

**The Rector, Church-Wardens,
and Vestrymen of Trinity
Church, in the city of New-York
and Subsidiaries**

Consolidated Financial Report

December 31, 2011 and 2010

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Independent Auditor's Report

To The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York
New York, New York

We have audited the accompanying consolidated balance sheet of The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries ("Trinity") as of December 31, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Trinity's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Trinity as of and for the year ended December 31, 2010 were audited by other auditors whose report, dated April 12, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries as of December 31, 2011, and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

New York, New York
April 25, 2012

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Balance Sheets
December 31, 2011 and 2010
(all dollar amounts in thousands)

| | 2011 | 2010 |
|---|-------------------|-------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 34,180 | \$ 72,541 |
| Accounts, Rent Agreements and Notes Receivable, net | 9,866 | 6,410 |
| Deferred Rent, net | 99,400 | 97,867 |
| Tenant Security Deposits | 11,172 | 6,794 |
| Investments, at fair value | 157,934 | 158,209 |
| Property and Equipment, net | 36,104 | 35,522 |
| Deferred Rental Commissions, net | 32,657 | 27,842 |
| Deferred Financing Costs, net | 363 | 311 |
| Investment in Real Estate, net | 310,446 | 302,445 |
| Other Assets | 4,612 | 4,923 |
| Total assets | \$ 696,734 | \$ 712,864 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 36,941 | \$ 34,656 |
| Grants payable | 1,717 | 2,077 |
| Deposits and deferred revenue | 6,470 | 5,015 |
| Tenant security deposits | 11,172 | 6,794 |
| Mortgage payable - St. Margaret's House | 7,714 | 8,193 |
| Pension benefits payable | 561 | 765 |
| Other postretirement benefits payable | 8,343 | 7,419 |
| Term loan payable | - | 99,333 |
| Private placement notes payable | 60,000 | - |
| Other liabilities | 1,072 | 1,196 |
| Total liabilities | 133,990 | 165,448 |
| Commitments and Contingencies | | |
| Net Assets: | | |
| Unrestricted | 555,143 | 539,351 |
| Temporarily restricted | 5,638 | 6,102 |
| Permanently restricted | 1,963 | 1,963 |
| Total net assets | 562,744 | 547,416 |
| Total liabilities and net assets | \$ 696,734 | \$ 712,864 |

See Notes to Consolidated Financial Statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Statements of Activities
Years Ended December 31, 2011 and 2010
(all dollar amounts in thousands)

| | 2011 | 2010 |
|---|-----------------|-----------------|
| Change in Unrestricted Net Assets: | | |
| Program operations: | | |
| Revenue: | | |
| Fees and preschool tuition | \$ 4,258 | \$ 4,132 |
| St. Margaret's House | 5,370 | 5,238 |
| Contributions and donations | 894 | 684 |
| Release from restrictions | 250 | 240 |
| All other revenue | 851 | 770 |
| Total revenue | 11,623 | 11,064 |
| Expenses: | | |
| Mission, ministry and office of the rector | 10,538 | 8,960 |
| St. Margaret's House | 4,708 | 4,528 |
| Grants, other gifts and diocesan assessment | 5,954 | 5,785 |
| Mission properties | 5,755 | 5,290 |
| Depreciation | 2,941 | 2,838 |
| Communications | 3,820 | 3,917 |
| Business office and institutional expenditures | 3,994 | 4,501 |
| Total expenses | 37,710 | 35,819 |
| Net deficiency from program operations | (26,087) | (24,755) |
| Return from investments: | | |
| Commercial real estate operations: | | |
| Leasing-related revenue | 158,419 | 164,636 |
| Operating expenses | (78,442) | (79,507) |
| Depreciation and amortization | (28,317) | (24,173) |
| Net loss on interest rate swap termination | - | (3,593) |
| Net support from commercial real estate operations | 51,660 | 57,363 |
| 68/74 Trinity Place operations: | | |
| Leasing-related revenue | 1,338 | 1,636 |
| Operating expenses | (4,020) | (3,570) |
| Depreciation and amortization | (331) | (309) |
| Net deficiency from 68/74 Trinity Place operations | (3,013) | (2,243) |
| Return on investment portfolio | (6,753) | 19,861 |
| Total return from investments | 41,894 | 74,981 |
| Change in unrestricted net assets | 15,807 | 50,226 |
| Change in Temporarily Restricted Net Assets: | | |
| Return on investment portfolio | (243) | 989 |
| Contributions | 29 | 31 |
| Release from restrictions | (250) | (240) |
| Change in temporarily restricted net assets | (464) | 780 |
| Change in net assets before dividend distributions | 15,343 | 51,006 |
| Dividend Distributions - REIT | (15) | (15) |
| Change in net assets | 15,328 | 50,991 |
| Net Assets: | | |
| Beginning | 547,416 | 496,425 |
| Ending | \$ 562,744 | \$ 547,416 |

See Notes to Consolidated Financial Statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010
(all dollar amounts in thousands)

| | 2011 | 2010 |
|---|-----------------|-----------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets before dividend distributions | \$ 15,343 | \$ 51,006 |
| Adjustments to reconcile change in net assets before dividend distributions to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,589 | 27,320 |
| Bad debt recovery | (831) | - |
| Straight-lining of rent, net | (1,533) | (9,898) |
| Net loss (gain) on investments | 8,414 | (19,755) |
| Net loss on interest rate swap termination | - | 3,593 |
| Changes in operating assets and liabilities: | | |
| Accounts, rent agreements and notes receivable | (2,625) | 1,595 |
| Interest rate swap termination | - | (9,371) |
| Accounts payable and accrued liabilities | 540 | (11,524) |
| Other changes, net | 1,950 | 1,134 |
| Net cash provided by operating activities | 52,847 | 34,100 |
| Cash Flows From Investing Activities: | | |
| Additions to real estate | (29,080) | (31,905) |
| Additions to deferred rental commissions | (10,026) | (3,366) |
| Purchases of investments | (18,503) | (26,770) |
| Sales of investments | 10,364 | 30,415 |
| Additions to property and equipment | (4,136) | (2,861) |
| Net cash used in investing activities | (51,381) | (34,487) |
| Cash Flows From Financing Activities: | | |
| Principal payments on mortgage - St. Margaret's House | (479) | (443) |
| Principal payments on loans | (99,333) | (667) |
| Proceeds from private placement notes payable | 60,000 | - |
| Distribution of dividends - REIT | (15) | (15) |
| Net cash used in financing activities | (39,827) | (1,125) |
| Net decrease in cash and cash equivalents | (38,361) | (1,512) |
| Cash and Cash Equivalents: | | |
| Beginning | 72,541 | 74,053 |
| Ending | \$ 34,180 | \$ 72,541 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$ 2,153 | \$ 5,221 |
| Supplemental Disclosures of Noncash Investing Activities: | | |
| Construction costs included in accounts payable and accrued liabilities | \$ 2,947 | \$ 3,030 |
| Leasing commissions included in accounts payable and accrued liabilities | \$ 3,086 | \$ 1,248 |
| Tenant improvements included in accounts payable and accrued liabilities | \$ 16,973 | \$ 16,982 |

