Trinity University

Audited Financial Statements with Report of Independent Auditors

May 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Trustees
Trinity University

We have audited the accompanying statements of financial position of Trinity University as of May 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Trinity University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trinity University as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14 2012, on our consideration of Trinity University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

September 14, 2012

Trinity University

Statements of Financial Position
As of May 31, 2012 and 2011

	2012 (in thousands)	2011 (in thousands)
Assets		
Cash and cash equivalents	$ 122,467	$ 129,381
Accounts receivable	5,523	4,007
Unconditional promises and bequests receivable	13,091	18,115
Loans receivable (net of allowance for doubtful accounts of $1,134 in 2012 and $1,010 in 2011)	23,350	22,545
Other assets	2,780	2,044
Investments	532,453	582,169
Beneficial interest in funds held in trust by others	321,899	340,777
Property, plant, and equipment, net	178,824	143,838
Total assets	$ 1,200,387	$ 1,242,876
Liabilities		
Accounts payable and accrued liabilities	$ 15,731	$ 16,169
Actuarial liability for annuities payable	2,475	2,966
Deposits and deferred revenue	3,193	3,894
Perkins loan liability and other	6,567	6,658
Bonds payable	32,035	32,000
Total liabilities	60,001	61,687
Net assets		
Unrestricted	480,008	477,105
Temporarily restricted	112,196	136,419
Permanently restricted	548,182	567,665
Total net assets	1,140,386	1,181,189
Total liabilities and net assets	$ 1,200,387	$ 1,242,876

See accompanying notes

Trinity University

Statement of Activities
For the Year Ended May 31, 2012
(with comparative totals for May 2011)

	Unrestricted (in thousands)	Temporarily Restricted (in thousands)	Permanently Restricted (in thousands)	Total 2012 (in thousands)	Total 2011 (in thousands)
Operating revenues					
Tuition and fees	$ 76,833	$ -	$ -	$ 76,833	$ 73,209
Less institutional scholarships	(34,554)	-	-	(34,554)	(31,273)
Contributions	3,988	939	-	4,927	6,443
Endowment income used for operations	8,092	16,326	-	24,418	24,216
Investment income from non-endowment	2,180	-	-	2,180	222
Distributions from funds held in trust by others used for operations	10,851	327	-	11,178	19,949
Auxiliary enterprises	18,903	-	-	18,903	18,185
Contracts and other exchange transactions	3,678	-	-	3,678	3,384
Other income change in net assets	8,504	47	-	8,551	8,504
Net assets released from restrictions	21,177	(21,177)	-	-	-
Total operating revenues	119,652	(3,538)	-	116,114	122,839
Operating expenses					
Instructional services and research	43,565	-	-	43,565	37,788
Academic support	10,805	-	-	10,805	9,909
Public service	2,386	-	-	2,386	2,353
Student services	17,097	-	-	17,097	16,526
Institutional support	24,822	-	-	24,822	22,179
Auxiliary enterprises	13,890	-	-	13,890	13,174
Total operating expenses	112,565	-	-	112,565	101,929
Increase in net assets from operating activities	7,087	(3,538)	-	3,549	20,910
Nonoperating activities					
Contributions for endowment and property	106	5,119	(615)	4,610	10,034
Net (loss) gains in excess of defined spending limit	(17,238)	(22,139)	-	(39,377)	67,029
Distributions from funds held in trust by others	1,386	7,213	-	8,599	8,639
(Loss) gain on funds held in trust by others	-	-	(18,878)	(18,878)	30,075
Change in value of split-interest agreements	-	526	-	526	(4,196)
Other income change in net assets	(270)	428	10	168	(262)
Net assets released from restrictions	11,832	(11,832)	-	-	-
Increase in net assets from nonoperating activities	(4,184)	(20,685)	(19,483)	(44,352)	111,319
Increase in net assets	2,903	(24,223)	(19,483)	(40,803)	132,229
Net assets at beginning of year	477,105	136,419	567,665	1,181,189	1,048,960
Net assets at end of year	$ 480,008	$ 112,196	$ 548,182	$ 1,140,386	$ 1,181,189

Trinity University

Statement of Activities
For the Year Ended May 31, 2011

	Unrestricted (in thousands)	Temporarily Restricted (in thousands)	Permanently Restricted (in thousands)	Total 2011 (in thousands)
Operating revenues				
Tuition and fees	$ 73,209	$ -	$ -	$ 73,209
Less institutional scholarships	(31,273)	-	-	(31,273)
Contributions	3,912	2,531	-	6,443
Endowment income used for operations	23,105	1,111	-	24,216
Investment income from non-endowment	222		-	222
Distributions from funds held in trust by others				-
used for operations	15,090	4,859	-	19,949
Auxiliary enterprises	18,185	-	-	18,185
Contracts and other exchange transactions	3,384	-	-	3,384
Other income change in net assets	8,504	-	-	8,504
Net assets released from restrictions	8,471	(8,471)	-	-
Total operating revenues	122,809	30	-	122,839
Operating expenses				
Instructional services and research	37,788	-	-	37,788
Academic support	9,909	-	-	9,909
Public service	2,353	-	-	2,353
Student services	16,526	-	-	16,526
Institutional support	22,179	-	-	22,179
Auxiliary enterprises	13,174	-	-	13,174
Total operating expenses	101,929	-	-	101,929
Increase in net assets from operating activities	20,880	30	-	20,910
Nonoperating activities				
Contributions for endowment and property	(35)	5,374	4,695	10,034
Net gains in excess of defined spending limit	10,395	56,571	63	67,029
Distributions from funds held in trust by others	1,366	5,916	1,357	8,639
Gain on funds held in trust by others	-	-	30,075	30,075
Change in value of split-interest agreements	-	(4,196)	-	(4,196)
Other income change in net assets	(26,672)	25,754	656	(262)
Net assets released from restrictions	7,128	(7,128)	-	-
Increase in net assets from nonoperating activities	(7,818)	82,291	36,846	111,319
Increase in net assets	13,062	82,321	36,846	132,229
Net assets beginning of year	464,043	54,098	530,819	1,048,960
Net assets at end of year	$ 477,105	$ 136,419	$ 567,665	$ 1,181,189

