

GRINNELL COLLEGE



# FINANCIAL REPORT

**June 30, 2006**

**Trustees of Grinnell College**

# TRUSTEES OF GRINNELL COLLEGE

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## INDEPENDENT AUDITORS' REPORT

Trustees of Grinnell College  
Grinnell, Iowa

We have audited the accompanying statements of financial position of Trustees of Grinnell College (the "College") as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the College. 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 College'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, such financial statements present fairly, in all material respects, the financial position of the College, as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

September 14, 2006

# TRUSTEES OF GRINNELL COLLEGE

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

(Dollars in Thousands)

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 1,948	\$ 1,454
Accounts receivable, less allowance for doubtful accounts of \$184 in 2006 and \$182 in 2005	367	134
Inventories and prepaid expenses	1,788	1,595
Loans to students, less allowance for doubtful loans of \$359 in 2006 and \$373 in 2005	6,772	6,441
Investments (Note 2)	1,562,516	1,495,815
Property and equipment, net (Note 3)	<u>184,887</u>	<u>155,331</u>
Total assets	<u>\$1,758,278</u>	<u>\$1,660,770</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 7,306	\$ 6,580
Accrued payroll and fringe benefits (Note 5)	11,226	10,131
Deferred revenue and deposits	4,651	4,541
Annuities payable	8,129	8,586
Funds held in trust for others	59	60
Bonds payable (Note 8)	50,000	50,000
United States government grants refundable	<u>2,564</u>	<u>2,542</u>
Total liabilities	<u>83,935</u>	<u>82,440</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 2 and 3)</b>		
<b>NET ASSETS:</b>		
Unrestricted (Note 9)	1,587,104	1,490,550
Temporarily restricted (Note 6)	8,627	10,980
Permanently restricted (Note 6)	<u>78,612</u>	<u>76,800</u>
Total net assets	<u>1,674,343</u>	<u>1,578,330</u>
Total liabilities and net assets	<u>\$1,758,278</u>	<u>\$1,660,770</u>

See notes to financial statements.

# TRUSTEES OF GRINNELL COLLEGE

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006 (Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITY:</b>				
Revenue, gains and other support:				
Tuition and fees	\$ 41,991	\$ -	\$ -	\$ 41,991
Grants and scholarships	(21,627)	-	-	(21,627)
Net tuition and fees	20,364	-	-	20,364
Government grants and contracts	-	1,188	-	1,188
Private gifts and grants	2,244	2,013	-	4,257
Net realized and unrealized losses on investments	(1)	-	-	(1)
Investment income	465	-	-	465
Auxiliary income	10,652	-	-	10,652
Other	661	24	-	685
Net operating revenues	34,385	3,225	-	37,610
Endowment spending distribution	49,155	-	-	49,155
Net assets released from restrictions	3,511	(3,376)	-	135
Net resources funding operations	87,051	(151)	-	86,900
Expenses and losses:				
Instruction	28,353	-	-	28,353
Academic support	10,660	-	-	10,660
Student services	15,323	-	-	15,323
Institutional support	11,612	-	-	11,612
Auxiliary enterprises	10,984	-	-	10,984
Total operating expenses	76,932	-	-	76,932
Change in net assets from operating activity	10,119	(151)	-	9,968
<b>NON-OPERATING ACTIVITY:</b>				
Private gifts and grants	249	3,901	720	4,870
Net realized and unrealized gains on investments	101,013	58	268	101,339
Investment income	28,436	53	861	29,350
Endowment spending distribution	(49,155)	-	-	(49,155)
Net assets released from restrictions	6,028	(6,214)	51	(135)
Change in value of split interest agreements	-	-	(88)	(88)
Loss on disposal of property and equipment	(136)	-	-	(136)
Change in net assets from non-operating activity	86,435	(2,202)	1,812	86,045
<b>TOTAL CHANGE IN NET ASSETS</b>	96,554	(2,353)	1,812	96,013
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,490,550	10,980	76,800	1,578,330
<b>NET ASSETS AT END OF YEAR</b>	\$ 1,587,104	\$ 8,627	\$ 78,612	\$ 1,674,343

See notes to financial statements.

