



GRINNELL COLLEGE



Financial Report

June 30, 2010
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, 2010 and 2009, 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 audits 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 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, 2010 and 2009, and the changes in its net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 2 to the financial statements, the financial statements include investments valued at \$637.0 million (40% of total assets) and \$586.5 million (40% of total assets) as of June 30, 2010 and 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the general partners or partnership valuation committees.

Deloitte & Touche LLP

November 9, 2010

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2010 AND 2009 (Dollars in thousands)

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 1,937	\$ 1,306
Accounts receivable — Less allowance for doubtful accounts of \$131 in 2010 and \$127 in 2009	766	417
Inventories and prepaid expenses	3,381	2,952
Loans to students — Less allowance for doubtful loans of \$388 in 2010 and \$312 in 2009	8,129	7,887
Investments (Note 2)	1,310,573	1,197,612
Property and equipment — Net (Note 4)	<u>263,750</u>	<u>239,645</u>
Total assets	<u>\$ 1,588,536</u>	<u>\$ 1,449,819</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 5,800	\$ 5,732
Accrued payroll and fringe benefits (Note 6)	21,198	16,093
Deferred revenue and deposits	2,977	3,547
Annuities payable	10,952	7,779
Funds held in trust for others	530	1,042
Bonds payable (Note 9)	125,582	110,000
United States government grants refundable	<u>2,500</u>	<u>2,505</u>
Total liabilities	<u>169,539</u>	<u>146,698</u>
COMMITMENTS AND CONTINGENCIES (Notes 2 and 4)		
NET ASSETS:		
Unrestricted (Note 3)	1,025,491	946,655
Temporarily restricted (Notes 3 and 7)	300,584	267,862
Permanently restricted (Notes 3 and 7)	<u>92,922</u>	<u>88,604</u>
Total net assets	<u>1,418,997</u>	<u>1,303,121</u>
Total liabilities and net assets	<u>\$ 1,588,536</u>	<u>\$ 1,449,819</u>

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:				
Revenue, gains and other support:				
Tuition and fees	\$ 56,901	\$ -	\$ -	\$ 56,901
Grants and scholarships	(33,182)			(33,182)
Net tuition and fees	23,719	-	-	23,719
Government grants and contracts		2,341		2,341
Private gifts and grants	2,380	1,367		3,747
Net realized and unrealized gains on investments	180			180
Investment income	164			164
Auxiliary income	12,887			12,887
Other	1,124	1		1,125
Net operating revenues	40,454	3,709	-	44,163
Endowment spending distribution	40,881			40,881
Net assets released from restrictions	4,488	(4,488)		-
Net resources funding operations	85,823	(779)	-	85,044
Expenses and losses:				
Instruction	33,921			33,921
Academic support	11,472			11,472
Student services	15,988			15,988
Institutional support	14,988			14,988
Auxiliary enterprises	14,002			14,002
Total operating expenses	90,371	-	-	90,371
CHANGE IN NET ASSETS FROM OPERATING ACTIVITY	(4,548)	(779)	-	(5,327)
NON-OPERATING ACTIVITY:				
Private gifts and grants	8,601	7,870	3,362	19,833
Net realized and unrealized gains on investments	91,594	40,665	828	133,087
Investment income	12,423	4,142	196	16,761
Endowment spending distribution	(40,881)			(40,881)
Net assets released from restrictions	15,500	(15,544)	44	-
Change in value of split interest agreements		(3,632)	(112)	(3,744)
Loss on disposal of property and equipment	(99)			(99)
Change in accumulated post retirement benefit obligation	(3,754)			(3,754)
Change in net assets from non-operating activity	83,384	33,501	4,318	121,203
TOTAL CHANGE IN NET ASSETS	78,836	32,722	4,318	115,876
NET ASSETS — Beginning of year	946,655	267,862	88,604	1,303,121
NET ASSETS — End of year	\$1,025,491	\$300,584	\$92,922	\$1,418,997

