

# Financial Report

June 30, 2017  
Trustees of Grinnell College



GRINNELL COLLEGE

**TRUSTEES OF GRINNELL COLLEGE  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2017 AND 2016**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>3</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>4</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7</b>

## 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, 2017 and 2016, 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, 2017 and 2016, 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 6, 2017

**TRUSTEES OF GRINNELL COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,134	\$ 1,959
Accounts Receivable - Less Allowance for Doubtful Accounts of \$46 in 2017 and \$48 in 2016	1,428	1,416
Inventories and Prepaid Expenses	4,331	4,484
Contribution and Bequest Receivable - Net (Note 4)	8,691	12,163
Loans to Students - Less Allowance for Doubtful Loans of \$501 in 2017 and \$438 in 2016 (Note 5)	6,608	7,122
Investments (Note 2)	2,040,915	1,692,262
Property and Equipment - Net (Note 6)	236,345	226,587
Total Assets	\$ 2,300,452	\$ 1,945,993
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 7,956	\$ 4,915
Accrued Payroll and Fringe Benefits	5,593	4,942
Deferred Revenue and Deposits	4,039	3,169
Annuities Payable	6,798	5,611
Funds Held in Trust for Others	258	798
Bonds Payable (Note 10)	202,921	89,931
Accrued Postretirement Benefit Obligation (Note 8)	21,076	20,828
United States Government Grants Refundable	2,546	2,542
Total Liabilities	251,187	132,736
<b>NET ASSETS</b>		
Unrestricted (Note 3)	1,443,008	1,281,920
Temporarily Restricted (Notes 3 and 9)	488,048	415,513
Permanently Restricted (Notes 3 and 9)	118,209	115,824
Total Net Assets	2,049,265	1,813,257
Total Liabilities and Net Assets	\$ 2,300,452	\$ 1,945,993

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
<b>OPERATING ACTIVITIES</b>				
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 Losses 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
<b>NONOPERATING ACTIVITIES</b>				
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
<b>TOTAL CHANGE IN NET ASSETS</b>	161,088	72,535	2,385	236,008
Net Assets - Beginning of year	1,281,920	415,513	115,824	1,813,257
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,443,008</b>	<b>\$ 488,048</b>	<b>\$ 118,209</b>	<b>\$ 2,049,265</b>

See accompanying Notes to Financial Statements.

**TRUSTEES OF GRINNELL COLLEGE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**  
**(DOLLARS IN THOUSANDS)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
Revenue, Gains, and Other Support:				
Tuition and Fees	\$ 77,190	\$ -	\$ -	\$ 77,190
Grants and Scholarships	(46,150)	-	-	(46,150)
Tuition Remission	(1,078)	-	-	(1,078)
Net Tuition and Fees	29,962	-	-	29,962
Government Grants and Contracts	515	319	-	834
Private Gifts and Grants	2,291	2,648	-	4,939
Net Realized and Unrealized Losses on Investments	(45)	-	-	(45)
Investment Income	252	5	-	257
Auxiliary Income	16,806	-	-	16,806
Other	348	16	-	364
Net Operating Revenues	50,129	2,988	-	53,117
Endowment Spending Distribution	73,818	-	-	73,818
Net Assets Released from Restrictions	3,349	(3,349)	-	-
Net Resources Funding Operations	127,296	(361)	-	126,935
Expenses and Losses:				
Instruction	42,256	-	-	42,256
Academic Support	15,108	-	-	15,108
Student Services	22,377	-	-	22,377
Institutional Support	23,198	-	-	23,198
Auxiliary Enterprises	16,327	-	-	16,327
Total Operating Expenses	119,266	-	-	119,266
Change in Net Assets from Operating Activities	8,030	(361)	-	7,669
<b>NONOPERATING ACTIVITIES</b>				
Private Gifts and Grants	1,158	920	7,144	9,222
Net Realized and Unrealized Losses on Investments	(61,604)	(27,090)	(984)	(89,678)
Investment Income	11,020	4,671	1	15,692
Endowment Spending Distribution	(73,818)	-	-	(73,818)
Net Assets Released from Restrictions	21,785	(20,539)	(1,246)	-
Change in Value of Split Interest Agreements	-	(138)	388	250
Loss on Disposal of Property and Equipment	(13)	-	-	(13)
Postretirement Benefit Plan Related Changes, Other than Net Periodic Postretirement Benefit Cost	(3,612)	-	-	(3,612)
Change in Net Assets from Nonoperating Activities	(105,084)	(42,176)	5,303	(141,957)
<b>TOTAL CHANGE IN NET ASSETS</b>	(97,054)	(42,537)	5,303	(134,288)
Net Assets - Beginning of year	1,378,974	458,050	110,521	1,947,545
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 1,281,920</b>	<b>\$ 415,513</b>	<b>\$ 115,824</b>	<b>\$ 1,813,257</b>

See accompanying Notes to Financial Statements.