# TRUSTEES OF GRINNELL COLLEGE

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005 (Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITY:</b>				
Revenue, gains and other support:				
Tuition and fees	\$ 38,673	\$ -	\$ -	\$ 38,673
Grants and scholarships	(19,578)	-	-	(19,578)
Net tuition and fees	19,095	-	-	19,095
Government grants and contracts	-	924	-	924
Private gifts and grants	1,914	1,534	-	3,448
Net realized and unrealized gains on investments	1	-	-	1
Investment income	109	-	-	109
Auxiliary income	9,913	-	-	9,913
Other	598	20	-	618
Net operating revenues	31,630	2,478	-	34,108
Endowment spending distribution	45,400	-	-	45,400
Net assets released from restrictions	2,853	(2,829)	-	24
Net resources funding operations	79,883	(351)	-	79,532
Expenses and losses:				
Instruction	26,497	-	-	26,497
Academic support	9,537	-	-	9,537
Student services	14,360	-	-	14,360
Institutional support	10,761	-	-	10,761
Auxiliary enterprises	10,669	-	-	10,669
Total operating expenses	71,824	-	-	71,824
Change in net assets from operating activity	8,059	(351)	-	7,708
<b>NON-OPERATING ACTIVITY:</b>				
Private gifts and grants	737	2,370	2,414	5,521
Net realized and unrealized gains on investments	115,549	44	187	115,780
Investment income	25,857	97	870	26,824
Endowment spending distribution	(45,400)	-	-	(45,400)
Net assets released from restrictions	2,525	(2,556)	7	(24)
Change in value of split interest agreements	-	(68)	(396)	(464)
Loss on disposal of property and equipment	(257)	-	-	(257)
Change in net assets from non-operating activity	99,011	(113)	3,082	101,980
<b>TOTAL CHANGE IN NET ASSETS</b>	107,070	(464)	3,082	109,688
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,383,480	11,444	73,718	1,468,642
<b>NET ASSETS AT END OF YEAR</b>	\$ 1,490,550	\$ 10,980	\$ 76,800	\$ 1,578,330

See notes to financial statements.

# TRUSTEES OF GRINNELL COLLEGE

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005 (Dollars in Thousands)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 96,013	\$ 109,688
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	7,992	7,481
Net realized and unrealized gains on investments	(101,445)	(115,793)
Provision for recoveries of losses	(12)	(3)
Loss on disposal of property and equipment	89	136
Restricted contributions	(7,822)	(7,242)
Restricted investment income	(914)	(967)
Actuarial loss on annuities payable	88	464
Change in assets and liabilities:		
Accounts receivable	(239)	58
Inventories and prepaid expenses	(193)	253
Accounts payable and accrued liabilities	1,909	2,185
Deferred revenue and deposits	110	879
Net cash flows from operating activities	<u>(4,424)</u>	<u>(2,861)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(37,773)	(30,492)
Disbursements on loans to students	(1,455)	(1,511)
Principal payments received on loans to students	1,142	1,213
Purchases of investments	(848,608)	(428,718)
Proceeds from sales of property and equipment	47	121
Proceeds from sales and maturities of investments	883,352	454,209
Net cash flows from investing activities	<u>(3,295)</u>	<u>(5,178)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted contributions	7,822	7,242
Restricted investment income	914	967
Change in United States government grants refundable	22	(138)
Payments on annuities payable	(545)	(571)
Net cash flows from financing activities	<u>8,213</u>	<u>7,500</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	494	(539)
<b>CASH AND CASH EQUIVALENTS:</b>		
BEGINNING OF YEAR	<u>1,454</u>	<u>1,993</u>
END OF YEAR	<u>\$ 1,948</u>	<u>\$ 1,454</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 1,439</u>	<u>\$ 864</u>

See notes to financial statements.

# TRUSTEES OF GRINNELL COLLEGE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005 (Dollars in Thousands)

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

**Operations** – Trustees of Grinnell College (the “College”) is a liberal arts institution in Grinnell, Iowa. The College is accredited as a baccalaureate institution by the North Central Association of Colleges and Universities.

**Basis of Presentation** – The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The College maintains its internal accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For reporting purposes, however, the College has adopted Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-For-Profit Organizations*, which requires resources be classified for reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions as follows:

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that are required to be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on these assets. Such assets primarily include the College’s permanent endowment funds.

*Temporarily Restricted* – Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College or that expire by the passage of time.

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are generally reported as decreases in unrestricted net assets. Expirations or modifications of donor-imposed stipulations are reported as reclassifications between the applicable classes of net assets.

**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, 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.

**Cash and Cash Equivalents** – The College considers all highly-liquid debt instruments purchased with temporary operating cash with an original maturity of three months or less to be cash equivalents.

**Income Taxes** – The College has a tax determination letter from the IRS stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.