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:				
Revenue, gains and other support:				
Tuition and fees	\$ 54,415	\$ -	\$ -	\$ 54,415
Grants and scholarships	<u>(30,936)</u>	<u> </u>	<u> </u>	<u>(30,936)</u>
Net tuition and fees	23,479	-	-	23,479
Government grants and contracts		1,579		1,579
Private gifts and grants	2,302	2,158		4,460
Net realized and unrealized losses on investments	(1)			(1)
Investment income	116			116
Auxiliary income	12,791			12,791
Other	<u>645</u>	<u>2</u>	<u> </u>	<u>647</u>
Net operating revenues	39,332	3,739	-	43,071
Endowment spending distribution	43,033			43,033
Net assets released from restrictions	<u>3,610</u>	<u>(3,566)</u>	<u> </u>	<u>44</u>
Net resources funding operations	<u>85,975</u>	<u>173</u>	<u> </u>	<u>86,148</u>
Expenses and losses:				
Instruction	35,267			35,267
Academic support	11,894			11,894
Student services	16,943			16,943
Institutional support	15,565			15,565
Auxiliary enterprises	<u>14,349</u>	<u> </u>	<u> </u>	<u>14,349</u>
Total operating expenses	<u>94,018</u>	<u>-</u>	<u>-</u>	<u>94,018</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITY	<u>(8,043)</u>	<u>173</u>	<u>-</u>	<u>(7,870)</u>
NON-OPERATING ACTIVITY:				
Private gifts and grants	642	899	741	2,282
Net realized and unrealized losses on investments	(251,688)	(116,373)	(1,361)	(369,422)
Investment income	10,145	3,440	1,886	15,471
Endowment spending distribution	(43,033)			(43,033)
Net assets released from restrictions	13,934	(14,453)	475	(44)
Change in value of split interest agreements		85	1,278	1,363
Loss on disposal of property and equipment	(57)			(57)
Change in accumulated post retirement benefit obligation	<u>(2,193)</u>	<u> </u>	<u> </u>	<u>(2,193)</u>
Change in net assets from non-operating activity	<u>(272,250)</u>	<u>(126,402)</u>	<u>3,019</u>	<u>(395,633)</u>
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Notes 1 and 3)	<u>(385,513)</u>	<u>385,513</u>	<u> </u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	<u>(665,806)</u>	<u>259,284</u>	<u>3,019</u>	<u>(403,503)</u>
NET ASSETS — Beginning of year	<u>1,612,461</u>	<u>8,578</u>	<u>85,585</u>	<u>1,706,624</u>
NET ASSETS — End of year	<u>\$ 946,655</u>	<u>\$ 267,862</u>	<u>\$88,604</u>	<u>\$1,303,121</u>

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 115,876	\$(403,503)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	10,259	10,328
Amortization of bond premium	(413)	
Net realized and unrealized (gains) losses on investments	(133,543)	369,773
Provision for recoveries of losses	80	20
Loss on disposal of property and equipment	49	24
Restricted contributions	(14,940)	(5,377)
Restricted investment income	(4,338)	(5,326)
Actuarial (gain) loss on annuities payable	4,256	(1,363)
Change in assets and liabilities:		
Accounts receivable	(363)	22
Inventories and prepaid expenses	(222)	83
Accounts payable and accrued liabilities	5,497	1,986
Funds held in trust for others	(512)	(27)
Deferred revenue and deposits	(570)	(541)
Net cash flows used in operating activities	<u>(18,884)</u>	<u>(33,901)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(34,787)	(26,377)
Proceeds from sales of property and equipment	50	33
Disbursements of loans to students	(1,249)	(1,060)
Principal payments received on loans to students	941	951
Purchases of investments	(293,969)	(349,367)
Proceeds from sales and maturities of investments	<u>314,551</u>	<u>399,447</u>
Net cash flows provided by (used in) investing activities	<u>(14,463)</u>	<u>23,627</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions	14,940	5,377
Restricted investment income	4,338	5,326
Change in United States government grants refundable	(5)	17
Payments on annuities payable	(1,083)	(591)
Proceeds from issuance of bonds payable	65,995	
Payments on bonds payable	(50,000)	
Payments of bond issuance costs	<u>(207)</u>	<u>(137)</u>
Net cash flows provided by financing activities	<u>33,978</u>	<u>9,992</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	631	(282)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,306</u>	<u>1,588</u>
End of year	<u>\$ 1,937</u>	<u>\$ 1,306</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 1,485</u>	<u>\$ 1,424</u>
Amounts included in year end accounts payable for the purchase of property and equipment	<u>\$ 3,512</u>	<u>\$ 3,835</u>

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (GAAP). 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 Accounting Standards Codification (“ASC”) 958, *Not-For-Profit Entities* (formerly Financial Accounting Standards No. 117, *Financial Statements for 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.

