



**TRINITY
UNIVERSITY**

SAN ANTONIO • 1869

FINANCIAL STATEMENTS

Years ended May 31, 2006

and May 31, 2005

with

REPORT OF INDEPENDENT AUDITORS



Trinity University

Audited Financial Statements with Report of Independent Auditors

May 31, 2006 and May 31, 2005

Trinity University

Audited Financial Statements

Years Ended May 31, 2006 and May 31, 2005

Contents

Report of Independent Auditors	1
Audited Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

Report of Independent Auditors

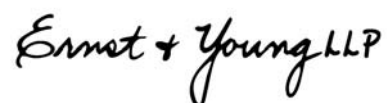
The Board of Trustees
Trinity University

We have audited the accompanying statements of financial position of Trinity University (the University) as of May 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the 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 the Trinity University as of May 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006, 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, 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 audits.



August 11, 2006

Trinity University

Statements of Financial Position

As of May 31, 2006 and May 31, 2005

	<u>2006</u>	<u>2005</u>
	(in thousands)	(in thousands)
Assets		
Cash and cash equivalents (see footnote 3)	\$ 64,358	\$ 49,674
Accounts receivable	5,973	8,784
Unconditional promises and bequests receivable	21,907	11,946
Notes receivable (net of allowance for doubtful accounts of \$1,095 in 2006 and \$1,115 in 2005)	18,190	19,855
Other assets	2,140	2,085
Investments	431,777	400,645
Beneficial interest in funds held in trust by others	363,339	331,496
Property, plant and equipment, net	<u>119,768</u>	<u>112,075</u>
Total assets	<u>\$ 1,027,452</u>	<u>\$ 936,560</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 11,005	\$ 14,619
Actuarial liability for annuities payable	1,826	1,673
Deposits and deferred revenue	4,482	3,972
Perkins loan liability and other	6,115	5,996
Notes payable	-	28
Bonds payable	<u>32,000</u>	<u>32,000</u>
Total liabilities	55,428	58,288
Net assets		
Unrestricted	303,142	267,890
Temporarily restricted	96,692	84,112
Permanently restricted	<u>572,190</u>	<u>526,270</u>
Total net assets	<u>972,024</u>	<u>878,272</u>
Total liabilities and net assets	<u>\$ 1,027,452</u>	<u>\$ 936,560</u>

See accompanying notes

Trinity University

Statement of Activities

For the Year Ended May 31, 2006

(with comparative totals for May 2005)

	<u>Unrestricted</u> (in thousands)	<u>Temporarily Restricted</u> (in thousands)	<u>Permanently Restricted</u> (in thousands)	<u>Total 2006</u> (in thousands)	<u>Total 2005</u> (in thousands)
Operating revenues, gains and other support:					
Tuition and fees	\$ 55,433	\$ -	\$ -	\$ 55,433	\$ 50,999
Less institutional scholarships	(17,456)	-	-	(17,456)	(16,559)
Contributions	7,892	2,036	8,190	18,118	21,837
Investment income (see footnote 3)	38,115	24,003	925	63,043	55,235
Gain on funds held in trust by others	-	-	31,843	31,843	26,004
Change in value of split-interest agreements	-	903	3,913	4,816	(953)
Auxiliary enterprises	15,687	-	-	15,687	14,992
Contracts and other exchange transactions	2,273	-	-	2,273	2,220
Other income change in net assets	8,246	(95)	1,049	9,200	7,948
Net assets released from restrictions	14,267	(14,267)	-	-	-
Total revenues, gains and other support	<u>124,457</u>	<u>12,580</u>	<u>45,920</u>	<u>182,957</u>	<u>161,723</u>
Operating expenses:					
Instructional services and research	27,947	-	-	27,947	27,363
Academic support	5,867	-	-	5,867	5,115
Public service	2,611	-	-	2,611	2,192
Student services	8,647	-	-	8,647	8,067
Institutional support	14,422	-	-	14,422	14,715
Auxiliary enterprises	5,896	-	-	5,896	5,666
Operations and maintenance	13,792	-	-	13,792	13,279
Depreciation	9,090	-	-	9,090	8,731
Interest	933	-	-	933	578
Total operating expenses	<u>89,205</u>	<u>-</u>	<u>-</u>	<u>89,205</u>	<u>85,706</u>
Increase in net assets	35,252	12,580	45,920	93,752	76,017
Net assets:					
Beginning of year	267,890	84,112	526,270	878,272	802,255
End of year	<u>\$ 303,142</u>	<u>\$ 96,692</u>	<u>\$ 572,190</u>	<u>\$ 972,024</u>	<u>\$ 878,272</u>

