MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Grinnell College, IA

New Issue: Moody's Assigns Aaa to Grinnell College's (IA) Revenue Bonds, Series 2017; Outlook Stable

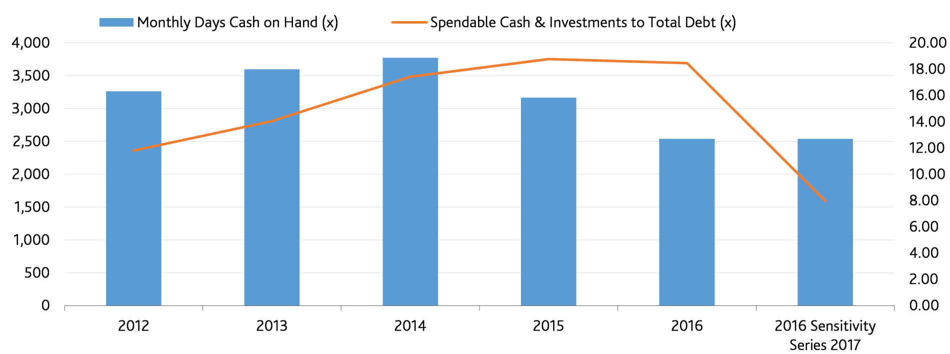
Summary Rating Rationale

Moody's Investors Service has assigned an Aaa rating to Grinnell College's proposed approximately $113 million of Private College Facility Revenue Bonds, Series 2017 (maturing in 2046) to be issued through the Iowa Higher Education Loan Authority. Moody's has affirmed the Aaa ratings on the college's approximately $85 million of outstanding revenue bonds. The outlook is stable.

The Aaa rating reflects Grinnell's exceptionally large balance sheet reserves, largely unrestricted, and liquidity relative to debt and operations. It also reflects strong governance and management, including fiscal oversight and discipline driving consistently strong operating performance.

Offsetting these strengths are a high reliance on investment income to support operations, a highly competitive landscape amongst national and regional renowned liberal arts colleges and fundraising below peer institutions.

Exhibit 1
Exceptional Balance Sheet Strength Provides Capacity for Increasing Leverage



2016 Sensitivity includes Series 2017 debt
Source: Moody's Investors Service

Credit Strengths

- Exceptionally strong balance sheet, with $1.7 billion of total cash and investments and largely unrestricted, supporting mission and strategic initiatives for sustainable growth
- Extraordinary unrestricted liquidity, with $756 million of monthly liquidity or over 2,500 monthly days cash
- Excellent operating performance and very strong operating cash flow, with an operating cash flow margin of 26% in FY 2016 soundly covering debt service and fostering modest reserve growth
- Solid student demand from Grinnell's national reputation as a competitive need blind liberal arts college meeting fully demonstrated need that still translated to nearly 7% growth in net tuition per student in FY 2016

Credit Challenges

- Very reliant on investment income at 62% of total operating revenues for FY 2016, requiring careful endowment management due to potential investment volatility
- High competition for students reflected in a 27% yield rate for accepted applicants in fall 2016, lower than other Aaa-rated institutions
- Historically modest fundraising relative to Aaa-rated institutions, with $9,600 three-year average gifts per student compared to a Aaa-median of over $24,000

Rating Outlook

The stable outlook incorporates expectations of generally stable balance sheet reserves and manageable leverage, with operating cash flow and investment returns continuing to provide modest growth.

Factors that Could Lead to an Upgrade

- Not applicable

Factors that Could Lead to a Downgrade

- Notable balance sheet weakening
- Substantial debt issuance particularly occurring with sustained weaker operating cash flow

Key Indicators

Exhibit 2

	2012	2013	2014	2015	2016	2016 Sensitivity Series 2017
Total FTE Enrollment	1,635	1,683	1,693	1,678	1,671	1,671
Operating Revenue ($000)	116,039	117,091	125,943	132,173	142,905	142,905
Annual Change in Operating Revenue (%)	2.7	1.0	7.6	4.9	8.1	8.1
Total Cash & Investments ($000)	1,432,237	1,605,297	1,872,011	1,831,256	1,694,221	1,694,221
Total Debt ($000)	113,005	107,105	101,205	91,720	85,820	197,820
Spendable Cash & Investments to Total Debt (x)	11.8	14.0	17.4	18.8	18.5	8.0
Spendable Cash & Investments to Operating Expenses (x)	13.5	14.2	16.0	14.7	13.3	13.2
Monthly Days Cash on Hand (x)	3,263	3,598	3,776	3,167	2,541	2,541
Operating Cash Flow Margin (%)	27.3	23.8	24.9	24.7	26.1	26.1
Total Debt to Cash Flow (x)	3.6	3.8	3.2	2.8	2.2	5.2
Annual Debt Service Coverage (x)	4.3	3.5	4.4	4.0	4.2	4.2

2016 Sensitivity includes Series 2017 projected par amount; excludes related debt service
Total FTE Enrollment is fall enrollment for the stated year
Source: Moody's Investors Service

Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

Detailed Rating Considerations

Market Profile: Strong Reputation and National Draw Bolstered By High Discounting

Grinnell College, a small four-year residential liberal arts college located in Grinnell, Iowa, will maintain solid national student demand while facing increasing competition for academically strong students for its programs. The college draws academically strong students, with an average SAT over 1400, from a broad geographic area.

