Ratings:
Moody's: "Aa3"
Standard & Poor's: "AA-"
(See "RATINGS" herein)

OFFICIAL STATEMENT
Dated: July 31, 2008

NEW ISSUE - BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds (defined herein) will be excludable from gross income for federal income tax purposes under statutes, regulations, court decisions, and published rulings existing on the date thereof subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax consequences on corporations.

$207,395,000
BOARD OF REGENTS, TEXAS STATE UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REVENUE BONDS, SERIES 2008

Dated: August 1, 2008 **Due: As shown on inside front cover**
Interest accrues from Delivery Date

The $207,395,000 Revenue Financing System Revenue Bonds, Series 2008 (the "Bonds") are special obligations of the Board of Regents (the "Board"), Texas State University System (the "University System"), payable from and secured solely by the "Pledged Revenues" (as defined herein) of the University System's Revenue Financing System issued pursuant to a Master Resolution adopted by the Board on August 13, 1998, as amended by the Resolution Amending the Master Resolution Establishing the Texas State University System Revenue Financing System adopted by the Board on June 19, 2008 (collectively, the "Master Resolution"), and an Amended and Restated Twelfth Supplemental Resolution adopted by the Board on June 19, 2008. The Bonds constitute Parity Debt (as defined herein) under the Master Resolution. **THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY SYSTEM, THE STATE OF TEXAS (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF. THE BOARD HAS NO TAXING POWER AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE PAYMENT OF THE BONDS**. See "SECURITY FOR THE BONDS."

The proceeds from the sale of the Bonds will be used for the following purposes: (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for component institutions of the University System, including capitalized interest on certain projects, (ii) refunding certain outstanding debt obligations of the Board attributable to certain of the component institutions of the University System described in Schedule I hereto (the "Refunded Bonds"), and (iii) paying certain costs of issuing the Bonds. See "PLAN OF FINANCING" and "Schedule I – SCHEDULE OF REFUNDED BONDS."

Interest on the Bonds will accrue from the date of delivery, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds, other than the Bonds maturing August 27, 2008, is payable on each March 15 and September 15, commencing March 15, 2009 until maturity on prior redemption and interest on the Bonds maturing August 27, 2008 is payable on August 27, 2008. The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., the initial Paying Agent/Registrar, to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System."

The Bonds are subject to redemption as provided herein. See "DESCRIPTION OF THE BONDS—Redemption."

MATURITY SCHEDULE
See Inside Front Cover

The Bonds are offered when, as, and if issued, subject to approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P. Dallas, Texas. The Bonds are expected to be available for delivery through DTC on or about August 19, 2008.

LEHMAN BROTHERS **RBC CAPITAL MARKETS**

ESTRADA HINOJOSA & COMPANY, INC. **PIPER JAFFRAY & CO.**

MATURITY SCHEDULE

CUSIP Prefix: 88278P

$207,395,000
Revenue Financing System Revenue Bonds,
Series 2008

Due	Amount	Interest Rate	Initial Price/Yield	CUSIP Suffix [(1)]
August 27, 2008	7,770,000	3.000%	1.900%	JU9
March 15, 2009	12,215,000	4.000%	1.650%	JV7
March 15, 2010	7,580,000	5.000%	2.400%	JW5
March 15, 2011	7,970,000	5.000%	2.880%	JX3
March 15, 2012	8,380,000	5.000%	3.130%	JY1
March 15, 2013	8,450,000	3.750%	3.370%	JZ8
March 15, 2014	8,680,000	4.000%	3.560%	KA1
March 15, 2015	9,105,000	5.000%	3.730%	KB9
March 15, 2016	8,800,000	5.000%	3.880%	KC7
March 15, 2017	9,245,000	5.000%	4.020%	KD5
March 15, 2018	9,710,000	5.000%	4.140%	KE3
March 15, 2019	8,605,000	5.250%	4.280%[c]	KF0
March 15, 2020	9,075,000	5.250%	4.400%[c]	KG8
March 15, 2021	9,550,000	5.250%	4.500%[c]	KH6
March 15, 2022	10,045,000	5.000%	4.630%[c]	KJ2
March 15, 2023	10,555,000	5.250%	4.620%[c]	KK9
March 15, 2024	11,105,000	5.250%	4.680%[c]	KL7
March 15, 2025	11,700,000	5.250%	4.740%[c]	KM5
March 15, 2026	12,300,000	5.250%	4.790%[c]	KN3
March 15, 2027	12,950,000	5.250%	4.840%[c]	KP8
March 15, 2028	13,605,000	5.000%	4.950%[c]	KQ6

(interest accrues from the delivery date)

C = Yield calculated based on the assumption that the Bonds maturing in the years 2019 through 2028, inclusive, will be called on the first optional call date at par (March 15, 2018).

(1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. None of the Board, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

BOARD OF REGENTS OF TEXAS STATE UNIVERSITY SYSTEM

Name	Residence	Term Expiration
Bernie C. Francis, Chairman	Carrollton	February 1, 2009
Trisha S. Pollard, Vice Chairman	Bellaire	February 1, 2013
Dora G. Alcalá	Del Rio	February 1, 2009
Charlie Amato	San Antonio	February 1, 2013
Ron Blatchley	Bryan/College Station	February 1, 2011
John E. Dudley	Comanche	February 1, 2009
Dionicio "Don" Flores	El Paso	February 1, 2005
Nicole Lozano(1)	Huntsville	February 1, 2009
Michael J. Truncale	Beaumont	February 1, 2013
Greg Wilkinson	Dallas	February 1, 2011

(1) Student Regent. State law does not allow a student regent to vote on matters before the Board.

PRINCIPAL ADMINISTRATORS

Name	Title	Length of Service
Charles R. Matthews	Chancellor, Secretary of the Board	4 years
Kenneth R. Craycraft	Vice Chancellor for Academic Affairs	8 years
Fernando C. Gomez	Vice Chancellor & General Counsel	18 years
Roland Smith	Vice Chancellor for Finance	3 years
Patricia Hayes	Vice Chancellor for Governmental Relations and Educational Policy	2 years
Carol Fox	Director of Audits & Analysis	1 year

CONSULTANTS

Financial Advisor	**Bond Counsel**
First Southwest Company Dallas, Texas	McCall, Parkhurst & Horton L.L.P. Austin, Texas

For additional information regarding the University System, please contact:

Charles R. Matthews
Chancellor
Texas State University System
Thomas J. Rusk Building
200 East 10th Street, Suite 600
Austin, Texas 78701-2407
512/463-1888

Mary Williams
Senior Vice President
First Southwest Company
325 N. St. Paul, Suite 800
Dallas, Texas 75201
214/953-4021

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information, or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Board or the Underwriters. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University System or other matters described herein since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the Board, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown on page ii.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION WILL NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

NONE OF THE BOARD, THE FINANCIAL ADVISOR OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for the registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualifications provisions.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The statements contained in this Official Statement, and in other information provided by the Board, that are not purely historical are forward-looking statements, including statements regarding the Board's expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements.

TABLE OF CONTENTS

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

[This Page is Intentionally Left Blank]

OFFICIAL STATEMENT

$207,395,000
BOARD OF REGENTS, TEXAS STATE UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REVENUE BONDS,
SERIES 2008

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, provides certain information regarding the issuance by the Board of Regents (the "Board"), Texas State University System (the "University System"), of its $207,395,000 Revenue Financing System Revenue Bonds, Series 2008 (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined have the same meanings assigned to such terms in "Appendix C, EXCERPTS FROM THE MASTER RESOLUTION."

The following state supported institutions are under the governance and control of the University System: Lamar University; Lamar Institute of Technology; Lamar State College - Orange; Lamar State College - Port Arthur; Sam Houston State University; Texas State University - San Marcos (formerly known as Southwest Texas State University); Sul Ross State University; and Sul Ross State University Rio Grande College. Angelo State University ("ASU") was previously under the governance and control of the University System but during the 80th Legislature, Regular Session, H.B. 3564 was passed transferring ASU from the University System to the Texas Tech University System, effective September 1, 2007. ASU, however, remains a Member of the Revenue Financing System pursuant to the Master Resolution. The Master Resolution specifies certain conditions which must be met prior to the removal of a Member of the Revenue Financing System. As of the date of this Official Statement, the conditions of the Master Resolution relating to the removal of ASU as a Member have not been satisfied and ASU has not been released as a Member of the Revenue Financing System. See "ASU TRANSFER." For the 2007 Fall Semester, the University System, excluding ASU, had a total enrollment of 64,314 students. For a full description of the University System and its component institutions, see Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM.

Pursuant to the Master Resolution the Board created the Texas State University System Revenue Financing System (the "Revenue Financing System") for the purpose of providing a system-wide financing structure for revenue supported indebtedness to reduce costs, increase borrowing capacity, provide additional security to the credit markets and provide the Board with increased financial flexibility. Currently, all of the component institutions of the University System identified above are Members in the Revenue Financing System. Pursuant to the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to any Member in the Revenue Financing System that may lawfully be pledged to secure the payment of revenue-supported debt obligations and has pledged those sources as Pledged Revenues to secure the payment of revenue-supported debt obligations of the Board incurred as Parity Debt under the Master Resolution. The Board has covenanted that it will not incur any additional debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. See "SECURITY FOR THE BONDS—The Revenue Financing System" and "Appendix C, EXCERPTS FROM THE MASTER RESOLUTION."

