assets released from restriction” in the statements of activities. Restrictions related to contributions for the purchase of capital additions are released when the asset is placed in service.

Income and net gains on investments of endowment and similar funds are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or Reed College’s interpretation of relevant state law require they be added to the principal of a permanently restricted net asset.

- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or if endowment income has not yet been appropriated for expenditure.
- Increases in unrestricted net assets in all other cases.

Reed College adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1) during fiscal 2009. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 10 for further UPMIFA and FSP 117-1 disclosures.

(c) Use of Estimates

With a few exceptions, the monies in the endowment and similar funds are invested as a pool, and the related income of the pool is distributed to each participating fund based upon a spending fort

(g) Contributions Receivable

Unconditional promises to give (contributions) are recorded as gifts and private grant income and contributions receivable. Promises to give are not recognized until they become unconditional, that is, when the donor-imposed restrictions are substantially met. Contributions other than cash are recorded at their estimated fair value. Management estimates an allowance for uncollectible contributions based on risk factors such as prior collection history, type of contribution, and the nature of the fund-raising activity. Contributions are generally receivable within five years of the date the commitment was made and through June 30, 2009 were discounted to present value using a discount rate commensurate with the risk involved, and for the year ended June 30, 2008 were discounted using the risk free rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

(h) Derivative Instruments

Reed College accounts for derivatives of an interest rate swap in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the statements of financial position at their respective fair values. Changes in the fair value are recognized in unrealized gains and losses, unrestricted, in the statements of activities and changes in net assets.

(i) Property, Plant, and Equipment, Net

Property, plant, and equipment are stated at cost at the date of acquisition, if purchased, or at fair market value, at the date of receipt, if acquired by donation. Equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (twenty to fifty years) and equipment and furnishings (five years). Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Routine repair and maintenance expenses and equipment replacement costs are expensed as incurred.

(j) Donated Materials

Donated materials are included in the statements of activities and changes in net assets as “Gifts and private grants” at their estimated fair values at date of receipt. These materials are subsequently expensed when used.

(k) Income Tax Status

The Internal Revenue Service has recognized Reed College as exempt from tax under the provisions of Section 501(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. In July 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109*. FIN 48 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. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and

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penalties, and disclosure. As Reed College is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code as a qualified educational institution and is generally not subject to federal or state income taxes, the adoption of FIN 48 did not have a significant impact on the Reed College's financial statements.

(l) Cash and Cash Equivalents

Cash and cash equivalents represent cash in bank and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

(m) Deferred Revenue

Deferred revenues consist primarily of prepayments of tuition and fees related to future academic years.

(n) Postretirement Benefits

Reed College has a noncontributor

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3

(3) Investments

The fair value of investments at June 30, 2009 and 2008 are as follows:

Within private equity and hedge funds, Reed College has funds invested in twenty-eight and twenty-three limited partnerships, respectively, with ownership interests ranging from 0.04% to 4.20% at June 30, 2009 and 0.04% to 2.73% at June 30, 2008. Included in the assets of the various partnerships is a small portion of derivative instruments.

Total investment income and realized and unrealized gains (losses) on investments that are not readily marketable was $(86,715,898) and $(7,743,635) for the years ended June 30, 2009 and 2008, respectively.

(4) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2009 and 2008 consist of the following:

		2009	2008
Land and land improvements	$	13,187,625	11,203,950
Buildings		148,359,219	118,218,508
Construction in progress		335,039	24,455,101
Equipment, furniture, and fixtures		11,226,039	11,149,873
		173,107,922	165,027,432
Less accumulated depreciation		(57,554,803)	(53,165,592)
Net property, plant, and equipment	$	115,553,119	111,861,840

(b) Notes Payable

Reed College borrowed $20,000,000 from the State of Oregon on May 1, 2000. The purpose of the issuance was to finance the construction of certain renovations, additions, alterations and improvements to the premises and educational facilities of the College, and the equipping, furnishing, and landscaping thereof. The full amount borrowed, net of unamortized discount and

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Principal payments on the notes payable become due as follows:

	2000 State of Oregon notes	1995 State of Oregon notes	2008 State of Oregon notes	Total
2010	$ 135,000	685,000	375,000	1,195,000
2011	140,000	—	1,085,000	1,225,000
2012	155,000	—	1,145,000	1,300,000
2013	160,000	—	1,185,000	1,345,000
2014	165,000	—	1,210,000	1,375,000
Thereafter	18,460,000	—	41,710,000	60,170,000
	$ 19,215,000	685,000	46,710,000	66,610,000