Grinnell is committed to need-blind admission and fully meeting the financial needs of admitted students, providing it a competitive advantage. However it results in substantial tuition discounting of nearly 61% for FY 2016 and net tuition per student of $17,856 for FY 2016 that is well below most other Aaa-rated colleges. Notably Grinnell did show strong increases in net tuition per student of over 6% for both FY 2015 and FY 2016. Reducing the tuition discount rate and growing net tuition revenue are strategic priorities, although that will be challenging given the fierce national competition for high quality students.

Operating Performance: Consistently Strong Operations With High Reliance on Investment Income

Grinnell College is expected to produce consistently strong operations and cash flow due to strong fiscal and budgetary oversight. For FY 2016 Grinnell generated a 26% operating cash flow margin, as calculated by Moody's. The college's expense base is growing in recent years as it invests in strategic investments in programs, faculty salaries, scholarships and other initiatives. The college projects generally comparable performance in FY 2017.

The college is highly reliant on investment income at 62% of FY 2016 total operating revenues. This makes Grinnell vulnerable to revenue volatility in the event of lower investment returns or sustained market downturns. Grinnell manages its revenue reliance through conservative budgeting assumptions, including a 4% endowment spend rate, coupled with careful financial management.

Wealth and Liquidity: Exceptionally Strong Reserves and Liquidity

Grinnell's very strong balance sheet reserves, with $1.7 billion of total cash and investments for FY 2016, are the primary credit factor underpinning its Aaa long-term rating. Cash and investments are largely unrestricted with spendable cash and investments (those not permanently restricted) representing 93% of the total. The board established a guideline to maintain at least 40% of the portfolio in liquid assets, a threshold the college has never fallen below and is typically well above.

Investment holdings are increasingly diversified, with reduced concentrations to single companies. The manager with the highest concentration holds about 11% of the endowment portfolio, well below the 19% share in 2010. At 6/30/2016 Grinnell's investment portfolio is 46% in marketable equities, 9% in cash/fixed income, 13% in marketable alternatives (including hedge funds) and 32% in non-marketable alternatives, including private equity, venture capital and private real estate. The college is investing some of its liquid investments into non-marketable investments, with unfunded commitments rising to $281 million in FY 2016 from $169 million in FY 2014.

Fundraising is modest for its Aaa rating but growing, with $16 million of three-year average annual gift revenues and annual gifts per student of $9,569 for FY 2014-FY 2016. A strategic goal of the college is to increase fundraising, and the board is investing in its advancement area for staffing and technology. The board is planning a comprehensive campaign, the first in 20 years, but have not yet finalized the goal and timeline. It is expected the board will contribute significantly to the campaign.

LIQUIDITY

Grinnell has exceptional unrestricted liquidity, with $756 million of liquidity at June 30, 2016, translating to 2,541 days or nearly 7 years of operations. This is down from earlier years as Grinnell moved into less liquid investments for its portfolio. We expect the college to maintain a superior liquidity level in its portfolio, with few unanticipated calls on liquidity expected outside of capital calls for its unfunded investment commitments.

Leverage: Manageable Leverage With New Debt

Leverage will remain manageable due to the college's strong balance sheet cushion and healthy cash flow to support the rising debt service for the Series 2017 bonds. Spendable cash and investments of $1.58 billion provide a still very strong 8.0 times cushion for the $198 million of total pro forma debt. Pro forma debt to cash flow is moderately high at 5.2 times, but with the strong cash flow margins, debt service coverage is projected to remain strong. Grinnell has a 20 year campus investment plan, with the current issue intended to fund the first phase through 2020. The college has two additional phases through 2034 but sizing and timing of additional capital expenditures is uncertain.

DEBT STRUCTURE

All of Grinnell's debt is fixed rate and amortizing.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

Grinnell's retirement benefit costs are manageable, representing about 4% of FY 2016 operating expenses. The college offers a defined contribution plan through TIAA, contributing about $4.9 million for the year. It does offer retiree healthcare benefits with both Grinnell and participants contributing. Grinnell contributed $201 thousand for FY 2016, generally to fund benefit payments. The college reports a $20.8 million net unfunded liability.

Governance and Management: Strong Governance With Analytic Foundation For Planning and Financial Performance

Grinnell's leadership is committed to strong management of the college, implementing a dynamic strategic plan that is regularly reviewed and updated at least quarterly from regular measurement and review of metrics and benchmarks. The process is performed by the college's Department of Analytic Support and Institutional Research, created for an analytic infrastructure. Grinnell maintains its strong fiscal and budget oversight and a conservative debt amortization schedule, including a board requirement to reserve part of the endowment draw, already below industry norms, into strategic reserves.

Legal Security

Grinnell's bonds are on parity and an unsecured general obligation.

Use of Proceeds

Proceeds of the Series 2017 bonds will finance campus projects, including the new Humanities and Social Studies Complex, a new Admission/Financial Aid Center, the first phase of a comprehensive landscaping plan, and pay issuance costs.

Obligor Profile

Grinnell College, established in 1846 in Davenport, Iowa and now located in Grinnell, is a small liberal arts college with over 1,650 full-time equivalent students for fall 2016, of which approximately 18% are international students. The college is highly selective while committed to financial access, being both need blind and meeting 100% of an accepted student's demonstrated need.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Grinnell College, IA

Issue	Rating
Private College Facility Revenue Bonds (Grinnell College Project), Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	$113,285,000
Expected Sale Date	01/11/2017
Rating Description	Revenue: 501c3 Unsecured General Obligation

Source: Moody's Investors Service

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