See Notes to Consolidated Financial Statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Notes to Consolidated Financial Statements

(all dollar amounts in thousands unless otherwise indicated)

Note 1. Organization

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York ("Trinity"), a parish in the Episcopal Diocese of New York, are dedicated to the promotion of the Gospel and the betterment of human life, according to God's vision, in the parish community, the city of New York, within the Anglican Communion and throughout the world, through the use of spiritual, human and financial resources.

Trinity is a religious corporation formed under a charter under King William of England in 1697 and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Trinity owns, or is the sole member of, and operates the following entities:

- Trinity REIT, Inc. (the "REIT"): The REIT is a Delaware corporation that qualifies as a real estate investment trust. Trinity owns 100% of the voting common stock.
- St. Margaret's Housing Development Fund Corporation ("St. Margaret's House"): St. Margaret's House is a New York not-for-profit corporation and is exempt from income tax under Section 501(c)(3) of the Code. It operates housing and related facilities for low-income elderly and handicapped.
- Trinity Episcopal Center Association, Inc. ("Trinity Conference Center"): Trinity Conference Center is a Connecticut Non-Stock Corporation located in West Cornwall, CT. It provides opportunity for worship, rest, recreation and retreats in a rural setting, and is exempt from income tax under Section 501(c)(3) of the Code.
- Trinity Concerts, Inc. ("Trinity Concerts"): Trinity Concerts is a New York not-for-profit corporation and is exempt from income tax under Section 501(c)(3) of the Code. It was formed to promote music and the performing arts and further the public portion of the music program of Trinity Church. Dissolution proceedings have been undertaken.
- PTC Properties Corporation ("PTC"): PTC was a title holding corporation, as described in Section 501(c)(2) of the Code, incorporated in New York. All the assets and liabilities of PTC were transferred to Trinity in September 2010 in connection with the dissolution of PTC. The Certificate of Dissolution of PTC was filed by the New York Department of State on June 6, 2011, after the dissolution was approved by the New York Attorney General and the New York Supreme Court in accordance with applicable law.
- John Heuss Corporation ("JHC"): JHC was a New York public charity under Section 501(c)(3) of the Code. All the assets and liabilities of JHC were transferred to Trinity in April 2011, in connection with the dissolution of JHC. The Certificate of Dissolution of JHC was filed by the New York Department of State on July 21, 2011, after the dissolution was approved by the New York Attorney General and the New York Supreme Court in accordance with applicable law.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Trinity, the REIT, St. Margaret's House, Trinity Conference Center, Trinity Concerts, PTC and JHC (collectively, "Trinity"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting and Financial Statement Presentation: The consolidated financial statements of Trinity have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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the city of New-York and Subsidiaries**

**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

For financial reporting purposes, the net assets and revenues, expenses, gains and losses of Trinity are classified as follows:

- **Unrestricted:**

Unrestricted net assets include net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are generated from Trinity's ministry, mission, daily operations and income-producing assets. Some unrestricted net assets, although not donor-restricted, have been voluntarily designated by the Vestry for use in a specified manner.

All expenses are recorded as a reduction of unrestricted net assets.

- **Temporarily Restricted:**

Temporarily restricted net assets include gifts of cash and other assets received with donor stipulations that limit the use of the assets to a specific purpose or time period. When the purpose restriction is accomplished or the time restriction expires, the temporarily restricted net asset balance is reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

- **Permanently Restricted:**

Permanently restricted net assets include funds that have been designated by the donor to be held and invested in perpetuity. The unspent cumulative income from such investments is classified as temporarily restricted.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: All short-term investments with maturities of three months or less at the date of purchase are considered to be cash equivalents and Level 1 in the fair value hierarchy explained in Note 6.

Accounts, Rent Agreements and Notes Receivable: Accounts, rent agreements and notes receivable represent outstanding amounts due primarily from tenants and are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables due from tenants. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to the applicable accounts or notes receivable. Based on the information available, Trinity believes the allowance for doubtful accounts as of December 31, 2011 is adequate. However, actual write-offs may exceed the recorded allowance.

Investments: Trinity records its investments at their estimated fair value as described in Note 6 with the related return from investments included in the accompanying consolidated statements of activities.

Property and Equipment: Church and educational properties purchased or constructed prior to 1987 are recorded at a nominal value of one dollar, with subsequent additions capitalized at cost. After 1987, all capitalized costs are depreciated over the estimated useful lives of the respective assets using the straight-line method. The useful life of an asset ranges from 3 to 50 years.

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Notes to Consolidated Financial Statements

(all dollar amounts in thousands unless otherwise indicated)

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs: Trinity capitalizes costs incurred in connection with borrowings and the establishment of credit facilities. These costs are amortized over the term of the related facility.

Investment in Real Estate and Deferred Rental Commissions: Commercial real estate is stated at cost. Buildings, additions and improvements are depreciated using the straight-line method over the estimated useful lives, which range from 20 to 33 years. Tenant installations and deferred rental commissions are capitalized at cost as of the lease commencement date and amortized using the straight-line method over the terms of the respective leases or earlier should the respective lease be terminated prior to the end of its contractual term.