In August 2008, the Financial Accounting Standards Board (FASB) issued 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*, (“FSP No. 117-1”). FSP No. 117-1 has been codified into ASC 205-958. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for non-profit entities subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). In July 2008, Iowa enacted a new version of the Iowa Uniform Prudent Management of Institutional Funds Act (“IUPMIFA”).

IUPMIFA establishes new regulations in regards to the expenditure and financial statement disclosure of donor-restricted endowment funds. FSP No. 117-1 clarifies the classification of donor-restricted endowment funds in response to the guidelines within IUPMIFA. This FSP also requires enhanced financial statement disclosure of endowment funds and related policies. The College adopted FSP No. 117-1 during the year ended June 30, 2009.

The Board of Trustees of Grinnell College has interpreted IUPMIFA as requiring the preservation of the historic value of the original gift absent explicit donor stipulation stating otherwise. Therefore the College classifies the following as permanently restricted net assets in relation to donor restricted endowment funds: (a) the value of the original gifts to the endowment at the time of the gift, (b) the value of all new gifts to the endowment as of the date of the gift, (c) accumulations to the endowment specifically stated in the donor gift instrument at the time added to the fund, and (d) the value of the amounts appropriated for expenditure in accordance with the College's spending policy, but unspent at the end of the fiscal year.

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 GAAP 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 instruments purchased with cash with an original maturity of three months or less to be cash equivalents, except for cash and cash equivalents held in the investment portfolio.

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 investments at fair value. Unrealized appreciation or depreciation is reported as increases or decreases to net assets. Realized gains and losses on investments are determined using the first-in first-out method, the specific identification method, or the average cost method based upon the underlying investment structures and holdings.

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:

	Years
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. Construction in progress comprises costs incurred for building improvements and equipment and furnishings.

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. See discussion of the endowment spending distribution in Note 3.

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 1.80% and 12.00% and between 3.20% and 12.00% as of June 30, 2010 and 2009, respectively, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately \$19,476 and \$14,652 as of June 30, 2010 and 2009, respectively, and are included in investments on the statements of financial position.

Funds Held in Trust for Others — Funds held in trust for others are recorded at fair value. These investments, which are in the possession or under the control of the College, are administered by the College for outside fiscal agents, with the College deriving income from the investments as stipulated by the various gift instruments.

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 ASC 715, *Compensation — Retirement Benefits*, (formerly SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)*).

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.

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 on the Series 2008 bonds are adjusted with changes in market interest rates and the Series 2010 bonds, including premiums, were issued in March, 2010, therefore the carrying value were determined to approximate fair value.

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.

Recent Accounting Pronouncements — The FASB's ASC became effective on July 1, 2009. At that date, the ASC became FASB's official source of authoritative GAAP applicable to all public and nonpublic nongovernmental entities, superseding existing guidance issued by the FASB, the American Institute of Certified Public Accountants (AICPA), the Emerging Issues Task Force (EITF) and other related literature. The FASB also issues Accounting Standards Updates (ASU). An ASU communicates amendments to the ASC. An ASU also provides information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. The adoption did not have a material effect on the College's financial statements.

During 2010, the College adopted ASC 815, *Derivatives and Hedging*, (formerly FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). ASC 815 increases the disclosure requirements for derivative instruments. The adoption did not have a material effect on the College's financial statements.