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

	2009	2008
Interest	$ 1,871,412	3,243,211
Amortization of discount and issuance costs	63,695	426,647
Total interest expensed	$ 1,935,107	3,669,858

Notes payable discoun8e$7netof d4(4h 0 1 395999 6.2 0baTJ-20.($)-71.8312 0)-7oziTc.0445 d4(42 0)-7oziTc(F activities and changes in net assets as realized and unrealized losses. The fair value of the swap agreement as of June 30, 2009 and 2008 was a liability of $2,161,375 and $1,167,333, respectively, which is recorded in the statements of financial position as other long-term liabilities.

(6) Postretirement Benefits

Reed College has a defined contribution noncontributory pension plan administered through Teachers Insurance and Annuity Association – College Retirement Equities Fund. Certain employees are eligible to participate and must be employed one year and have attained the age of twenty-one. All contributions vest immediately with the employee at the rate of 10% of the participating employees' monthly compensation. Reed College's policy is to fund pension expenses as incurred. Expenditures relating to the plan were $2,590,841 and $2,431,842 for the years ended June 30, 2009 and 2008, respectively, and are included in education and general expenses in the accompanying statements of activities.

Reed College maintains a defined benefit retiree medical insurance plan, which is administered by Pioneer Educators Health Trust (PEHT) and is not funded. In order to participate, employees hired prior to September 2, 2001 must retire from Reed College at or after age fifty-five with at least ten years of continuous service. Employees hired after September 1, 2001 must retire from Reed College at or after age fifty-five with twenty years of continuous service. Employees are covered for the lowest premium plan for his or her lifetime and spouses/domestic partners are covered at the rate of fifty percent of the lowest premium plan for his or her lifetime. Employer premium expenses were $692,141 and $618,058 for the years ended June 30, 2009 and 2008, respectively, and are included in education and general expenses in the accompanying statements of activities.

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

		2009	2008
Change in benefit obligation:			
Benefit obligation at beginning of year	$	16,677,879	18,635,637
Service cost		341,242	431,134
Interest cost		1,117,437	1,080,133
Benefits paid		(624,461)	(672,639)
Actuarial gain		(1,226,414)	(2,796,386)
Benefit obligation at end of year		16,285,683	16,677,879
Funded status	$	16,285,683	16,677,879
Amounts recognized in the balance sheet consist of:			
Postretirement benefits payable-current	$	644,583	624,461
Postretirement benefits payable		15,641,100	16,053,418
	$	16,285,683	16,677,879

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

		2009	2008
Interest cost	$	1,117,437	1,080,133
Service cost		341,242	431,134
Amortization of gain		(171,056)	(78,633)
Net periodic benefit cost	$	1,287,623	1,432,634

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, 2009 and 2008, as measured at June 30:

	2009	2008
Benefit obligation:		
Weighted average discount rate	7.00%	6.60%
Rate of increase in per capita cost of covered healthcare benefits	8% trending to 5% in 2014	8% trending to 5% in 2013
Net periodic benefit cost:		
Weighted average discount rate	6.60%	6.25%
Rate of increase in per capita cost of covered healthcare benefits	8% trending to 5% in 2013	9% trending to 5% in 2013

Reed College's policy is to fund the plan as claims payments are made. In the 2009-2010 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, $644,583 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:		
2010	$	644,583
2011		700,935
2012		753,992
2013		811,956
2014		860,180
2015 – 2019		5,232,439

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides an employer for the employer subsidy and Reed College expects to receive a subsidy, in October of 2009 in the amount of $14,389.

(7) Funds Held in Trust by Others

Reed College has been named beneficiary of a portion of the remainder of six 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, 2009 and 2008, the trusts receivable were $11,096,955 and $14,419,352, respectively, and were included under funds held in trust by others, noncurrent.