Grants Expense and Related Payable: The Trinity Grants Program currently operates to address spiritual, social and economic issues in the Episcopal Church, metropolitan New York and throughout the world. Trinity records grant obligations when approved by the Vestry.

Revenue Recognition and Deferred Rent: Fixed minimum real estate income is recognized on a straight-line basis over the term of the underlying lease. The cumulative excess of rents so recognized over amounts contractually due pursuant to the underlying leases is reported as deferred rent on the accompanying consolidated balance sheets. Additional rents and reimbursements, which are provided in the underlying leases, are recognized as income when earned and when their amounts can be reasonably estimated.

An agreement to terminate a lease may or may not include a payment to Trinity in recognition of future rents. When the agreement with the tenant includes termination income, it is recognized upon execution of the termination or surrender agreement. These amounts are included within leasing-related revenue on the consolidated statement of activities.

All other revenue is recognized on an accrual basis when earned.

Impairment of Long-Lived Assets: Trinity periodically assesses the recoverability of its long-lived assets and believes that there is no impairment at December 31, 2011 and 2010.

Fair Value of Financial Instruments: The following methods and assumptions were used in estimating the fair values of significant financial instruments:

- The fair value of investments is estimated as described in Note 6.
- The carrying amounts for cash and cash equivalents approximate their fair value because the instruments are liquid in nature.
- Accounts and notes receivable, tenant security deposits, accounts payable and accrued expenses, deposits and deferred revenue and grants payable are mostly short-term, and their carrying amounts approximate their fair values.
- The fair value of the mortgage loan is estimated as the value of the discounted cash flow required to service the loan. The rate used to discount the cash flow is based upon the current mortgage rate with a similar maturity date as the mortgage loan. The fair value of the mortgage payable at December 31, 2011 and 2010 is \$10,506 and \$10,081, respectively.
- The fair value of the private placement notes have been determined by discounting the future payments required under the terms of the notes at rates available to Trinity for debt with similar maturities and terms. The estimated fair value of these notes in aggregate at December 31, 2011 is \$67,700, and is considered to be Level 3 in the fair value hierarchy.

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Notes to Consolidated Financial Statements

(all dollar amounts in thousands unless otherwise indicated)

Note 2. Summary of Significant Accounting Policies (Continued)

There have been no changes in the methodologies used as of December 31, 2011 and 2010.

Derivative Contracts: As part of its investment strategy, Trinity is exposed to certain risks. The primary risk managed by using derivatives is interest rate risk. Trinity does not directly invest in derivatives for trading purposes. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets and are recorded at fair value.

Reclassifications: Certain amounts reported in the 2010 consolidated financial statements have been reclassified to conform to the 2011 financial statement presentation. The reclassifications had no effect on the reported assets, liabilities, net assets and changes in net assets as of and for the year ended December 31, 2010.

Evaluation of Subsequent Events: Trinity evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was April 25, 2012 for these consolidated financial statements.

Note 3. Net Assets

Net assets, which are substantially endowments, consist of the following:

| | 2011 | | | |
|--|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor and other restricted funds: | | | | |
| Music programming | \$ - | \$ 2,892 | \$ - | \$ 2,892 |
| Training and education of candidates for priesthood in the Episcopal Church | - | 818 | 1,184 | 2,002 |
| Other restricted funds | - | 1,928 | 779 | 2,707 |
| | - | 5,638 | 1,963 | 7,601 |
| Others: | | | | |
| Vestry - designated for specific programmatic operation | 9,546 | - | - | 9,546 |
| Other net assets | 545,477 | - | - | 545,477 |
| Preferred stock in REIT | 120 | - | - | 120 |
| | 555,143 | - | - | 555,143 |
| Total net assets | \$ 555,143 | \$ 5,638 | \$ 1,963 | \$ 562,744 |

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
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Notes to Consolidated Financial Statements

(all dollar amounts in thousands unless otherwise indicated)

Note 3. Net Assets (Continued)

| | 2010 | | | Total |
|--|-------------------|---------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor and other restricted funds: | | | | |
| Music programming | \$ - | \$ 3,126 | \$ - | \$ 3,126 |
| Training and education of candidates for priesthood in the Episcopal Church | - | 987 | 1,184 | 2,171 |
| Other restricted funds | - | 1,989 | 779 | 2,768 |
| | <u>-</u> | <u>6,102</u> | <u>1,963</u> | <u>8,065</u> |
| Others: | | | | |
| Vestry - designated for specific programmatic operation | 9,954 | - | - | 9,954 |
| Other net assets | 529,277 | - | - | 529,277 |
| Preferred stock in REIT | 120 | - | - | 120 |
| | <u>539,351</u> | <u>-</u> | <u>-</u> | <u>539,351</u> |
| Total net assets | <u>\$ 539,351</u> | <u>\$ 6,102</u> | <u>\$ 1,963</u> | <u>\$ 547,416</u> |

The endowments, which include both donor-restricted and unrestricted funds, support Trinity's legacy and mission in the world. Endowment assets are invested in commercial real estate holdings and in an investment portfolio. Net assets associated with these funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Trinity's continued intention is for the endowment to exist in perpetuity and grow over time. The Vestry is responsible for managing the endowment. The Vestry makes management and investment decisions about individual endowment assets in the context of an overall strategy that takes into consideration both risk and return objectives appropriate to Trinity and compliance with the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The commercial real estate portion of the endowment, which is unrestricted, is managed by the Real Estate Committee in accordance with the policies and procedures of that committee as approved by the Vestry. The investment portfolio portion of the endowment, which is primarily unrestricted, is managed by the Resources and Investment Committee in accordance with the investment policy approved by the Vestry.

Trinity's spending policy is intended to carry out Trinity's present-day mission in the world by withdrawing endowment funds in a stable and sustainable way in amounts that align with Trinity's long-term goals. Actual spending of funds is determined each year as part of the annual budgeting process.

