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, 2009 an

TRUSTEES OF GRINNELL COLLEGE

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:				
Revenue, gains and other support:				
Tuition and fees	$ 50,200	$ -	$ -	$ 50,200
Grants and scholarships	(26,048)	-	-	(26,048)
Net tuition and fees	24,152	-	-	24,152
Government grants and contracts	-	1,235	-	1,235
Private gifts and grants	2,689	2,214	-	4,903
Net realized and unrealized losses on investments	(3)	-	-	(3)
Investment income	602	-	-	602
Auxiliary income	12,034	-	-	12,034
Other	657	1	-	658
Net operating revenues	40,131	3,450	-	43,581
Endowment spending distribution	56,110	-	-	56,110

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in Thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (403,503)	$ (231,425)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Cumulative effect of change in accounting principle	-	

TRUSTEES OF GRINNELL COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(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. 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 [illegible]

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 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 on the specific identification method.

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 materials and equipment.

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 3.20% and 12.00% and between 3.30% and 12.40% as of June 30, 2009 and 2008, respectively, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately $14,652 and $17,632 as of June 30, 2009 and 2008, 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 Financial Accounting Standards Board ("FASB") Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* as amended by Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans–an amendment of FASB Statements No. 87, 88, 106 and 132(R)* ("SFAS No. 158").

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 2009 bonds are adjusted with changes in market interest rates and the term of the Series 2001 bonds, which are fixed rate, is of a short duration.

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

Fair value is defined under SFAS No. 157 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 under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 establishes a hierarchical framework 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 to 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

The following table sets forth the College's investments by level within the fair value hierarchy as of June 30, 2009 as required by SFAS No. 157.

	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
Limited partnership and similar nonmarketable equity interests	-	-	584,539	584,539
Other	-	-	1,371	1,371
Total investments	$ 572,615	$ 38,543	$ 586,454	$ 1,197,612

The following table sets forth the changes in fair value of the College's Level 3 investments for the period from July 1, 2008 to June 30, 2009 as required by SFAS No. 157.

	Level 3 Investments, at Fair Value
Balance as of July 1, 2008	$ 688,892
Net realized gains	11,656
Net unrealized losses	(139,018)
Net purchases	24,924
Balance as of June 30, 2009	$ 586,454

The College is committed, as of June 30, 2009 to invest $227,598 in certain limited partnerships.

The College has forward currency contracts at June 30, 2009 and 2008, 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 present the notional amount, cost and fair value of foreign exchange contracts as of June 30, 2009 and 2008. 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		-

	2008					
		Notional Amount		Cost		Fair Value
Currency:						
Yen		4,282,411	$	41,168	$	41,097
Won	₩	5,503,090		6,097		5,246
Euro	€	3,958		5,912		6,176
Franc	€	5,730		4,443		5,630

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 and 2008 is as follows:

		2009		2008
Long forward currency positions	$	(55)	$	(212)

The endowment consists of the following net asset components as of June 30, 2009 and 2008:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (1,466)	$ 260,775	$ 84,957	$ 344,266
Board designated	731,983	-	-	731,983
Total endowment net assets	$ 730,517	$ 260,775	$ 84,957	$ 1,076,249

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ 385,229	$ 3	$ 81,722	$ 466,954
Board designated	1,005,494	-	-	1,005,494
Total endowment net assets	$ 1,390,723	$ 3	$ 81,722	$ 1,472,448

Return Objectives and Risk Parameters

The College intends that its endowment 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 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, 2009 and 2008, 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 year ended June 30, 2009, the reserve fund allocation was suspended.

Endowment activity was as follows for the fiscal years ended June 30, 2009 and 2008:

	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	(385,513)	385,513	-	-
Endowment net assets after reclassification	1,005,210	385,516	81,722	1,472,448
Endowment return:				
Investment income, net of expenses	6,459	3,438	1,869	11,766
Net realized and unrealized losses on investments	(250,827)	(115,474)	-	(366,301)
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	500	-	124	624
Endowment net assets as of June 30, 2009	$ 730,517	$ 260,775	$ 84,957	$ 1,076,249

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 $1,466 and $284 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008:

	2009	2008
Land and improvements	$ 10,880	$ 10,332
Buildings and improvements	253,561	251,313
Equipment and furnishings	61,279	60,021
Construction in process	35,166	