In April 2009, FASB issued Staff Position No. 157-4, *Disclosures Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, later codified into ASC Topic 820, which provided additional guidance for estimating fair market value when the volume and level of activity for an asset or liability have significantly decreased as well as guidance on identifying transactions that may not be orderly. The guidance was effective for reporting periods ending after June 15, 2009.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)* ("ASU 2009-12"). The update permits, as a practical expedient, the use of net asset value or its equivalent for the estimation of the fair value of investments that do not have a readily determinable fair value. It also requires certain disclosures including the nature of any restrictions on the investor's ability to redeem its investments, any unfunded commitments and descriptions of the underlying investment strategies of the investee. ASU No. 2009-12 was effective for interim and annual reporting periods ending after December 15, 2009 and did not have a material impact on the College's financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). Effective for periods beginning after December 15, 2009, the update requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and disaggregation of investments by class instead of category based upon investment risk. Additionally, the guidance requires gross reconciliation of purchases, sales, issuances and settlements for Level 3

investments effective for reporting periods beginning after December 31, 2010. As the guidance relates specifically to disclosure, it will not have a material impact on the College's financial statements.

Subsequent Events — Subsequent events related to the financial statements have been evaluated through November 9, 2010, which is the date the financial statements were available to be issued, and it has been determined that there are no events that require adjustment to, or disclosures in, these financial statements.

2. INVESTMENTS AND COMMITMENTS

The College records certain assets and liabilities at fair value in accordance with ASC 820 (formerly SFAS No. 157), *Fair Value Measurements and Disclosures*. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A hierarchical framework has been established that classifies assets, based on the market observability of the inputs used to determine fair value, into the following three categories:

Level 1 — Quoted prices for identical instruments in active markets to which the College has access at the date of measurement.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets in markets that are not active; and model-derived valuations in which all significant inputs are directly or indirectly observable.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques, which incorporate management's own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques for determining fair value and may include price information, market transaction data, investment liquidity and other factors. An investment's level within the fair value hierarchy is based on the lowest level input that is significant to the fair value.

Fair values on marketable securities are based on quoted market prices from an active exchange. The College's short term investment funds and mutual funds, regardless of the underlying asset (i.e. equity, treasuries, credit), are all registered investment companies and have daily net asset values (NAV). Forward currency contracts, entered into by the College, are valued using quoted prices on active markets or exchanges. All of these investments, except those held in a common collective trust fund and subject to withdrawal limitations, are classified in Level 1.

Direct investments in United States government and agency notes and bonds are priced based through wire services that look at the bid/ask quote across the market for that issue. Certain issues, that trade less frequently, are priced based on an estimate using previous market data. Corporate and other bonds are often traded in less active markets with pricing being determined by looking at a similar asset that is currently trading. As such, these investments are classified in Level 2.

Common collective trust funds are stated at net asset value as determined by the issuer of the common collective trust funds based on the fair market value of the underlying investments. Common collective trust funds with underlying investments in investment contracts are valued at fair market value of the underlying investments. 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 determinable 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. These investments have been classified as Level 3.

The following table sets forth the College's investments by level within the fair value hierarchy as of June 30, 2010 and 2009, as required by ASC 820 (originally issued under FSP 157-4):

	Investments at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 75,610	\$ -	\$ -	\$ 75,610
United States government and agency notes and bonds	13,246			13,246
Corporate and other bonds	80,709			80,709
Marketable equity interests	503,967			503,967
Commingled funds (a)			213,685	213,685
Private equity (b)			216,763	216,763
Distressed (c)			172,638	172,638
Real estate (d)			32,081	32,081
Other (e)			1,874	1,874
Total investments at fair value	<u>\$ 673,532</u>	<u>\$ -</u>	<u>\$ 637,041</u>	<u>\$ 1,310,573</u>

	Investments at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ 80,748	\$ -	\$ 544	\$ 81,292
United States government and agency notes and bonds	11,338	37,463		48,801
Corporate and other bonds	25,346	1,080		26,426
Marketable equity interests	455,183			455,183
Commingled funds			206,226	206,226
Private equity			190,048	190,048
Distressed			158,417	158,417
Real estate			30,212	30,212
Other			1,007	1,007
Total investments at fair value	<u>\$ 572,615</u>	<u>\$ 38,543</u>	<u>\$ 586,454</u>	<u>\$ 1,197,612</u>

- (a) Commingled funds primarily include investments with managers who implement long-only equity strategies, but also include certain global macro and long/short strategies, with some exposure to the credit markets. Redemption lock-up periods range from quarterly to 18 months, with a notice period of 90 to 180 days. Some of the assets in this category are invested in side pockets, which are less liquid and may be restricted from redemption. Commingled funds are invested globally. Unfunded commitments are \$0.

