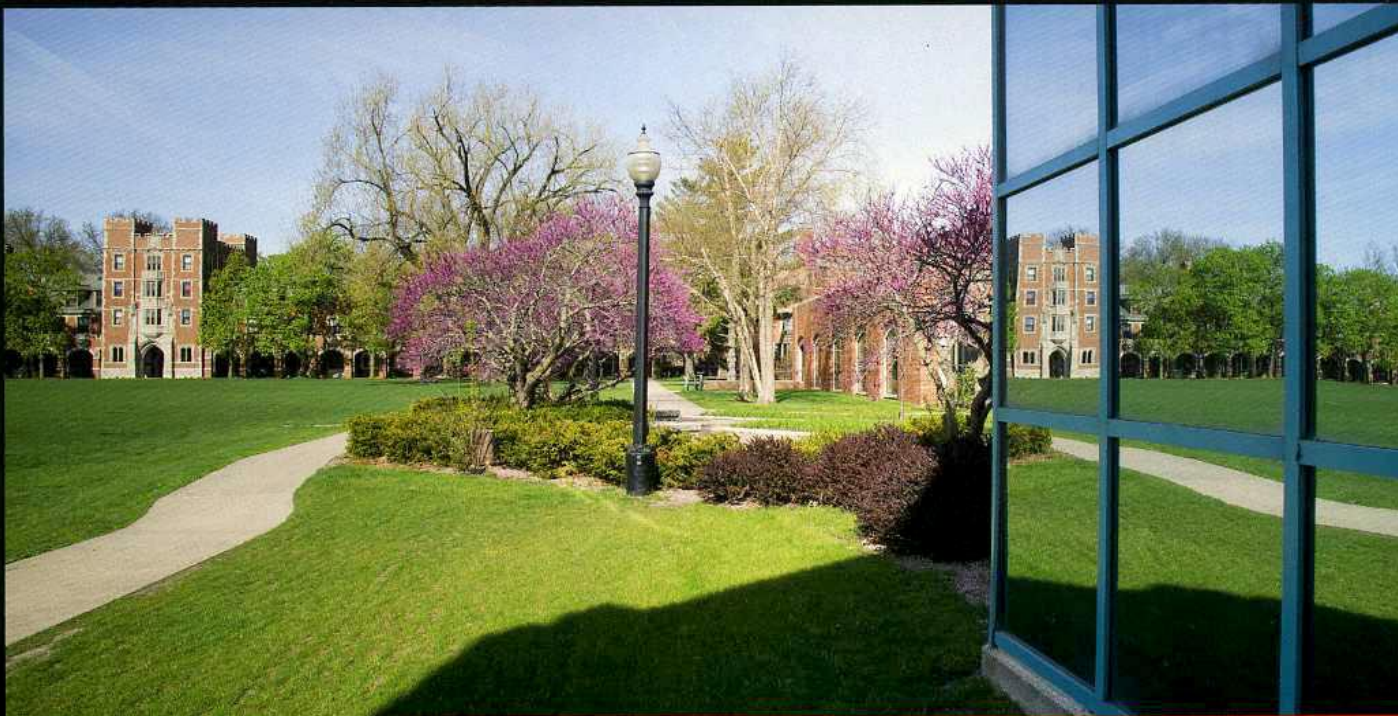

GRINNELL COLLEGE

Financial Report

June 30, 2012
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, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Trustees of Grinnell College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 26, 2012

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND 2011
(Dollars in thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,290	$ 1,491
Accounts receivable — Less allowance for doubtful accounts of $130 in 2012 and $126 in 2011	728	562
Inventories and prepaid expenses	3,941	3,551
Loans to students — Less allowance for doubtful loans of $386 in 2012 and $383 in 2011 (Note 4)	7,917	8,120
Investments (Note 2)	1,431,560	1,551,174
Property and equipment — Net (Note 5)	254,186	259,786
Total assets	$1,699,622	$1,824,684
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 2,627	$ 3,740
Accrued payroll and fringe benefits	3,557	3,520
Deferred revenue and deposits	2,652	3,116
Annuities payable	9,729	10,871
Funds held in trust for others	594	646
Bonds payable (Note 10)	117,159	124,253
Accrued postretirement benefit obligation (Note 7)	29,897	17,757
United States government grants refundable	2,525	2,494
Total liabilities	168,740	166,397
COMMITMENTS AND CONTINGENCIES (Notes 2 and 5)		
NET ASSETS:		
Unrestricted (Note 3)	1,095,546	1,187,452
Temporarily restricted (Notes 3 and 8)	336,803	374,541
Permanently restricted (Notes 3 and 8)	98,533	96,294
Total net assets	1,530,882	1,658,287
Total liabilities and net assets	$1,699,622	$1,824,684