On September 17, 2010, the State of New York enacted NYPMIFA. Trinity has interpreted NYPMIFA as allowing Trinity to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as Trinity determines is prudent for the uses, benefits, purposes and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted until appropriated for

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**Notes to Consolidated Financial Statements
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Note 3. Net Assets (Continued)

expenditure by the Vestry. Trinity has not changed the way endowment net assets are classified as a result of this interpretation. The historic dollar value of permanent donor endowments is classified as permanently restricted and the remaining donor-restricted portion of the endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The following tables summarize the changes in donor and other restricted endowment net assets during the year:

| | 2011 | | |
|---|---------------------------|---------------------------|-----------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Balance, beginning of year | \$ 6,102 | \$ 1,963 | \$ 8,065 |
| Contributions | 29 | - | 29 |
| Net investment return | (243) | - | (243) |
| Appropriations of endowment assets for expenditures | (250) | - | (250) |
| Balance, end of year | \$ 5,638 | \$ 1,963 | \$ 7,601 |

| | 2010 | | |
|---|---------------------------|---------------------------|-----------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Balance, beginning of year | \$ 5,322 | \$ 1,963 | \$ 7,285 |
| Contributions | 31 | - | 31 |
| Net investment return | 989 | - | 989 |
| Appropriations of endowment assets for expenditures | (240) | - | (240) |
| Balance, end of year | \$ 6,102 | \$ 1,963 | \$ 8,065 |

The 2011 and 2010 appropriations of endowment assets for expenditures consist of \$138 and \$136 for music programming, \$104 and \$98 for training and education of candidates for priesthood, and \$8 and \$6 for other restricted purposes, respectively.

Note 4. Trinity REIT, Inc.

The REIT issued 120 shares of \$0.01 par value, cumulative, nonvoting preferred stock that is callable at the discretion of the REIT. On the consolidated balance sheets, both par value and additional paid-in capital are included in unrestricted net assets. Holders of the preferred stock are entitled to receive dividends semiannually at a per annum rate equal to 12.5% of the liquidation preference, which is \$1 per share. The REIT issued dividend distributions of \$15 for preferred stock in 2011 and 2010 and \$1,000 for common stock in 2011 and \$250 in 2010. As of December 31, 2011 and 2010, there were no dividends in arrears on the preferred stock.

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Note 4. Trinity REIT, Inc. (Continued)

The REIT elected to be taxed as a real estate investment trust under Section 856 of the Code. A real estate investment trust generally will not be subject to federal income taxation on that portion of its income that qualifies as real estate investment trust taxable income, to the extent that it distributes at least 90% of its taxable income to its shareholders and complies with certain other requirements. The REIT fully distributes all of the real estate investment trust taxable income to its shareholders.

Note 5. Accounts, Rent Agreements and Notes Receivable

Accounts, rent agreements and notes receivable consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--|------------------------|------------------------|
| Trade receivables | \$ 321 | \$ 289 |
| Tenant receivables | 6,795 | 5,801 |
| Rent agreements receivable | 2,202 | 2,380 |
| Notes receivable | 420 | 643 |
| Other receivables | <u>1,598</u> | <u>430</u> |
| | 11,336 | 9,543 |
| Less allowance for doubtful accounts | <u>(1,470)</u> | <u>(3,133)</u> |
| Accounts, rent agreements and notes receivable, net | <u>\$ 9,866</u> | <u>\$ 6,410</u> |

Note 6. Investments and Fair Value Measurements

Investments, at fair value, are as follows:

| | <u>2011</u> | | |
|----------------------------------|-------------------------|--------------------------|--------------------------|
| | <u>Domestic</u> | <u>Global</u> | <u>Total</u> |
| Equities and Equity Mutual Funds | \$ 11,735 | \$ 50,233 | \$ 61,968 |
| Energy Funds | - | 10,610 | 10,610 |
| Commodity Fund | - | 6,222 | 6,222 |
| Private Equity Funds: | | | |
| Oil and gas | 9,776 | - | 9,776 |
| Distressed | 6,624 | - | 6,624 |
| Venture capital | 4,784 | - | 4,784 |
| Commodities | - | 47 | 47 |
| Hedge Funds: | | | |
| Multi-strategy | 3,984 | 45,218 | 49,202 |
| Distressed | - | 7,601 | 7,601 |
| Purchase Option | <u>1,100</u> | <u>-</u> | <u>1,100</u> |
| Total investments | <u>\$ 38,003</u> | <u>\$ 119,931</u> | <u>\$ 157,934</u> |

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the city of New-York and Subsidiaries**

Notes to Consolidated Financial Statements

(all dollar amounts in thousands unless otherwise indicated)

Note 6. Investments and Fair Value Measurements (Continued)

| | 2010 | | |
|----------------------------------|------------------|-------------------|-------------------|
| | Domestic | Global | Total |
| Equities and Equity Mutual Funds | \$ 11,434 | \$ 54,223 | \$ 65,657 |
| Energy Funds | - | 11,203 | 11,203 |
| Commodity Fund | - | 6,526 | 6,526 |
| Private Equity Funds: | | | |
| Oil and gas | 9,787 | - | 9,787 |
| Distressed | 7,261 | - | 7,261 |
| Venture capital | 2,701 | - | 2,701 |
| Commodities | - | - | - |
| Hedge Funds: | | | |
| Multi-strategy | 2,303 | 44,020 | 46,323 |
| Distressed | - | 7,651 | 7,651 |
| Purchase Option | 1,100 | - | 1,100 |
| Total investments | \$ 34,586 | \$ 123,623 | \$ 158,209 |

Trinity invests in a range of asset classes from marketable investments to nonmarketable alternative investments. The marketable investments, including mutual funds and managed funds, primarily hold international and domestic equities and commodities. The nonmarketable alternative investments, including hedge funds, private equity funds and venture capital funds, invest primarily in equities, fixed and floating rate securities, derivatives, energy and energy-related assets and early-stage enterprises.

The investments held by Trinity include commitments to some limited partnerships for additional capital funding from Trinity. Funding of partnership commitments will occur over time with notice from the partnership's general partners. At December 31, 2011, Trinity's outstanding commitments to these limited partnerships approximated \$10,521.

Trinity values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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Note 6. Investments and Fair Value Measurements (Continued)

In determining fair value, Trinity utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk in its assessment of fair value.

All transfers between fair value hierarchy levels are recognized by Trinity at the end of each year. There were no transfers between levels during the years ended December 31, 2011 and 2010.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Trinity's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

A description of the valuation techniques applied to Trinity's major categories of assets measured at fair value on a recurring basis is provided in the following paragraphs.