Trinity University

Statements of Cash Flows
For the Years Ended May 31, 2012 and 2011

	2012 (in thousands)	2011 (in thousands)
Cash flows from operating activities		
(Decrease) increase in net assets	$ (40,803)	$ 132,229
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	8,390	8,768
Loss on disposal of property, plant, and equipment	1,605	453
Net unrealized and realized loss (gain) on investments	28,825	(76,492)
Changes in operating assets and liabilities:		
Accounts receivable	(1,516)	403
Unconditional promises and bequests receivable	5,024	477
Beneficial interest in perpetual trusts	18,878	(30,075)
Other assets	(736)	1
Accounts payable and accrued liabilities	(438)	4,984
Deposits and deferred revenue	(701)	(400)
Perkins loan liability and other	(91)	90
Actuarial liability for annuities payable	(491)	147
Contributions restricted for investment	(5,442)	(12,601)
Distributions from perpetual trusts restricted for investment	(7,548)	(12,431)
Net interest, dividends, and other investment income restricted for investment	-	63
Net cash provided by operating activities	4,956	15,616
Cash flows from investing activities		
Proceeds from sales and maturities of investments	346,005	152,418
Purchases of investments	(325,114)	(148,322)
Purchases of property, plant, and equipment	(44,981)	(28,206)
Disbursements of loans	3,616	(4,001)
Repayments of loans	(4,421)	2,501
Net cash used in investing activities	(24,895)	(25,610)
Cash flows from financing activities		
Refinance expenses rolled into loan	35	-
Distributions from perpetual trusts restricted for investment	7,548	12,431
Net interest, dividends, and other investment income restricted for investment	-	(63)
Contributions restricted for investment	5,442	12,601
Net cash provided by financing activities	13,025	24,969
Net (decrease) increase in cash and cash equivalents	(6,914)	14,975
Cash and cash equivalents at beginning of year	129,381	114,406
Cash and cash equivalents at end of year	$ 122,467	$ 129,381
Supplemental data		
Interest paid	$ 961	$ 83

See accompanying notes

1. NATURE OF OPERATIONS

Trinity University (the University) is a private, coeducational university in the liberal arts and science tradition. The University was founded in Tehuacana, Texas in 1869 and has been located in San Antonio, Texas, since 1942. The University is related to the Presbyterian Church by historic ties, an ongoing association, and a covenant of understanding.

The University's principal focus is on undergraduate education, but it also offers selected graduate programs in professional fields. In addition, the University provides various research and other sponsored projects as well as provides public service programs of continuing education, intellectual enlightenment, and cultural enrichment.

The University attracts talented and highly motivated students to its predominantly full-time, residential student body. The current student body is approximately 2,600 students, with approximately 7% of these students coming from outside the United States and approximately 66% from within Texas.

The revenues generated by the University consist primarily of tuition and fees paid by students. Many students rely on funds received from federal financial aid programs under Title IV of the Federal Higher Education Act of 1965 (HEA), as amended, to pay for a substantial portion of their tuition.

As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education (USDE).

Student Financial Assistance Programs

The University participates in various student financial aid programs. These programs are subject to periodic review by the USDE. Disbursements under each program are subject to disallowance and repayment by the University.

The University derives a portion of its net revenues from financial aid received by its students under Title IV programs administered by the USDE pursuant to the HEA, as amended. In order to continue to participate in Title IV programs, the University must comply with the standards set forth in the HEA and the regulations promulgated thereunder (the Regulations). Among other things, these Regulations require the University to exercise due diligence in approving and disbursing funds and servicing loans, and to exercise financial responsibility related to maintaining certain financial ratios and requirements, all of which have been met at May 31, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the University are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities, in accordance with U.S. generally accepted accounting principles (GAAP).

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC or Codification) 958, *Not-for-Profit Entities* (ASC#958). In accordance with ASC#958, the University is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The University considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost.

Loans Receivable

The Federal Perkins Loan Program consists primarily of funds advanced to students by the U.S. government. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances. The amount to be forgiven or assigned is based on the occurrence of certain future events that cannot be anticipated.

Certain gifts have been made to the University in the form of endowments to be used for student loans. The income from these gifts are classified as temporarily restricted endowment until funds are advanced to students receiving loans, at which time they are released from restriction and the loan receivable is established. Under donor stipulation, any uncollectible loans are considered a reduction of the endowment.

Bequests in Probate and Unconditional Promises Receivable

The University considers unconditional bequests in probate to be unconditional promises receivable. Unconditional bequests that are not in probate are considered to be intentions to give and are not recognized in the financial statements.

Unconditional promises receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue.

Conditional Promises Receivable

The University reports certain research grants and other sponsored projects that depend on the occurrence of a specified future and uncertain event to bind the promisor or contributor as conditional contributions or conditional promises receivable. Cash advances relating to these projects are reported as refundable advances until the conditions have been substantially met. Amounts receivable from the grantor/promisor are recognized as unconditional promises receivable and contribution revenue when the conditions have been substantially met.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires, and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, at the point of substantial completion for the construction of long-lived assets, or when the stipulated purpose for which the resource was restricted has been fulfilled. The University reports as unrestricted support donor-imposed restricted contributions when the restrictions are met in the same period as the contribution is received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments with readily determinable fair value are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Over-the-counter securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the FIFO (first in, first out) method. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date. For those investments contributed to the University, historical carrying value is the fair value at the date of the gift.