This Official Statement contains summaries and descriptions of the plan of financing, the Master Resolution, the Bonds, the Board, the University System and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Charles R. Matthews, Chancellor, Texas State University System, Thomas J. Rusk Building, Suite 600, 200 East 10th, Austin, Texas 78701-2407.

PLAN OF FINANCING

Authority for Issuance of the Bonds. The Bonds are being issued in accordance with the general laws of the State of Texas, including particularly Chapters 54 and 55 of the Texas Education Code, as amended, including Section 55.1754 of the Texas Education Code, Chapter 1371, Texas Government Code, as amended, and other applicable law including Chapter 1207 of the Texas Government Code, as amended, insofar as it may be required in connection with the refunding of the Refunded Bonds (as defined herein), and pursuant to the Master Resolution, an Amended and Restated Twelfth Supplemental Resolution adopted by the Board on June 19, 2008 (the "Twelfth Supplemental Resolution") and an award certificate awarding the sale of the Bonds (the "Award Certificate"). The Bonds will be the thirteenth series of debt obligations issued as Parity Debt and payable from the Pledged Revenues. The Master Resolution permits additional Parity Debt to be issued in the future. Each issue of long-term Parity Debt was issued pursuant to supplements to the Master Resolution. As of the date of delivery of the Bonds, long-term Parity Debt in the aggregate principal amount of $668,845,000 will be outstanding, including $53,008,272 issued for the benefit of ASU. See "SECURITY FOR THE BONDS – The Revenue Financing System," "SECURITY FOR THE BONDS—Additional Obligations", "SECURITY FOR THE BONDS – Parity Debt" and "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM—Outstanding Indebtedness."

Purpose. The Bonds are being issued for the purpose of (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the component institutions of the University System (ii) refunding certain outstanding debt obligations of the Board attributable to certain of the component institutions of the University System (the "Refunded Bonds"), and (iii) paying certain costs of issuing the Bonds. See "Schedule I – SCHEDULE OF REFUNDED BONDS" for a description of the Refunded Bonds.

Refunded Bonds. The Refunded Bonds, the applicable redemption premium, if any, and the interest thereon are to be paid on the scheduled interest payment dates and principal payment dates, or the first optional redemption date, if applicable, from funds to be deposited with U.S. Bank National Association, Houston, Texas (the "Escrow Agent"), pursuant to an Escrow Agreement dated as of August 1, 2008 (the "Escrow Agreement") between the Board and the Escrow Agent.

The Twelfth Supplemental Resolution provides that the Board will deposit a portion of the proceeds of the Bonds along with other lawfully available funds of the Board, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds and will be used to purchase certain obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. The Escrow Fund will not be available to pay the principal of an interest on the Bonds.

Grant Thornton LLP, independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities deposited in the Escrow Fund will mature and pay interest without reinvestment at such times and in such amounts which, together with uninvested funds, if any, in the Escrow Fund will be sufficient to pay, when due, the principal of, premium, if any, and interest on the Refunded Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS."

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the Board will have caused the defeasance of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel in reliance upon the verification report of Grant Thornton LLP that, as a result of such defeasance, the Refunded Bonds will be regarded as being outstanding only for the purpose of receiving payment from the respective Federal Securities and cash held in the Escrow Fund for such purpose and will no longer be payable from or secured by any portion of the Pledged Revenues

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds	
Par Amount of Bonds	$207,395,000.00
Net Original Issue Premium/Discount	8,761,013.80
Total Sources of Funds	$216,156,013.80
Uses of Funds	
Deposit to Project Fund	$195,675,519.27
Deposit to Escrow Fund	18,979,468.90
Costs of Issuance (including Underwriters' Discount)	1,501,025.63
Total Uses of Funds	$216,156,013.80

DESCRIPTION OF THE BONDS

General. The Bonds will be initially issued in book-entry-only form, as discussed below under "DESCRIPTION OF THE BONDS—Book-Entry-Only System," but may subsequently be issued in certificated form, in either case only as fully registered bonds, without coupons, in any integral multiple of $5,000 principal amount within a stated maturity. The Bonds will be dated August 1, 2008, will accrue interest from the delivery date, and will bear interest at the per annum rates, mature on the dates and in the principal amounts shown on the inside front cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds, other than the Bonds maturing August 27, 2008, is payable each March 15 and September 15, commencing March 15, 2009, until maturity or prior redemption and interest on the Bonds maturing August 27, 2008 is payable on August 27, 2008. Interest is payable to the person in whose name such Bond is registered on the last business day of the month next preceding such interest payment date, or, in the case of the Bonds maturing August 27, 2008, on August 25, 2008.

In the event that any date for payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized by law or executive order to close in the city where the Designated Trust Office (as hereinafter defined) of The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar") is located, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close (a "Business Day"). Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

Redemption.

Optional Redemption. The Bonds scheduled to mature on and after March 15, 2019 are subject to redemption prior to maturity at the option of the Board on March 15, 2018 or on any date thereafter, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof (and, if in part, the particular Bonds or portion thereof to be redeemed shall be selected by the Board) at a price of 100% of the principal amount plus accrued interest to the redemption date.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity, a written notice of such redemption shall be published once in a financial publication, journal or reporter of general circulation among securities dealers in the City of New York, New York or in the State of Texas. Such notice shall also be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, at least 30 days prior to the date fixed for any such redemption, to the registered owners of each bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date; provided, however, that the failure to send, mail or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond and that publication of such notice as described above shall be the only notice actually required. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

If at the time of mailing of notice of any optional redemption in connection with a refunding of the Bonds, the Board shall not have deposited with the Paying Agent/Registrar moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Paying Agent/Registrar not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Legality. The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. See "LEGAL MATTERS."

Paying Agent/Registrar. The Board covenants in the Twelfth Supplemental Resolution to maintain and provide a paying agent/registrar at all times until the Bonds are paid. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A.

Successor Paying Agent/Registrar. In the Twelfth Supplemental Resolution, the Board reserves the right to replace the Paying Agent/Registrar. The Board covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any successor Paying Agent/Registrar shall be a competent and legally qualified bank, trust company, financial institution, or other qualified agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants to promptly appoint a competent and legally qualified bank, trust company, financial institution or other qualified agency to act as Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar with respect to the Bonds, the Board agrees to promptly cause a written notice thereof to be sent to each registered owner of the affected Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Twelfth Supplemental Resolution. The issuance, sale and delivery of the Bonds are authorized by the Twelfth Supplemental Resolution and the Award Certificate authorized in the Twelfth Supplemental Resolution. The Twelfth Supplemental Resolution also contains the written determination by the Board, as required by the Master Resolution as a condition to the issuance of Parity Debt, that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and that the Members on whose behalf the Bonds are issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

The Twelfth Supplemental Resolution permits amendment, without the consent of the Bondholders, for the same purposes for which amendment may be made to the Master Resolution without the consent of the owners of outstanding Parity Debt. See "Appendix C, EXCERPTS FROM THE MASTER RESOLUTION." The Twelfth Supplemental Resolution also permits amendment, with the consent of the owners of 51% in aggregate principal amount of the outstanding Bonds, other than amendments which change the maturity of the outstanding Bonds, reduce the rate of interest borne by the outstanding Bonds, reduce the amount of principal payable on the outstanding Bonds, modify the payment of principal of or interest on the outstanding Bonds, or impose any conditions with respect to such payment, affect the rights of the owners of less than all Bonds then outstanding, or change the minimum percentage of outstanding principal amount of Bonds necessary for consent to an amendment.

Additional Defeasance Provisions. In addition to the defeasance provisions set forth in the Master Resolution as described in "Appendix C", the Twelfth Supplemental Resolution provides that, to the extent that the Bonds are treated as Defeased Debt for purposes of the Master Resolution, any determination not to redeem Defeased Debt that is made in conjunction with the payment arrangements specified in the Master Resolution shall not be irrevocable, provided that: (i) in the proceedings providing for such defeasance, the Board expressly reserves the right to call the Defeased Debt for redemption; (ii) gives notice of the reservation of that right to the owners of the Defeased Debt immediately following the defeasance; (iii) directs that notice of the reservation be included in any defeasance notices that it authorizes; and (iv) at or prior to the time of the redemption, satisfies the conditions of the Master Resolution with respect to such Defeased Debt as though it was being defeased at the time of the exercise of the option to redeem the Defeased Debt, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

The Twelfth Supplemental Resolution also provides that, with respect to the defeasance of the Bonds, the term Government Obligations shall mean (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Book Entry-Only System. The following information has been furnished by The Depository Trust Company, New York, New York ("DTC"), for use in disclosure documents such as this Official Statement. None of the Board, the Financial Advisor or the Underwriters make any representation or warranty regarding the information furnished by DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Master Resolution or the Twelfth Supplemental Resolution will be given only to DTC.