See accompanying notes

Trinity University

Statement of Activities

For the Year Ended May 31, 2005

	<u>Unrestricted</u> (in thousands)	<u>Temporarily Restricted</u> (in thousands)	<u>Permanently Restricted</u> (in thousands)	<u>Total 2005</u> (in thousands)
Operating revenues, gains and other support:				
Tuition and fees	\$ 50,999	\$ -	\$ -	\$ 50,999
Less institutional scholarships	(16,559)	\$ -	-	(16,559)
Contributions	8,870	9,361	3,606	21,837
Investment income (see footnote 3)	32,958	20,435	1,842	55,235
Gain on funds held in trust by others	-	-	26,004	26,004
Change in value of split-interest agreements	-	(885)	(68)	(953)
Auxiliary enterprises	14,992	-	-	14,992
Contracts and other exchange transactions	2,220	-	-	2,220
Other income change in net assets	6,818	(546)	1,676	7,948
Net assets released from restrictions	9,203	(9,203)	-	-
Total revenues, gains and other support	<u>109,501</u>	<u>19,162</u>	<u>33,060</u>	<u>161,723</u>
Operating expenses:				
Instructional services and research	27,363	-	-	27,363
Academic support	5,115	-	-	5,115
Public service	2,192	-	-	2,192
Student services	8,067	-	-	8,067
Institutional support	14,715	-	-	14,715
Auxiliary enterprises	5,666	-	-	5,666
Operations and maintenance	13,279	-	-	13,279
Depreciation	8,731	-	-	8,731
Interest	578	-	-	578
Total operating expenses	<u>85,706</u>	<u>-</u>	<u>-</u>	<u>85,706</u>
Increase in net assets	23,795	19,162	33,060	76,017
Net assets:				
Beginning of year	244,095	64,950	493,210	802,255
End of year	<u>\$ 267,890</u>	<u>\$ 84,112</u>	<u>\$ 526,270</u>	<u>\$ 878,272</u>

See accompanying notes

Trinity University

Statements of Cash Flows

For the Years Ended May 31, 2006 and May 31, 2005

	2006	2005
	(in thousands)	(in thousands)
Cash flows from operating activities		
Increase in net assets	\$ 93,752	\$ 76,017
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	9,090	8,731
Loss on disposal of property, plant and equipment	383	390
Net unrealized and realized gain on investments	(31,041)	(25,549)
Decrease (increase) in accounts receivable	2,813	(3,224)
Increase in unconditional promises and bequests receivable	(9,961)	(2,801)
Increase in beneficial interest in perpetual trusts	(31,843)	(26,004)
Increase in other assets	(55)	(1,045)
(Decrease) increase in accounts payable and accrued liabilities	(3,630)	3,561
Increase (decrease) in deposits and deferred revenue	510	(20)
Increase (decrease) in Perkins loan liability and other	119	(32)
Increase in actuarial liability for annuities payable	154	158
Contributions restricted for investment	(10,226)	(12,967)
Distributions from perpetual trusts restricted for investment	(7,086)	(6,041)
Net interest, dividends and other investment income restricted for investment	957	832
Advances from the government for student loans	-	(49)
Net cash provided by operating activities	<u>13,936</u>	<u>11,957</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	270,581	143,045
Purchases of investments	(270,659)	(197,376)
Purchases of property, plant and equipment	(17,166)	(17,426)
Disbursements of loans	(2,022)	(2,804)
Repayments of loans	3,687	3,470
Net cash used in investing activities	<u>(15,579)</u>	<u>(71,091)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	-	28
Repayment of principal of indebtedness	(28)	-
Distributions from perpetual trusts restricted for investment	7,086	6,041
Net interest, dividends and other investment income restricted for investment	(957)	(832)
Contributions restricted for investment	10,226	12,967
Advances from government for student loans	-	49
Net cash provided by financing activities	<u>16,327</u>	<u>18,253</u>
Net increase (decrease) in cash and cash equivalents	14,684	(40,881)
Cash and cash equivalents at beginning of year	49,674	90,555
Cash and cash equivalents at end of year	<u>\$ 64,358</u>	<u>\$ 49,674</u>
Supplemental data:		
Interest paid	\$ 895	\$ 497
Pell Grant	\$ 644	\$ 685

See accompanying notes

Trinity University

Notes to Financial Statements

Years Ended May 31, 2006 and May 31, 2005

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 offers selected graduate programs in professional fields. In addition, the University provides various research and other sponsored projects and 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 2,700 students, with approximately 3% of these students coming from outside the United States and approximately 69% 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 Higher Education Act of 1965, 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.