Investments held in privately managed institutional funds are valued at redemption values that represent the net asset values of units held at year-end in accordance with Accounting Standards Update (ASU) 2010-12, *Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent),* as discussed in Note 4.

Alternative investments consist of the University's investments in hedge funds, private equity, venture capital, real estate, and other alternative investments that are not publicly traded. Participation in these funds is achieved via ownership of shares in limited partnerships and limited liability companies. Some of these alternative investments may entail liquidity risks to the extent that they are difficult to sell or cannot be converted to cash quickly at favorable prices. These funds tend to be diversified across strategies, managers, and geography.

The University's alternative investments are carried at lower of cost or market. The historical carrying value of these investments is cost, adjusted downward for any market value impairment. These alternative investments are not traded in an active market; however, the net asset value (NAV) of the shares is reported by the fund manager on a monthly or quarterly basis. As of May 31, 2012, the carrying value of alternative investments was $121,938 and the cost was $124,536. As of May 31, 2011, the carrying value of alternative investments was $135,904 and the cost was $138,138.

In accordance with the Texas Uniform Prudent Management of Institutional Funds Act of 2007, dividends, interest, gains, losses, and other investment income are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before a loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the fair value of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are reported as increases in unrestricted net assets.

(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Beneficial Interest in Funds Held in Trust by Others

The University is an income beneficiary of certain perpetual trusts held by third parties where the trustee has no discretion regarding the income beneficiaries' participation in the trust. The University's proportionate share of the fair value of the trust, which approximates the net present value of the estimated future cash flows receivable by the University, is reported as an asset and as permanently restricted contribution revenue at the formation of the trust. Annual income distributions from the trust are recognized as investment income in the appropriate net asset class according to the restrictions of the trust. Changes in the University's proportionate share of the fair value of the trust are reported as gains or loss on funds held in trust by others in the permanently restricted net asset class.

The University is an income and/or principal beneficiary of certain terminal trusts held by third parties where the trustee has no discretion regarding the beneficiaries' participation in the trust. The net present value of the estimated future cash flows receivable by the University is reported as unconditional promises receivable and as contribution revenue in the appropriate net asset class at the formation of the trust. The discounts on these amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Subsequent distributions from the trust reduce the unconditional promises receivable. Changes from year to year in the net present value of the estimated future cash flows to be received are reported as a change in value of split-interest agreements in the appropriate net asset class according to the trust restrictions.

The University is an income beneficiary of certain perpetual trusts held by third parties where the trustee has discretion regarding the beneficiaries' participation in the trust. Management considers these to represent an intention to give and, accordingly, recognizes distributions received from the trusts as contribution revenue in the appropriate net asset class according to the trust restrictions.

Property, Plant, and Equipment

Property, plant, equipment, and collection items, including library books, are stated at cost; or in the case of property contributed, at the fair value at the date of contribution. The University's asset capitalization threshold is $5,000 for individual asset acquisitions.

Depreciation of property, plant, and equipment is provided by the use of the straight-line method over the estimated useful lives of the assets. The University does not depreciate collection items. The principal estimated useful lives used in computing depreciation are as follows:

Land improvements	20-50 years
Buildings and related components	15-50 years
Furniture and equipment	4-20 years
Library books	5 years

Income Taxes

The University is exempt from federal income tax under Section 501(a) as an organization described in Sections 501(c)(3) of the Internal Revenue Code (the Code). This exemption does not apply to unrelated business income, as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. The University had no material tax liability resulting from such unrelated business income in 2012 or 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by the University. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS or Treasury. Management has analyzed the tax positions taken by the University and has concluded that as of May 31, 2012, there are no uncertain positions taken or expected to be taken. The University has recognized no interest or penalties related to uncertain tax positions. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the University is no longer subject to income tax examinations for years prior to May 31, 2009.

Revenue Recognition

Tuition, fees, and income from auxiliary enterprises are recognized on an accrual basis in the period earned. Contributions are recorded as revenue at fair market value at the date of donation and are considered available for use unless specifically restricted by the donor.

Fund Raising

Fund raising is expensed as incurred. Expenses were $2,256 and $2,582 for the fiscal years ended May 31, 2012 and May 31, 2011, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Event

Subsequent events were evaluated through September 14, 2012, the date at which the financial statements were available to be issued.

Reclassification - Allocation of Certain Expenses

Certain prior year balances have been reclassified to conform to the current year presentation. Operations and maintenance, interest and depreciation expenses are no longer presented separately on the statement of activities as they have been reclassified to the applicable functional classification.

The statement of activities presents expenses by functional classification. The University's primary program services are instruction and student services. Expenses reported as institutional support, academic support and auxiliary enterprises are incurred in support of these primary program services. Depreciation and the cost of operation and maintenance of plant facilities are allocated to functional categories based on building square footage dedicated to that specific function. Interest expense is allocated to institutional support and auxiliary enterprises based on the percentage of use derived from the original bond proceeds.

In addition, certain prior year balances have been reclassified to conform to the presentation of operating and nonoperating activities on the consolidated statement of activities.

(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Nonoperating Activities

The University defines operating activities, as included in the accompanying statement of activities, as the revenue and expenses resulting from its educational programs and other core mission activities. Operating activities exclude (a) gifts, grants, pledges, and distribution from funds held in trust by others for property and endowment (including annuity and life-income trusts), (b) release from restrictions of contributions restricted for the acquisition of property and equipment, (c) endowment returns net of the University's operating needs as defined by University spending policy, (d) actuarial adjustments of annuities payable, and (e) net gain or loss on funds held in trust by others.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The University invests cash in excess of daily requirements in money market accounts. On May 31, 2012, $122,467 was invested in interest-bearing cash equivalent accounts, and during the year these accounts earned $12.