- (b) Private equity includes limited partnership interests in the following strategies: buyout, venture capital, growth equity and invention capital, a strategy focused on the monetization of intellectual property through licensing. These partnership interests are not eligible for redemption and have terms ranging from 8 to 30 years. Private equity funds are invested globally. Unfunded commitments are \$182,571.
- (c) Distressed investments are made through limited partnerships that generally seek to achieve capital appreciation through investments in debt securities and other obligations at substantial discounts to their original value. These investments are generally made in connection with episodes of financial distress for the underlying company. These partnership interests are not eligible for redemption and have terms of 10 to 11 years. Distressed funds are invested globally. Unfunded commitments are \$11,377.
- (d) Real estate investments primarily are made through limited partnerships whose investment objective is to purchase direct or indirect debt or equity interests in real estate and real estate related assets or businesses. These partnership interests are not eligible for redemption and have terms of 8 to 10 years. Certain real estate investments are held directly. Real estate funds are invested globally. Unfunded commitments are \$27,222.
- (e) The other category primarily consists of funds held in trust by others and community investments.

The following table reconciles the change in fair value of the College's Level 3 investments from the beginning to the end of each annual reporting period:

	Short-Term Investments	Commingled Funds	Private Equity	Distressed	Real Estate	Other	Total
Balance as of July 1, 2008	\$ 9,903	\$268,616	\$211,230	\$145,136	\$ 50,146	\$ 3,602	\$ 688,633
Realized and unrealized gains (losses)	35	(34,920)	(38,330)	(22,428)	(23,882)	1,121	(118,404)
Net purchases (sales)	(9,394)	(27,470)	17,148	35,709	3,948	(3,716)	16,225
Transfers in (out)	-	-	-	-	-	-	-
Balance as of June 30, 2009	544	206,226	190,048	158,417	30,212	1,007	586,454
Realized and unrealized gains (losses)	39	21,904	17,019	32,386	(3,361)	714	68,701
Net purchases (sales)	(583)	(14,445)	9,696	(18,165)	5,230	153	(18,114)
Transfers in (out)	-	-	-	-	-	-	-
Balance as of June 30, 2010	\$ -	\$213,685	\$216,763	\$172,638	\$ 32,081	\$ 1,874	\$ 637,041

The change in unrealized gains (losses) reported above that relate to Level 3 assets held at June 30, 2010 and June 30, 2009 are \$49,267 and (\$139,202), respectively, and are included in net realized and unrealized gains/(losses) on investments on the statements of activities.

The College had forward currency contracts at June 30, 2009 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 table below presents the notional amount, cost and fair value of foreign exchange contracts as of June 30, 2009; there were no foreign currency contracts as of June 30, 2010. 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.

	2009		
	Notional Amount	Cost	Fair Value
Currency:			
Yen	¥ 2,430,000	\$ 25,593	\$ 25,285
Euro	€ 17,720	23,885	24,851
Franc	€ -	59	-

As the fair value of the forward contract fluctuates, the College records an unrealized gain (loss). A summary of net forward currency contracts outstanding as of June 30, 2009, is as follows:

	2009
Long forward currency positions	\$ (55)
Short forward currency positions	<u>654</u>
Net unrealized gain	<u>\$ 599</u>

3. ENDOWMENT AND SIMILAR FUNDS

The College's endowment consists of donor-restricted funds and other Board designated funds which are deemed to be held and invested in perpetuity. Endowment funds are primarily pooled for investment purposes. Similar funds include other donor restricted funds and Board designated reserves maintained in separate accounts but invested similarly to and coordinated with the endowment. These reserves are primarily held for capital and debt repayment purposes.