Student Financial Assistance Programs

The University participates in various student financial aid programs. These programs are subject to periodic review by the United States Department of Education (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 Federal Higher Education Act of 1965 (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, 2006.

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.

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. In accordance with SFAS No. 117, 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.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

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.

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. 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 which 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.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in equity securities with a readily determinable fair value and all investments in debt securities are measured at fair value (based on quoted market prices). Investments in equity securities with no readily determinable fair value, real estate, oil and gas properties, and other investments are stated at their historical carrying value. For assets acquired, carrying historical value is cost, or adjusted book value under the equity method. For those investments contributed to the University, historical carrying value is the fair value at the date of the gift.

In accordance with the Texas Uniform Management of Institutional Funds Act, 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. The University reports recognized investment income with donor-imposed restrictions, when restrictions are met in the same period as received, as unrestricted support.

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 market 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 market 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.

Funds Held in Trust by the University

Assets, liabilities, and net assets of funds held in trust by the University are consolidated in the University's financial statements, with a corresponding liability for the net present value owed to other beneficiaries of the trust. The University recognizes its proportionate share of revenues and expenses of the trust.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3); accordingly, no income tax provision is made in the financial statements.

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. Costs were \$2,171,000 and \$1,339,000 for the fiscal years ended May 31, 2006 and May 31, 2005, 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.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocation of Certain Expenses

The University excludes operations and maintenance, depreciation, and interest from functional expense categories in the Statement of Activities for the fiscal years ended May 31, 2006 and May 31, 2005, respectively. Those expenses would be distributed to the functional areas as follows:

<u>2006</u>	<u>Operations and maintenance</u>	<u>Depreciation</u>	<u>Interest</u>
Instructional services and research	\$ 2,900,000	\$ 1,911,000	\$ -
Public service	91,000	60,000	-
Academic support	1,282,000	845,000	-
Student services	3,230,000	2,129,000	23,000
Institutional support	1,931,000	1,272,000	711,000
Auxiliary enterprises	<u>4,358,000</u>	<u>2,873,000</u>	<u>199,000</u>
TOTAL	<u>\$13,792,000</u>	<u>\$ 9,090,000</u>	<u>\$ 933,000</u>

<u>2005</u>	<u>Operations and maintenance</u>	<u>Depreciation</u>	<u>Interest</u>
Instructional services and research	\$ 2,558,000	\$ 1,682,000	\$ -
Public service	90,000	59,000	-
Academic support	1,262,000	829,000	-
Student services	3,179,000	2,091,000	30,000
Institutional support	1,900,000	1,249,000	428,000
Auxiliary enterprises	<u>4,290,000</u>	<u>2,821,000</u>	<u>120,000</u>
TOTAL	<u>\$13,279,000</u>	<u>\$ 8,731,000</u>	<u>\$ 578,000</u>

Trinity University

Notes to Financial Statements (continued) Years Ended May 31, 2006 and May 31, 2005

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The University invests cash in excess of daily requirements in money market accounts. On May 31, 2006, \$64,358,000 was invested in interest bearing cash equivalent accounts, and during the year these accounts earned \$2,274,000.

On May 31, 2005, \$49,674,000 was invested in interest bearing cash equivalent accounts, and during the year these accounts earned \$1,088,000.

Investments are as follows:

	May 31, 2006		May 31, 2005	
	Cost (in thousands)	Market (in thousands)	Cost (in thousands)	Market (in thousands)
Investments carried at market:				
Equity & equity mutual funds	\$ 263,183	\$ 293,870	\$ 235,051	\$ 256,903
Fixed income	79,215	77,628	77,653	79,030
Alternative investments	19,693	20,857	16,140	17,693
Investments carried at historical carrying value:				
Certificates of deposit	594	594	590	590
Alternative investments	38,413	38,413	45,516	45,516
Real estate and other	415	415	913	913
Total investments	<u>\$ 401,513</u>	<u>\$ 431,777</u>	<u>\$ 375,863</u>	<u>\$ 400,645</u>

Investment income earned by the University and its allocation among net asset classifications are as follows:

	May 31, 2006 (in thousands)	May 31, 2005 (in thousands)
Interest earned on cash and cash equivalents	\$ 2,274	\$ 1,088
Interest earned on investments	5,721	5,339
Dividends earned on investments	4,601	4,247
Net realized gains on investments reported at fair value	25,574	17,834
Net unrealized gains on investments reported at fair value	5,467	7,715
Royalties and other income	6,216	4,659
Distributions received from perpetual trusts	15,360	16,095
Less: Investment expenses netted against income	<u>(2,170)</u>	<u>(1,742)</u>
Total investment income	<u>63,043</u>	<u>55,235</u>
Net asset classification of investment income:		
Unrestricted	38,115	32,958
Temporarily restricted	24,003	20,435
Permanently restricted	<u>925</u>	<u>1,842</u>
Total investment income	<u>\$ 63,043</u>	<u>\$ 55,235</u>

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

4. ENDOWMENTS AND FUNDS FUNCTIONING AS ENDOWMENTS

The University's investment objectives for endowment funds are to preserve 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. The University utilizes the total return concept of managing its endowment investment portfolio as provided by the Texas Uniform Management of Institutional Funds Act. Accordingly, the Board of Trustees has adopted a spending formula for determining that part of the total return on endowment funds, which 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 5% of these values for the fiscal years ended May 31, 2006 and May 31, 2005, respectively. The spending formula provided for use in current operations and physical plant renovations \$14,698,000 and \$15,344,000 for the fiscal years ended May 31, 2006 and May 31, 2005, respectively. The University also received \$15,292,000 and \$13,990,000 for fiscal years ended May 31, 2006 and May 31, 2005, respectively, from non-discretionary perpetual 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. The pool is comprised of Equities (78%) and Fixed Income, Cash, and Other Investments (22%). Access to or liquidation from the pool is on the basis of the market value per unit on the preceding monthly valuation date. The unit market value was \$143.2876 at May 31, 2006 and \$140.926 at May 31, 2005, respectively.

5. 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 portfolio balances and related allowance balances at May 31, 2006 and May 31, 2005, respectively, are presented below:

	May 31, 2006	May 31, 2005
	(in thousands)	(in thousands)
Student loan portfolio	\$ 17,571	\$ 19,072
Less allowance for uncollectible loans	1,095	1,115
Student loan portfolio, net	<u>\$ 16,476</u>	<u>\$ 17,957</u>

Interest income related to student loans for the fiscal years ended May 31, 2006 and May 31, 2005, was approximately \$600,000 and \$637,000, respectively.

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 U.S. Department of Education. The loans are long-term and bear an interest rate of 5%. The University acts as the lender with the loan made primarily with government funds. The University contributes to the Perkins Loan program by matching the Federal Capital Contribution with a mandatory one-third match. However, during fiscal year ending May 31, 2006, there was no Federal Capital Contribution, hence Trinity University was not required to match one-third. In addition, a liability is recorded to recognize the funds advanced from the Department of Education for original funding of the loans. The University holds the loans until maturity, assignment, or cancellation. A third party manages the portfolio on behalf of the University.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

5. STUDENT LOANS (continued)

As loan payments are received from borrowers, the funds are applied to both the note receivable asset and interest income. These funds are then used to create additional loans to qualified students. The liability to the Department of Education was approximately \$5,422,000 and \$5,279,000 at May 31, 2006 and May 31, 2005, respectively. Perkins loans may also be deferred or cancelled based on federal guidelines. Cancelled loans are repaid to the University by the federal government. Approximately \$1,890,000 and \$1,832,000 in loans were cancelled for the fiscal years ended May 31, 2006, and May 31, 2005, respectively.

Interest does not accrue on 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.

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. Although the federal government can assure ultimate collectibility, the University has established an allowance for uncollectible 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 3.1% at May 31, 2006.

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 endowment 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 manages the portfolio on behalf of the University. As loan payments are received from borrowers, the funds are applied to the endowment 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.

6. UNCONDITIONAL PROMISES AND BEQUESTS RECEIVABLE, AND CONDITIONAL PROMISES RECEIVABLE

Unconditional promises and bequests receivable are as follows:

	<u>May 31, 2006</u> (in thousands)	<u>May 31, 2005</u> (in thousands)
Sponsored projects reported as contribution transactions	\$ -	\$ 97
Funds held in trust by others in terminal trusts	5,937	649
Permanent endowments	4,539	1,375
Other & undesignated	<u>11,431</u>	<u>9,825</u>
Balance at end of year	<u>\$ 21,907</u>	<u>\$ 11,946</u>

Trinity University

Notes to Financial Statements (continued)
 Years Ended May 31, 2006 and May 31, 2005