On May 31, 2011, $129,381 was invested in interest-bearing cash equivalent accounts, and during the year these accounts earned $6.

The University invests in various securities. Investment securities are exposed to various risks, such as interest rate, liquidity, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments are as follows:

	May 31, 2012	May 31, 2011
Investments carried at fair value:		
Certificates of deposit	$ -	$ 147
Money market funds	-	2,013
Equities-emerging markets	22,970	22,660
Equity and equity mutual funds	234,062	251,246
Commodities	12,477	35,578
Fixed income	139,038	133,893
Subtotal	408,547	445,537
Investments carried at lower of cost or market:		
Alternative investments	121,938	135,904
Real estate	1,253	13
Oil and gas interests	715	715
Subtotal	123,906	136,632
Total investments	$ 532,453	$ 582,169

(In thousands)

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

Operating investment income of the University is the sum of endowment income appropriated for current operations and investment income realized and distributable from non-endowment investments. Nonoperating investment income is defined as the net gains or losses in excess of the defined endowment spending limit. The composition of investment income earned by the University, its allocation between operating and nonoperating, and net asset classifications are as follows:

	May 31, 2012	May 31, 2011
Interest earned on cash and cash equivalents	$ 12	$ 6
Interest earned on investments	4,272	5,042
Dividends and other income earned on investments	4,945	5,668
Net realized gain on investments reported at fair value	35,747	15,013
Net unrealized (loss) gain on investments reported at fair value	(64,555)	61,479
Royalties-mineral interests	8,629	6,281
Less: Investment expenses netted against income	(1,829)	(2,022)
Total investment (loss) income	$ (12,779)	$ 91,467
Allocation of operating vs. nonoperating		
Operating	26,598	24,438
Nonoperating	(39,377)	67,029
Total investment (loss) income	$ (12,779)	$ 91,467
Net asset classification of investment (loss) income:		
Unrestricted	(6,966)	33,722
Temporarily restricted	(5,813)	57,682
Permanently restricted	-	63
Total investment (loss) income	$ (12,779)	$ 91,467

4. FAIR VALUE MEASUREMENT

ASC 820, Fair Value Measurements and Disclosures (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access. The types of investments classified as Level 1 include listed equities, U.S. government and agency obligations, and frequently traded corporate bonds.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 includes certificates of deposit and investments in investment funds with underlying marketable securities.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Fair value is often based on internally developed models in which there are few, if any, external observations. The University's Level 3 assets include beneficial interests in funds held in trust by others (see Note 9). These interests are carried at fair value in terms of the University's deemed portion of the NAV of the underlying trust assets. The University must rely on the trustee to provide accurate pricing and NAV calculations. The University takes necessary steps to obtain a comfort level with the procedures being used by these trustees. In many cases, the University is able to obtain detailed trust statements containing the asset listing for the assets in the trust. Some of these trusts hold Level 3 assets themselves.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described in the Investments section of Note 2 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at May 31, 2012 and 2011.

The following tables summarize the valuation of the University's assets carried at fair value at May 31, 2011 and May 31, 2012. Such valuations are classified into the three-level hierarchy defined by ASC 820 and described above.

(In thousands)

4. FAIR VALUE MEASUREMENT (continued)

	Level 1 Market Level	Level 2 Market Level	Level 3 Market Level	Total
Investments, May 31, 2012:				
Equities-emerging markets	$ 22,970	$ -	$ -	$ 22,970
Equity and equity mutual funds:				
Core-domestic equities	49,590	-	-	49,590
Mid-large cap-domestic equities	15,485	17,073	-	32,558
Global (ex. U.S.) mutual fund	-	59,011	-	59,011
Global-balanced mutual fund	-	81,988	-	81,988
Commodities funds:				
Global energy	-	10,915	-	10,915
Core commodities	-	12,477	-	12,477
Fixed income funds:	-			
Domestic	81,079	12,203	-	93,282
Global	-	31,688	-	31,688
Inflation-linked	-	14,068	-	14,068
Beneficial interest in funds held in trust by others	-	-	321,899	321,899
TOTAL	$ 169,124	$ 239,423	$ 321,899	$ 730,446

	Level 1 Market Level	Level 2 Market Level	Level 3 Market Level	Total
Investments, May 31, 2011:				
Money market funds	$ -	$ 2,013	$ -	$ 2,013
Certificates of deposit	-	147	-	147
Equities-emerging markets	22,660	-	-	22,660
Equity and equity mutual funds				
Core-domestic equities	39,502	-	-	39,502
Mid-large cap-domestic equities	14,231	-	-	14,231
Global-balanced equities	24,546	-	-	24,546
Mid-large cap-domestic mutual funds	-	34,846	-	34,846
Global (ex. U.S.) mutual fund	-	70,596	-	70,596
Global-balanced mutual fund	-	67,525	-	67,525
Commodities funds:				
Global energy	-	16,203	-	16,203
Core commodities	-	19,375	-	19,375
Fixed income funds:				
Domestic	78,376	9,682	-	88,058
Global	-	30,497	-	30,497
Inflation-linked	-	15,338	-	15,338
Beneficial interest in funds held in trust by others	-	-	340,777	340,777
TOTAL	$ 179,315	$ 266,222	$ 340,777	$ 786,314

Investments valued at the entities' net asset value were classified as Level 2 because substantially all of the holdings of each entity are in securities traded in an active market; however, the value of the entity itself can only be derived based on those holdings in Level 1 investments. The following table includes additional disclosures required by ASC 820 for the fair value measurements of investments in certain entities that calculate fair value NAV per share.