Securities traded on a national securities exchange (or reported on the Nasdaq global market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 in the fair value hierarchy.

Investments in alternative investment funds are valued at fair value based on the applicable percentage ownership of the net assets of each of the investment funds as of the measurement date. In determining fair value, Trinity utilizes, as a practical expedient, the net asset value (or equivalent) provided by the fund managers. The underlying investment funds value securities and other financial instruments at fair value. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Trinity categorizes its investments in alternative investment funds as a Level 2 fair value measurement if Trinity has the ability to redeem its investment on the reporting date or in the near term, which is defined as 90 days or less from the reporting date. All other investment funds, including private equity funds, are categorized as Level 3.

The fair value of Trinity's purchase option is based on the appraised value of the shares of capital stock of the corporation allocable to the apartment from which the purchase option derives its value, and is classified as a Level 3 instrument.

Trinity's estimates of fair value for Levels 2 and 3 may differ significantly from the values that would have been used had a ready market for the investments existed. The financial statements of the alternative investment funds are audited annually by independent auditing firms.

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Note 6. Investments and Fair Value Measurements (Continued)

Investments carried at fair value at December 31, 2011 and 2010 are classified in the following tables in one of the three levels described earlier.

| | 2011 | | | |
|----------------------------------|------------------|------------------|------------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Equities and Equity Mutual Funds | \$ 33,508 | \$ 28,460 | \$ - | \$ 61,968 |
| Energy Funds | 3,107 | 7,503 | - | 10,610 |
| Commodity Fund | - | 6,222 | - | 6,222 |
| Private Equity Funds: | | | | |
| Oil and gas | - | - | 9,776 | 9,776 |
| Distressed | - | - | 6,624 | 6,624 |
| Venture capital | - | - | 4,784 | 4,784 |
| Commodities | - | - | 47 | 47 |
| Hedge Funds: | | | | |
| Multi-strategy | - | 37,068 | 12,134 | 49,202 |
| Distressed | - | - | 7,601 | 7,601 |
| Purchase Option | - | - | 1,100 | 1,100 |
| Total | \$ 36,615 | \$ 79,253 | \$ 42,066 | \$ 157,934 |

| | 2010 | | | |
|----------------------------------|------------------|------------------|------------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Equities and Equity Mutual Funds | \$ 34,041 | \$ 31,616 | \$ - | \$ 65,657 |
| Energy Funds | 3,077 | 8,126 | - | 11,203 |
| Commodity Fund | - | 6,526 | - | 6,526 |
| Private Equity Funds: | | | | |
| Oil and gas | - | - | 9,787 | 9,787 |
| Distressed | - | - | 7,261 | 7,261 |
| Venture capital | - | - | 2,701 | 2,701 |
| Commodities | - | - | - | - |
| Hedge Funds: | | | | |
| Multi-strategy | - | 35,619 | 10,704 | 46,323 |
| Distressed | - | - | 7,651 | 7,651 |
| Purchase Option | - | - | 1,100 | 1,100 |
| Total | \$ 37,118 | \$ 81,887 | \$ 39,204 | \$ 158,209 |

The December 31, 2010 table has been reclassified to correct the level classification of certain equities and equity mutual funds.

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Note 6. Investments and Fair Value Measurements (Continued)

The following table summarizes the investment strategies and liquidity provisions of the alternative investment funds as of December 31, 2011:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|----------------------------------|--------------------------|---------------------------------|-------------------------------------|-------------------------------------|
| Equities and Equity Mutual Funds | \$ 28,460 | \$ - | Daily and Monthly ^(a) | 8 - 30 days ^(a) |
| Energy Funds | 7,503 | - | Monthly | Monthly |
| Commodity Fund | 6,222 | - | Daily | None |
| Private Equity Funds: | | | | |
| Oil and gas | 9,776 | 3,194 | Illiquid | N/A |
| Distressed | 6,624 | 2,005 | Illiquid | N/A |
| Venture capital | 4,784 | 3,370 | Illiquid | N/A |
| Commodities | 47 | 1,952 | Illiquid | N/A |
| Hedge Funds: | | | | |
| Multi-strategy | 49,202 | - | Varies ^(b) | 30 to 90 days |
| Distressed | 7,601 | - | Quarterly | Annually |
| Purchase Option | 1,100 | - | Illiquid | N/A |
| Total | <u>\$ 121,319</u> | <u>\$ 10,521</u> | | |

^(a) Redemption frequency is permitted as follows: \$9.5 million daily and \$18.9 million monthly. Redemption notice periods are as follows: \$9.6 million, 8 days notice and \$18.8 million, 30 days notice.

^(b) Redemption frequency is permitted as follows: \$19.9 million quarterly; \$6.7 million monthly; \$4.9 million semi-annually; \$17.4 million annually; and \$0.3 million illiquid.

As of December 31, 2011, the expected remaining life of each of the Private Equity Funds is as follows:

| | <u>1 to 5 Years</u> | <u>6 to 10 Years</u> | <u>11 to 15 Years</u> | <u>Total</u> |
|-----------------------|------------------------|-------------------------|-----------------------|-------------------------|
| Private Equity Funds: | | | | |
| Oil and gas | \$ 7,141 | \$ 2,635 | \$ - | \$ 9,776 |
| Distressed | - | 6,624 | - | 6,624 |
| Venture capital | - | 3,903 | 881 | 4,784 |
| Commodities | - | 47 | - | 47 |
| Total | <u>\$ 7,141</u> | <u>\$ 13,209</u> | <u>\$ 881</u> | <u>\$ 21,231</u> |

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
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Note 6. Investments and Fair Value Measurements (Continued)