During the year ended June 30, 2008, the College adopted the measurement date provision of SFAS 158. As a result, the College recognized a net periodic postretirement benefit cost of $285. This item is included in the cumulative effect of changes in accounting principle line of the statements of activities for 2008. 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, 2009 and 2008:

	2009	2008
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 11,494	$ 10,510
Service cost	530	688
Interest cost	770	897
Plan amendments	-	1,276
Actuarial (gain) loss	2,521	(1,681)
Medicare Part D subsidy	70	72
Benefits paid in excess of retiree contributions	(287)	(268)
Benefit obligation at end of year	$ 15,098	$ 11,494

	2009	2008
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 2,358	$ 1,253
Return on plan assets	194	45
Employer contributions	225	1,255
Retiree contributions	217	324
Medicare Part D subsidy	70	72
Benefits paid	(504)	(591)
Fair value of plan assets at end of year	$ 2,560	$ 2,358

	2009	2008
Funded status (deficiency)	$ (12,538)	$ (9,136)

	2009	2008
Components of Net Periodic Benefit Cost:		
Service cost	$ 530	$ 558
Interest cost	770	741
Amortization of gain	(132)	-
Amortization of prior service cost	177	187
Expected return on assets	(136)	(92)
Net periodic benefit cost	$ 1,209	$ 1,394

	2009	2008
Actuarial Assumptions:		
Discount rate	6.25 %	6.82 %
Expected return on plan assets	6.00 %	6.00 %
Healthcare cost present trend rate for participants up to 65 Medical/prescription drug	8.0%/10.0%	7.63%/7.63%
Healthcare cost present trend rate for participants 65 and over Medical/prescription drug	8.0%/10.0%	7.63%/7.63%
Healthcare cost ultimate trend rate (year of stabilization)	5.00% (2019)	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:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 259	$ (204)
Effect on postretirement benefit obligations	2,600	(2,095)

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 2010 through 2019:

2010	$ 364
2011	443
2012	515
2013	577
2014	646
Years 2015-2019	4,299

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 2010 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, 2009 (measurement date) is 82% in fixed income investments and 18% 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 $70 and $72 for fiscal years 2009 and 2008, respectively.

7. NET ASSETS

Temporarily restricted net assets as of June 30, 2009 and 2008 consist of the following:

	2009	2008
General purposes	$ 54,622	$ 4
Instruction	82,632	1,203
Academic support	24,009	2,246
Student services	29,320	205
Institutional support	12,466	40
Scholarships, grants and loans	61,575	352
Facilities operations	467	827
Split interest agreements	2,771	3,701
	$ 267,862	$ 8,578

Permanently restricted net assets (investments to be held in perpetuity) as of June 30, 2009 and 2008 consist of the following:

	2009	2008
General purposes	$ 9,202	$ 9,211
Instruction	35,414	33,140
Academic support	3,964	3,944
Student services	7,733	7,508
Institutional support	2,515	2,515
Scholarships, grants and loans	29,767	29,258
Facilities operations	9	9
	$ 88,604	$ 85,585

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 $3,699 at June 30, 2009, primarily restricted to facilities use, are expected to be received during the next five fiscal years.

9. BONDS PAYABLE

Bonds payable at June 30, 2009 and 2008 consists of the following:

	2009	2008
Revenue bonds dated December 13, 2001 maturing on December 1, 2011. As of June 30, 2009 and 2008, the bond interest rate was 2.1% and 1.58%, respectively.	$ 50,000	$ 50,000
Revenue bonds dated June 26, 2008 maturing on June 1, 2023. As of June 30, 2009 and 2008, the bond interest rate was 0.26% and 1.62%, respectively.	60,000	60,000
	$ 110,000	$ 110,000

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. On January 23, 2009, the Series 2001 bonds were converted to a fixed rate of 2.1% to maturity in 2011. The Series 2008 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. 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, 2009 are as follows:

2010	$ -
2011	-
2012	50,000
2013	-
2014	-
Thereafter	60,000
	$ 110,000

10. BOARD DESIGNATED UNRESTRICTED NET ASSETS

As of June 30, 2009 the Board of Trustees has designated approximately $61,546 of unrestricted net assets primarily for capital and debt repayment purposes.

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