See notes to financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES:				
Revenue, gains and other support:				
Tuition and fees	$ 64,731	$ -	$ -	$ 64,731
Grants and scholarships	(41,156)			(41,156)
Net tuition and fees	23,575	-	-	23,575
Government grants and contracts		2,678		2,678
Private gifts and grants	2,154	2,418		4,572
Net realized and unrealized gains on investments	151			151
Investment income	181			181
Auxiliary income	14,417			14,417
Other	440	2		442
Net operating revenues	40,918	5,098	-	46,016
Endowment spending distribution	53,281			53,281
Net assets released from restrictions	4,694	(4,694)		-
Net resources funding operations	98,893	404	-	99,297
Expenses and losses:				
Instruction	35,608			35,608
Academic support	11,918			11,918
Student services	18,808			18,808
Institutional support	17,611			17,611
Auxiliary enterprises	15,050			15,050
Total operating expenses	98,995	-	-	98,995
Change in net assets from operating activities	(102)	404	-	302
NON-OPERATING ACTIVITIES:				
Private gifts and grants	3,253	1,006	1,524	5,783
Net realized and unrealized losses on investments	(61,688)	(27,374)	(634)	(89,696)
Investment income	12,625	5,532	1,092	19,249
Endowment spending distribution	(53,281)			(53,281)
Net assets released from restrictions	17,371	(17,371)		-
Change in value of split interest agreements		65	257	322
Loss on disposal of property and equipment	(6)			(6)
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	(10,078)			(10,078)
Change in net assets from non-operating activities	(91,804)	(38,142)	2,239	(127,707)
TOTAL CHANGE IN NET ASSETS	(91,906)	(37,738)	2,239	(127,405)
NET ASSETS — Beginning of year	1,187,452	374,541	96,294	1,658,287
NET ASSETS — End of year	$1,095,546	$336,803	$98,533	$1,530,882

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES:				
Revenue, gains and other support:				
Tuition and fees	$ 59,218	$ -	$ -	$ 59,218
Grants and scholarships	(36,419)			(36,419)
Net tuition and fees	22,799	-	-	22,799
Government grants and contracts		2,295		2,295
Private gifts and grants	2,166	1,931		4,097
Net realized and unrealized gains on investments	13			13
Investment income	44			44
Auxiliary income	12,911			12,911
Other	531	2		533
Net operating revenues	38,464	4,228	-	42,692
Endowment spending distribution	51,200			51,200
Net assets released from restrictions	4,205	(4,205)		-
Net resources funding operations	93,869	23	-	93,892
Expenses and losses:				
Instruction	36,296			36,296
Academic support	12,055			12,055
Student services	18,737			18,737
Institutional support	15,999			15,999
Auxiliary enterprises	14,559			14,559
Total operating expenses	97,646	-	-	97,646
Change in net assets from operating activities	(3,777)	23	-	(3,754)
NON-OPERATING ACTIVITIES:				
Private gifts and grants	2,547	1,345	1,166	5,058
Net realized and unrealized gains on investments	180,478	85,175	1,518	267,171
Investment income	14,167	5,611	1,165	20,943
Endowment spending distribution	(51,200)			(51,200)
Net assets released from restrictions	17,580	(17,664)	84	-
Change in value of split interest agreements		(533)	(561)	(1,094)
Loss on disposal of property and equipment	(245)			(245)
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	2,411			2,411
Change in net assets from non-operating activities	165,738	73,934	3,372	243,044
TOTAL CHANGE IN NET ASSETS	161,961	73,957	3,372	239,290
NET ASSETS — Beginning of year	1,025,491	300,584	92,922	1,418,997
NET ASSETS — End of year	$1,187,452	$374,541	$96,294	$1,658,287

See notes to financial statements.