Changes in assets measured at fair value using Level 3 inputs for the years ended December 31, 2011 and 2010 are as follows:

| | 2011 | | | | |
|-----------------------|--|---|--|--|--|
| | Balance January 1, 2011 | Net Realized and Unrealized Gains (Losses) | Purchases and Other Adjustments | Sales and Other Adjustments | Balance December 31, 2011 |
| Private Equity Funds: | | | | | |
| Oil and gas | \$ 9,787 | \$ 877 | \$ 1,316 | \$ (2,204) | \$ 9,776 |
| Distressed | 7,261 | 322 | 60 | (1,019) | 6,624 |
| Venture capital | 2,701 | 1,112 | 1,113 | (142) | 4,784 |
| Commodities | - | - | 47 | - | 47 |
| Hedge Funds: | | | | | |
| Multi-strategy | 10,704 | (523) | 2,000 | (47) | 12,134 |
| Distressed | 7,651 | 22 | - | (72) | 7,601 |
| Purchase Option | 1,100 | - | - | - | 1,100 |
| Total | \$ 39,204 | \$ 1,810 | \$ 4,536 | \$ (3,484) | \$ 42,066 |
| | 2010 | | | | |
| | Balance January 1, 2010 | Net Realized and Unrealized Gains (Losses) | Purchases and Other Adjustments | Sales and Other Adjustments | Balance December 31, 2010 |
| Private Equity Funds: | | | | | |
| Oil and gas | \$ 7,297 | \$ 1,986 | \$ 1,220 | \$ (716) | \$ 9,787 |
| Distressed | 5,692 | 937 | 863 | (231) | 7,261 |
| Venture capital | 1,811 | (10) | 900 | - | 2,701 |
| Commodities | - | - | - | - | - |
| Hedge Funds: | | | | | |
| Multi-strategy | 12,123 | 1,377 | 3,380 | (6,176) | 10,704 |
| Distressed | 8,153 | 1,576 | - | (2,078) | 7,651 |
| Purchase Option | 1,100 | - | - | - | 1,100 |
| Total | \$ 36,176 | \$ 5,866 | \$ 6,363 | \$ (9,201) | \$ 39,204 |

The change in unrealized appreciation (depreciation) attributable to Level 3 investments still in position as of December 31, 2011 and 2010 was \$(516) and \$3,847, respectively.

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Note 6. Investments and Fair Value Measurements (Continued)

The components of return on the investment portfolio as reported in the consolidated statements of activities consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------------|-------------------------|
| Net realized/unrealized (losses) gains | \$ (8,414) | \$ 19,755 |
| Interest and dividends | 2,767 | 2,399 |
| Investment management fees, expenses and other | <u>(1,349)</u> | <u>(1,304)</u> |
| Return on investment portfolio | <u>\$ (6,996)</u> | <u>\$ 20,850</u> |

Note 7. Investment in Real Estate and Deferred Rental Commissions

Trinity owns and leases approximately 5.5 million rentable square feet of commercial properties, primarily office facilities. Trinity has three properties under ground leases and four development sites. All properties are predominantly located in lower Manhattan within the area known as Hudson Square, in the City of New York.

Tenants are principally in the advertising, financial services, entertainment, professional services, government, education, information technology, publishing and news media industries. Investments in real estate consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------------|--------------------------|
| Land | \$ 12,243 | \$ 12,243 |
| Buildings | 48,590 | 48,590 |
| Building improvements | 332,636 | 314,274 |
| Tenant installation costs | <u>163,790</u> | <u>153,165</u> |
| | 557,259 | 528,272 |
| Less accumulated depreciation and amortization | <u>246,813</u> | <u>225,827</u> |
| Investment in real estate, net | <u>\$ 310,446</u> | <u>\$ 302,445</u> |

Depreciation and amortization expense for the assets noted above amounted to \$20,986 and \$19,500 in 2011 and 2010, respectively.

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Note 7. Investment in Real Estate and Deferred Rental Commissions (Continued)

Trinity has commitments from existing tenants for future minimum rental income related to its commercial property and land leases subsequent to December 31, 2011 as follows:

| <u>Year ending December 31,</u> | <u>Amount</u> |
|---------------------------------|-----------------------------------|
| 2012 | \$ 150,634 |
| 2013 | 156,123 |
| 2014 | 159,436 |
| 2015 | 146,257 |
| 2016 | 136,173 |
| Thereafter | <u>1,269,279</u> |
| Total | <u><u>\$ 2,017,902</u></u> |

Future minimum rental income excludes amounts to be received for real estate tax, Consumer Price Index escalations and additional rents related to land leases, which are all contingent upon future economic events.

Deferred rental commissions consist of the following:

| | <u>2011</u> | <u>2010</u> |
|---|--------------------------------|--------------------------------|
| Deferred rental commissions | \$ 79,546 | \$ 67,682 |
| Less accumulated amortization | <u>46,889</u> | <u>39,840</u> |
| Deferred rental commissions, net | <u><u>\$ 32,657</u></u> | <u><u>\$ 27,842</u></u> |

Amortization expense for the assets noted above amounted to \$7,049 and \$4,348 in 2011 and 2010, respectively.

Note 8. Property and Equipment

Property and equipment consist of the following:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|--------------------------------|--------------------------------|
| Church and educational properties | \$ 34,048 | \$ 29,500 |
| Clergy housing | 11,182 | 11,182 |
| Programmatic real estate properties | 19,096 | 18,816 |
| Furniture, fixtures and equipment | <u>17,121</u> | <u>17,811</u> |
| | 81,447 | 77,309 |
| Less accumulated depreciation | <u>45,343</u> | <u>41,787</u> |
| Property and equipment, net | <u><u>\$ 36,104</u></u> | <u><u>\$ 35,522</u></u> |

Depreciation expense for the assets noted above amounted to \$3,556 and \$3,416 in 2011 and 2010, respectively.

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Note 9. Tenant Security Deposits

Tenant security deposits include cash deposits held in interest-bearing trust accounts at financial institutions on behalf of tenants to secure obligations under terms of the leases. In addition, in lieu of cash deposits certain tenants have elected to provide irrevocable letters of credit naming Trinity as beneficiary. These letters of credit also act as security pursuant to obligations under the terms of the lease agreements and total \$35,513 and \$36,553 at December 31, 2011 and 2010, respectively.