**TRUSTEES OF GRINNELL COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 236,008	\$ (134,288)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	10,270	10,669
Amortization of Bond Premium	(1,176)	(860)
Net Realized and Unrealized (Gains) Losses on Investments	(268,481)	89,982
Provision for Recoveries of Losses	69	(2)
Loss on Disposal of Property and Equipment	182	13
Restricted Contributions	(6,897)	(11,031)
Postretirement Benefit Plan Related Changes, Other than Net Periodic Postretirement Benefit Cost	326	3,612
Actuarial (Gain) Loss on Annuities Payable	1,721	(227)
Change in Assets and Liabilities:		
Accounts Receivable	(30)	(557)
Contribution and Bequest Receivable	515	(3,259)
Inventories and Prepaid Expenses	153	(672)
Accounts Payable and Accrued Liabilities	1,297	776
Funds Held in Trust for Others	(540)	(66)
Deferred Revenue and Deposits	870	(18)
Accrued Postretirement Benefit Obligation	(78)	217
Net Cash Used by Operating Activities	(25,791)	(45,711)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(17,833)	(6,080)
Proceeds from Sales of Property and Equipment	77	41
Disbursements of Loans to Students	(873)	(1,096)
Principal Payments Received on Loans to Students	1,336	1,272
Purchases of Investments	(795,421)	(570,968)
Proceeds from Sales and Maturities of Investments	715,249	618,705
Net Cash Provided (Used) by Investing Activities	(97,465)	41,874
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Restricted Contributions	9,854	11,031
Change in United States Government Grants Refundable	4	9
Payments on Annuities Payable	(534)	(619)
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	123,431	4,521
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	175	684
Cash and Cash Equivalents - Beginning of year	1,959	1,275
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,134	\$ 1,959
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 5,250	\$ 3,889
Amounts Included in Year-End Accounts Payable for the Purchase of Property and Equipment	\$ 3,964	\$ 1,569

See accompanying Notes to Financial Statements.



**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(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 (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, 2017 AND 2016**  
**(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, 2017, 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, 2017 AND 2016  
(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 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 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, 2017 AND 2016**  
**(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% and between 0.18% and 9.00% as of June 30, 2017 and 2016, respectively, based upon actuarially determined mortality rates. The assets of these agreements, for which the College is the trustee, total approximately \$9,963 and \$11,005 as of June 30, 2017 and 2016, 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.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(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 6, 2017, 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.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 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, or not traded on an open exchange; 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 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.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 2 INVESTMENTS AND COMMITMENTS (CONTINUED)**

In 2016, the College had a transfer of \$45 out of Level 3 related to its investment in a golf course. This transfer resulted from the purchase of a golf course by the College, which transferred the asset out of Level 3 and into Property and Equipment. For the years ended June 30, 2017 and 2016, 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 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.

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.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 2 INVESTMENTS AND COMMITMENTS (CONTINUED)**

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, 2017 and 2016:

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 Estate (d)	51,615	-	-	-	51,615
Other (e)	-	-	-	536	536
<b>Total Investments at Fair Value</b>	<b>\$ 1,001,089</b>	<b>\$ 673,071</b>	<b>\$ 343,785</b>	<b>\$ 22,970</b>	<b>\$ 2,040,915</b>

Investments at Fair Value as of June 30, 2016					
	NAV Practical Expedient	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 40,476	\$ 50,902	\$ -	\$ 91,378
United States Government and Agency Notes and Bonds	-	8,554	78,737	-	87,291
Corporate and Other Bonds	-	14,266	28,640	-	42,906
Marketable Equity Interests	-	498,841	58,634	-	557,475
Commingled Funds (a)	368,946	-	-	-	368,946
Private Equity (b)	358,381	-	-	18,043	376,424
Distressed (c)	102,672	-	-	-	102,672
Real Estate (d)	64,624	-	-	-	64,624
Other (e)	-	-	-	546	546
<b>Total Investments at Fair Value</b>	<b>\$ 894,623</b>	<b>\$ 562,137</b>	<b>\$ 216,913</b>	<b>\$ 18,589</b>	<b>\$ 1,692,262</b>