TRUSTEES OF GRINNELL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$(127,405)	$ 239,290
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	11,558	11,431
Amortization of bond premium	(1,194)	(1,329)
Net realized and unrealized (gains) losses on investments	89,639	(267,417)
Provision for recoveries of losses	9	1
Loss on disposal of property and equipment	6	245
Restricted contributions	(7,626)	(6,737)
Restricted investment income	(6,624)	(6,776)
Postretirement benefit plan related changes, other than net periodic postretirement benefit cost	10,078	(2,411)
Actuarial (gain) loss on annuities payable	(270)	978
Change in assets and liabilities:		
Accounts receivable	(166)	221
Inventories and prepaid expenses	(453)	(233)
Accounts payable and accrued liabilities	(206)	90
Funds held in trust for others	(52)	116
Deferred revenue and deposits	(464)	139
Accrued postretirement benefit obligation	2,062	2,593
Net cash flows used in operating activities	(31,108)	(29,799)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,841)	(9,950)
Proceeds from sales of property and equipment	70	48
Disbursements of loans to students	(1,049)	(1,176)
Principal payments received on loans to students	1,243	1,167
Purchases of investments	(556,775)	(397,620)
Proceeds from sales and maturities of investments	586,750	424,436
Net cash flows provided by investing activities	23,398	16,905
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions	7,626	6,737
Restricted investment income	6,624	6,776
Change in United States government grants refundable	31	(6)
Payments on annuities payable	(872)	(1,059)
Payments on bonds payable	(5,900)	
Net cash flows provided by financing activities	7,509	12,448
NET CHANGE IN CASH AND CASH EQUIVALENTS	(201)	(446)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,491	1,937
End of year	$ 1,290	$ 1,491
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,349	$ 1,419
Amounts included in year end accounts payable for the purchase of property and equipment	$ 389	$ 1,258

See notes to financial statements.

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 Schools.

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*, 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 ("Board") or may otherwise be limited by contractual agreements with outside parties.

The College follows the guidance in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA). 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 received 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. As such, the College is taxed only on any net unrelated business income under Section 511 of the Code.

GAAP requires management to evaluate tax positions taken by the College and recognize a tax liability (or asset) if the College has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the College, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The College is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

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 0.50% and 9.00% and between 1.50% and 9.00% as of June 30, 2012 and 2011, respectively, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately $18,956 and $21,549 as of June 30, 2012 and 2011, 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*.

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. Fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Investments are recorded at fair value primarily as determined by values provided by external investment managers or quoted market prices.

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 estimated fair value of bonds payable was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the College for debt of similar original maturity. The carrying value of the College's bonds payable was $117,159 and $124,253 at June 30, 2012 and 2011, respectively; the fair value was approximately $122,002 and $125,821 at June 30, 2012 and 2011, respectively.

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 — In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which amends ASC 820. ASU 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The new guidance is effective for reporting periods beginning after December 15, 2011. The adoption is not expected to have a material effect on the College's financial position, changes in net assets, or cash flows. College management has not determined the impact on the disclosures in the financial statements.

Subsequent Events — Subsequent events related to the financial statements have been evaluated through October 26, 2012, 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, *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 — Unadjusted 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. Transfers between levels occur when there is a change in the observability of significant inputs. This may occur between Level 1 and Level 2 when the availability of quoted prices changes, or when market activity significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with market observable data. Transfers between levels are recognized on the date they occur.

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.

In 2012 the College had transfers out of Level 3 and into Level 1 of $15,768 related to an investment in a commingled equity fund. This transfer resulted from a change in the observable inputs used to measure the fair value of the investment. The commingled equity fund previously was priced using unobservable inputs, but has since began trading on an exchange and is currently priced using unadjusted quoted prices in an active market. For the years ended June 30, 2012 and 2011, there were no other significant transfers in or out of Levels 1, 2, or 3.

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 tables set forth the College's investments by major categorization on the basis of the nature and risk of the investments by level within the fair value hierarchy as of June 30, 2012 and 2011, as required by ASC 820:

	Investments at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ 67,670	$ 12,998	$ -	$ 80,668
United States government and agency notes and bonds	23,561	88,378		111,939
Corporate and other bonds	25,191	1,716		26,907
Marketable equity interests	566,962			566,962
Commingled funds (a)			203,715	203,715
Private equity (b)			270,404	270,404
Distressed (c)			129,190	129,190
Real estate (d)			41,338	41,338
Other (e)			437	437
Total investments at fair value	$ 683,384	$ 103,092	$ 645,084	$ 1,431,560

	Investments at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ 38,595	$ 23,988	$ -	$ 62,583
United States government and agency notes and bonds	31,253	57,025		88,278
Corporate and other bonds	25,219	5,096		30,315
Marketable equity interests	646,794			646,794
Commingled funds (a)			254,180	254,180
Private equity (b)			261,513	261,513
Distressed (c)			163,984	163,984
Real estate (d)			42,956	42,956
Other (e)			571	571
Total investments at fair value	$ 741,861	$ 86,109	$ 723,204	$ 1,551,174

(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 at June 30, 2012.

(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 $148,656 at June 30, 2012.

(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 $28,252 at June 30, 2012.

(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 $12,292 at June 30, 2012.

(e) The other category primarily consists of community investments. Unfunded commitments are $0 at June 30, 2012.