(In thousands)

4. FAIR VALUE MEASUREMENT (continued)

Investments Valued at NAV, May 31, 2012	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity and equity mutual funds:				
Mid-large cap domestic mutual funds[1]	$ 17,073	$ -	Daily	1-5 days
Global (ex. U.S.) mutual fund[2]	59,011	-	Monthly	1-30 days
Global-balanced mutual fund[3]	81,988	-	Semi-monthly	2 days
Commodities-global energy[4]	10,915	-	Daily	n/a
Commodities-core[5]	12,477	-	Monthly	5 days
Fixed income:				
Domestic[6]	7,696	-	Daily	n/a
Domestic[6]	4,507	-	Monthly	3-10 days
Global[7]	31,688	-	Monthly	3-10 days
Inflation-linked[8]	14,068	-	Daily	n/a
TOTAL	$ 239,423	$ -		

Investments Valued at NAV, May 31, 2011	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Money market funds	$ 2,013	$ -	Daily	Daily
Certificates of deposit	147		Annual	30 days
Equity and equity mutual funds:				
Mid-large cap domestic mutual funds[1]	18,217	-	Daily	1-5 days
Mid-large cap domestic mutual funds[1]	16,629	-	Monthly	1-30 days
Global (ex. U.S.) mutual fund[2]	35,146	-	Daily	1-5 days
Global (ex. U.S.) mutual fund[2]	35,450	-	Monthly	1-30 days
Global-balanced mutual fund[3]	36,385	-	Semi-monthly	2 days
Global-balanced mutual fund[3]	31,140	-	Monthly	1-30 days
Commodities-global energy[4]	16,203	-	Daily	n/a
Commodities-core[5]	19,375	-	Monthly	5 days
Fixed income:				
Domestic[6]	2,377	-	Daily	n/a
Domestic[6]	7,305	-	Monthly	3-10 days
Global[7]	30,497	-	Monthly	3-10 days
Inflation-linked[8]	15,338	-	Daily	n/a
TOTAL	$ 266,222	$ -		

[1] This category includes investments in mutual funds with concentration in U.S. (domestic) equity securities in the mid-to-large capitalization range. The benchmark for these mid-to-large cap domestic mutual funds is the Russell 1000 Value and Russell 1000 Growth indices.
[2] This category includes investments in mutual funds with global equity securities that typically exclude U.S. concentrations and provide for global diversification. The benchmark for these global (ex. U.S. equity) mutual funds is the MSCI EAFE Index.
[3] This category includes investments in mutual funds and/or index funds with globally balanced equity securities meaning there is a fair concentration of equity securities from most global markets including the U.S. The benchmark for these globally balanced investments is the MSCI World Index.
[4] This category includes funds with investments in common stock securities of ownership interest in companies operating within the energy sector.
[5] This category includes funds that hold investments in futures contracts with underlying exposure to a diversified basket of commodities including energy, agriculture, metals, and livestock.
[6] This category includes bond investment funds denominated in U.S. dollars invested in U.S. government and government-related securities, mortgage and asset-backed securities, corporate bonds, and other permissible debentures, typically of investment-grade quality.
[7] This category includes bond investment funds denominated in non-U.S. dollar currencies invested in government and government-related securities, mortgage and asset-backed securities, corporate bonds, and other permissible debentures, typically of investment-grade quality.
[8] This category includes bond investment funds in securities that provide accrual and principal growth directly tied to a published consumer price index, with the intent of providing return enhancement directly related to inflation.

(In thousands)

4. FAIR VALUE MEASUREMENT (continued)

The changes in assets measured at fair value for which the University has used Level 3 inputs to determine fair value are as follows:

Level 3 Reconciliation

Beneficial interest in funds held in trust by others - beginning balance on June 1, 2010	$ 310,702
Unrealized gain/loss	53,405
Distributions	(23,330)
Beneficial interest in funds held in trust by others - ending balance on May 31, 2011	$ 340,777
Beneficial interest in funds held in trust by others - beginning balance on June 1, 2011	$ 340,777
Unrealized gain/loss	767
Distributions	(19,645)
Beneficial interest in funds held in trust by others - ending balance on May 31, 2012	$ 321,899

5. ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS

The endowment of the University consists of 525 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment of the University is included in investments on the statements of financial position.

Interpretation of Relevant Law

Effective September 1, 2007, the Texas Legislature adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), to provide modern articulation of the standards for the management and investment of charitable funds and for endowment spending. UPMIFA also provided guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations and provides additional duties for individuals who manage and invest such funds.

The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

5. **ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS (continued)**

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment funds
2. The purposes of the University and the endowment funds
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The University's investment policy

Funds with Deficiencies (Underwater)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, under UPMIFA, requires the University to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the University. Deficiencies of this nature were $197 as of May 31, 2012 and $0 as of May 31, 2011.

Return Objectives, Risk Parameters, and Strategies Employed for Achieving Objectives

The University's investment objectives for endowment funds is to preserve or grow the principal value of the endowment funds in both absolute and real terms and to maximize the long-term total rate of return (cash income plus market appreciation) earned by the endowment funds, without assuming an unreasonable degree of risk. It is recognized that the desire to preserve or grow the principal and to produce a stable and predictable payment stream involves trade-offs that must be balanced in establishing the investment and spending policies.

The long-term investment objective of the endowment funds is to earn an average annual real (after inflation) total return of at least 5%, net of management fees, over long time periods (rolling ten-year periods). Actual returns in any given year may vary from this amount.

The financial objectives attempt to promote intergenerational equity (to balance the support of present and future generations of University students). In order to achieve this objective, funds have had to historically exceed the objective substantially during some periods in order to compensate for inevitable shortfalls during other periods. Hence, evaluation of progress toward this objective is made with a long-term perspective. It is recognized that this objective implies a high average allocation to equity securities and consequent market price volatility.

5. ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS (continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

Accordingly, the Board of Trustees has adopted a spending formula for determining the part of the total return on endowment funds that can be expended annually. The spending formula determines spendable endowment return as a percentage of the average of the twelve most recent quarter-end endowment market values, which was approximately 4.50% of these values for the fiscal years ended May 31, 2012 and May 31, 2011.

In establishing this spending policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow the endowment to grow at an average of 0.5% (after inflation) annually over long time periods. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

The spending formula provided for use in current operations and physical plant renovations was $24,418 and $24,216 for the fiscal years ended May 31, 2012 and May 31, 2011, respectively. The University also received $19,777 and $28,588 for fiscal years ended May 31, 2012 and May 31, 2011, respectively, from nondiscretionary perpetual trusts and terminal trusts held by others for use in operations and physical plant repair and renovation projects.

Most endowments, and funds functioning as endowments, have been commingled in a unitized pool (unit market value basis) for purposes of investment. As of May 31, 2012, the pool is composed of equities (approximately 74%) and fixed income, cash, and other investments (approximately 26%), although the target allocation for the endowment portfolio is equities (77.5%) and fixed income (22.5%). Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date.

(In thousands)

5. ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS (continued)

Changes in Endowment Net Assets

Activity of endowments and funds functioning as endowments for the fiscal years ending May 31, 2011 and May 31, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 1, 2010	$ 263,518	$ 38,479	$ 219,803	$ 521,800
Investment return:				
Net appreciation of investments	28,303	32,887	-	61,190
Investment income	3,956	26,542	1,420	31,918
Contributions	265	230	4,695	5,190
Appropriation of endowment assets for expenditure	(23,105)	(1,111)	-	(24,216)
Net assets released from restrictions	3,150	(3,150)	-	-
Other (deductions) additions	(32,633)	25,737	656	(6,240)
Endowment net assets, May 31, 2011	$ 243,454	$ 119,614	$ 226,574	$ 589,642
Endowment net assets, June 1, 2011	$ 243,454	$ 119,614	$ 226,574	$ 589,642
Investment return:				
Net depreciation of investments	(22,543)	(42,144)	-	(64,687)
Investment income	15,393	36,323		51,716
Contributions	76	160	(615)	(379)
Appropriation of endowment assets for expenditure	(8,092)	(16,326)	-	(24,418)
Reclassify loans functioning as endowments	-	-	314	314
Other (deductions) additions	(9,213)	2,457	10	(6,746)
Endowment net assets, May 31, 2012	$ 219,075	$ 100,084	$ 226,283	$ 545,442

(In thousands)

6. NET ASSETS

Restricted net assets consist of the following:

	May 31, 2012	May 31, 2011
Temporarily restricted net assets:		
Endowments	$ 100,084	$ 119,614
Other	12,112	16,805
Total temporarily restricted net assets	$ 112,196	$ 136,419
Permanently restricted net assets:		
Endowments	$ 226,283	$ 226,574
Loan funds functioning as endowments	-	314
Beneficial interest in funds held in trust by others	321,899	340,777
Total permanently restricted net assets	$ 548,182	$ 567,665

7. STUDENT LOANS

The University loans money to students under two primary loan programs: the Federal Perkins Loan Program and endowment-based loan programs. Student loan receivable balances and related allowance balances at May 31, 2012 and May 31, 2011, are presented below:

	May 31, 2012	May 31, 2011
Student loan receivable	$ 24,411	$ 23,265
Less allowance for uncollectible loans	1,134	1,010
Student loan receivable, net	$ 23,277	$ 22,255

Interest income related to student loans for the fiscal years ended May 31, 2012 and May 31, 2011, was approximately $730 and $724, respectively.

Federal Perkins Loans

The University loans money to students with exceptional financial need through the Federal Perkins Loan Program. Determination of financial need is based on a nationally recognized methodology and regulations promulgated by the USDE. The loans are long-term and bear an interest rate of 5%. The University acts as the lender and the loan is made primarily with government funds. The University contributes to the Federal Perkins Loan Program by matching the Federal Capital Contribution with a mandatory one-third match. However, during the fiscal years ended May 31, 2012 and May 31, 2011, there was no Federal Capital Contribution; hence, the University was not required to match one-third. In addition, a liability is recorded to recognize the funds advanced from the USDE for original funding of the loans. The University holds the loans until maturity, assignment, or cancellation. A third-party servicer assists with the billing and collection of the loans on behalf of the University.

7. STUDENT LOANS (continued)

As loan payments are received from borrowers, the funds are applied to both the loan receivable asset and interest income. These funds are then used to create additional loans to qualified students. The liability to the USDE was approximately $6,137 and $6,064 at May 31, 2012 and May 31, 2011, respectively. Federal Perkins loans may also be deferred or cancelled based on federal guidelines. A portion of cancelled loans are repaid to the University by the federal government. Approximately $2,163 and $2,128 in loans have been cancelled (since the inception of the Perkins Loan Program), for the fiscal years ended May 31, 2012 and May 31, 2011, respectively.

Interest does not accrue on Federal Perkins loans until the student leaves school and enters repayment status. Typically, there is a nine-month grace period upon graduation before interest begins to accrue and payments are required.