Note 10. Mortgage Payable - St. Margaret's House

St. Margaret's House is indebted to the U.S. Department of Housing and Urban Development ("HUD") under a loan agreement dated December 1979, which is secured by the property financed with the proceeds of the loan. The loan bears interest at 7.625% per annum and is payable in monthly installments through December 2021. Interest expense was \$605 and \$640 for the years ended December 31, 2011 and 2010, respectively. Principal amounts maturing in each of the five years subsequent to December 31, 2011 and thereafter are as follows: \$516 in 2012, \$557 in 2013, \$601 in 2014, \$649 in 2015, \$700 in 2016 and \$4,691 thereafter.

Note 11. Employee Benefits and Other Postretirement Plans

Trinity sponsors two defined contribution pension plans covering all eligible employees other than clergy. Contributions are based on 3% to 5% of each covered employee's salary in 2011 and 2010 and totaled \$763 and \$728, respectively.

Trinity sponsors two thrift plans as supplemental plans for the above two defined contribution plans, which cover certain employees and clergy. Contributions by employees are matched at the discretion of the Vestry. Trinity contributed \$648 and \$635 in 2011 and 2010, respectively, which represent up to 5% of each covered employee's salary in each year.

In addition, Trinity provides pension benefits for certain employees covered under a former defined benefit plan. The benefits under the current plan represent the difference between benefits payable under the current 403(b) plan and their former defined benefit plan. The accumulated pension benefits payable for that plan was \$229 and \$590 as of December 31, 2011 and 2010, respectively.

Trinity provides certain postretirement health and life insurance benefits for retired employees and certain dependents, as these employees become eligible. The plan was amended in 2000, effective January 1, 2001, such that these benefits are not available to new employees and their dependents. In addition, benefits were modified for current employees and retirees. These amendments resulted in a deferred cost reduction of \$1,035 in 2000 that is primarily being amortized over periods ranging from 8 to 11 years.

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Note 11. Employee Benefits and Other Postretirement Plans (Continued)

The following is a summary of the funded status, change in funded status and amounts recognized in the consolidated financial statements for pension benefits and postretirement health and life insurance benefits:

| | Pension Benefits | | Postretirement Health and Life Insurance Benefits | |
|---|------------------|-----------------|--|-------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Change in benefit obligation: | | | | |
| Benefit obligation, beginning of year | \$ 765 | \$ 774 | \$ 7,419 | \$ 7,059 |
| Service cost | - | - | 125 | 133 |
| Interest cost | 35 | 38 | 354 | 384 |
| Benefits paid | - | - | (335) | (317) |
| Actuarial (gain) loss | (239) | (47) | 780 | 160 |
| Benefit obligation, end of year | 561 | 765 | 8,343 | 7,419 |
| Change in plan assets: | | | | |
| Employer contributions | - | - | 335 | 317 |
| Benefits paid | - | - | (335) | (317) |
| | - | - | - | - |
| Funded status, end of year, and amounts recognized as liability in consolidated balance sheets | \$ (561) | \$ (765) | \$ (8,343) | \$ (7,419) |

Net periodic benefit cost for the plans includes the following components:

| | Pension Benefits | | Postretirement Health and Life Insurance Benefits | |
|---|------------------|--------------|--|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ - | \$ - | \$ 125 | \$ 133 |
| Interest cost | 35 | 39 | 354 | 384 |
| Amortization of prior service credit (cost) | 3 | 4 | - | (36) |
| Recognized net actuarial gain | (23) | (10) | - | - |
| Net benefit periodic cost | \$ 15 | \$ 33 | \$ 479 | \$ 481 |

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Note 11. Employee Benefits and Other Postretirement Plans (Continued)

Other changes in benefit obligations recognized in changes in unrestricted net assets for the years ended December 31, 2011 and 2010 consist of the following:

| | Pension Benefits | | Postretirement Health and Life Insurance Benefits | |
|--|----------------------|----------------------|--|------------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Net unrecognized gain (loss) and prior service credit (cost), beginning of year | \$ 151 | \$ 110 | \$ (215) | \$ (19) |
| Actuarial gain (loss) | 239 | 47 | (780) | (160) |
| Amortization of prior service credit (cost) | 3 | 4 | - | (36) |
| Recognized net actuarial gain | <u>(23)</u> | <u>(10)</u> | <u>-</u> | <u>-</u> |
| Net unrecognized gain (loss) and prior service credit (cost), end of year | <u>\$ 370</u> | <u>\$ 151</u> | <u>\$ (995)</u> | <u>\$ (215)</u> |

Amounts to be recognized in benefit costs in 2012 consist of the following:

| | Pension Benefits | Postretirement Health and Life Insurance Benefits |
|-----------------|---------------------|--|
| Net (gain) loss | \$ (67) | \$ 16 |
| Interest cost | 23 | 346 |

The following table provides the weighted-average assumptions as of the measurement date:

| | Pension Benefits | | Postretirement Health and Life Insurance Benefits | |
|-------------------------------|------------------|-------------|--|-------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Discount rate | 4.25% | 5.25% | 4.25% | 5.25% |
| Rate of compensation increase | 3.50% | 3.50% | 0.00% | 0.00% |

The Medical Trend Assumption was changed effective December 31, 2011 to an initial rate of 8% per year grading down to 4.5% per year in 2018 and thereafter.

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Note 11. Employee Benefits and Other Postretirement Plans (Continued)

The healthcare cost trend rate assumption has a significant effect on the amounts reported. For the year ended December 31, 2011, the effect of a 1% increase (decrease) in the assumed healthcare trend cost rates on the aggregate of the service and interest cost components of net periodic postretirement healthcare benefit cost and the accumulated postretirement benefit obligation for healthcare benefits is as follows:

| | <u>1% Increase</u> | <u>1% Decrease</u> |
|---|------------------------|------------------------|
| Interest and service cost | \$ 79 | \$ (63) |
| Accumulated postretirement benefit obligation | 1,237 | (1,000) |

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

| <u>Year ending December 31,</u> | <u>Pension Benefits</u> | <u>Postretirement Health and Life Insurance Benefits</u> |
|---------------------------------|-----------------------------|--|
| 2012 | \$ 37 | \$ 411 |
| 2013 | 30 | 424 |
| 2014 | 319 | 439 |
| 2015 | - | 461 |
| 2016 | - | 478 |
| 2017 - 2021 | - | 2,484 |
| Total | <u>\$ 386</u> | <u>\$ 4,697</u> |

Trinity expects to contribute \$37 to its pension plan and \$411 to its postretirement health and life insurance benefit plan in 2012.