(8) Contributions and Accounts Receivable

Contributions receivable consist of the following:

		2009	2008
Annual fund	$	1,971,805	2,488,610
Campaign fund		152,549	257,865
Endowment fund		19,529,467	18,835,892
Campus center		2,294,500	2,310,248
Gross contributions receivable	$	23,948,321	23,892,615

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

		2009	2008
Current:			
Gross contributions receivable	$	667,605	798,178
Less allowance for doubtful accounts		(33,000)	(40,000)
Total current net contributions receivable		634,605	758,178
Long-term (one to five years):			
Gross contributions receivable		23,280,716	23,094,437
Less allowance for doubtful accounts		(1,077,000)	(1,063,000)
Net long-term contributions receivable		22,203,716	22,031,437
Less discount to present value		(1,766,272)	(1,839,664)
Total long-term net contributions receivable		20,437,444	20,191,773
Total net contributions receivable	$	21,072,049	20,949,951

Reed College expects to receive $6,300,000 in fiscal year 2010 and $17,600,000 over the following three fiscal years, related to receivables outstanding at June 30, 2009.

Contributions receivable due in excess of one year are discounted at 3.3% to 4.5% and 3.2% to 3.5% for the years ended June 30, 2009 and 2008, respectively.

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Of the net unconditional promises to give included above, $17,309,274 represents an unconditional promise to give from 19 members of the Reed College board of trustees due in one to three years.

Accounts receivable consist of the following at June 30, 2009:

	Unrestricted	Restricted	Loan fund	Endowment	Total
Current:					
Student accounts receivable	$ 74,130	—	—	—	74,130
Related parties	—	94,220	—	—	94,220
Grants and contracts receivable	—	165,508	—	—	165,508
Other receivables	140,057	—	—	—	140,057
	214,187	259,728	—	—	473,915
Noncurrent:					
Student accounts receivable	—	—	30,715	—	30,715
Reed loans	—	—	1,081,353	—	1,081,353
Related parties	—	—	6,053	—	6,053
Federal Perkins loans	—	—	3,741,244	—	3,741,244
	—	—	4,859,365	—	4,859,365
Less allowance for doubtful accounts	—	—	(60,239)	—	(60,239)
	$ 214,187	259,728	4,799,126	—	5,273,041

Accounts receivable consist of the following at June 30, 2008:

	Unrestricted	Restricted	Loan fund	Endowment	Total
Current:					
Student accounts receivable	$ 102,745	—	—	—	102,745
Related parties	—	116,999	—	—	116,999
Grants and contracts receivable	—	1,993	—	—	1,993
Other receivables	142,277	—	—	—	142,277
	245,022	118,992	—	—	364,014
Noncurrent:					
Student accounts receivable	—	—	22,866	—	22,866
Reed loans	—	—	996,038	—	996,038
Related parties	—	—	2,236	—	2,236
Federal Perkins loans	—	—			

The Federal Perkins loans and Reed loans are generally payable at interest rates of 5% to 9% over approximately ten years. Repayment begins after a designated grace period following the student's college attendance. Principal payments, interest, and losses due to cancellation are shared by Reed College and the U.S. government in proportion to their share of funds provided. The Federal Perkins loan program provides for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. government.

(9) Net Assets

At June 30, 2009 and 2008, net assets consisted of the following:

		2009	2008
Unrestricted:			
Operating	$	8,560,419	7,368,710
Designated for special programs		17,091,744	15,395,977
Institutional loan programs		3,967,578	3,708,748
Funds functioning as endowment		89,981,723	88,772,976
Accumulated quasi-endowment gains		72,814,162	156,325,588
Net investment in plant		31,660,215	31,994,420
Total unrestricted	$	224,075,841	303,566,419
Temporarily restricted:			
Educational and general programs	$	93,244	84,771
Annuity and life income funds		16,472,473	22,426,403
Accumulated endowment gains		49,747,137	86,587,746
Other temporarily restricted net assets		2,029,657	2,057,660
Total temporarily restricted	$	68,342,511	111,156,580
Permanently restricted:			
True endowment funds	$	110,652,188	105,858,805
Annuity and life income funds		3,580,384	5,230,958
Total permanently restricted	$	114,232,572	111,089,763

In August 2008, the FASB issued FASB Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds* (FSP 117-1). FSP 117-1 is effective for fiscal years ending after December 15, 2008. The major change in net assets classification resulting from FSP 117-1 relates to the portion of the fund not stipulated by the donor to be restricted in perpetuity. In the absence of explicit donor instructions on the use of such funds, the earnings previously classified as either permanently restricted or unrestricted must be reported as temporarily restricted until appropriated for spending. Reed College reviewed its net asset accounts to identify the cumulative amount of unspent endowment earnings that had not yet been appropriated for expenditure as of July 1, 2007. As such, during fiscal year 2008, management recorded a reclassification of net assets from unrestricted to temporarily restricted of $101,563,548.