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:

	Commingled Funds	Private Equity	Distressed	Real Estate	Other	Total
Balance as of July 1, 2010	$213,685	$216,763	$172,638	$32,081	$ 1,874	$ 637,041
Realized and unrealized gains	41,440	33,937	27,517	7,272	872	111,038
Purchases	15,000	57,025	2,375	9,018		83,418
Sales	(15,945)	(46,212)	(38,546)	(5,415)	(2,175)	(108,293)
Balance as of June 30, 2011	254,180	261,513	163,984	42,956	571	723,204
Realized and unrealized gains (losses)	(4,558)	9,466	4,760	801	948	11,417
Purchases	50,000	62,970	5,750	5,911		124,631
Sales	(80,139)	(63,545)	(45,304)	(8,330)	(1,082)	(198,400)
Transfer	(15,768)					(15,768)
Balance as of June 30, 2012	$203,715	$270,404	$129,190	$41,338	$ 437	$ 645,084

The change in unrealized gains (losses) reported above that relate to Level 3 assets held at June 30, 2012 and June 30, 2011, are $(24,925) and $94,929, respectively, and are included in net realized and unrealized gains (losses) on investments on the statements of activities.

3. ENDOWMENT

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.

Per the State of Iowa's statute, 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. 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. UPMIFA 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, 2012 and 2011:

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	$ (429)	$ 328,636	$ 93,703	$ 421,910
Board designated	961,946			961,946
Total endowment net assets	$ 961,517	$ 328,636	$ 93,703	$ 1,383,856

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	$ (175)	$ 365,734	$ 91,126	$ 456,685
Board designated	1,043,535			1,043,535
Total endowment net assets	$ 1,043,360	$ 365,734	$ 91,126	$ 1,500,220

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 affirmed the current endowment spending policy on June 10, 2011. For the years ended June 30, 2012 and 2011, 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. The reserve allocation was suspended for fiscal years 2009 and 2010 and restarted in fiscal year 2011 and continued for fiscal year 2012.

Endowment activity was as follows for the fiscal years ended June 30, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of July 1, 2010	$ 800,147	$292,728	$ 88,710	$ 1,181,585
Endowment return:				
Investment income, net of expenses	11,412	5,611	1,154	18,177
Net realized and unrealized gains on investments	176,762	83,603		260,365
Net endowment return	188,174	89,214	1,154	278,542
Gifts			1,036	1,036
Endowment spending distribution	(51,200)			(51,200)
Release or change in restriction	16,210	(16,221)	226	215
Transfers	90,029	13		90,042
Endowment net assets as of June 30, 2011	1,043,360	365,734	91,126	1,500,220
Endowment return:				
Investment income, net of expenses	12,557	5,532	1,092	19,181
Net realized and unrealized losses on investments	(61,753)	(26,783)		(88,536)
Net endowment return	(49,196)	(21,251)	1,092	(69,355)
Gifts	3,098		1,464	4,562
Endowment spending distribution	(53,281)			(53,281)
Release or change in restriction	15,895	(15,847)	21	69
Transfers	1,641			1,641
Endowment net assets as of June 30, 2012	$ 961,517	$328,636	$ 93,703	$ 1,383,856

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 $429 and $175 for the years ended June 30, 2012 and 2011, respectively. The College applies its standard spending policy to these funds.

4. LOANS TO STUDENTS

Loans to students consists of the following at June 30, 2012 and 2011:

	2012	2011
Federal Perkins loan program	$ 4,747	$ 4,974
Institutional loans	3,341	3,245
Donor-sponsored loans	215	284
	8,303	8,503
Less allowance for doubtful loans:		
Beginning of year	383	388
Adjustments	7	6
Write-offs	(4)	(11)
End of year	386	383
Loans to students-less allowance for doubtful loans	$ 7,917	$ 8,120

Past due amounts are the following at June 30, 2012 and 2011:

	2012	2011
Less than 240 days	$ 352	$ 392
240 days–2 years	157	123
2 years–5 years	179	157
Greater than 5 years	199	168
Total past due amounts	$ 887	$ 840

The College makes loans to students based on financial need. Student loans are funded through Federal government loan programs, institutional resources or donor-sponsored funds.

The Federal Perkins loan program is a revolving loan program through the Federal government. Funds advanced by the government are ultimately refundable to the government and are classified as liabilities in the statements of financial position in the amounts of $2,525 and $2,494, respectively, at June 30, 2012 and 2011.