In July 2008, Iowa enacted a new version of the UPMIFA. IUPMIFA prescribes new guidelines for expenditure of donor-restricted endowment funds. Per IUPMIFA, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for uses, benefits, purposes and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. Per FSP No. 117-1, adopted by the College during the year ended June 30, 2009, appropriation for expenditure is deemed to occur upon approval for expenditure unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. As a result, the College has reinstated purpose restrictions for amounts previously released but not appropriated for expenditure and reclassified \$385,513 in net assets from unrestricted to temporarily restricted. IUPMIFA does not apply to Board designated endowment funds and therefore the appreciation on these funds remains a part of unrestricted net assets.

The endowment and similar funds consist of the following net asset components as of June 30, 2010 and 2009:

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted Board designated	\$ (873) <u>801,020</u>	\$ 292,728 _____	\$ 88,710 _____	\$ 380,565 <u>801,020</u>
Total endowment net assets	800,147	292,728	88,710	1,181,585
Board designated reserves	82,859			82,859
Other	<u>293</u>	<u>97</u>	_____	<u>390</u>
Total endowment and similar funds	<u>\$ 883,299</u>	<u>\$ 292,825</u>	<u>\$ 88,710</u>	<u>\$ 1,264,834</u>

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted Board designated	\$ (1,466) <u>731,983</u>	\$ 260,775 _____	\$ 84,957 _____	\$ 344,266 <u>731,983</u>
Total endowment net assets	730,517	260,775	84,957	1,076,249
Board designated reserves	64,885			64,885
Other	<u>700</u>	<u>97</u>	_____	<u>797</u>
Total endowment and similar funds	<u>\$ 796,102</u>	<u>\$ 260,872</u>	<u>\$ 84,957</u>	<u>\$ 1,141,931</u>

Return Objectives and Risk Parameters — The College intends that its endowment and similar funds shall be invested to ensure the long-term growth of its capital rather than to maximize annual income or short-term returns, in order to provide predictable and stable financial support for the College’s mission as a fine liberal arts college. Total return is expected to preserve or enhance the real purchasing power of the endowment and similar funds into perpetuity.

Strategies Employed for Achieving Objectives — The College seeks to achieve these objectives via a liquidity-oriented asset allocation and bottom-up, value-oriented investment decision-making.

Spending Policy and How the Investment Objectives Relate to Spending Policy — The Board of Trustees reaffirmed the current endowment spending policy on April 25, 2008. For the years ended June 30, 2010 and 2009, the endowment distribution under this policy was calculated as 4.00% of a twelve quarter moving average of the fair value of endowment net assets. The policy precludes allocating the entire distribution to the College’s operating budget. The Board of Trustees annually approves allocation of the distribution between the operating budget and reserve funds. For the years ended June 30, 2010 and 2009, the reserve fund allocation was suspended.

Endowment activity was as follows for the fiscal years ended June 30, 2010 and 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of July 1, 2008	\$ 1,390,723	\$ 3	\$ 81,722	\$ 1,472,448
Net asset reclassification for IUPMIFA	<u>(385,513)</u>	<u>385,513</u>	<u> </u>	<u> </u>
Endowment net assets after reclassification	<u>1,005,210</u>	<u>385,516</u>	<u>81,722</u>	<u>1,472,448</u>
Endowment return:				
Investment income, net of expenses	6,459	3,438	1,869	11,766
Net realized and unrealized losses on investments	<u>(250,827)</u>	<u>(115,474)</u>	<u> </u>	<u>(366,301)</u>
Net endowment return	(244,368)	(112,036)	1,869	(354,535)
Gifts		4	741	745
Endowment spending distribution	(43,033)			(43,033)
Release or change in restriction	12,208	(12,709)	501	-
Transfers	<u>500</u>	<u> </u>	<u>124</u>	<u>624</u>
Endowment net assets as of June 30, 2009	<u>730,517</u>	<u>260,775</u>	<u>84,957</u>	<u>1,076,249</u>
Endowment return:				
Investment income, net of expenses	9,157	4,142	201	13,500
Net realized and unrealized gains on investments	<u>88,665</u>	<u>40,541</u>	<u> </u>	<u>129,206</u>
Net endowment return	97,822	44,683	201	142,706
Gifts		3	3,362	3,365
Endowment spending distribution	(40,881)			(40,881)
Release or change in restriction	12,689	(12,733)	44	-
Transfers	<u> </u>	<u> </u>	<u>146</u>	<u>146</u>
Endowment net assets as of June 30, 2010	<u>\$ 800,147</u>	<u>\$292,728</u>	<u>\$ 88,710</u>	<u>\$ 1,181,585</u>