THE PAYING AGENT/REGISTRAR AND THE BOARD, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION,

NOTICE OF PROPOSED AMENDMENT TO THE TWELFTH SUPPLEMENTAL RESOLUTION, OR OTHER NOTICES WITH RESPECT TO THE BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT THE VALIDITY OF THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON ANY SUCH NOTICE. REDEMPTION OF PORTIONS OF BONDS BY THE BOARD WILL REDUCE THE OUTSTANDING PRINCIPAL AMOUNT OF SUCH BONDS HELD BY DTC. IN SUCH EVENT, DTC MAY IMPLEMENT, THROUGH ITS BOOK-ENTRY SYSTEM, A REDEMPTION OF SUCH BONDS HELD FOR THE ACCOUNT OF DTC PARTICIPANTS IN ACCORDANCE WITH ITS OWN RULES OR OTHER AGREEMENTS WITH DTC PARTICIPANTS AND THEN DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS MAY IMPLEMENT A REDEMPTION OF SUCH BONDS FROM THE BENEFICIAL OWNERS. ANY SUCH SELECTION OF THE BONDS TO BE REDEEMED WILL NOT BE GOVERNED BY THE TWELFTH SUPPLEMENTAL RESOLUTION AND WILL NOT BE CONDUCTED BY THE BOARD OR THE PAYING AGENT/REGISTRAR. NEITHER THE BOARD NOR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE AFFECTED BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS OF THE SELECTION OF PORTIONS OF THE BONDS FOR REDEMPTION. IF LESS THAN ALL OF THE BONDS ARE TO BE REDEEMED, THE CURRENT DTC PRACTICE IS TO DETERMINE BY LOT THE AMOUNT OF INTEREST OF EACH DTC PARTICIPANT TO BE REDEEMED.

Transfer, Exchange, and Registration. In the event the book-entry system is discontinued, the affected Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated trust office, initially its office in Dallas, Texas (the "Designated Trust Office"), and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the Designated Trust Office of the Paying Agent/Registrar. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Limitations on Transfer of Bonds. Neither the Board nor the Paying Agent/Registrar shall be required to make any transfer or exchange during a period beginning with the close of business on any Record Date and ending with the opening of business on the next following interest payment date or, with respect to any Bond or portion thereof called for redemption, within 45 days prior to its redemption date.

Record Date for Interest Payment. The record date ("Record Date") for the interest payable on any interest payment date, other than the August 27, 2008 interest payment date, means the last business day of the month next preceding such interest payment date; the record date for the August 27, 2008 interest payment date means August 25, 2008.

Special Record Date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the University System. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Damaged, Mutilated, Lost, Stolen or Destroyed Bonds. In case any Bond shall be damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar may register and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for, or in lieu of such damaged, mutilated, lost, stolen or destroyed Bond, only upon the approval of the University System and after (i) the filing by the registered owner thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the University System and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the registered owner of the Bond mutilated or destroyed, lost or stolen.

Bondholder Remedies. The Master Resolution and the Twelfth Supplemental Resolution do not establish specific events of default with respect to the Bonds. If the Board defaults in the payment of the principal of or interest on the Bonds when due, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Board to make such payment or observe and perform such covenants, obligations or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the Board to observe any covenant under the Master Resolution or the Twelfth Supplemental Resolution. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Board to set tuition and fees at a level sufficient to pay principal of and interest on the Bonds as such becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, Texas courts have held that mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

Under current State law, the Board is prohibited from waiving sovereign immunity from suit or liability with respect to the Bonds, and the owners thereof are prevented by operation of the Board's sovereign immunity from bringing a suit against the Board in a court of law to adjudicate a claim to enforce the Bonds or for damages for breach of the Bonds. However, State courts have held that mandamus proceedings against a governmental unit, such as the Board, as discussed in the preceding paragraphs, are not prohibited by sovereign immunity.

The Master Resolution and the Twelfth Supplemental Resolution do not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the Board to perform in accordance with the terms of the Master Resolution and the Twelfth Supplemental Resolution, or upon any other condition. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Master Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

SECURITY FOR THE BONDS

The Revenue Financing System. The Master Resolution created the Revenue Financing System to provide a financing structure for revenue supported indebtedness of the component institutions of the University System and other entities which may be included in the future, by Board action, as Members in the Revenue Financing System. The Revenue Financing System is intended to facilitate the assembling of all of the Members' revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to Members and to maximize the financing options available to the Board. The Master Resolution provides that once a university or agency becomes a Member, the lawfully available revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances attributable to that entity and pledged by the Board become part of the Pledged Revenues; provided, however, that, if at the time an entity becomes a Member it has outstanding obligations secured by such sources, such obligations will constitute Prior Encumbered Obligations under the Master Resolution and the pledge of such sources as Pledged Revenues will be subject and subordinate to such outstanding Prior Encumbered Obligations. Thereafter, the Board may issue bonds, notes, commercial paper, contracts, or other evidences of indebtedness, including credit agreements, on behalf of such institution, on a parity, as to payment and security, with the Outstanding Parity Debt, subject only to the outstanding Prior Encumbered Obligations, if any, with respect to such Member. Upon becoming a Member, an entity may no longer issue obligations having a lien on Pledged Revenues prior to the lien on the Outstanding Parity Debt. Generally, Prior Encumbered Obligations are those bonds or other obligations issued on behalf of a Member which were outstanding on the date such entity became a Member in the Revenue Financing System. Upon the issuance of the Bonds, there will be $2,815,000 of Prior Encumbered Obligations outstanding. The Board does not currently anticipate adding Members to the Revenue Financing System which would result in the assumption of additional Prior Encumbered Obligations; however, no assurance can be given that the State Legislature will not add or remove additional component institutions to the University System in the future. See "ASU TRANSFER" and "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM - Outstanding Indebtedness."

The State Legislature in 1997 enacted S.B. 1907, which made significant changes to higher education in Texas. S.B. 1907, among other things, authorizes the student fees previously constituting substantially all of the fees previously charged and collected by state universities to be imposed as additional tuition. Moreover, S.B. 1907 provided significantly broader authority to pledge tuition and certain other revenues, and to increase tuition as necessary, to pay indebtedness. The provisions of S.B. 1907 are reflected in the descriptions of the Master Resolution contained in this Official Statement. See "Appendix C, EXCERPTS FROM THE MASTER RESOLUTION" and "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM – Funding for the University System and its Component Institutions - Tuition and Fees."

In connection with each issuance of Parity Debt, the Board will make an accounting allocation to each Member of the University System of its proportionate share, if any, of such Parity Debt (hereinafter referred to as a Member's "Direct Obligation"). The Master Resolution provides that the Board, in establishing the annual budget for each Member of the Revenue Financing System shall provide for the satisfaction by each Member of its Direct Obligation. A Member's Direct Obligation is the financial responsibility of such Member with respect to Outstanding Parity Debt.

Further, the Master Resolution provides that if, in the judgment of the Board, any Member of the Revenue Financing System has been or will be unable to meet its Annual Obligation (which includes its Direct Obligation), the Board shall fix, levy, charge, and collect rentals, rates, fees and charges for goods and services furnished by such Member and the Pledged General Tuition, effective at the next succeeding regular semester(s) or summer term(s), in amounts sufficient, without limit (after taking into account the anticipated effect of the proposed adjustments would have on enrollment and the receipt of Pledged Revenues), together with other legally available funds, including Pledged Revenues attributable to such Member, to enable it to pay its Annual Obligations.

Pledge Under Master Resolution. All Parity Debt constitutes a special obligation of the Board equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues as described below.

The Pledged Revenues consist of, subject to the provisions of the Prior Encumbered Obligations, the Revenue Funds, including all of the funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any Member of the Revenue Financing System which are lawfully available to the Board for payments on Parity Debt, including payments contemplated by the Agreement; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a supplement to the Master Resolution: (a) amounts received on behalf of any Member under Article VII, Section 17 of the State Constitution (generally, a provision of the State Constitution providing for an annual appropriation, as increased by the State Legislature, of $175 million to be allocated among eligible agencies and institutions of higher education for the purpose of providing funds for acquisition of capital assets and the construction of capital improvements), including the income therefrom and any fund balances relating thereto; and (b) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas. The "Revenue Funds" are defined in the Master Resolution to include the "revenue funds" of the Board (as defined in Section 55.01 of the Texas Education Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of the Members, including specifically the Pledged General Tuition; provided, that Revenue Funds does not include, with respect to each series or issue of Parity Debt, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of adoption of the Supplement relating to such Parity Debt is exempt by law from paying such tuition, rentals, rates, fees, or other charges. All legally available funds of the Members, including unrestricted fund and reserve balances, are pledged to the payment of the Parity Debt. For a more detailed description of the Pledged General Tuition, see “Appendix C, EXCERPTS FROM THE MASTER RESOLUTION.” For a more detailed description of the types of revenues and expenditures of the University System, see “Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM.”

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Board agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

The following table sets forth a historical compilation for fiscal years 2003 through 2007, inclusive, and a pro forma listing for fiscal year 2008 of the available revenues available during such years that would constitute Pledged Revenues under the Revenue Financing System based on current law:

TABLE 1
Pledged Revenues

	2003	2004	2005	2006	2007	Proforma 2008(3)
Available Pledged Revenues Not Including Fund Balances(1)	$257,607,618	$280,347,416	$264,408,407	$282,510,569	$332,847,030	$330,000,000
Unrestricted Net Assets(2)	244,600,813	275,493,137	276,176,214	325,212,508	329,926,921	329,926,921
Total Pledged Revenues and Unrestricted Net Assets	$502,208,431	$555,840,553	$540,584,621	$607,723,077	$662,773,651	$659,926,921

(1) The Available Pledged Revenues shown above consist of tuition, designated tuition, student center fees, and recovery of indirect costs for federal grants and contracts, federal pass-through grants from other agencies and State grants and contracts. The prior encumbered revenues of the University System are excluded.

(2) Texas State University System Combined Annual Financial Report. In addition to current year Pledged Revenues, any unappropriated or reserve fund balances remaining at year-end are available for payment of the subsequent year's debt service.

(3) Unrestricted Net Assets in the Proforma column are estimated at the immediate prior year's total.

