



Grinnell College

Of i

Treasurer

FINANCIAL REPORT

JUNE 30, 2018

TRUSTEES OF GRINNELL COLLEGE

**TRUSTEES OF GRINNELL COLLEGE
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Trustees of Grinnell College
Grinnell, Iowa

We have audited the accompanying financial statements of Trustees of Grinnell College (the College), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Trustees of Grinnell College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 5, 2018

TRUSTEES OF GRINNELL COLLEGE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 3,484	\$ 2,134
Accounts Receivable - Less Allowance for Doubtful Accounts of \$52 in 2018 and \$46 in 2017	1,470	1,428
Inventories and Prepaid Expenses	3,739	4,331
Contribution and Bequest Receivable - Net (Note 4)	7,037	8,691
Loans to Students - Less Allowance for Doubtful Loans of \$493 in 2018 and \$501 in 2017 (Note 5)	6,173	6,608
Beneficial Interest in Trust (Note 2)	11,819	-
Investments (Note 2)	2,115,756	2,040,915
Property and Equipment - Net (Note 6)	290,045	236,345
Total Assets	\$ 2,439,523	\$ 2,300,452
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 13,714	\$ 7,956
Accrued Payroll and Fringe Benefits	6,198	5,593
Deferred Revenue and Deposits	4,578	4,039
Annuities Payable	7,215	6,798
Funds Held in Trust for Others	271	258
Bonds Payable (Note 10)	195,394	202,921
Accrued Postretirement Benefit Obligation (Note 8)	22,664	21,076
United States Government Grants Refundable	2,285	2,546
Total Liabilities	252,319	251,187
NET ASSETS		
Unrestricted (Note 3)	1,525,102	1,443,008
Temporarily Restricted (Notes 3 and 9)	527,355	488,048
Permanently Restricted (Notes 3 and 9)	134,747	118,209
Total Net Assets	2,187,204	2,049,265
Total Liabilities and Net Assets	\$ 2,439,523	\$ 2,300,452

See accompanying Notes to Financial Statements.

TRUSTEES OF GRINNELL COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(DOLLARS IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenue, Gains, and Other Support:				
Tuition and Fees	\$ 82,663	\$ -	\$ -	\$ 82,663
Grants and Scholarships	(47,375)	-	-	(47,375)
Tuition Remission	(1,109)	-	-	(1,109)
Net Tuition and Fees	<u>34,179</u>	-	-	<u>34,179</u>
Government Grants and Contracts	811	412	-	1,223
Private Gifts and Grants	1,826	2,832	-	4,658
Net Realized and Unrealized Loss on Investments	(5)	-	-	(5)
Investment Income	782	9	-	791
Auxiliary Income	17,799	-	-	17,799
Other	755	15	-	770
Net Operating Revenues	<u>56,147</u>	<u>3,268</u>	-	<u>59,415</u>
Endowment Spending Distribution	77,781	-	-	77,781
Net Assets Released from Restrictions	<u>3,399</u>	<u>(3,389)</u>	-	<u>10</u>
Net Resources Funding Operations	<u>137,327</u>	<u>(121)</u>	-	<u>137,206</u>
Expenses and Losses:				
Instruction	44,603	-	-	44,603
Academic Support	17,028	-	-	17,028
Student Services	23,955	-	-	23,955
Institutional Support	23,769	-	-	23,769
Auxiliary Enterprises	16,414	-	-	16,414
Total Operating Expenses	<u>125,769</u>	<u>-</u>	<u>-</u>	<u>125,769</u>
Change in Net Assets from Operating Activities	11,558	(121)	-	11,437
NONOPERATING ACTIVITIES				
Private Gifts and Grants	2,425	2,882	16,975	22,282
Net Realized and Unrealized Gains on Investments	114,355	52,631	352	167,338
Investment Income	11,860	5,672	2	17,534
Endowment Spending Distribution	(77,781)	-	-	(77,781)
Net Assets Released from Restrictions	21,584	(21,433)	(161)	(10)
Change in Value of Split Interest Agreements	-	(324)	(630)	(954)
Loss on Disposal of Property and Equipment	(110)	-	-	(110)
Postretirement Benefit Plan Related Changes, Other than Net Periodic Postretirement Benefit Cost	<u>(1,797)</u>	<u>-</u>	<u>-</u>	<u>(1,797)</u>
Change in Net Assets from Nonoperating Activities	<u>70,536</u>	<u>39,428</u>	<u>16,538</u>	<u>126,502</u>
TOTAL CHANGE IN NET ASSETS	<u>82,094</u>	<u>39,307</u>	<u>16,538</u>	<u>137,939</u>
Net Assets - Beginning of Year	<u>1,443,008</u>	<u>488,048</u>	<u>118,209</u>	<u>2,049,265</u>
NET ASSETS - END OF YEAR	<u>\$ 1,525,102</u>	<u>\$ 527,355</u>	<u>\$ 134,747</u>	<u>\$ 2,187,204</u>