The adoption of FSP 117-1 resulted in three reclassifications from unrestricted net assets to temporarily restricted net assets for a net change of $74,865,181 compared to what was previously reported in the prior year statement of changes in net assets. During fiscal year 2008, after the State of Oregon's enactment of UPMIFA and prior to Reed College's adoption of FSP 117-1, management reclassified $11,722,565 from unrestricted net assets to temporarily restricted net assets, which consisted of the cumulative unappropriated income on Reed College's endowment. During fiscal year 2009, upon the adoption of FSP 117-1, Reed College determined that the fiscal year 2008 reclassification of $11,722,565 should have also included the accumulated unappropriated net appreciation on these endowments of $89,840,983. The fiscal 2008 reclassification has been adjusted for this amount resulting in a total revised opening net asset reclassification from unrestricted net assets to temporarily restricted net assets of $101,563,548. In addition, two other reclassifications were made in the 2008 financials upon the retrospective adoption of FSP 117-1 for the 2008 endowment activity. Reed College reclassified $9,023,106 of endowment realized and unrealized net losses during fiscal year 2008 from unrestricted revenues to temporarily restricted revenues, and $5,952,696 of endowment earnings were appropriated for expenditure and were therefore presented as additional amounts released from temporarily restricted net assets to unrestricted net assets as compared to the amounts previously reported.

Also in connection with the adoption of FSP 117-1, management performed a thorough review of all of its net assets during 2009. During this review, management determined that they had improperly reclassified $6,151,320 from permanently restricted net assets to unrestricted net assets in the 2008 statement of activities and changes in net assets. As such, the accompanying 2008 financial statements include adjustments to decrease unrestricted net assets and increase permanently restricted net assets by $6,151,320. The adjustment did not impact the statement of cash flows reported as of June 30, 2008. The effect of this correction was not material to the financial statements.

Reed College's endowment consists of approximately 355 individual funds of which approximately 30% or 107 funds are donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of those donor restrictions. Endowment funds are invested on the basis of a total return policy to provide income and to realize appreciation on invested assets. Under this policy, a portion of realized and unrealized gains, in addition to interest and dividend income, can be used to suppoout,(2fe)fins, Reed College spends endowment income and capital gains within a spending policy that preserves principal in accordance with the UPMIFA. The policy on spending endowment income is to spend 5.3% of the average net assets over a rolling 13 quarter period. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to zero. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds with a fair value of associated assets that is less than the original gift amount is $10,631,078 at June 30, 2009. Future gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

Endowment net assets by type of fund as of June 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (10,631,078)	49,747,137	110,652,188	149,768,247
Board-designated endowment funds	173,426,963	—	—	173,426,963
Total funds	$ 162,795,885	49,747,137	110,652,188	323,195,210

Endowment net assets by type of fund as of June 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	86,587,746	105,858,805	192,446,551
Board-designated endowment funds	245,098,564	—	—	245,098,564
Total funds	$ 245,098,564	86,587,746	105,858,805	437,545,115

secondary coverage's, the maximum contingent liability exposure to Reed College is approximately $170,914. This exposure fluctuates based on changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

On July 1, 1988, Reed College elected to place its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC). CLIC was formed by seven similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a $2,000,000 standby letter of credit of which Reed College is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverages, the maximum contingent liability exposure to Reed College is approximately $200,520

Long-term debt: The fair value of the Reed College's long-term debt is measured using quoted offered-side prices when quoted market prices are available.

(b) Fair Value Hierarchy

Reed College adopted SFAS 157 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 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 the 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.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009:

		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 equivalents	$	9,302,757	9,302,757	—	—
Equity mutual funds		72,443,018	56,456,983	15,986,035	—
Government fixed		25,000	25,000	—	—
Corporate fixed		21,136,997	—	21,136,997	—
Hedge funds		148,560,450	—	11,947,940	136,612,510
Private equity		89,225,367	—	—	89,225,367
Real estate		5,544,745	—	—	5,544,745
Money market and other		10,252,873	10,252,873	—	—
Funds held in trust		11,096,955	—	—	11,096,955
Total	$	367,588,162	76,037,613	49,070,972	242,479,577
Liabilities:					
Interest rate swap	$	2,161,375	—	2,161,375	

(13)