Subject to the provisions of the Master Resolution authorizing the Prior Encumbered Obligations, the Board has covenanted in the Master Resolution that in each fiscal year it will establish, charge, and use its reasonable efforts to collect Pledged Revenues which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits or payments due on or with respect to Outstanding Parity Debt for such fiscal year. The Board has also covenanted in the Master Resolution that it will not incur any debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to the Parity Debt. The Board intends to issue most of its revenue-supported debt obligations which benefit the Members as Parity Debt under the Master Resolution.

THE OPERATIONS OF THE UNIVERSITY SYSTEM AND ITS COMPONENT INSTITUTIONS ARE HEAVILY DEPENDENT ON STATE APPROPRIATIONS. THE BOARD AND THE COMPONENT INSTITUTIONS HAVE NO ASSURANCE THAT STATE APPROPRIATIONS TO THE COMPONENT INSTITUTIONS WILL CONTINUE AT THE SAME LEVEL AS IN PREVIOUS YEARS. See "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM—Funding for the University System and its Component Institutions."

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY SYSTEM, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED AS SECURITY FOR THE BONDS. THE BREACH OF ANY COVENANT, AGREEMENT, OR OBLIGATION CONTAINED IN THE TWELFTH SUPPLEMENTAL RESOLUTION WILL NOT IMPOSE OR RESULT IN GENERAL LIABILITY ON OR A CHARGE AGAINST THE GENERAL CREDIT OF THE BOARD OR THE UNIVERSITY SYSTEM.

Additional Obligations. The Board may issue additional Parity Debt to provide funds for the purpose of acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the property, buildings, structures, facilities, roads or related infrastructure for the Members of the Revenue Financing System and to pay costs of issuance related to such additional Parity Debt. See "FUTURE CAPITAL IMPROVEMENT PLANS." The Board may also issue additional Parity Debt to refund outstanding Prior Encumbered Obligations and Outstanding Parity Debt.

Parity Debt. The Board has previously issued other obligations that constitute Parity Debt. The Board has reserved the right to issue or incur additional Parity Debt for any purpose authorized by law pursuant to the provisions of the Master Resolution and a supplemental resolution. The Board may incur, assume, guarantee, or otherwise become liable with respect to any Parity Debt if the Board has determined that it will have sufficient funds to meet the financial obligations of the Members, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System. The Master Resolution provides that the Board will not issue or incur additional Parity Debt unless (i) the Board determines that the Member or Members for whom the Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations, after taking into account the then proposed additional Parity Debt, and (ii) a System Representative delivers to the Board a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Master Resolution and any Supplement and is not in default in the performance and observance of any of the terms, provisions, and conditions thereof.

Notwithstanding the foregoing, the Board under the terms of the Master Resolution may issue Parity Debt in the form of commercial paper for equipment, minor new construction and minor repair and rehabilitation projects which are not required to be approved by the Texas Higher Education Coordinating Board (the "Coordinating Board") if the System Representative delivers to the Secretary of the Board a certificate to the effect that after the issuance of such commercial paper (i) the Board will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System, (ii) the Member or Members for whom the Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (iii) to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Master Resolution and any Supplement, and is not in default in the performance and observance of any of the terms, provisions, and conditions thereof. Currently, the Board has not authorized a commercial paper program.

Nonrecourse Debt and Subordinated Debt. The Master Resolution provides that Non-Recourse Debt and Subordinated Debt may be incurred by the Board without limitation. No such Non-Recourse Debt or Subordinated Debt has been issued by the Board on behalf of the Members.

OUTSTANDING PARITY DEBT
(as of August 19, 2008)

Series	TSUS Allocation	ASU	Total
1998	$3,735,000	$ -	$3,735,000
1998A	2,307	2,412,693	2,415,000
1998B	2,828	5,587,172	5,590,000
2000	2,380,000	-	2,380,000
2001	5,895,000	-	5,895,000
2002	100,625,959	12,339,041	112,965,000
2002A	5,860,000	-	5,860,000
2003	39,720,000	-	39,720,000
2004	72,637,060	11,042,940	83,680,000
2005	36,798,573	4,991,427	41,790,000
2006	118,105,000	16,635,000	134,740,000
2006A	22,680,000	-	22,680,000
2008	207,395,000	-	207,395,000
	$615,836,728	$53,008,272	$668,845,000

The following table is a summary of the debt service requirements of all Parity Debt and Prior Encumbered Obligations outstanding following the issuance of the Bonds. For a discussion of other debt of the University System payable from Higher Education Assistance Fund payments, see "Appendix A, DESCRIPTION OF THE

UNIVERSITY SYSTEM —Funding for the University System and its Component Institutions-State Appropriations" and " — Higher Education Assistance Fund (HEAF) Bonds."

TABLE 2
DEBT SERVICE REQUIREMENTS

Texas State University System – Revenue Financing System
Debt Service Requirements
(Including ASU Debt Service)

Fiscal Year	Prior Encumbered Obligations[1]	Outstanding Parity Debt Service[1]	Less: Refunded Bonds	The Bonds Principal	The Bonds Interest	The Bonds Total	Total Annual Debt Service
2008	$608,463	$49,801,316	$ -	$7,770,000	$5,180	$7,775,180	$58,184,958
2009	611,688	48,893,386	2,780,019	12,215,000	5,654,285	17,869,285	65,594,340
2010	613,763	50,106,128	2,785,419	7,580,000	9,392,675	16,972,675	64,907,146
2011	614,200	48,224,448	2,794,306	7,970,000	9,013,675	16,983,675	63,028,016
2012	182,950	46,155,223	2,798,569	8,380,000	8,615,175	16,995,175	60,534,779
2013	183,075	45,457,029	2,432,781	8,450,000	8,196,175	16,646,175	59,853,498
2014	178,125	45,027,679	2,342,281	8,680,000	7,879,300	16,559,300	59,422,823
2015	183,025	42,840,416	2,441,531	9,105,000	7,532,100	16,637,100	57,219,010
2016	182,700	41,166,266	1,656,031	8,800,000	7,076,850	15,876,850	55,569,785
2017	-	40,929,443	1,663,106	9,245,000	6,636,850	15,881,850	55,148,186
2018	-	40,943,149	1,660,975	9,710,000	6,174,600	15,884,600	55,166,774
2019	-	33,570,268		8,605,000	5,689,100	14,294,100	47,864,368
2020	-	33,574,938		9,075,000	5,237,338	14,312,338	47,887,275
2021	-	31,497,775		9,550,000	4,760,900	14,310,900	45,808,675
2022	-	30,509,488		10,045,000	4,259,525	14,304,525	44,814,013
2023	-	19,515,544		10,555,000	3,757,275	14,312,275	33,827,819
2024	-	15,804,775		11,105,000	3,203,138	14,308,138	30,112,913
2025	-	15,806,575		11,700,000	2,620,125	14,320,125	30,126,700
2026	-	15,801,725		12,300,000	2,005,875	14,305,875	30,107,600
2027	-	11,179,250		12,950,000	1,360,125	14,310,125	25,489,375
2028	-	11,173,500		13,605,000	680,250	14,285,250	25,458,750
2029	-	11,177,500					11,177,500
2030	-	11,184,750					11,184,750
2031	-	11,179,000					11,179,000
2032	-	6,079,750					6,079,750
2033	-	5,155,500					5,155,500
2034	-	3,969,000					3,969,000
TOTAL	**$3,357,989**	**$766,723,821**	**$23,355,018**	**$207,395,000**	**$109,750,516**	**$317,145,516**	**$1,064,872,301**

(1) Includes principal and interest.

TABLE 2A
DEBT SERVICE REQUIREMENTS

Texas State University System – Revenue Financing System
Debt Service Requirements
(Excluding ASU Debt Service)

Fiscal Year	Prior Encumbered Obligations[(1)]	Outstanding Parity Debt Service[(1)]	Less: Refunded Bonds	The Bonds Principal	The Bonds Interest	The Bonds Total	Total Annual Debt Service
2008	$608,463	$43,891,959	$ -	$7,770,000	$5,180	$7,775,180	$52,275,601
2009	611,688	44,007,525	2,780,019	12,215,000	5,654,285	17,869,285	59,708,479
2010	613,763	44,176,352	2,785,419	7,580,000	9,392,675	16,972,675	58,977,371
2011	614,200	42,264,402	2,794,306	7,970,000	9,013,675	16,983,675	57,067,971
2012	182,950	40,183,984	2,798,569	8,380,000	8,615,175	16,995,175	54,563,540
2013	183,075	39,479,390	2,432,781	8,450,000	8,196,175	16,646,175	53,875,859
2014	178,125	39,047,472	2,342,281	8,680,000	7,879,300	16,559,300	53,442,616
2015	183,025	38,143,583	2,441,531	9,105,000	7,532,100	16,637,100	52,522,176
2016	182,700	36,438,931	1,656,031	8,800,000	7,076,850	15,876,850	50,842,450
2017	-	36,209,959	1,663,106	9,245,000	6,636,850	15,881,850	50,428,703
2018	-	36,215,590	1,660,975	9,710,000	6,174,600	15,884,600	50,439,215
2019	-	31,137,335	-	8,605,000	5,689,100	14,294,100	45,431,435
2020	-	31,145,811	-	9,075,000	5,237,338	14,312,338	45,458,149
2021	-	29,064,015	-	9,550,000	4,760,900	14,310,900	43,374,915
2022	-	28,077,128	-	10,045,000	4,259,525	14,304,525	42,381,653
2023	-	18,329,044	-	10,555,000	3,757,275	14,312,275	32,641,319
2024	-	14,618,025	-	11,105,000	3,203,138	14,308,138	28,926,163
2025	-	14,616,325	-	11,700,000	2,620,125	14,320,125	28,936,450
2026	-	14,619,975	-	12,300,000	2,005,875	14,305,875	28,925,850
2027	-	9,997,500	-	12,950,000	1,360,125	14,310,125	24,307,625
2028	-	9,988,750	-	13,605,000	680,250	14,285,250	24,274,000
2029	-	9,997,000	-	-	-	-	9,997,000
2030	-	10,000,500	-	-	-	-	10,000,500
2031	-	10,003,500	-	-	-	-	10,003,500
2032	-	4,900,000	-	-	-	-	4,900,000
2033	-	3,974,250	-	-	-	-	3,974,250
2034	-	3,969,000	-	-	-	-	3,969,000
TOTAL	**$3,357,064**	**$684,497,305**	**$23,355,018**	**$207,395,000**	**$109,750,516**	**$317,145,516**	**$981,645,790**

(1) Includes principal and interest.