See accompanying Notes to Financial Statements.

TRUSTEES OF GRINNELL COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(DOLLARS IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenue, Gains, and Other Support:				
Tuition and Fees	\$ 79,808	\$ -	\$ -	\$ 79,808
Grants and Scholarships	(46,607)	-	-	(46,607)
Tuition Remission	(1,293)	-	-	(1,293)
Net Tuition and Fees	31,908	-	-	31,908
Government Grants and Contracts	809	322	-	1,131
Private Gifts and Grants	2,169	3,335	-	5,504
Net Realized and Unrealized Loss on Investments	(52)	-	-	(52)
Investment Income	430	8	-	438
Auxiliary Income	17,303	-	-	17,303
Other	495	13	-	508
Net Operating Revenues	53,062	3,678	-	56,740
Endowment Spending Distribution	82,904	-	-	82,904
Net Assets Released from Restrictions	3,335	(3,335)	-	-
Net Resources Funding Operations	139,301	343	-	139,644
Expenses and Losses:				
Instruction	44,609	-	-	44,609
Academic Support	15,878	-	-	15,878
Student Services	23,353	-	-	23,353
Institutional Support	23,967	-	-	23,967
Auxiliary Enterprises	18,009	-	-	18,009
Total Operating Expenses	125,816	-	-	125,816
Change in Net Assets from Operating Activities	13,485	343	-	13,828
NONOPERATING ACTIVITIES				
Private Gifts and Grants	1,227	923	2,317	4,467
Net Realized and Unrealized Gains on Investments	184,576	82,947	830	268,353
Investment Income	23,893	10,717	(2)	34,608
Endowment Spending Distribution	(82,904)	-	-	(82,904)
Net Assets Released from Restrictions	21,319	(21,646)	327	-
Change in Value of Split Interest Agreements	-	(749)	(1,087)	(1,836)
Loss on Disposal of Property and Equipment	(182)	-	-	(182)
Postretirement Benefit Plan Related Changes, Other than Net Periodic Postretirement Benefit Cost	(326)	-	-	(326)
Change in Net Assets from Nonoperating Activities	147,603	72,192	2,385	222,180
TOTAL CHANGE IN NET ASSETS	161,088	72,535	2,385	236,008
Net Assets - Beginning of Year	1,281,920	415,513	115,824	1,813,257
NET ASSETS - END OF YEAR	\$ 1,443,008	\$ 488,048	\$ 118,209	\$ 2,049,265

See accompanying Notes to Financial Statements.