**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 2 INVESTMENTS AND COMMITMENTS (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 4 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, 2017 and 2016.
- (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 \$166,421 and \$187,791 at June 30, 2017 and 2016, 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 \$87,456 and \$76,831 at June 30, 2017 and 2016, respectively.
- (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 \$13,760 and \$16,445 at June 30, 2017 and 2016, respectively.
- (e) The other category primarily consists of community investments. Unfunded commitments are \$-0- at June 30, 2017 and 2016.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 2 INVESTMENTS AND COMMITMENTS (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
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as of June 30, 2015	\$ 15,643	\$ 432	\$ 16,075
Realized and Unrealized Gains	932	844	1,776
Purchases	1,500	206	1,706
Sales	(32)	(891)	(923)
Transfers	<u>-</u>	<u>(45)</u>	<u>(45)</u>
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)
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of June 30, 2017	<u>\$ 22,434</u>	<u>\$ 536</u>	<u>\$ 22,970</u>

The change in unrealized gains reported above that relate to Level 3 assets held at June 30, 2017 and 2016 are \$2,891 and \$902, 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 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.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 3 ENDOWMENT (CONTINUED)**

The endowment consists of the following net asset components as of June 30, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	\$ (888)	\$ 401,974	\$ 111,584	\$ 512,670
Board Designated	1,136,113	-	-	1,136,113
Total Endowment Net Assets	\$ 1,135,225	\$ 401,974	\$ 111,584	\$ 1,648,783

**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**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 3 ENDOWMENT (CONTINUED)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

For the years ended June 30, 2017 and 2016, 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.

Endowment activity was as follows for the fiscal years ended June 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets as of June 30, 2015	\$ 1,238,234	\$ 444,035	\$ 105,506	\$ 1,787,775
Endowment Return:				
Investment Income, Net of Expenses	10,935	4,671	-	15,606
Net Realized and Unrealized Losses on Investments	(61,603)	(26,647)	-	(88,250)
Net Endowment Return	(50,668)	(21,976)	-	(72,644)
Gifts	-	-	7,009	7,009
Endowment Spending Distribution	(73,818)	-	-	(73,818)
Release or Change in Restriction	21,416	(20,171)	(931)	314
Transfers	61	86	-	147
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	208,248	93,266	-	301,514
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>

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**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- and \$888 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Less than One Year	\$ 4,112	\$ 4,852
One Year to Five Years	4,010	6,403
Greater than 5 Years	802	1,204
	8,924	12,459
Less: Discount to Present Value (1.9%)	233	296
Contribution and Bequest Receivable - Net	\$ 8,691	\$ 12,163

For the year ended June 30, 2017, contribution and bequest receivable included three gifts that represented 61.1% of the total balance. For the year ended June 30, 2016, contribution and bequest receivable included three gifts that represented 64.5% of the total balance.

**NOTE 5 LOANS TO STUDENTS**

Loans to students consist of the following at June 30, 2017 and 2016:

	2017	2016
Federal Perkins Loan Program	\$ 3,006	\$ 3,540
Institutional Loans	3,738	3,683
Donor-Sponsored Loans	365	337
	7,109	7,560
Less: Allowance for Doubtful Loans:		
Beginning of Year	438	458
Adjustments	71	(7)
Write-Offs	(8)	(13)
End of Year	501	438
Loans to Students - Less Allowance for Doubtful Loans	\$ 6,608	\$ 7,122

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 5 LOANS TO STUDENTS (CONTINUED)**

Past due amounts are the following at June 30, 2017 and 2016:

	2017	2016
Less than 240 Days	\$ 350	\$ 356
240 Days - 2 Years	220	163
2 Years - 5 Years	213	254
Greater than 5 Years	299	239
Total Past Due Amounts	\$ 1,082	\$ 1,012

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 \$2,546 and \$2,542 at June 30, 2017 and 2016, 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 \$110 at June 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Land and Improvements	\$ 13,987	\$ 14,023
Buildings and Improvements	333,110	330,657
Equipment and Furnishings	70,910	70,927
Construction in Process	20,058	3,507
Total	438,065	419,114
Less: Accumulated Depreciation	201,720	192,527
Total	\$ 236,345	\$ 226,587

As of June 30, 2017 and 2016, the College has outstanding construction contract commitments totaling \$81,251 and \$3,937, respectively. The College issued \$104,455 of bonds to finance the construction. Of this amount, \$103,943 remains in investments on the statements of financial position.