Funds With Deficiencies — Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or IUPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$873 and \$1,466 for the years ended June 30, 2010 and 2009, respectively. The College applies its standard spending policy to these funds.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following components as of June 30, 2010 and 2009:

	2010	2009
Land and improvements	\$ 10,910	\$ 10,880
Buildings and improvements	256,304	253,561
Equipment and furnishings	63,410	61,279
Construction in process	<u>64,470</u>	<u>35,166</u>
	395,094	360,886
Less accumulated depreciation	<u>131,344</u>	<u>121,241</u>
	<u><u>\$ 263,750</u></u>	<u><u>\$ 239,645</u></u>

As of June 30, 2010 and 2009, the College has outstanding construction contract commitments totaling \$9,327 and \$37,814, respectively.

5. EMPLOYEE BENEFITS

The College is a participant in the Teachers Insurance and Annuity Association — College Retirement Equity Fund (TIAA-CREF), which is a defined contribution plan for academic and nonacademic personnel. TIAA-CREF does not segregate the assets, liabilities, or costs by participating employer, since the accounts are maintained on an employee-basis only. Total pension expense for the years ended June 30, 2010 and 2009, was \$3,576 and \$3,611, respectively. Contributions are funded on a current basis.

6. 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.

The measurement date for the postretirement plan is June 30. The following tables set forth the plan's benefit obligation, fair value of plan assets, accrued liability, components of net periodic benefit costs, and weighted average actuarial assumptions as of June 30, 2010 and 2009:

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 15,098	\$ 11,494
Service cost	687	530
Interest cost	932	770
Actuarial (gain) loss	4,267	2,521
Medicare Part D subsidy	76	70
Benefits paid in excess of retiree contributions	<u>(288)</u>	<u>(287)</u>
Benefit obligation at end of year	<u><u>\$ 20,772</u></u>	<u><u>\$ 15,098</u></u>

	2010	2009
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 2,560	\$ 2,358
Return on plan assets	239	194
Employer contributions	246	225
Retiree contributions	239	217
Medicare Part D subsidy	76	70
Benefits paid	<u>(527)</u>	<u>(504)</u>
Fair value of plan assets at end of year	<u>\$ 2,833</u>	<u>\$ 2,560</u>

	2010	2009
Funded status (deficiency)	<u>\$ (17,939)</u>	<u>\$ (12,538)</u>

	2010	2009
Components of net periodic benefit cost:		
Service cost	\$ 687	\$ 530
Interest cost	932	770
Amortization of gain		(132)
Amortization of prior service cost	177	177
Expected return on assets	<u>(150)</u>	<u>(136)</u>
Net periodic benefit cost	<u>\$ 1,646</u>	<u>\$ 1,209</u>

	2010	2009
Actuarial assumptions:		
Discount rate	5.40 %	6.25 %
Expected return on plan assets	6.00	6.00
Healthcare cost present trend rate for participants up to 65 Medical/prescription drug	7.7–9.5	8.0–10.0
Healthcare cost present trend rate for participants 65 and over Medical/prescription drug	7.7–9.5	8.0–10.0
Healthcare cost ultimate trend rate (year of stabilization)	5.00 (2019)	5.00 (2019)

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:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 345	\$ (269)
Effect on postretirement benefit obligations	3,629	(2,914)

Cash Contributions and Benefit Payments — The College's postretirement benefits are partially 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 2011 through 2020:

2011	\$ 480
2012	589
2013	676
2014	761
2015	833
Years 2016–2020	5,577

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 2011 postretirement benefit payments will be made from cash generated from operations.