TRUSTEES OF GRINNELL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 137,939	\$ 236,008
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	10,038	10,270
Amortization of Bond Premium	(1,700)	(1,176)
Net Realized and Unrealized Gains on Investments	(166,364)	(268,481)
Provision for Recoveries of Losses	-	69
Loss on Disposal of Property and Equipment	110	182
Change in Beneficial Interest in Trust	(11,819)	-
Restricted Contributions	(11,282)	(6,897)
Postretirement Benefit Plan Related Changes, Other than Net Periodic Postretirement Benefit Cost	1,797	326
Actuarial Loss on Annuities Payable	941	1,721
Change in Assets and Liabilities:		
Accounts Receivable	(52)	(30)
Contribution and Bequest Receivable	(797)	515
Inventories and Prepaid Expenses	592	153
Accounts Payable and Accrued Liabilities	727	1,297
Funds Held in Trust for Others	13	(540)
Deferred Revenue and Deposits	539	870
Accrued Postretirement Benefit Obligation	(209)	(78)
Net Cash Used by Operating Activities	(39,527)	(25,791)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(58,686)	(17,833)
Proceeds from Sales of Property and Equipment	547	77
Disbursements of Loans to Students	(936)	(873)
Principal Payments Received on Loans to Students	1,381	1,336
Purchases of Investments	(530,857)	(795,421)
Proceeds from Sales and Maturities of Investments	622,380	715,249
Net Cash Provided (Used) by Investing Activities	33,829	(97,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted Contributions	13,733	9,854
Change in United States Government Grants Refundable	(261)	4
Payments on Annuities Payable	(524)	(534)
Proceeds from Issuance of Bonds	-	120,702
Payment of Bond Issuance Costs	-	(695)
Payments on Bonds Payable	(5,900)	(5,900)
Net Cash Provided by Financing Activities	7,048	123,431
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,350	175
Cash and Cash Equivalents - Beginning of Year	2,134	1,959
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,484	\$ 2,134
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 8,446	\$ 5,250
Amounts Included in Year-End Accounts Payable for the Purchase of Property and Equipment	\$ 9,601	\$ 3,964
Donated Securities	\$ 6,809	\$ 2,345

See accompanying Notes to Financial Statements.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Founded in 1846, Grinnell College (the College) is a private, coeducational, residential liberal arts college located in Grinnell, Iowa. The College is committed to academic excellence, the intellectual and physical well-being of all, and the pursuit of good in the world. Grinnell students come from every state in the U.S., as well as nearly 50 countries globally. The College strives to create a multicultural diverse community, open to the academically qualified regardless of ability to pay.

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 (the 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 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.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 Internal Revenue Service (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, 2018, 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.

Accounts Receivable

Receivables are stated at net realizable value and are unsecured. The College does not charge interest on its accounts receivable. The College provides an allowance for doubtful accounts using the allowance method, which is based on management's judgment considering historical information. Accounts past due more than 90 days are individually analyzed for collectability. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

Inventories

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

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, with an acquisition cost of \$15,000 or greater, 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:

Buildings and Improvements	20 – 40 Years
Equipment and Furnishings	3 – 10 Years

Expenditures for new equipment, buildings, and improvements that 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 and 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

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected discounted at an appropriate discount rate commensurate with the risks involved. Conditional promises are not included as revenue until such times as the conditions are substantially met.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts (Continued)

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.

Deferred Revenue and Deposits

The College records cash received for future services as deferred revenue. This revenue is recognized when services are provided. Deferred revenue consists primarily of unearned tuition.

Split Interest Agreements

The College is the beneficiary of various trusts and annuities. The College's interest in these split interest agreements is reported as a contribution in the year received at its net present value, discounted at rates between 1.00% and 9.00% as of June 30, 2018 and 2017, respectively, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately \$10,624 and \$9,963 as of June 30, 2018 and 2017, respectively, and are included in investments on the statements of financial position.

For irrevocable term trusts for which the College does not serve as trustee, contribution revenue and a trust asset are recognized at the date the trust is established for the present value of the estimated future payments to be received. For perpetual trusts for which the College does not serve as trustee, contribution revenue and a trust asset are recognized at the date the trust is established for the College's share of the fair value of trust assets.

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.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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*.

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.

Subsequent Events

Subsequent events related to the financial statements have been evaluated through October 5, 2018, 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.

NOTE 2 INVESTMENTS, COMMITMENTS AND FAIR VALUE MEASUREMENTS

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, or not traded on an open exchange; and model-derived valuations in which all significant inputs are directly or indirectly observable.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 2 INVESTMENTS, COMMITMENTS, AND FAIR VALUE MEASUREMENTS (CONTINUED)

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 typically 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), that are registered investment companies and have daily net asset values (NAV) are classified in Level 1. Certain mutual funds with observable inputs, but not traded on an open exchange are classified in Level 2.