Federal Perkins loans that are determined to be uncollectible after appropriate due diligence procedures have been performed can be assigned to the federal government. Thus, the ultimate credit risk of the portfolio is low. Loans are classified as In School, In Grace, Active, and Delinquent. In School and In Grace loans represent loans made to students who are still in school or who are in the nine-month grace period following graduation. Active loans are those loans that are in repayment status and are considered current. Delinquent loans are those that are active but not current with payments. Because the federal government can assure ultimate collectability, the University has established no allowance for uncollectible Federal Perkins loans. Loan default rates (Federal Cohort Rate) are monitored by the federal government based on a legislated formula and measured at June 30 of each year. An institution that does not meet the federal expectation can lose future government funding. The University's Federal Cohort Rate was 5.325% and 5.634% at May 31, 2012 and May 31, 2011, respectively.

Endowment-Based Loans

Certain gifts have been made to the University in the form of endowments to be used for student loans (endowment loans). These gifts are classified as temporarily restricted endowments until funds are advanced to students receiving loans, at which time they are released from restriction and the loan receivable is established. A third party assists with the billing and collection of the loans on behalf of the University. As loan payments are received from borrowers, the funds are applied to the loan funds, which are then used to create additional loans to students.

Typically, interest accrues on endowment loans while the student is enrolled at the University. Payments of interest on the loan during the period of enrollment are encouraged. Typically, a six-month grace period follows graduation, at the end of which any unpaid interest is added to the student's loan amount. Under donor stipulation, any uncollectible endowment loans will result in a reduction to the endowment. Loans are classified as In School, In Grace, Active, and Delinquent. In School and In Grace loans represent loans made to students who are still in school or who are in the six-month grace period following graduation. Active loans are those loans that are in repayment status and are considered current. Delinquent loans are those that are active but not current with payments.

(In thousands)

8. UNCONDITIONAL PROMISES AND BEQUESTS RECEIVABLE AND CONDITIONAL PROMISES RECEIVABLE

Unconditional promises and bequests receivable at May 31, 2012, have been discounted to their estimated present values based upon discount rates that vary from .37% to 3.61%. The expected amounts to be received are as follows:

	May 31, 2012	May 31, 2011
Unrestricted	$ 143	$ 658
Funds held in trust by others in terminal trusts – temporarily restricted	5,426	5,407
Permanently restricted endowments (including Charitable Lead Trust)	3,530	7,363
Other and undesignated – temporarily restricted	3,992	4,687
Total unconditional promises and bequests receivable	$ 13,091	$ 18,115

	May 31, 2012
In one year or less	$ 473
Between one year and five years	5,376
More than five years	7,242
Total unconditional promises and bequests receivable	$ 13,091

(In thousands)

8. UNCONDITIONAL PROMISES AND BEQUESTS RECEIVABLE AND CONDITIONAL PROMISES RECEIVABLE (continued)

Unconditional promises and bequests receivable include the following funds held in trust by others in terminal trusts:

	Net present value of the University's interest in trust at May 31, 2012	Distributions received by the University during the year ended May 31, 2012
Marietta College et al. Trust Fund The University is a 50% beneficiary of this trust, which will be distributed 21 years after the death of the last grandchild of the grantor.	$ 228	$ 6
Eleanor Powell Trust under the Will of Claude Ann Arnot The University is the sole beneficiary of this testamentary trust, which will be distributed upon the death of the income beneficiary.	244	-
Robert Randle Trust under the Will of Norine Murchison The University is sole beneficiary of this charitable trust, which will be distributed upon the death of the income beneficiary.	-	1
Charles and Pearl Zilker Trusts The University is a 25% beneficiary of these trusts, which will be distributed upon the death of the remaining income beneficiary.	4,954	125
Total funds held in trust by others in terminal trusts temporarily restricted	$ 5,426	$ 132

The University is also a beneficiary of certain perpetual trusts held by others in which the trustees have discretion as to the amount to be distributed to beneficiaries. Distributions from these trusts are reported as contributions when received in the appropriate net asset class according to the restrictions of the trusts. Contributions received from these trusts are as follows:

	For the year ended May 31, 2012	For the year ended May 31, 2011
Leta McFarlin Chapman Memorial Trust	$ 1,220	$ 1,201
Clifton C. and Henryetta C. Doak Charitable Trust	10	14
Mattie-Jennie Fund under will of Perry J. Adams	4	-
Margarite Bright Parker Chapel Endowment Trust	15	14
Ann Walker Memorial Fund	7	7
Total contributions received from discretionary perpetual trusts	$ 1,256	$ 1,236

(In thousands)

9. BENEFICIAL INTEREST IN FUNDS HELD IN TRUST BY OTHERS

The University is an income beneficiary of several non-discretionary trusts held by others. Most are perpetual trusts, but one is not perpetual, as it is scheduled to terminate in the future. In addition, one trust is revocable as the University maintains the right to terminate the revocable trust and administer the assets in-house. The University reports its share of the fair value of trust net assets, which approximates the net present value of estimated future cash flows receivable as a permanently restricted net asset. Income distributions from the trusts are reported as separate line items on the statement of activities depending on whether the distributions are used for current operations or for nonoperating activities such as endowment or property. These distributions are reported in the appropriate net asset class according to the trust restrictions. Changes in the value of trust assets are reported as gains or losses on funds held in trust by others in the permanently restricted net asset class as applicable for the fiscal year.