Asset Allocation — The College’s postretirement plan’s asset allocation as of June 30, 2010, (measurement date) is 76% in fixed income investments and 24% in cash and cash equivalents. All plan investments are considered Level 1 investments.

The investment strategy for postretirement plan assets is to maintain a conservative portfolio designed to preserve principal value.

Medicare Prescription Drug, Improvements and Modernization Act of 2003 — The Medicare Prescription Drug, Improvements and Modernization Act of 2003 (the “Act”) introduced 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.

The College 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 received a federal subsidy related to these benefits in the amount of \$76 and \$70 for fiscal years 2010 and 2009, respectively.

7. NET ASSETS

Temporarily restricted net assets as of June 30, 2010 and 2009, consist of the following:

	2010	2009
General purposes	\$ 60,670	\$ 54,622
Instruction	93,137	82,632
Academic support	25,691	24,009
Student services	32,550	29,320
Institutional support	14,018	12,466
Scholarships, grants and loans	69,827	61,575
Facilities operations	373	467
Split interest agreements	4,318	2,771
	<u>\$ 300,584</u>	<u>\$ 267,862</u>

Permanently restricted net assets (investments to be held in perpetuity) as of June 30, 2010 and 2009, consist of the following:

	2010	2009
General purposes	\$ 9,787	\$ 9,202
Instruction	38,158	35,414
Academic support	3,994	3,964
Student services	7,920	7,733
Institutional support	2,515	2,515
Scholarships, grants and loans	30,538	29,767
Facilities operations	<u>10</u>	<u>9</u>
	<u><u>\$ 92,922</u></u>	<u><u>\$ 88,604</u></u>

8. CONDITIONAL PROMISES TO GIVE

Conditional promises to give are not reported in the financial statements until the promises become unconditional. Conditional promises totaling approximately \$3,638 at June 30, 2010, primarily restricted to facilities use, are expected to be received during the next five fiscal years.

9. BONDS PAYABLE

Bonds payable at June 30, 2010 and 2009, consist of the following:

	2010	2009
Revenue bonds dated December 13, 2001 and advance refunded on March 9, 2010	\$ -	\$ 50,000
Revenue bonds dated June 26, 2008 maturing on June 1, 2023	60,000	60,000
Revenue bonds dated March 9, 2010 with final maturity on December 1, 2020	<u>58,905</u>	<u> </u>
	118,905	110,000
Premium on revenue bonds dated March 9, 2010	<u>6,677</u>	<u> </u>
	<u><u>\$ 125,582</u></u>	<u><u>\$ 110,000</u></u>

On December 13, 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. On January 23, 2009, the Series 2001 bonds were converted to a fixed rate of 2.1% to maturity in 2011.

On June 26, 2008, IHELA issued \$60,000 of Private College Facility Variable Rate Demand Revenue Bonds on behalf of the College. The Series 2008 bonds bear interest at a variable weekly rate payable on the first business day of each calendar month. As of June 30, 2010 and 2009, respectively, the weekly bond interest rate was .31% and .26%, respectively. The College is party to a standby bond purchase agreement dated June 1, 2008 and extended to June 25, 2011 that provides a liquidity facility in the event that the Series 2008 bonds are tendered by the bondholders for purchase and not subsequently remarketed.

On March 9, 2010, IHELA issued an aggregate of \$58,905 of Private College Facility Revenue and Refunding Bonds (at a premium of \$7,090). A portion of the proceeds was used to advance refund the Series 2001 revenue bonds. The 2010 bond issue was structured as 16 separate serial bonds in principal amounts ranging from \$550 to \$5,900, at interest rates ranging from 2.00% to 5.00%. Interest on the 2010 bonds is payable each June 1 and December 1, beginning December 1, 2010.

Bond repayment is subject to Loan Agreements between IHELA and the College. The obligations of the College to make loan repayments under the Loan Agreements are general obligations of the College and are unsecured.

Maturities on bonds payable of the College subsequent to June 30, 2010, are as follows:

2011	\$ -
2012	5,900
2013	5,900
2014	5,900
2015	5,900
Thereafter	<u>95,305</u>
	<u>\$ 118,905</u>

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