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.

For the years ended June 30, 2018 and 2017, there were no 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 on 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.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 2 INVESTMENTS, COMMITMENTS, AND FAIR VALUE MEASUREMENTS (CONTINUED)

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. For the public securities held by the limited partnerships, investment office staff verifies the price of each public security and recalculates the resulting market value. Investments in limited partnerships and similar nonmarketable equity interests using NAV as a practical expedient have been classified as such. Investments that do not use NAV as a practical expedient have been classified in 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, as required by ASC 820, as of June 30, 2018 and 2017:

	Investments at Fair Value as of June 30, 2018				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 74,829	\$ 40,808	\$ -	\$ 115,637
United States Government and					
Agency Notes and Bonds	-	4,967	162,940	-	167,907
Corporate and Other Bonds	-	17,390	-	-	17,390
Marketable Equity Interests	-	544,168	94,482	-	638,650
Commingled Funds (a)	477,547	-	-	-	477,547
Private Equity (b)	529,342	-	-	21,526	550,868
Distressed (c)	101,350	-	-	-	101,350
Real Assets (d)	45,865	-	-	-	45,865
Other (e)	-	-	-	12,361	12,361
Total Investments at Fair Value	\$ 1,154,104	\$ 641,354	\$ 298,230	\$ 33,887	\$ 2,127,575

	Investments at Fair Value as of June 30, 2017				
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 95,363	\$ 57,969	\$ -	\$ 153,332
United States Government and					
Agency Notes and Bonds	-	4,081	189,827	-	193,908
Corporate and Other Bonds	-	18,250	16,219	-	34,469
Marketable Equity Interests	-	555,377	79,770	-	635,147
Commingled Funds (a)	442,600	-	-	-	442,600
Private Equity (b)	423,020	-	-	22,434	445,454
Distressed (c)	83,854	-	-	-	83,854
Real Assets (d)	51,615	-	-	-	51,615
Other (e)	-	-	-	536	536
Total Investments at Fair Value	\$ 1,001,089	\$ 673,071	\$ 343,785	\$ 22,970	\$ 2,040,915

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 2 INVESTMENTS, COMMITMENTS, AND FAIR VALUE MEASUREMENTS (CONTINUED)

- (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 four years, with a notice period of 30 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, 2018 and 2017.
- (b) Private equity includes limited partnership interests and direct investments 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 \$141,476 and \$166,421 at June 30, 2018 and 2017, respectively.
- (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 \$67,919 and \$87,456 at June 30, 2018 and 2017, respectively.
- (d) Real assets include limited partnership interests and direct investments in real estate, real estate related assets or businesses, infrastructure, and natural resources. Limited partnership interests are not eligible for redemption and have terms of 8 to 10 years. Real asset funds are invested globally. Unfunded commitments are \$52,963 and \$13,760 at June 30, 2018 and 2017, respectively.
- (e) The other category primarily consists of perpetual trusts, beneficial interests in external trusts, and community investments. Unfunded commitments are \$-0- at June 30, 2018 and 2017.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 INVESTMENTS, COMMITMENTS, AND FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	Private Equity	Other	Total
Balance as of June 30, 2016	\$ 18,043	\$ 546	\$ 18,589
Realized and Unrealized Gains	3,189	1,027	4,216
Purchases	1,500	-	1,500
Sales	(298)	(1,037)	(1,335)
Balance as of June 30, 2017	22,434	536	22,970
Realized and Unrealized Gains (Losses)	(608)	1,279	671
Purchases	-	-	-
Sales	(300)	(1,273)	(1,573)
Contribution of Interest in Beneficial Trust	-	11,819	11,819
Balance as of June 30, 2018	<u>\$ 21,526</u>	<u>\$ 12,361</u>	<u>\$ 33,887</u>

The change in unrealized gains (losses) reported above that relate to Private Equity Level 3 assets held at June 30, 2018 and 2017 are \$(908) and \$2,891, respectively, and are included in net realized and unrealized gains on investments on the statements of activities.