ASU TRANSFER

General

The 80th Texas Legislature approved House Bill 3564 ("H.B. 3564") by Representative Darby which transferred Angelo State University located in San Angelo, Texas ("ASU") from the University System to the Texas Tech University System ("Texas Tech") effective September 1, 2007.

Pursuant to H.B. 3564, all contracts and written obligations of every kind and character entered into by the Board for and on behalf of ASU, other than bonds, are considered ratified, confirmed, and validated by the Board of Regents of Texas Tech on the effective date of the transfer (i.e., September 1, 2007) and in those contracts and written obligations, the Board of Regents of Texas Tech is substituted for and stands and acts in the place of the Board to the extent permitted by law. Additionally, all funds that, on the effective date of the transfer, have been appropriated or dedicated to or are held for the use and benefit of ASU under the governance of the Board of the University System are transferred to the Board of Texas Tech for the use and benefit of ASU. Effective September 1, 2007, ASU is no longer under the control or governance of the Board.

Outstanding Parity Debt

Upon the delivery of the Bonds, the Board will have outstanding Parity Debt which includes approximately $53,008,272 in aggregate principal amount issued for the benefit of and payable by ASU. Pursuant to the terms of the Master Resolution, the Board has consented with and bound itself to the owners of the currently outstanding Parity Debt that a Member of the Revenue Financing System may not be removed from the Revenue Financing System unless (1) the Board specifically finds that, after the release of the Member (based on a certificate signed by a System Representative), the Board will have sufficient funds during each Fiscal year in which Parity Debt shall thereafter be outstanding to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; (2) the Board shall have received an Opinion of Counsel which should state that such release will not affect the status for federal income tax purposes of interest on any Outstanding Parity Debt and that all conditions precedent provided in the Master Resolution or any Supplement relating to such release have been complied with; and (3) if the Member to be released from the Revenue Financing System is to no longer be under the governance and control of the Board, the Board must receive a binding obligation from the new governing body of the withdrawing Member obligating such governing body to make payments to the Board at the time and in the amounts equal to such withdrawing Member's Annual Obligation and to pay or discharge the withdrawing Member's Direct Obligations.

Since H.B. 3564 became effective on September 1, 2007, the University System and Texas Tech have been in discussions with respect to the form of the "binding obligation" required to be delivered by Texas Tech to the University System pursuant to the Master Resolution whereby Texas Tech is obligated to make payments to the University System, at the times and in the amounts equal to ASU's Annual Obligation and to pay or discharge ASU's Direct Obligation. To date, no such binding obligation has been delivered by Texas Tech to the University System and Texas Tech has not refinanced and/or assumed any of the Parity Debt of the University System attributable to ASU. However, the Board of Regents of Texas Tech has expressed their intent to pay debt service on the ASU related Parity Debt and has to date made two debt service payments on such debt totaling $5,909,357.01.

Texas Higher Education Coordinating Board

H.B. 3564 specifically gives the Texas Higher Education Coordinating Board (the "Coordinating Board") the ability to resolve any matter relating to the transfer of ASU upon which Texas Tech and the University System are unable to agree and to issue orders or take any other action that the Coordinating Board considers appropriate to enforce the resolution of such matters or to facilitate the transfer of ASU.

On September 5, 2007, the University System requested that the Coordinating Board intervene in resolving the form of binding obligation to be delivered pursuant to the Master Resolution. With the assistance of the Coordinating Board's general counsel and the Texas Attorney General's Office, the University System and Texas Tech negotiated the form of an agreement (the "Agreement") that provides for Texas Tech to deliver a binding obligation to the University System that would satisfy the requirements of the Master Resolution.

On April 24, 2008, the Coordinating Board made certain findings of fact and issued certain orders (collectively, the "Coordinating Board Order") pursuant to which, the Coordinating Board ratified the Agreement and determined that its execution by the University System and Texas Tech was in the best interests of the State in order to facilitate the transfer of ASU. The Coordinating Board Order also ordered that, notwithstanding non-signature by a party, the Agreement shall take effect immediately and that the University System and Texas Tech and their respective officers and employees are required to comply with the terms of the Agreement.

Agreement

The Agreement approved by the Coordinating Board contemplates that Texas Tech will deliver a note (the "Note") to the University System with payments coming due in amounts and at times necessary to pay the debt service due on the ASU related Parity Debt. The Note would be approved by the Texas Attorney General and the Texas Bond Review Board and would be payable from and secured by a lien on Texas Tech's pledged revenues pursuant to the Texas Tech revenue financing system on parity with Texas Tech's outstanding revenue financing system parity debt. See the financial and operating data related to Texas Tech on file with the NMRSIRs and SID for information related to Texas Tech's outstanding parity debt.

The Chancellor of the University System has signed the Agreement but Texas Tech has yet to sign the Agreement.

Amendment of Master Resolution and Springing Provision

On June 19, 2008, the Board adopted a Resolution Amending the Master Resolution establishing the Texas State University System Revenue Financing System (the "Amending Resolution") which amended the definition of "Pledged Revenues" in the Master Resolution to include payments received from Texas Tech as contemplated by the Agreement or another arrangement subsequently permitted by the Coordinating Board pursuant to which Texas Tech delivers a binding obligation to the University System in compliance with the Master Resolution.

The Amending Resolution also provides for the automatic springing release of ASU as a Member of the University System's Revenue Financing System without further action by the Board upon the delivery of (i) a binding obligation in compliance with the Master Resolution providing for Texas Tech to make payments to the Board at the times and in the amounts equal to ASU's Annual Obligation and to pay or discharge ASU's Direct Obligation and (ii) an opinion of counsel required by the Master Resolution that such release will not affect the status for federal income tax purposes of interest on any outstanding Parity Debt and that all conditions precedent relating to such release in the Master Resolution or in any supplemental resolution thereto have been complied with.

The amendments to the Master Resolution are subject to the following conditions:

(i) No form of binding obligation other than as contemplated by the Agreement is considered to satisfy the requirements of the Amending Resolution without the prior written consent of the bond insurers of any then Outstanding Parity Debt; and

(ii) No amendment of the Agreement or any binding obligation delivered by Texas Tech is effective without the prior written consent of the bond insurers of any then Outstanding Parity Debt.

In adopting the Amending Resolution, the Board specifically found, as required by the Master Resolution, that (based upon a certificate delivered by the University System Chancellor) after the release of ASU in accordance with the prerequisites for such release set forth in the Amending Resolution, the Board will have sufficient funds during each fiscal year in which Parity Debt will thereafter be outstanding to meet the financial obligations of the University System, including sufficient Pledged Revenues (as that term is defined in the Amending Resolution to include payments received from Texas Tech), to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System. In that the Board is adding to the security of the Owners pursuant to the provisions of the Amending Resolution, consent of the Owners was not necessary for the Board to adopt the Amending Resolution.

Enforcement

Due to the critical need for the projects being financed with the proceeds of the Bonds, the University System is proceeding with the issuance of the Bonds prior to the release of ASU as a Member under the Master Resolution; however, Owners of the Bonds should assume that ASU will ultimately be released as a Member of the Revenue Financing System once the conditions to the Master Resolution are met. Until the release of ASU under the Master Resolution, ASU's revenues are pledged under the Master Resolution and the University System retains a perfected security interest in such revenues although the governance of ASU as well as all funds, accounts and appropriations of ASU have been transferred to Texas Tech. The enforcement of the perfected security interest in ASU revenues as well as the rate covenant related to ASU may be difficult and time consuming. Additionally, there are no assurances Texas Tech will execute the Agreement or deliver the Note or other similar obligation. Further, the Coordinating Board, University System and Texas Tech could approve a form of binding obligation different from the Note. As noted above, Texas Tech has expressed its intent to pay debt service on the ASU Parity Debt and has made two debt service payments to date related to such debt totaling $5,909,357.01.

The University System will file additional information in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission once the prerequisites to the springing release of ASU set forth in the Amending Resolution have occurred.

FUTURE CAPITAL IMPROVEMENT PLANS

The University System's component institutions plan for future capital improvements through individual Campus Master Plans that identify long term needs for capital improvements. The Campus Master Plans are reviewed periodically by the Texas Higher Education Coordinating Board and are used by that agency as one factor in the formula funding methodology used to allocate the University System's share of the $175,000,000 annual Constitutional Appropriation referred to as the Higher Education Assistance Fund (HEAF). See "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM—Funding for the University System and its Component Institutions-State Appropriations."

Sources of funding for the needs identified in each component institution's Campus Master Plan include legislative appropriations, constitutional appropriations, operational earnings of the various institutional activities such as residence halls, bookstores and utility systems, balances reserved for this purpose, unallocated balances and proceeds from debt issuances.