**Inventories** – Inventories are valued at the lower of cost (first-in, first-out method) or market.

**Investments** – The College carries its debt and equity securities at fair value. Unrealized appreciation or depreciation is reported as increases or decreases to net assets. Realized gains and losses on investments are determined on the specific identification method.

Fair values on short-term investments and marketable securities are based on quoted market prices. The fair value of limited partnerships and similar nonmarketable equity interests which invest in both publicly and privately owned securities are based on estimates and assumptions of general partners or partnership valuation committees in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

**Property and Equipment** – Property and equipment is stated at cost at date of acquisition or estimated fair value at date of gift, less accumulated depreciation computed on a straight-line basis over the following estimated useful lives:

	<b>Years</b>
Buildings and improvements	20 – 40
Equipment and furnishings	3 – 10

Expenditures for new equipment and buildings and improvements which substantially extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. Costs incurred for building materials and equipment comprises construction in progress.

**U.S. Government Grants Refundable** – Funds provided by the U.S. government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the U.S. government and are included as a liability in the statements of financial position.

**Operating Activities** – The College defines operating activities as activities closely related to the educational mission of the College and related auxiliary services. Included in operating revenues is the endowment spending distribution.

**Gifts** – The College reports gifts of cash and other assets as restricted support if the gifts are received with donor stipulations that limit the use of the donated assets. Gifts received with donor-imposed restrictions that stipulate resources be maintained permanently but permit the use of all or part of the income derived from the donated assets are reported as permanently restricted assets. Gifts received with donor-imposed restrictions that permit the use of the donated assets as specified are reported as temporarily restricted assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The College reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expiration of donor restrictions when the long-lived assets are acquired or donated.

***Split Interest Agreements*** – The College is the beneficiary of various trusts and annuities. The College’s interest in these split interest agreements is reported as a contribution in the year received at its net present value discounted at rates between 3.10% and 12.40% as of June 30, 2006 and 2005 based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately \$13,199 and \$13,640 as of June 30, 2006 and 2005, respectively, and are included in investments on the statements of financial position.

***Postretirement Benefits*** – The College provides certain healthcare benefits for all retired employees who meet eligibility requirements. The College’s share of the estimated costs that will be paid after retirement is being accrued by charges to unrestricted net assets over the employees’ active service periods to the date they are fully eligible for benefits in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 106, *Employers’ Accounting for Postretirement Benefits Other Than Pensions*.

***Financial Instruments*** – Financial instruments are generally described as cash, contractual obligations or rights to pay or receive cash. The carrying amount approximates fair value for certain financial instruments because of the short-term maturity of these instruments, which include cash and cash equivalents, accounts receivable, U.S. government receivables, accounts payable and accrued expenses, and student deposits and deferred income.

Fair value estimates are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Investments are recorded at fair value.

U.S. government loans receivable and U.S. government grants refundable are not saleable and can only be assigned to the U.S. Government or its designees. The carrying value approximates fair value.

The carrying value of bonds payable approximates its fair value as the interest rate is adjusted with changes in market interest rates.

***Revenue Recognition*** – Net tuition and fees and auxiliary income are recognized as income in the period the services are rendered.

***Grants and Scholarships*** – Primarily scholarships, grants and other aid are offered by the College to attract and retain students. The College offers institutional support to students in the form of merit and need-based financial aid at the College’s discretion.

## 2. INVESTMENTS AND COMMITMENTS

Investments include a mix of short-term investments, marketable securities and other investments as of June 30, 2006 and 2005 as follows:

	<b>2006</b>	<b>2005</b>
Short-term investments	\$ 175,071	\$ 83,421
United States government and agency notes and bonds	123,401	155,787
Corporate and other bonds	35,749	34,007
Marketable equity interests	623,780	741,891
Limited partnership and similar nonmarketable equity interests	602,292	478,429
Other	<u>2,223</u>	<u>2,280</u>
	<u>\$1,562,516</u>	<u>\$1,495,815</u>

The College is committed, as of June 30, 2006 to invest \$141,053 in certain limited partnerships.

The College has forward currency contracts at June 30, 2006 and 2005, to hedge existing foreign exchange exposure. Foreign currency contracts require the College, at a future date, to buy or sell foreign currency in exchange for U.S. dollars and other currency. The market values of the foreign currency contracts are obtained from dealer quotes.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The tables below presents the notional amount, cost and fair value of foreign exchange contracts as of June 30, 2006 and 2005. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based, and are an indication of the extent of the College's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments.