NOTE 3 ENDOWMENT

The College's endowment consists of donor-restricted funds and other Board designated funds that 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.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(DOLLARS IN THOUSANDS)

NOTE 3 ENDOWMENT (CONTINUED)

The endowment consists of the following net asset components as of June 30, 2018 and 2017:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted	\$ -	\$ 510,640	\$ 128,831	\$ 639,471
Board Designated	1,352,134	-	-	1,352,134
Total Endowment Net Assets	\$ 1,352,134	\$ 510,640	\$ 128,831	\$ 1,991,605

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor Restricted	\$ -	\$ 473,719	\$ 115,234	\$ 588,953
Board Designated	1,282,093	-	-	1,282,093
Total Endowment Net Assets	\$ 1,282,093	\$ 473,719	\$ 115,234	\$ 1,871,046

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, recognizing the impact of volatility and liquidity on its responsibility to provide predictable and stable financial support for the College's mission as a fine liberal arts college. Total return is expected to meet or exceed endowment spending plus inflation, thereby preserving or enhancing 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 process which identifies a strategic mix of asset classes to produce the highest expected investment return within a prudent risk framework, utilizing bottom-up decision-making methods. The perpetual nature of the endowment funds and the significant degree to which the College relies on endowment distributions to support the operations of the College is considered.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

For the years ended June 30, 2018 and 2017, the Board affirmed the College's endowment spending policy, which calculates the annual distribution as 4.00% of a 12-quarter moving average of the fair value of endowment net assets. The spending policy does not permit the entire annual distribution to be used to support the College's operating budget. Accordingly, the Board annually approves allocation of a portion of the endowment distribution to reserve funds and other purposes outside of the operating budget.

At its October 2015 meeting, the Board approved an exception to the endowment spending policy, authorizing an additional \$56 million to be distributed over the six-year period FY 2016 through FY 2021, approximately \$9.3 million/year, over and above the standard 4% payout. The additional payout is structured to address a number of high priority strategic initiatives over the designated six-year period.

At its April 2016 meeting, the Board authorized an endowment allocation of \$76 million to reserve funds to be allocated over the six-year period FY 2017 through FY 2022. Distribution from the endowment occurs based on liquidity needs and funding priorities for strategic initiatives.

Endowment activity was as follows for the fiscal years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets as of June 30, 2016	\$ 1,135,225	\$ 401,974	\$ 111,584	\$ 1,648,783
Endowment Return:				
Investment Income, Net of Expenses	23,268	10,717	-	33,985
Net Realized and Unrealized Gains on Investments	184,980	82,549	-	267,529
Net Endowment Return	<u>208,248</u>	<u>93,266</u>	<u>-</u>	<u>301,514</u>
Gifts	-	-	2,105	2,105
Endowment Spending Distribution	(82,904)	-	-	(82,904)
Release or Change in Restriction	21,271	(21,598)	1,545	1,218
Transfers	253	77	-	330
Endowment Net Assets as of June 30, 2017	<u>1,282,093</u>	<u>473,719</u>	<u>115,234</u>	<u>1,871,046</u>
Endowment Return:				
Investment Income, Net of Expenses	12,255	5,672	-	17,927
Net Realized and Unrealized Gains on Investments	113,966	52,496	-	166,462
Net Endowment Return	<u>126,221</u>	<u>58,168</u>	<u>-</u>	<u>184,389</u>
Gifts	-	-	13,528	13,528
Endowment Spending Distribution	(77,781)	-	-	(77,781)
Release or Change in Restriction	21,570	(21,328)	69	311
Transfers	31	81	-	112
Endowment Net Assets as of June 30, 2018	<u>\$ 1,352,134</u>	<u>\$ 510,640</u>	<u>\$ 128,831</u>	<u>\$ 1,991,605</u>

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 ENDOWMENT (CONTINUED)

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 \$0 for the years ended June 30, 2018 and 2017, respectively. The College applies its standard spending policy to these funds.