The clergy employees of Trinity are covered under a multi-employer defined benefit pension plan sponsored by the National Episcopal Church. Contributions are based upon a percentage of salaries and housing allowances and totaled \$321 and \$328 in 2011 and 2010, respectively.

Note 12. Notes, Loans and Derivative Activities

On October 14, 2008, the REIT signed a \$150 million, five-year unsecured term loan with JPMorgan Chase Bank, N.A ("2008 JPMorgan Chase Facility"), of which \$100 million was drawn at closing. This facility had a variable interest rate of LIBOR plus 150 basis points. The outstanding balance of the term loan at December 31, 2010 was \$99.3 million. Trinity was in compliance with the terms and covenants of the credit agreement at December 31, 2010.

In conjunction with the \$100 million drawdown under the 2008 JPMorgan Chase Facility, the REIT entered into a five year interest rate swap contract with a notional amount of \$100 million. The REIT received floating one-month LIBOR and paid a fixed interest rate of 3.885% plus 150 basis points, or 5.385% all in. The interest rate swap contract was terminated during the year ended December 31, 2010, resulting in a \$9,371 cash payment, of which a loss of \$3,593 was recognized in that year.

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Note 12. Notes, Loans and Derivative Activities (Continued)

On January 28, 2011, the REIT closed on two \$25 million unsecured committed revolving credit facilities with Bank of America, N.A. and JPMorgan Chase Bank, N.A. The facilities can be drawn and paid down at any time until January 28, 2016, when they mature and any amounts outstanding will be payable. The facilities have variable interest rates of LIBOR plus 140 basis points. A commitment fee of 15 basis points on undrawn availability under the facilities is payable quarterly in arrears. There were no amounts outstanding on either facility at December 31, 2011.

On January 28, 2011, the REIT also closed on two \$100 million uncommitted private placement shelf facilities with New York Life Investment Management LLC ("New York Life") and Prudential Investment Management, Inc. ("Prudential"). These facilities will expire on January 28, 2014.

On February 3, 2011, the REIT issued a total of \$60 million in unsecured private placement notes under the shelf facilities, with \$30 million issued to New York Life and \$30 million issued to Prudential. The first series of notes was priced at 3.59% and has a final maturity in 2019. The second series was priced at 4.68% and has a final maturity in 2023. The third series was priced at 4.91% and has a final maturity in 2025. Trinity used the \$60 million proceeds from these notes and \$39.3 million of its cash and cash equivalents to pay down the 2008 JPMorgan Chase Facility. Trinity terminated the 2008 JPMorgan Chase Facility concurrent with the payoff.

At December 31, 2011, the scheduled principal payments on the private placement notes payable are as follows:

| <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>Thereafter</u> |
|-------------|-------------|-------------|-------------|-------------|-------------------|
| None | \$ 1,000 | \$ 2,000 | \$ 2,500 | \$ 3,000 | \$ 51,500 |

The revolving credit facilities and the private placement notes include various covenants which, among other matters, require Trinity to maintain a specified debt service coverage ratio and various types of debt to asset ratios. Trinity is in compliance with these covenants.

Note 13. Purchase Option

Trinity entered into a purchase option giving it the right to acquire all of the rights, title and interest in the capital stock of a certain corporation that are allocable to a certain apartment in New York City, as well as the lessee's rights under the proprietary lease for such apartment. A purchase option is a derivative instrument that entitles the holder to buy the stock of a company through a specified term at a specified price. A purchase option is subject to equity price risk and its value will fluctuate with the price of the underlying security ("intrinsic value"). Upon expiration, the options are worthless unless the price of the common stock is greater than the exercise price.

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Note 14. Commitments and Contingencies

On March 28, 2011, Trinity and the REIT entered into agreements to purchase electricity from Direct Energy commencing in October 2011 and ending in September 2016. The pricing is based upon a fixed rate and floating New York Installed Capacity ("ICAP") rate. The Direct Energy contracts took effect when the previous contracts with Hudson Energy expired in September 2011.

Trinity and the REIT enter into multi-year contracts to cover the cleaning, maintenance and security for their commercial real estate buildings and the mission properties. In addition there are numerous contracts outstanding at any point in time for lease and tenant related work and upkeep on the mission properties. These contracts are funded predominantly through normal operating cash flow and supplemental borrowing as needed.

Trinity, as an owner of real estate, is subject to various environmental laws of the federal and local governments. Compliance by Trinity with existing laws has not had a material adverse effect on Trinity's consolidated financial position and change in net assets, and management does not believe it will have such an impact in the future. However, Trinity cannot predict the impact of new or changed laws or regulations on its properties.

Trinity is not aware of any threatened litigation other than routine litigation arising out of the normal course of business which is expected to be covered by liability insurance. None of such litigation is expected to have a material adverse effect on its consolidated financial position or changes in net assets or cash flows.

Note 15. Risks and Concentrations

Concentration of Credit Risk: Financial instruments, which potentially subject Trinity to concentrations of credit risk, consist of cash and cash equivalents and tenant security deposits.

Trinity places its cash and cash equivalents and tenant security deposits with creditworthy, high-quality financial institutions which, at times, may exceed federally insured limits. Trinity has not experienced any losses in these accounts and management believes that this risk is not significant.

Market Risk of Investment Portfolio: Market risk represents the potential loss that can be caused by a change in the market value of the financial instrument. Trinity's exposure to market risk is determined by a number of factors, including interest rates and market volatility. Trinity attempts to minimize exposure to such risks by diversifying its portfolio and engaging an investment advisor.

Real Estate-Related Concentration: Trinity's real estate portfolio is predominantly located in lower Manhattan within the area known as Hudson Square. Leasing-related revenue is derived principally through rental payments as provided for under the terms of the respective noncancellable operating leases. During 2011, one tenant accounted for just over 10% of Trinity's leasing-related revenue, and during 2010 no tenant reached the 10% threshold.

Note 16. Income Taxes

Trinity had taken no uncertain tax positions that would require adjustments to the accompanying consolidated financial statements. Trinity is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for the years before 2008.