	<b>2006</b>		
	<b>Notional Amount</b>	<b>Cost</b>	<b>Fair Value</b>
Currency:			
Yen	¥ 5,075,376	\$ 46,052	\$ 46,178
Pound Sterling	£ -	\$ 172	\$ -
	<b>2005</b>		
	<b>Notional Amount</b>	<b>Cost</b>	<b>Fair Value</b>
Currency:			
Yen	¥ 3,853,000	\$ 36,898	\$ 36,027
Pound Sterling	£ 5,624	\$ 9,794	\$ 10,054
Euro	€ -	\$ 28	\$ -

As the fair value of the forward contract fluctuates, the College records an unrealized gain or loss. A summary of net forward currency contracts outstanding as of June 30, 2006 and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
Long forward currency positions	\$ 744	\$ (121)
Short forward currency positions	<u>(698)</u>	<u>760</u>
Net unrealized gains	<u>\$ 46</u>	<u>\$ 639</u>

The College's endowment includes the majority of investments shown above. For the years ended June 30, 2006 and 2005, the College operated under a spending policy with respect to endowment income equal to 4.25% of a twelve quarter moving average of the fair value of endowment assets.

	<b>2006</b>	<b>2005</b>
Endowment:		
Beginning endowment balance	<u>\$ 1,390,545</u>	<u>\$ 1,291,781</u>
Endowment return:		
Investment income, net of expenses	26,285	23,636
Net realized and unrealized gains on investments	<u>101,522</u>	<u>116,919</u>
Net endowment return	127,807	140,555
Gifts	767	2,108
Other additions	134	124
Transfers	1,706	1,377
Endowment spending distribution	<u>(49,155)</u>	<u>(45,400)</u>
Ending endowment balance	<u>\$ 1,471,804</u>	<u>\$ 1,390,545</u>

### 3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following components as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Land and improvements	\$ 9,821	\$ 9,490
Buildings and improvements	164,500	163,669
Equipment and furnishings	50,527	48,123
Construction in process	<u>52,235</u>	<u>18,870</u>
	277,083	240,152
Less accumulated depreciation	<u>92,196</u>	<u>84,821</u>
	<u>\$ 184,887</u>	<u>\$ 155,331</u>

As of June 30, 2006, the College has outstanding construction contract commitments totaling \$35,306, which are expected to be fulfilled over the next year.

#### 4. EMPLOYEE BENEFITS

The College has a noncontributory defined contribution pension plan for academic and nonacademic personnel. Total pension plan costs for the years ended June 30, 2006 and 2005 were \$2,970 and \$2,859, respectively.

#### 5. POSTRETIREMENT BENEFIT PLAN

##### *Postretirement Benefits*

The College sponsors a postretirement healthcare plan for all employees who meet eligibility requirements. The plan is contributory with retiree contributions that are adjustable annually based on various factors, some of which are discretionary. Effective January 1, 2005, the plan was amended to provide for employer-paid coverage from age 60 to 65 based on a service-related tiered structure.

The measurement date for the postretirement plan is March 31. The following tables set forth the plan's benefit obligation, accrued liability, components of net periodic benefit costs, amounts recognized in the accompanying statements of financial position and weighted average actuarial assumptions as of June 30, 2006 and 2005:

	2006	2005
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 10,313	\$ 11,845
Service cost	528	639
Interest cost	584	701
Plan amendments	-	955
Actuarial (gain) loss	2,683	(3,559)
Benefits paid in excess of retiree contributions	<u>(279)</u>	<u>(268)</u>
Benefit obligation at end of year	<u>\$ 13,829</u>	<u>\$ 10,313</u>
	<b>2006</b>	<b>2005</b>
<b>Reconciliation of the Accrued Liability:</b>		
Funded status	\$ 13,829	\$ 10,313
Unrecognized accumulated net loss	(4,700)	(2,482)
Unrecognized prior service cost	(861)	(955)
Assets at beginning of year	(845)	(1,188)
Expected return on assets	(50)	(71)
Asset (gain) loss	(289)	404
College contributions	(289)	(257)
Benefits paid in excess of retiree contributions	279	268
Estimated premium payments made between measurement date and fiscal year end	<u>(75)</u>	<u>(70)</u>
Accrued balance sheet liability at end of year	<u>\$ 6,999</u>	<u>\$ 5,962</u>

	2006	2005
<b>Components of Net Periodic Benefit Cost:</b>		
Service cost	\$ 528	\$ 639
Interest cost	584	701
Amortization of loss	176	312
Amortization of prior service cost	75	18
Expected return on assets	<u>(50)</u>	<u>(71)</u>
Net periodic benefit cost	<u>\$ 1,313</u>	<u>\$ 1,599</u>