6. UNCONDITIONAL PROMISES AND BEQUESTS RECEIVABLE, AND CONDITIONAL PROMISES RECEIVABLE (continued)

Unconditional promises and bequests receivable at May 31, 2006 have been discounted to their estimated present values based upon discount rates that vary from 3.27% to 5.29%. The expected amounts to be received are as follows (in thousands):

In one year or less	\$ 4,564
Between one year and five years	11,633
More than five years	<u>5,710</u>
Balance at end of year	<u>\$ 21,907</u>

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

	Net present value of University's interest in trust at May 31, 2006 <u>(in thousands)</u>	Distributions received by the University during year ended May 31, 2006 <u>(in thousands)</u>
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.	\$ 101	\$ 5
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.	158	-
W.B. Adamson Trust The University is the sole beneficiary of this charitable remainder uni-trust, which will be distributed upon the death of the income beneficiary.	226	-
Patricia Jean Mitchell Trust The University is the sole beneficiary of this charitable remainder uni-trust, which will be distributed upon the death of the income beneficiary.	-	63

Trinity University

Notes to Financial Statements (continued)
 Years Ended May 31, 2006 and May 31, 2005

6. UNCONDITIONAL PROMISES AND BEQUESTS RECEIVABLE, AND CONDITIONAL PROMISES RECEIVABLE (continued)

	Net present value of University's interest in trust at May 31, 2006 <u>(in thousands)</u>	Distributions received by the University during year ended May 31, 2006 <u>(in thousands)</u>
McClane Charitable Remainder Uni-Trust 1996 The University has a 60% interest in the principal of this uni-trust which will be distributed upon the death of the last surviving income beneficiary.	\$ 73	\$ -
McClane Charitable Remainder Uni-Trust 2005 The University has a 100% interest in the principal of this uni-trust which will be distributed upon the death of the last surviving income beneficiary.	67	-
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.	1,323	-
Charles and Pearl Zilker Trusts The University is a 25% beneficiary of these trusts, which will be distributed upon the death of the four remaining income beneficiaries.	3,989	-
	<u>5,937</u>	<u>68</u>
Balance May 31, 2006	<u>\$ 5,937</u>	<u>\$ 68</u>

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 year ended May 31, 2006 <u>(in thousands)</u>	For year ended May 31, 2005 <u>(in thousands)</u>
Leta McFarlin Chapman Memorial Trust	\$ 1,398	\$ 1,290
Margarite Bright Parker Chapel Endowment Trust	16	15
Clifton C. and Henryetta C. Doak Charitable Trust	<u>22</u>	<u>20</u>
Total contributions received from discretionary perpetual trusts.	<u>\$ 1,436</u>	<u>\$ 1,325</u>

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

7. 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 investment income in the period of distribution in the appropriate net asset class according to the trust restrictions. Changes in the value of trust assets for the year are reported as loss on funds held in trust by others in the permanently restricted net asset class.

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

	University's interest in net assets of trust at May 31, 2006 (in thousands)	Distributions received by University during year ended May 31, 2006 (in thousands)
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.	\$ 106	\$ 2
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.	258,989	8,983
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.	34,947	1,348
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 National Bank.	28,806	2,254
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust The University has a 70% interest in the income distributed from this perpetual trust to be used for support of the Cowles Life Science Building and scholarships. This trust is administered by the Bank of Oklahoma Trust Company.	16,683	1,311
Wade H. and Clarkie E. Harrison The University is the sole beneficiary of this perpetual trust, which is administered by Synod of Texas Presbyterian Foundation.	534	18

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

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

	University's interest in net assets of trust <u>at May 31, 2006</u> (in thousands)	Distributions received by University during year ended <u>May 31, 2006</u> (in thousands)
Harold D. Herndon Charitable Trust The University has a 41% interest in the income distributed from this perpetual trust, which is administered by Frost National Bank.	\$ 5,866	\$ 177
Imogene A. Herndon Charitable Trust The University has a 36% interest in the income distributed from this perpetual trust, which is administered by Frost National Bank.	5,279	165
Everett and Ruth King Trust The University has a 20% interest in the income distributed from this perpetual trust, which is administered by the Synod of Texas Presbyterian Foundation.	32	3
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 National Bank.	7,121	715
Marrs McLean Trust The University has a 33.33% interest in both the net income and the trust corpus upon termination of the trust in 2031. The trust is administered by Frost National Bank.	4,449	289
Minnie Quickenstedt Underwood Foundation The University is the sole beneficiary of this perpetual trust, which is administered by Bank of America.	219	10
Louise & Staylor Tilman Trust The University has a 50% interest in the income distributed from this perpetual trust, which is administered by Texas Presbyterian Foundation.	308	17
Total beneficial interest in non-discretionary perpetual trusts.	<u>\$ 363,339</u>	<u>\$ 15,292</u>