The University has the following beneficial interests in funds held in trust by others in nondiscretionary perpetual trusts:

	The University's interest in net assets held in trust at May 31, 2012	Distributions to the University during the year ended May 31, 2012
Raymond W. and Margaret P. Banowsky Trust The University has a 50% interest in the income distributed from this perpetual trust, which is administered by Bank of America.	$ 88	$ 3
James A. and Leta M. Chapman Charitable Trust The University has a 25% interest in the income distributed from this perpetual trust, which is administered by the Bank of Oklahoma Trust Company.	210,830	9,292
J.A. and Leta M. Chapman 1949 Trust The University has a 25% interest in the income distributed from this perpetual trust, which is administered by the Bank of Oklahoma Trust Company.	28,521	1,267
Luther and Margaret J. Coulter Family Sheltered Trust This trust has a charitable fund allocation of 15% and a living beneficiary allocation of 85%. Trinity University is included in the charitable fund allocation and has a 20% interest in the 15% allocation which calculates to 3% of the interest in the income distributed from this perpetual trust. Trinity University's interest will increase from 3% to 20% over time as the charitable fund allocation increases to 100%. This trust is administered by Frost Bank.	156	1
Ruth Chapman Cowles and Andrew G. Cowles Charitable Trust The University has an 87% interest in the income distributed from this perpetual trust, which is administered by Frost Bank.	25,851	2,070

(In thousands)

9. BENEFICIAL INTEREST IN FUNDS HELD IN TRUST BY OTHERS (continued)

	The University's interest in net assets held in trust at May 31, 2012	Distributions to the University during the year ended May 31, 2012
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust The University has a 70% interest in the income distributed from this perpetual trust, which is to be used for support of the Cowles Life Science Building and scholarships. This trust is administered by the Bank of Oklahoma Trust Company.	$ 17,046	$ 1,392
Wade H. and Clarkie E. Harrison Scholarship Fund The University is the sole beneficiary of this perpetual trust, which is administered by Texas Presbyterian Foundation.	429	21
Harold D. Herndon Charitable Trust The University has a 41% interest in the income distributed from this perpetual trust, which is administered by Frost Bank.	6,024	216
Imogene A. Herndon Charitable Trust The University has a 36% interest in the income distributed from this perpetual trust, which is administered by Frost Bank	5,403	196
Everett and Ruth King Trust The University has a 20% interest in the income distributed from this perpetual trust, which is administered by Texas Presbyterian Foundation.	40	2
Marrs and Verna McLean Revocable Trust The University has a 40% interest in the trust. The trust can be terminated upon the request of the University. The trust is administered by Frost Bank	21,921	4,741
Marrs McLean Trust The University has a 33.33% interest in both the net income and the trust corpus upon termination of the trust, anticipated on March 5, 2031. The trust is administered by Frost Bank.	5,292	428
Louise and Staylor Tilman Trust The University has a 50% interest in the income distributed from this perpetual trust, which is administered by Texas Presbyterian Foundation.	298	16
Total beneficial interest in funds held in trust by others	$ 321,899	$ 19,645

(In thousands)

10. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment consist of the following:

	May 31, 2012	May 31, 2011
Land and improvements	$ 31,822	$ 20,096
Buildings	210,847	179,085
Furniture and equipment	35,705	37,295
Library books	41,398	40,734
Art collections	4,168	4,156
Construction in progress	12,941	21,181
	336,881	302,547
Less accumulated depreciation	158,057	158,709
Total property, plant, and equipment, net	$ 178,824	$ 143,838

11. BONDS PAYABLE

In June 2002, the University entered into a loan agreement with the City of San Antonio, Texas, Education Facilities Corporation through its $32,000 Higher Education Variable Rate Demand Revenue Refunding and Improvement Bonds (Trinity University Project) Series 2002. The bonds are secured by a standby purchase agreement and mature on June 1, 2033. Interest is based upon a daily rate as described in the bond agreement (effective rate of 0.24% at May 31, 2012). The University has a no-cost option of converting the bonds to and from a variable, flexible, or fixed-rate mode of varying durations.

The proceeds of the bonds were used to refund the City of San Antonio, Texas, Higher Education Authority Adjustable Tender Refunding Revenue Bonds (Trinity University Project) Series 1993, certain costs of issuance and projects consisting of certain land, buildings, equipment, and improvements at the University's campus.

In June 2011, the University entered into a loan agreement with the City of San Antonio, Texas Education Facilities Corporation through its $20,035 Higher Education Revenue Refunding Bonds (Trinity University Project), Series 2011. The bonds carry fixed interest rates ranging from 3.0% to 5.0%. The issue consists of both serial and term bonds with annual maturities scheduled from 2013 through 2033.

The proceeds of the Series 2011 were used to retire $20,000 of the Series 2002 bonds and to pay certain costs of issuances.

Total interest expense incurred on bond issues and charged to expense is $961 and $83 for the fiscal years ended May 31, 2012 and May 31, 2011, respectively.

(In thousands)

11. BONDS PAYABLE (continued)

The carrying values of the bonds payable approximates their fair values at May 31, 2012 and May 31, 2011. Below are the University's total debt maturities by year.

Year of Maturity	Principal Amount
2013	$ 625
2014	645
2015	670
2016	695
2017	720
Thereafter	28,680
Total	$ 32,035

12. RETIREMENT PLAN

Full-time University employees may participate in a contributory retirement plan administered by an insurance company that provides a defined contribution plan exclusively for employees of educational and research organizations. The University's share of premiums paid into this plan is based on 10% of the participating employee's qualifying salary. Participation of all permanent employees who have obtained the age of 21 years and work an average of at least 20 hours per week is mandatory upon completion of two years of service. The retirement plan expense was $3,948 and $3,767 for the fiscal years ended May 31, 2012 and May 31, 2011, respectively.

13. COMMITMENTS AND CONTINGENCIES

At May 31, 2012, the estimated remaining costs to be incurred under construction contracts were approximately $52,259.

Currently, the University is the defendant in various matters in litigation. The University is vigorously opposing these matters, and in management's opinion, their outcome should not result in any material adverse effect upon the University.

Certain assets of the University contain asbestos that will be abated in the future. The University estimates that it will incur approximately $229 for probable abatement projects, and this amount has been recorded in the financial statements. However, other asbestos exists in the University's assets for which the cost of removal cannot be reasonably estimated. In management's opinion, the liability associated with the cost of asbestos removal should not have a material adverse effect on the University.