	2006	2005
<b>Actuarial Assumptions:</b>		
Discount rate	6.00 %	5.75 %
Expected return on plan assets	6.00 %	6.00 %
Healthcare cost present trend rate for participants up to and including 65	9.50 %	10.00 %
Healthcare cost present trend rate for participants over 65	11.30 %	12.00 %
Healthcare cost ultimate trend rate (year of stabilization)	5.00% (2015)	5.00% (2015)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	Increase	Decrease
Effect on total of service and interest cost components	\$ 256,414	\$ (197,274)
Effect on postretirement benefit obligations	2,561,817	(2,037,508)

### ***Cash Contributions and Benefit Payments***

The College's postretirement benefits are unfunded, therefore cash contributions for postretirement benefits are equal to the benefit payments.

The following table details the expected cash contributions and benefit payments for 2007 through 2016:

2007	\$ 301
2008	355
2009	405
2010	474
2011	551
Years 2012-2016	3,699

All benefit payments for other postretirement benefits are voluntary, as the postretirement plans are not funded, and are not subject to any minimum regulatory funding requirements. Benefit payments for each year represent claims paid for medical expenses, and the College anticipates the 2007 postretirement benefit payments will be made from cash generated from operations.

### ***Asset Allocation***

The College's postretirement plan's asset allocation as of March 31, 2006 (measurement date) is 100% in cash and cash equivalents.

The investment strategy for postretirement plan assets is to maintain a conservative portfolio designed to preserve principal value. All of the plan's assets are invested in interest bearing cash.

### ***Recent Changes in Medicare***

The Medicare Prescription Drug, Improvements and Modernization Act of 2003 (the "Act") was signed into law on December 8, 2003. The Act introduces a prescription drug benefit under Medicare Part D beginning in 2006 as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-2 requires companies to initially account for subsidies received under the Act as an actuarial experience gain to the accumulated postretirement benefit obligation which would be amortized over future service periods.

Effective March 31, 2005, the College has determined that the postretirement medical benefits provided under its plan are actuarially equivalent to the benefits provided under the Act. As a result, the College is expected to receive a federal subsidy related to these benefits beginning in fiscal year 2007.

The recognition of this subsidy reduced the Accumulated Postretirement Benefit Obligation (APBO) by approximately \$5.8 million as of March 31, 2005. It had no impact on the fiscal year 2005 Net Periodic Postretirement Benefit Cost, and decreased the fiscal year 2006 Net Periodic Postretirement Benefit Cost by approximately \$1.0 million.

## **6. NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Instruction	\$ 1,147	\$ 1,093
Academic support	2,291	2,394
Student services	182	249
Institutional support	19	52
Scholarships, grants and loans	463	466
Property and equipment	1,733	3,901
Split interest agreements	<u>2,792</u>	<u>2,825</u>
	<u>\$ 8,627</u>	<u>\$ 10,980</u>

Permanently restricted net assets (investments to be held in perpetuity) are available for the following purposes as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
General purposes	\$ 9,406	\$ 9,396
Instruction	29,016	28,412
Academic support	3,869	3,725
Student services	6,693	6,213
Institutional support	2,515	2,515
Facilities operations	(290)	(268)
Scholarships, grants and loans	<u>27,403</u>	<u>26,807</u>
	<u>\$ 78,612</u>	<u>\$ 76,800</u>

**7. CONDITIONAL PROMISES TO GIVE**

Conditional promises to give are not reported in the financial statements until the promises become unconditional. Conditional promises totaling approximately \$5,795 at June 30, 2006, primarily restricted to facilities use, are expected to be received during the next five fiscal years.

**8. BONDS PAYABLE**

In December 2001, the Iowa Higher Education Loan Authority (“IHELA”) issued \$50,000 of Private College Facility Variable Rate Demand Revenue Bonds on behalf of the College. Bond repayment is subject to a Loan Agreement between IHELA and the College. The obligation of the College to make loan repayments under the Loan Agreement is a general obligation of the College and is unsecured. The bonds bear interest at a variable weekly rate, payable on the first business day of each calendar month. The interest rate for the week of June 29, 2006 through July 5, 2006 was 3.97%. Principal is due at maturity on December 1, 2011.

**9. BOARD DESIGNATED UNRESTRICTED NET ASSETS**

As of June 30, 2006 the Board of Trustees have designated approximately \$58,922 of unrestricted net assets primarily for construction purposes.

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