ABSENCE OF LITIGATION

Neither the Board nor any Member is a party to any litigation or other proceeding pending or, to the knowledge of such parties, threatened, in any court, agency, or other administrative body (either state or federal) which, if decided adversely to such parties, would have a material adverse effect on the Pledged Revenues, and no litigation of any nature has been filed or, to their knowledge, threatened, that would affect the provisions made for the use of the Pledged Revenues to secure or pay the principal of or interest on the Bonds, or in any manner questioning the validity of the Bonds.

REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of this Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The University System assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

CONTINUING DISCLOSURE OF INFORMATION

In each of the Supplemental Resolutions, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board is required to observe its agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports. The Board will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the University System of the general type included in this Official Statement under Tables 1, 2, A-1, A-2, A-3, A-4, A-5, A-8, A-9 and A-10 and in Appendix B. The Board will update and provide this information within 180 days after the end of each fiscal year. The Board will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the SEC, in accordance with the provisions of Rule 15c2-12, promulgated by the SEC ("SEC Rule 15c2-12").

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the time required. If audited financial statements are not available by the required time, the Board will provide such statements when and if they become available, but if such audited financial statements are unavailable, the Board will provide such financial statements on an unaudited basis within the required time. Any such financial statements are to be prepared in accordance with generally accepted accounting principles or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation. It is not expected that the Board will commission an audit. Hence, unaudited financial statements, as shown in Appendix B, are expected to be provided. However, the University System is audited as part of the State of Texas audit, but separate financial statements are not available.

The State's current fiscal year end is August 31. Accordingly, the Board must provide updated information within 180 days following August 31 of each year, unless the State changes its fiscal year. If the State changes its fiscal year, the Board will notify each NRMSIR and any SID of the change.

Material Event Notices. The Board will also provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to each series of Bonds, if such event is material to a decision to purchase or sell Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. (None of the Bonds, the Master Resolution or the Supplemental Resolutions make any provision for debt service reserves.) In addition, the Board will provide timely notice of any failure by the Board to provide financial information or operating data in accordance with its agreement described above under "Annual Reports." The Board will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID. The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone is 512/476-6947.

The Municipal Advisory Council of Texas has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the Board, which then transmits the filed information to the NRMSIRs and the appropriate SID. This central post office can be accessed and utilized at www.DisclosureUSA.com. The Board may utilize this central post office for the filing of information related to the Bonds.

Limitations and Amendments. The Board has agreed to update information and to provide notices of material events only as described above. The Board has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Board may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of said rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the Board so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Agreements. During the last five years, the Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with SEC Rule 15c2-12, except that the financial information and operating data in respect of the fiscal year that ended August 31, 2003 (which was due not later than February 29, 2004) was transmitted to the NRMSIRs and the SID on March 19, 2004.

LEGAL MATTERS

General. Legal matters relating to the Bonds are subject to approval of legality by the Attorney General of the State of Texas and of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the Board, whose opinion will be delivered at the closing of the sale of the Bonds in substantially the form set forth in Appendix D. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted, and such firm has not assumed any responsibility with respect thereto or undertaken to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds, the Master Resolution, the Twelfth Supplemental Resolution and the Revenue Financing System contained in this Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCING," "DESCRIPTION OF THE BONDS" (other than information under the subcaptions "—Book-Entry-Only System" and "Bondholder Remedies"), "SECURITY FOR THE BONDS," "ASU TRANSFER – Amendment of Master Resolution and Springing Provision," "REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE," "CONTINUING DISCLOSURE OF INFORMATION" (other than information under the subcaption "—Compliance with Prior Agreements"), "TAX MATTERS" and "LEGAL INVESTMENTS IN TEXAS" and in Appendix C and Appendix D and such firm is of the opinion that the information contained under such captions and in such Appendices is a fair and accurate summary of the information purported to be shown therein and is correct as to matters of law. The payment of legal fees to Bond Counsel is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P. Dallas, Texas.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Forward Looking Statements. The statements contained in this Official Statement, and in any other information provided by the Board, that are not purely historical, are forward-looking statements, including statements regarding the Board's expectations, hopes, and intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements. The Board's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and therefore, there can be no assurance that the forward-looking statements in this Official Statement will prove to be accurate.

TAX MATTERS

Tax Exemption. On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix D – "FORM OF BOND COUNSEL OPINION."

In rendering its opinion, Bond Counsel will rely upon (i) certain information and representations of the Board including information and representations contained in the Board's federal tax certificate, (ii) covenants of the Board contained in the bond documents relating to certain matters including arbitrage, the use of the proceeds of the Bonds and the property to be financed therewith, and (iii) the verification report prepared by Grant Thornton LLP. Failure by the Board to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Board with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Board with respect to the Bonds or the projects financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Board as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount. The initial public offering price to be paid for one or more maturities of the Bonds, may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences. The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding $175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a *de minimis* amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes. Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

RATINGS

The Bonds are rated "Aa3" by Moody's Investor's Service, Inc. ("Moody's") and "AA-" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"). A further explanation of the ratings by Moody's and S&P may be obtained from such agencies.

An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the Board relating to computations of forecasted receipts of principal and interest on the Federal Securities in the Escrow Fund and the forecasted payments of principal and interest to redeem the Refunded Bonds, respectively, were examined by Grant Thornton LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company on behalf of the Board. Grant Thornton LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification shall be based upon information supplied to Grant Thornton LLP by the Board and First Southwest Company and shall be relied upon by Bond Counsel in rendering its opinion with respect to the tax exemption of interest on the Bonds.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business & Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The University System has not made any investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The University System has not made any review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the Board at the initial public offering price shown on the inside front cover of this Official Statement, less an underwriting discount of $1,048,828.88. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Board in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the Board's records, annual financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Award Certificate authorized in the Twelfth Supplemental Resolution approves the form and content of this Official Statement, and authorized the undersigned to approve any addenda, supplement, or amendment thereto, and authorized its further use by the Underwriters in the reoffering of the Bonds.

/s/ Charles R. Matthews
Chancellor, Secretary of the Board of Regents
Texas State University System

[This Page is Intentionally Left Blank]

Schedule I

SCHEDULE OF REFUNDED BONDS

Revenue Financing System Revenue Bonds, Series 1998A

Original Maturity	Amount Refunded	Redemption Date	Redemption Price	CUSIP
3/15/2015	$755,000	9/23/2008	Par	882789GE (4)
3/15/2016	1,430,000	9/23/2008	Par	882789GV (6)
3/15/2018	3,085,000	9/23/2008	Par	882789GW (4)

Revenue Financing System Revenue Bonds, Series 1998B

Original Maturity	Amount Refunded	Redemption Date	Redemption Price	CUSIP
3/15/2009	$1,880,000	9/23/2008	Par	882789GP (9)
3/15/2010	1,970,000	9/23/2008	Par	882789GQ (7)
3/15/2011	2,070,000	9/23/2008	Par	882789GR (5)
3/15/2012	2,170,000	9/23/2008	Par	882789GS (3)
3/15/2013	1,910,000	9/23/2008	Par	882789GT (1)
3/15/2014	1,915,000	9/23/2008	Par	882789GU (8)
3/15/2015	1,355,000	9/23/2008	Par	882789DR (8)

[This Page is Intentionally Left Blank]

Appendix A

DESCRIPTION OF THE UNIVERSITY SYSTEM

BACKGROUND AND HISTORY.

The University System was originally created by the Texas Legislature in 1911. The following state supported institutions are under the governance and control of the University System: Lamar University; Lamar Institute of Technology; Lamar State College - Orange; Lamar State College - Port Arthur; Sam Houston State University; Texas State University - San Marcos (formerly known as Southwest Texas State University); Sul Ross State University; and Sul Ross State University Rio Grande College. Angelo State University ("ASU") was previously under the governance and control of the University System but during the 80th Legislature, Regular Session, H.B. 3564 was passed transferring ASU from the University System to the Texas Tech University System, effective September 1, 2007. ASU, however, remains a Member of the Revenue Financing System pursuant to the Master Resolution. The Master Resolution specifies certain conditions which must be met prior to the removal of a Member of the Revenue Financing System. As of the date of this Official Statement, the conditions of the Master Resolution relating to the removal of ASU as a Member have not been satisfied and ASU has not been released as a Member of the Revenue Financing System. See "ASU TRANSFER"

As the oldest university system in Texas, the University System encompasses institutions which are leaders in training teachers who staff the growing public school system in Texas and the surrounding states. Demographics indicate this market demand should be strong for many years into the future. The University System components are keyed to regional service areas along with a state-wide appeal in specialized academic fields, such as the nationally recognized Criminal Justice program at Sam Houston State University. Each of the four-year universities are designated by the Texas Higher Education Coordinating Board as Comprehensive Regional Universities, thus allowing for rapid response to changing educational needs and demands. Two of the universities, Sam Houston State University and Texas State University-San Marcos, are located in high growth, economically diversified areas which should promote continued expansion and enrollment growth. Lamar University and Sul Ross State University are dominant institutions in the specific geographic areas they serve providing stability for their student base. Each of the two-year institutions, Lamar Institute of Technology, Lamar State College - Orange and Lamar State College - Port Arthur, serve vital functions in providing for a trained work force through academic and vocational educational opportunities in a key industrial area of the state. See "Enrollment" below.

COORDINATING BOARD.