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

8. FUNDS HELD IN TRUST BY THE UNIVERSITY

The assets, liabilities, and net assets of the following funds held in trust by the University are included in the University's financial statements:

Fred A. and Elise P. Chapman Trust Estate

The University is the sole beneficiary of this perpetual trust. The assets consist of royalty interest from which no income has been derived. The trust is stated at a nominal value.

Preston G. Northrup Trust – subject to annuities

This trust was terminated on December 30, 2003 as a result of final judgment agreed upon by Trinity and all applicable beneficiaries. Trinity University as trustee and beneficiary received 80% of the trust's assets with the remaining 20% being distributed to the other beneficiary. As of May 31, 2006 all assets have been distributed according to the terms of the final judgment.

Robert S. and Kaye Y. Kemp Educational Foundation Trust

The University is the sole beneficiary of this perpetual trust. Income from this perpetual trust is restricted for the establishment of scholarships for students.

9. PROPERTY, PLANT, AND EQUIPMENT NET

Property, plant, and equipment consists of the following:

	<u>May 31, 2006</u> (in thousands)	<u>May 31, 2005</u> (in thousands)
Land and improvements	\$ 17,490	\$ 16,400
Buildings	157,158	138,273
Furniture and equipment	30,756	29,097
Library books	35,198	34,016
Art collections	3,584	3,243
Construction in progress	485	10,179
Leased Equipment	<u>345</u>	<u>345</u>
	245,016	231,553
Less accumulated depreciation	<u>(125,248)</u>	<u>(119,478)</u>
Total property, plant, and equipment, net	<u>\$ 119,768</u>	<u>\$ 112,075</u>

10. BONDS PAYABLE

In June 2002, the University entered into a loan agreement with the City of San Antonio, Texas Education Facilities Corporation through its \$32,000,000 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 3.57% at May 31, 2006). 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 cost of issuance and projects consisting of certain land, buildings, equipment and improvements at the University's campus.

Trinity University

Notes to Financial Statements (continued)
Years Ended May 31, 2006 and May 31, 2005

10. BONDS PAYABLE (continued)

In accordance with the Bond Indenture, a construction fund was established with the trustee and is included with University assets. The use of this fund is specified in the indenture and is subject to those terms. Total interest expense incurred on bond issues and charged to expense is \$910,000 and \$548,000 for the fiscal years ended May 31, 2006 and May 31, 2005, respectively.

The bonds payable carrying value approximates their fair value at May 31, 2006 and May 31, 2005, respectively.

11. NET ASSETS

Restricted net assets consist of the following:	May 31, 2006 (in thousands)	May 31, 2005 (in thousands)
Temporarily restricted net assets:		
Endowments	\$ 56,429	\$ 53,443
Other	<u>40,263</u>	<u>30,669</u>
Total temporarily restricted net assets	<u>\$ 96,692</u>	<u>\$ 84,112</u>
Permanently restricted net assets:		
Endowments	\$ 181,642	\$ 174,642
Funds held in trust by others	363,339	331,496
Other	<u>27,209</u>	<u>20,132</u>
Total permanently restricted net assets	<u>\$ 572,190</u>	<u>\$ 526,270</u>

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 participating employees' 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 \$3,005,000 and \$2,955,000 for the fiscal years ended May 31, 2006 and May 31, 2005, respectively.

13. COMMITMENTS AND CONTINGENCIES

At May 31, 2006, the estimated remaining costs to be incurred under construction contracts was approximately \$973,000.

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 on the University.

Certain assets of the University contain asbestos that will be abated in the future. The fair market value of removing or disposing of existing asbestos cannot be reasonably estimated at this time. In management's opinion, the liability associated with the cost of asbestos removal should not have a material adverse effect on the University.

14. RELATED PARTY TRANSACTIONS

As a long-term retention incentive, at the initiation of the Board of Trustees, the University has made a \$750,000 loan to the President. The loan is repayable in installments over a ten-year period. The interest rate of 5.75% was set in accordance with IRS guidelines. Loan balance as of May 31, 2006 and May 31, 2005 was \$450,000 and \$525,000 respectively.