Allowances for doubtful loans are established based on prior collection experience and current economic factors. Institutional and donor-sponsored loans are written-off when deemed permanently uncollectible. The allowance for doubtful loans related to the Federal Perkins loan program of $110 and $130, respectively, at June 30, 2012 and 2011, is offset in the refundable amount due to the government classified as a liability in the statements of financial position.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following components as of June 30, 2012 and 2011:

	2012	2011
Land and improvements	$ 11,698	$ 10,779
Buildings and improvements	325,223	321,603
Equipment and furnishings	66,245	64,603
Construction in process	1,119	1,784
	404,285	398,769
Less accumulated depreciation	150,099	138,983
	$ 254,186	$ 259,786

As of June 30, 2012 and 2011, the College has outstanding construction contract commitments totaling $292 and $1,821, respectively.

6. 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 defined contribution plan expense for the years ended June 30, 2012 and 2011, was $3,802 and $3,710, respectively. Contributions are funded on a current basis.

7. 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, funded status (deficiency), components of net periodic benefit costs, and weighted average actuarial assumptions as of June 30, 2012 and 2011:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 21,104	$ 20,772
Service cost	914	925
Interest cost	1,168	1,109
Actuarial (gain) loss	10,140	(1,506)
Medicare Part D subsidy	84	82
Benefits paid in excess of retiree contributions	(320)	(278)
Benefit obligation at end of year	$ 33,090	$ 21,104

	2012	2011
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 3,347	$ 2,833
Return (loss) on plan assets	(216)	436
Employer contributions	298	274
Retiree contributions	289	264
Medicare Part D subsidy	84	82
Benefits paid	(609)	(542)
Fair value of plan assets at end of year	$ 3,193	$ 3,347
Funded status (deficiency)	$ (29,897)	$ (17,757)

	2012	2011
Components of net periodic benefit cost:		
Service cost	$ 914	$ 925
Interest cost	1,168	1,109
Amortization of loss	8	190
Amortization of prior service cost	177	177
Expected return on assets	(204)	(172)
Net periodic benefit cost	$ 2,063	$ 2,229

	2012	2011
Actuarial assumptions:		
Discount rate	4.10 %	5.60 %
Expected return on plan assets	6.00	6.00
Healthcare cost present trend rate for participants up to 65 medical/prescription drug	7.1-8.5	7.4–9.0
Healthcare cost present trend rate for participants 65 and over medical/prescription drug	7.1-8.5	7.4–9.0
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	$ 459	$ (356)
Effect on postretirement benefit obligations	6,614	(5,199)

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 2013 through 2022:

2013	$ 590
2014	724
2015	847
2016	960
2017	1,045
Years 2018–2022	6,791

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 2013 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, 2012, (measurement date) is 83% in fixed income investments and 17% 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 $84 and $82 for fiscal years 2012 and 2011, respectively.

8. NET ASSETS

Temporarily restricted net assets as of June 30, 2012 and 2011, consist of the following:

	2012	2011
General purposes	$ 67,369	$ 74,251
Instruction	105,217	117,822
Academic support	28,691	30,761
Student services	36,180	40,008
Institutional support	15,672	17,294
Scholarships, grants and loans	79,123	88,746
Facilities operations	245	302
Split interest agreements	4,306	5,357
	$ 336,803	$ 374,541

Permanently restricted net assets (investments to be held in perpetuity) as of June 30, 2012 and 2011, consist of the following:

	2012	2011
General purposes	$ 10,286	$ 10,330
Instruction	40,800	39,553
Academic support	4,092	4,136
Student services	8,444	8,172
Institutional support	2,515	2,515
Scholarships, grants and loans	32,386	31,578
Facilities operations	10	10
	$ 98,533	$ 96,294

9. CONDITIONAL PROMISES TO GIVE

Conditional promises to give are not reported in the financial statements until the promises become unconditional. Conditional promises totaling approximately $2,139 at June 30, 2012, primarily restricted to facilities use, are expected to be received during the next five fiscal years.

10. BONDS PAYABLE

Bonds payable at June 30, 2012 and 2011, consist of the following:

	2012	2011
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	53,005	58,905
	113,005	118,905
Premium on revenue bonds dated March 9, 2010	4,154	5,348
	$ 117,159	$ 124,253

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, 2012 and 2011, respectively, the weekly bond interest rate was .18% and .08%, respectively. The College is party to a standby bond purchase agreement dated June 1, 2008, and extended to June 25, 2013, 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 $50,000 of Series 2001 Private College Facility Variable Rate Demand 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.

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, 2012, are as follows:

2013	$ 5,900
2014	5,900
2015	5,900
2016	5,900
2017	5,900
Thereafter	83,505
	$ 113,005

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