The University System is subject to the supervisory powers of the Texas Higher Education Coordinating Board (the "Coordinating Board"). The Coordinating Board is an agency of the State established to promote the efficient use of State resources by providing coordination and leadership for the State's higher education systems, institutions and governing boards. The Coordinating Board is the highest authority in the State in matters of public higher education and prescribes the scope and role of each institution of higher education. The Coordinating Board periodically reviews all degree and certificate programs offered by the State's institutions of higher education and annually reviews the academic courses offered by such institutions. The Coordinating Board also determines space utilization formulas designed to promote the efficient use of construction funds and the development of physical plants to meet projected growth estimates. These space utilization formulas directly impact the allocation of appropriated funds among the State's institutions of higher education. As required by law, the Coordinating Board must approve all new construction projects for components of the University System except those specifically authorized by the Texas Legislature.

GOVERNANCE AND ADMINISTRATION.

The University System is governed, managed, and controlled by a nine-member Board of Regents, each of whom is appointed by the Governor of the State subject to confirmation by the State Senate. Each regent serves a six-year term, with three new appointments made to the Board every two years. A regent may be reappointed to serve on the Board. The members of the Board elect one of the regents to serve as Chairman of the Board and may elect any other officers they deem necessary. The regents serve without pay except for a per diem payment as provided by the Legislature of the State of Texas and reimbursement for travel expenses incurred in the performance of their duties.

There is a student regent who is a student attending one of the University System schools. State law does not allow a student regent to vote on matters before the Board.

The Board is legally responsible for the general control and management of the component institutions of the University System and has authority to promulgate and enforce such rules, regulations, and orders as it deems necessary for the operation, control and management of the University System. The Board appoints a Chancellor who directs the operations of the University System and is responsible for carrying out policies determined by the Board. The Chancellor is assisted by a Vice Chancellor for Academic Affairs, a Vice Chancellor and General Counsel, a Vice Chancellor for Finance, a Vice Chancellor for Governmental Relations and Educational Policy and a Director of Audits and Analysis. The operations of each component institution of the University System are directed by a President appointed by the Board. Each President holds office without a fixed term and at the pleasure of the Board.

A list of the current members of the Board and certain principal administrative officers of the University System appears on page (iii) of this Official Statement. Set forth below is biographical information for such principal administrative officers of the University System:

Dr. Charles R. Matthews became the Chancellor of the University System in February 2005 and also serves as Secretary of the Board. Prior to assuming the Chancellorship, he served as the 40th Commissioner of the Railroad Commission of Texas for ten years. First elected in 1994, he won re-election in 2000 to a second term, receiving the highest number of votes ever cast for a Railroad Commissioner. Dr. Matthews has also served as Mayor for the City of Garland, in addition to serving as President of the Texas Municipal Power Agency and was Governor William P. Clements appointee to the Texas Turnpike Authority. Chancellor Matthews holds a bachelor's degree from the University of Texas at Dallas and a Masters in Public Administration from Texas State University. He completed his doctoral studies in higher education administration at The University of Texas at Austin.

Dr. Kenneth R. Craycraft serves as the Vice Chancellor for Academic Affairs for the University System. Prior to his appointment, Dr. Craycraft served as the Dean for the College of Education and Applied Science at Sam Houston State University. In addition to holding elected offices in professional organizations at the national and state levels, he has authored or co-authored numerous articles and several books, and was appointed by the Honorable George W. Bush to serve on the State Board for Educator Certification. Dr. Craycraft received his doctorate from Indiana University in 1977, his master's from Stephen F. Austin State University in 1975, and his baccalaureate degree from Sam Houston State University in 1971.

Dr. Fernando C. Gomez serves as the Vice Chancellor and General Counsel for the University System. Prior to becoming Vice Chancellor and General Counsel, Dr. Gomez served as a tenured professor at Michigan State University from 1974-1979 and at California State University-Fullerton from 1992-1994, Assistant Attorney General in Texas and Michigan from 1979-1986, General Counsel for the California State University System from 1992-1994 and engaged in private practice from 1990-92. Dr. Gomez received a B.A., cum laude, in English and Sociology from the University of New Mexico in 1970 and a J.D. from the University of Michigan in 1973. Dr. Gomez also received his Ph.D. in American Culture from the University of Michigan in 1977.

Patricia V. Hayes serves as Vice Chancellor for Governmental Relations and Educational Policy for the University System. Prior to her appointment, Ms. Hayes was Associate Commissioner for Educator Quality and P-16 Initiatives at the Texas Education Agency. She previously served as a Legal Intern in the Office of the Speaker of the House of Representatives and as Director of the Senate Subcommittee on Higher Education. She holds a bachelor's degree from The University of Texas at Austin and a law degree from Pepperdine University in Malibu, California.

Dr. Roland Smith was hired as Vice Chancellor for Finance in August, 2005. Prior to joining the University System, Dr. Smith worked for 10 years as Vice President for Business Affairs at Stephen F. Austin State University. During that time, he served as interim President of the University for a period of 18 months. Prior to his University experience, Dr. Smith worked as a faculty member and Vice President for Finance in Texas Community Colleges located in Alvin, Texas City and Austin. He is a CPA and holds BBA, MBA, and PhD degrees from The University of Texas at Austin.

Carole M. Fox was named Director of Audits and Analysis in 2007. Prior to being named Director of Audits and Analysis, Ms. Fox was Director of the Office of Internal Audit at the Texas Workforce Commission and was Director of Internal Audit at the Texas Workers' Compensation Commission for 10 years. Ms. Fox also served as Audit Manager at the University of Texas System Administration for a period of 2 years.

COMPONENT INSTITUTIONS.

A summary description of the University System's eight component institutions, each of which is a Member in the Revenue Financing System, is set forth below:

Lamar University serves as a comprehensive, senior, public university and is a significant educational, scientific, engineering, business and cultural resource center for Southeast Texas. This institution, which became a part of the University System in 1995, has over 520 full and part-time faculty members and offers its 10,213 students more than 64 programs leading to 108 baccalaureate degrees and more than 39 programs leading to 69 graduate degrees. Lamar University also provides doctorate degrees in engineering and deaf education. The public service mission of this institution reaches out to communities throughout Southeast Texas to provide educational and training programs to meet the region's needs.

Lamar Institute of Technology was established in 1990 when the two-year programs of Lamar University's College of Technical Arts and several other programs were grouped together to establish a special purpose institution dedicated to technical education. Lamar Institute of Technology became a separate, degree-granting institution in 1995 and was accredited by the Southern Association of Colleges and Schools in 2000. The institution offers associate of applied science degrees in 30 fields and certificates in 25 fields. This wide range of associate degrees, non-credit courses and specialized technical programs offered to its 2,590 students receiving academic credit and 1,143 non-credit students is designed to help meet the workforce needs in the Southeast Texas area.

Lamar State College - Orange was created in 1969 as a two-year, lower-division institution of higher learning in response to the need for educational and industrial training programs in the area. This college, located in historic downtown Orange, offers a wide range of academic programs for transfer to four-year universities along with training in a variety of vocational and technical fields. In addition to 17 associate degrees in 15 fields, one-year certificates in several career fields are also available from this institution to its 2,005 students.

Lamar State College - Port Arthur was originally founded in 1909 as Port Arthur College and still serves the educational needs of Port Arthur and Southeast Texas, offering associate degrees and an academic foundation for students seeking four-year degrees. The institution's vocational and technical courses are designed to provide its 2,279 students with marketable skills in fields such as allied health, computer information systems, business information systems, child development, automotive technology, cosmetology, legal assistance, computer engineering and maintenance, and chemical dependency counseling. Lamar State College - Port Arthur offers associate of arts and science degrees in 13 academic programs and has 21 technical programs leading to the Associate of Applied Science degree.

Sam Houston State University was created by the Texas Legislature in 1879, making it the third oldest state university in Texas and one of the oldest teacher-training institutions west of the Mississippi River. Today Sam Houston State University, located in Huntsville, is a multipurpose university serving one of the most diverse populations in the state.

Over 735 full and part-time faculty members serve the 16,400 students of the University. The University offers bachelor's and master's degrees in 127 fields through five colleges including Arts & Science, Business Administration, Criminal Justice, Education and Humanities and Social Sciences. Sam Houston State University also offers a Ph.D. in Criminal Justice, a Ph.D. in Forensic Clinical Psychology, and an Ed.D. in Educational Leadership. The Criminal Justice program enjoys nationally and internationally recognized status.

Texas State University-San Marcos (formerly known as Southwest Texas State University) was founded in 1899 and is uniquely situated in the middle of the growing Austin-San Antonio corridor. The headwaters of the beautiful San Marcos River are located within the boundaries of the university campus. The main campus is located on 456 acres and has an additional 5,027 acres in farm, ranch and recreational areas. With its 28,121 students, taught by 1,359 full and part time faculty members, Texas State University-San Marcos is one of the largest universities in Texas.

The institution provides nationally recognized programs in teacher education, geography, health professions, theater, music, aquatic biology, and chemistry, as well as programs in many other fields. The scope of the university's curriculum includes over 112 undergraduate majors, 85 graduate majors, certification in education, long-term healthcare, dietetics and legal assistance programs, and has added two engineering programs with additional programs in the planning stages and 6 doctoral programs. In 2005, the university opened its first permanent facility on a new 101-acre second campus in Round Rock, just north of Austin.

Sul Ross State University, located in Alpine, was created by the Texas Legislature in 1917 and encompasses a service area that includes a wide expanse of West and South Texas and a large portion of the international border shared with Mexico. Originally founded to train teachers, Sul Ross State University continues to be one of the leading institutions in preparing personnel for the public school system. The university serves as a professional, educational and cultural resource to its 1,765 students from the region. Sul Ross State University offers 30 bachelor's degrees, 22 master's degrees, 6 associate degrees and certificate programs including outstanding programs in agriculture and natural resource science, biology and geology.