NOTE 4 CONTRIBUTION AND BEQUEST RECEIVABLE-NET

Contribution and bequest receivable consists of the following at June 30, 2018 and 2017:

	2018	2017
Less than One Year	\$ 1,944	\$ 4,112
One Year to Five Years	4,937	4,010
Greater than 5 Years	400	802
	7,281	8,924
Less: Discount to Present Value (2.7%)	244	233
Contribution and Bequest Receivable - Net	\$ 7,037	\$ 8,691

For the year ended June 30, 2018, contribution and bequest receivable included three gifts that represented 35.5% of the total balance. For the year ended June 30, 2017, contribution and bequest receivable included three gifts that represented 61.1% of the total balance. The College has determined that no allowance is necessary as of June 30, 2018 and 2017.

NOTE 5 LOANS TO STUDENTS

Loans to students consist of the following at June 30, 2018 and 2017:

	2018	2017
Federal Perkins Loan Program	\$ 2,405	\$ 3,006
Institutional Loans	3,885	3,738
Donor-Sponsored Loans	376	365
	6,666	7,109
Less: Allowance for Doubtful Loans:		
Beginning of Year	501	438
Adjustments	(6)	71
Write-Offs	(2)	(8)
End of Year	493	501
Loans to Students - Less Allowance for Doubtful Loans	\$ 6,173	\$ 6,608

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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(DOLLARS IN THOUSANDS)

NOTE 5 LOANS TO STUDENTS (CONTINUED)

Past due amounts are the following at June 30, 2018 and 2017:

	2018	2017
Less than 240 Days	\$ 307	\$ 350
240 Days - 2 Years	211	220
2 Years - 5 Years	226	213
Greater than 5 Years	247	299
Total Past Due Amounts	<u>\$ 991</u>	<u>\$ 1,082</u>

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 \$2,285 and \$2,546 at June 30, 2018 and 2017, respectively.

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 \$60 and \$110 at June 30, 2018 and 2017, respectively, is offset in the refundable amount due to the government classified as a liability in the statements of financial position.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following components as of June 30, 2018 and 2017:

	2018	2017
Land and Improvements	\$ 13,875	\$ 13,987
Buildings and Improvements	333,931	333,110
Equipment and Furnishings	72,486	70,910
Construction in Process	80,704	20,058
Total	<u>500,996</u>	<u>438,065</u>
Less: Accumulated Depreciation	210,951	201,720
Total	<u>\$ 290,045</u>	<u>\$ 236,345</u>

As of June 30, 2018 and 2017, the College has outstanding construction contract commitments totaling \$55,195 and \$81,251, respectively. The College issued \$104,455 of bonds to finance the construction. Of this amount, \$57,899 remains in investments on the statements of financial position.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 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, 2018 and 2017 was \$5,268 and \$5,040, respectively. Contributions are funded on a current basis.

NOTE 8 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, 2018 and 2017:

	2018	2017
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 28,768	\$ 27,300
Service Cost	1,568	1,517
Interest Cost	1,049	914
Actuarial Gain	(431)	(223)
Benefits Paid in Excess of Retiree Contributions	(612)	(740)
Benefit Obligation at End of Year	\$ 30,342	\$ 28,768
Change in Fair Value of Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 7,692	\$ 6,472
Return on Plan Assets	496	1,847
Employer Contributions	102	113
Retiree Contributions	106	96
Benefits Paid	(718)	(836)
Fair Value of Plan Assets at End of Year	\$ 7,678	\$ 7,692
Funded Status (Deficiency)	\$ (22,664)	\$ (21,076)

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

	2018	2017
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 1,568	\$ 1,517
Interest Cost	1,049	914
Amortization of Loss	782	1,033
Amortization of Prior Service Cost	(3,166)	(3,166)
Expected Return on Assets	(443)	(376)
Net Periodic Benefit Cost	\$ (210)	\$ (78)
Actuarial Assumptions:		
Discount Rate	4.10%	3.70%
Expected Return on Plan Assets	6.00	6.00
Healthcare Cost Present Trend Rate for Participants up to 65 Medical/Prescription Drug	7.35-7.35	7.5-7.5
Healthcare Cost Present Trend Rate for Participants 65 and Over Medical/Prescription Drug	7.35-7.35	7.5-7.5
Healthcare Cost Ultimate Trend Rate (Year of Stabilization)	4.50 (2038)	4.50 (2038)

