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, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are th

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007
(Dollars in Thousands)

ASSETS	2008	2007
Cash and cash equivalents	$ 1,588	$ 1,563
Accounts receivable, less allowance for doubtful accounts of $126 in 2008 and $126 in 2007	442	698
Inventories and prepaid expenses	2,898	2,303
Loans to students, less allowance for doubtful loans of $296 in 2008 and $308 in 2007	7,795	7,258
Investments (Note 2)	1,617,465	1,799,931
Property and equipment, net (Note 3)	221,376	213,396
Total assets	$1,851,564	$ 2,025,149

LIABILITIES AND NET ASSETS

	2008	2007
LIABILITIES:		
Accounts payable	$ 3,938	$ 7,791
Accrued payroll and fringe benefits (Note 5)	13,624	14,034
Deferred revenue and deposits	4,088	4,793
Annuities payable	9,733	7,876
Funds held in trust for others	1,069	63
Bonds payable (Note 8)	110,000	50,000
United States government grants refundable	2,488	2,543
Total liabilities	144,940	87,100
COMMITMENTS AND CONTINGENCIES (Notes 2 and 3)		
NET ASSETS:		
Unrestricted (Note 9)	1,612,461	1,845,299
Temporarily restricted (Note 6)	8,578	9,563
Permanently restricted (Note 6)	85,585	83,187
Total net assets	1,706,624	1,938,049
Total liabilities and net assets	$1,851,564	$ 2,025,149

TRUSTEES OF GRINNELL COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(Dollars in Thousands)

	Temporarily	Permanently

TRUSTEES OF GRINNELL COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:				

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (231,425)	$ 263,706
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Cumulative effect of change in accounting principle	285	705
Depreciation	10,492	9,150
Net realized and unrealized (gain)/loss on investments	225,520	(270,544)
Provision for recoveries of losses	(12)	(81)
Loss on disposal of property and equipment	255	53
Restricted contributions	(9,638)	(8,194)
Restricted investment income	(1,283)	(1,048)
Actuarial loss on annuities payable	2,425	206
Change in assets and liabilities:		
Accounts receivable	206	(211)
Inventories and prepaid expenses	(216)	(515)
Accounts payable and accrued liabilities	(2,645)	3,826
Funds held in trust for others	1,006	-
Deferred revenue and deposits	(705)	142
Net cash flows from operating activities	(5,735)	(2,805)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,641)	(38,998)
Disbursements of loans to students	(1,498)	(1,599)
Principal payments received on loans to students	1,022	1,074
Purchases of investments	(480,743)	(374,730)
Proceeds from sales of property and equipment	12	48
Proceeds from sales and maturities of investments	437,689	407,859
Net cash flows from investing activities	(64,159)	(6,346)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions	9,638	8,194
Restricted investment income	1,283	1,048
Change in United States government grants refundable	(55)	(21)
Payments on annuities payable	(568)	(455)
Proceeds from issuance of bonds	60,000	-
Payments of bond issuance costs	(379)	-
Net cash flows from financing activities	69,919	8,766
NET CHANGE IN CASH AND CASH EQUIVALENTS	25	(385)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	1,563	1,948
END OF YEAR	$ 1,588	$ 1,563

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. 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:

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

Investments

The College reports gifts of land, building and equipment as unrestricted support unless explicit donor

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.

Adoption of New Accounting Pronouncement **-** The College adopted SFAS No. 158. SFAS No. 158 requires an employer to recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pe

The College is committed, as of June 30, 2008 to invest $296,330 in certain limited partnerships.

The College has forward currency contracts at June 30, 2008 and 2007, 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.

The College's endowment consists of donor gifts (permanently restricted) plus other Board designated funds (unrestricted) which are deemed to be held and invested in perpetuity. The Board of Trustees approves a spending policy annually for the endowment. The College's endowment includes the majority of investments shown above. For the years ended June 30, 2008 and 2007, the College operated under a spending policy with respect to endowment income equal to 4.00% of a twelve quarter moving average of the fair value of endowment assets.

	2008	2007
Endowment:		

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

	2008	2007
Reconciliation of the Accrued Liability:		
Funded status	$ 9,136	$ 9,257
Unrecognized accumulated net gain	-	81
Unrecognized prior service cost	-	(786)

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 2009 through 2018:

2009	$ 404
2010	482
2011	541
2012	579
2013	625
Years 2014-2018	4,085

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 2009 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, 2008 (measurement date) is 81% in fixed income investments and 19% in cash and cash equivalents.

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 $72 and $75 for fiscal years 2008 and 2007, respectively.

8. BONDS PAYABLE

Bonds payable at June 30, 2008 and 2007 consists of the following:

	2008	2007
Revenue bonds dated December 13, 2001 maturing on December 1, 2011. As of June 30, 2008 and 2007, the bond interest rate was 1.58% and 3.74%, respectively.	$ 50,000	$ 50,000
Revenue bonds dated June 26, 2008 maturing on June 1, 2023. As of June 30, 2008, the bond interest rate was 1.62%.	60,000	-
	$ 110,000	$ 50,000

On December 13, 2001 and June 26, 2008, the Iowa Higher Education Loan Authority ("IHELA") issued $50,000 and $60,000, respectively, of Private College Facility Variable Rate Demand Revenue Bonds on behalf of the College. 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. The bonds bear interest at a variable weekly rate based on the lowest rate among a number of measures including prime and commercial paper, payable on the first business day of each calendar month.

9. BOARD DESIGNATED UNRESTRICTED NET ASSETS

As of June 30, 2008 the Board of Trustees have designated approximately $61,210 of unrestricted net assets primarily for construction purposes.

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