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**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, 2017 and 2016 was \$5,040 and \$4,897, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 27,300	\$ 22,946
Service Cost	1,517	1,747
Interest Cost	914	968
Actuarial (Gain) Loss	(223)	2,317
Benefits Paid in Excess of Retiree Contributions	<u>(740)</u>	<u>(678)</u>
Benefit Obligation at End of Year	<u>\$ 28,768</u>	<u>\$ 27,300</u>
Change in Fair Value of Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 6,472	\$ 5,947
Return on Plan Assets	1,847	1,002
Employer Contributions	113	201
Retiree Contributions	96	192
Benefits Paid	<u>(836)</u>	<u>(870)</u>
Fair Value of Plan Assets at End of Year	<u>\$ 7,692</u>	<u>\$ 6,472</u>
Funded Status (Deficiency)	<u>\$ (21,076)</u>	<u>\$ (20,828)</u>

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)**

	<u>2017</u>	<u>2016</u>
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 1,517	\$ 1,747
Interest Cost	914	968
Amortization of Loss	1,033	1,026
Amortization of Prior Service Cost	(3,166)	(3,166)
Expected Return on Assets	(376)	(358)
Net Periodic Benefit Cost	<u>\$ (78)</u>	<u>\$ 217</u>
Actuarial Assumptions:		
Discount Rate	3.70%	3.40%
Expected Return on Plan Assets	6.00	6.00
Healthcare Cost Present Trend Rate for Participants up to 65 Medical/Prescription Drug	7.5-7.5	7.0-7.0
Healthcare Cost Present Trend Rate for Participants 65 and Over Medical/Prescription Drug	7.5-7.5	7.0-7.0
Healthcare Cost Ultimate Trend Rate (Year of Stabilization)	4.50 (2038)	4.00 (2037)

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:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on Total of Service and Interest Cost Components	\$ 554	\$ (426)
Effect on Postretirement Benefit Obligations	4,642	(3,747)

**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 2017 through 2026:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 831
2019	974
2020	1,062
2021	1,206
2022	1,286
Years 2023 - 2026	8,410



**TRUSTEES OF GRINNELL COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(DOLLARS IN THOUSANDS)**

**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 2018 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, 2017, (measurement date) is 56% in fixed income investments and 44% 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, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
General Purposes	\$ 91,811	\$ 79,102
Instruction	170,639	145,180
Academic Support	43,060	38,252
Student Services	34,457	28,191
Institutional Support	22,329	19,313
Scholarships, Grants and Loans	122,325	102,679
Facilities Operations	2,898	1,872
Split Interest Agreements	529	924
Total	<u>\$ 488,048</u>	<u>\$ 415,513</u>

Permanently restricted net assets (investments to be held in perpetuity) as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
General Purposes	\$ 9,693	\$ 10,450
Instruction	39,368	39,230
Academic Support	9,970	9,555
Student Services	12,284	11,508
Institutional Support	3,335	2,564
Scholarships, Grants and Loans	43,549	42,507
Facilities Operations	10	10
Total	<u>\$ 118,209</u>	<u>\$ 115,824</u>

**TRUSTEES OF GRINNELL COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
**(DOLLARS IN THOUSANDS)**

**NOTE 10 BONDS PAYABLE**

Bonds payable at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Revenue Bonds dated March 9, 2010 with Final Maturity on December 1, 2020	\$ 23,505	\$ 29,405
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>-</u>
	184,375	85,820
Capitalized Bond Issuance Costs	(1,150)	(514)
Premium on Revenue Bonds	<u>19,696</u>	<u>4,625</u>
Total	<u>\$ 202,921</u>	<u>\$ 89,931</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  
JUNE 30, 2017 AND 2016  
(DOLLARS IN THOUSANDS)**

**NOTE 10 BONDS PAYABLE (CONTINUED)**

Scheduled maturities on bonds payable of the College subsequent to June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 5,900
2019	5,900
2020	5,900
2021	5,805
2022	3,495
Thereafter	157,375
Total	<u><u>\$ 184,375</u></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 \$6,296 and \$9,536 at June 30, 2017 and 2016, respectively. The College has a conflict of interest policy in place. Disclosures are updated by each trustee annually.



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