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	\$ 568	\$ (442)
Effect on Postretirement Benefit Obligations	4,715	(3,822)

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 2019 through 2028:

Year Ending June 30,	Amount
2019	\$ 961
2020	1,074
2021	1,259
2022	1,333
2023	1,496
Years 2024 – 2028	9,541

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

Cash Contributions and Benefit Payments (Continued)

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 2019 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, 2018, (measurement date) is 60% in fixed income investments and 40% 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.

NOTE 9 NET ASSETS

Temporarily restricted net assets as of June 30, 2018 and 2017 consist of the following:

	2018	2017
General Purposes	\$ 97,934	\$ 91,811
Instruction	183,355	170,639
Academic Support	45,171	43,060
Student Services	37,484	34,457
Institutional Support	23,891	22,329
Auxiliary Enterprises	3	-
Scholarships, Grants, and Loans	133,455	122,325
Facilities Operations	5,600	2,898
Split Interest Agreements	462	529
Total	\$ 527,355	\$ 488,048

Permanently restricted net assets (investments to be held in perpetuity) as of June 30, 2018 and 2017 consist of the following:

	2018	2017
General Purposes	\$ 11,373	\$ 9,693
Instruction	40,378	39,368
Academic Support	10,929	9,970
Student Services	14,309	12,284
Institutional Support	3,340	3,335
Scholarships, Grants, and Loans	54,408	43,549
Facilities Operations	10	10
Total	\$ 134,747	\$ 118,209

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 BONDS PAYABLE

Bonds payable at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Revenue Bonds dated March 9, 2010 with Final Maturity on December 1, 2020	\$ 17,605	\$ 23,505
Revenue Bonds dated November 20, 2014 with Final Maturity on December 1, 2044	56,415	56,415
Revenue Bonds dated February 7, 2017 with Final Maturity on December 1, 2046	<u>104,455</u>	<u>104,455</u>
	178,475	184,375
Capitalized Bond Issuance Costs	(1,077)	(1,150)
Premium on Revenue Bonds	17,996	19,696
Total	<u>\$ 195,394</u>	<u>\$ 202,921</u>

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.

On November 20, 2014, IHELA issued an aggregate of \$56,415 of Private College Facility Revenue Refunding Bonds (at a premium of \$3,966). The proceeds were used to advance refund the Series 2008 Private College Facility Variable Rate Demand Revenue bonds. The 2014 bond issue was structured as 16 separate serial bonds in principal amounts ranging from \$1,340 to \$16,710, at interest rates ranging from 3.0% to 5.0%. Interest on the 2014 bonds is payable each June 1 and December 1.

On February 7, 2017, IHELA issued an aggregate of \$104,455 of Private College Facility Revenue Refunding Bonds (at a premium of \$16,247). The 2017 bond issue was structured as 18 separate serial bonds in principal amounts ranging from \$2,155 to \$31,050, at interest rates ranging from 4.0% to 5.0%. Interest on the 2017 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.

TRUSTEES OF GRINNELL COLLEGE
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 BONDS PAYABLE (CONTINUED)

Scheduled maturities on bonds payable of the College subsequent to June 30, 2018 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 5,900
2020	5,900
2021	5,805
2022	3,495
2023	3,650
Thereafter	153,725
Total	<u>\$ 178,475</u>

NOTE 11 CONTINGENCIES

The College is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management believes that the resolution of these pending matters will not have a materially adverse effect on the College's financial statements.

NOTE 12 RELATED PARTY

"Contribution and Bequest Receivable" from members of the Board are included in the financial statements. The contribution and bequest receivable outstanding from trustees totaled \$2,785 and \$6,296 at June 30, 2018 and 2017, respectively. The College has a conflict of interest policy in place. Disclosures are updated by each trustee annually.



Grinnell College

Of i

Treasurer

641-269 9700

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