Sul Ross State University Rio Grande College opened in 1973 in order to provide upper level course work in Del Rio, Eagle Pass and Uvalde leading to degrees from Sul Ross State University. This institution works in conjunction with Southwest Texas Junior College and makes it possible for students living in the region to pursue bachelor's and master's degrees. The institution provides enhanced educational opportunities to a student population that is 80.0 percent Hispanic and has an average age of 32.1 years. The institution offers its 941 students of the region 11 bachelor's degree programs and 8 master's degree programs.

Enrollment. Set forth below is the fall semester headcount undergraduate and graduate enrollment at the component institutions of the University System for each of the last five years:

TABLE A-1
Headcount Enrollment Information

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007*
Angelo State University	6,033	6,130	6,140	6,211	N/A
Lamar University	10,379	10,804	10,523	9,867	10,213
Lamar Institute of Technology	2,538	2,540	2,711	2,409	2,590
Lamar State College - Orange	1,853	2,047	2,132	2,011	2,005
Lamar State College - Port Arthur	2,429	2,385	2,501	2,387	2,279
Sam Houston State University	13,417	14,333	15,308	15,893	16,400
Texas State University-San Marcos	26,306	26,783	27,129	27,485	28,121
Sul Ross State University	2,109	1,938	1,918	1,829	1,765
Sul Ross State University-Rio Grande College	954	1,055	1,006	948	941
Total	**66,018**	**68,015**	**69,368**	**69,040**	**64,314**

Set forth below is the fall semester graduate enrollment at the component institutions of the University System for each of the last five years:

TABLE A-2
Graduate Enrollment Information [1]

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007*
Angelo State University	581	566	559	490	N/A
Lamar University - Beaumont	1,729	1,683	1,444	1,437	1,854
Sam Houston State University	1,922	2,038	2,126	2,136	2,253
Texas State University-San Marcos	4,332	4,381	4,143	3,917	4,083
Sul Ross State University	557	510	481	529	537
Sul Ross State University Rio Grande College	342	393	324	280	242
Total	**9,463**	**9,571**	**9,077**	**8,789**	**8,969**

(1) Lamar State College-Orange, Lamar State College-Port Arthur and Lamar Institute of Technology are lower level (freshman and sophomore) institutions which do not offer graduate programs.

*This column excludes Angelo State University ("ASU"). The Texas Legislative transferred ASU to the Texas Tech University System effective September 1, 2007. See "ASU TRANSFER."

Set forth below is the fall semester full-time equivalent enrollment at the component institutions of the University System for each of the last five years:

TABLE A-3
Full-Time Equivalent Enrollment Information[(1)]

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007*
Angelo State University	5,082	5,213	5,288	5,278	N/A
Lamar University	7,737	8,138	8,094	7,670	7,817
Lamar Institute of Technology	1,769	1,785	1,920	1,743	1,871
Lamar State College - Orange	1,194	1,321	1,316	1,262	1,274
Lamar State College - Port Arthur	1,551	1,515	1,492	1,466	1,410
Sam Houston State University	10,978	11,691	12,721	13,177	13,479
Texas State University-San Marcos	20,838	21,356	21,706	22,006	22,869
Sul Ross State University	1,687	1,563	1,516	1,410	1,319
Sul Ross State University Rio Grande College	504	592	561	510	515
Total	**51,340**	**53,174**	**54,614**	**54,522**	**50,554**

(1) Full-time enrollment is 15 hours per semester for undergraduate students and 9 hours per semester for graduate students.

The following table sets forth, by percentage, a breakdown of the University System's enrollment by residency classification for the previous five Fall Semesters:

TABLE A-4
Systemwide Enrollment by Residency

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007*
Texas Residents	63,439	65,354	66,927	66,649	61,994
Non-Texas Residents	1,195	1,235	1,277	1,276	1,153
Foreign Students	1,384	1,426	1,164	1,115	1,167
Total	**66,018**	**68,015**	**69,368**	**69,040**	**64,314**

*This column excludes ASU. The Texas Legislature transferred ASU to the Texas Tech University System effective September 1, 2007. See "ASU TRANSFER."

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

ADMISSIONS AND MATRICULATION.

Set forth below is information relating to undergraduate admissions and matriculation of the component institutions of the University System which offer four-year undergraduate degrees:

TABLE A-5
Admissions and Matriculation Information [(1)]

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007[(2)]
Applications Submitted	53,277	58,524	56,140	54,287	53,590
Applications Accepted	38,798	47,675	39,929	40,760	37,596
Matriculation	23,556	27,430	23,790	24,115	22,000
Percentage Accepted	72.82%	81.46%	71.12%	75.08%	70.15%
Percentage Matriculated	60.71%	57.54%	59.58%	44.42%	41.05%

---

(1) This table reflects only admissions and matriculation information of undergraduates for Angelo State University, Lamar University, Sam Houston State University, Texas State University-San Marcos and Sul Ross State University. This information is inclusive of the fall, spring and summer sessions of the respective fiscal years. Admissions and matriculation numbers of the type set forth above are not routinely or consistently kept for Lamar Institute of Technology, Lamar State College-Orange, Lamar State College -Port Arthur and Sul Ross State University - Rio Grande College.

(2) This column excludes ASU.

DEGREES.

Set forth below is a listing of the aggregate degrees awarded by the component institutions of the University System during each of the last five years:

TABLE A-6
Systemwide Degrees Awarded

	2003	2004	2005	2006	2007
Associate	798	836	816	828	805
Certificate	479	511	574	536	583
Baccalaureate	8,447	8,606	9,023	9,280	9,599
Master's	2,119	2,281	2,498	2,404	2,385
Doctoral	19	33	47	58	88
Total	**11,862**	**12,267**	**12,958**	**13,106**	**13,460**

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

FACULTY AND EMPLOYEES.

The numbers of faculty and employees employed by the University System and its component institutions as of Fall 2007 are set forth in the following table:

TABLE A-7
Faculty and Employees

	Faculty	Employees	Total
University System Administration	0	15	15
Lamar University	521	1,759	2,280
Lamar Institute of Technology	156	141	297
Lamar State College - Orange	96	150	246
Lamar State College - Port Arthur	72	299	371
Sam Houston State University	736	2,620	3,356
Texas State University-San Marcos	1,359	5,968	7,327
Sul Ross State University	117	654	771
Sul Ross State University Rio Grande College	44	83	127
Total	**3,101**	**11,689**	**14,790**

ACCREDITATION.

Each of the component institutions of the University System is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. In addition, the various component institutions of the University System are accredited by other accrediting agencies, some of which include the National Council for Accreditation of Teacher Education, the Engineering Accreditation Commission of the Accreditation Board of Engineering and Technology, the Commission on Accreditation of Physical Therapy Education and the U.S. Department of Education and Veteran's Administration.

FINANCIAL STATEMENTS.

Annually, not later than November 20, an unaudited financial report dated as of August 31, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University System, and in so doing examines the financial records of the University System. No outside audit in support of this detailed review is required or obtained by the University System.

The State issues audited financial statements, prepared in accordance with generally accepted accounting principles for the State government as a whole. The statements are prepared by the Comptroller of Public Accounts and are audited by the State Auditor's Office. The State Auditor expresses an opinion on the financial statements of the State but does not express an opinion on the financial statements of individual component units including those of the University System. The scope of the State Auditor's audit includes tests for compliance with the covenants of general obligation and revenue bond issues of the State and its component agencies and institutions. Supplementary schedules are included in the State financial statements providing for each bond issue information related to the pledged revenues and expenditures, coverage of debt service requirements, restricted account balances, and/or other relevant information that may be feasibly incorporated. The State Auditor does not express an opinion on such schedules in relation to the basic financial statements taken as a whole. Any material compliance exceptions related to bond covenants are addressed in the overall management letter for the State audit.

Appendix B to this Official Statement contains excerpts from the Combined Annual Financial Report for the University System for the fiscal year ended August 31, 2007. The final report of the State Auditor is normally available in April of the year following the prior fiscal year.

The University System's combined primary financial reports cover all financial operations of the University System. Amounts due between University System and other duplications in reporting are eliminated in combining the individual financial reports.

Attached to this Official Statement as "APPENDIX B – EXCERPTS FROM THE UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR THE YEAR ENDED AUGUST 31, 2007 WITH SELECTED SCHEDULES," are the most recent primary statements of the unaudited combined annual financial reports of the University System for Fiscal Year ended August 31, 2007. The University System's unaudited combined primary financial statements consist of the Statement of Net Assets as of August 31, 2007, the Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2007, and the Combined Statement of Cash Flows for the Year Ended August 31, 2007. See "APPENDIX B - EXCERPTS FROM THE UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR THE YEAR ENDED AUGUST 31, 2007 WITH SELECTED SCHEDULES."

The following table reflects the Condensed Combined Statement of Net Assets of the University System for the fiscal years ended August 31, 2003 through 2007.

Condensed Combined Statement of Net Assets
(In ($) Millions)

	FY2003	FY2004	FY2005	FY2006	FY2007
Assets:					
Current Assets	542.9	542.5	564.4	593.5	670.0
Noncurrent Assets	854.0	936.9	944.4	1,135.3	1,154.5
Total Assets	**1,396.8**	**1,479.4**	**1,508.8**	**1,728.8**	**1,824.5**
Liabilities:					
Current Liabilities	243.9	273.1	275.6	304.4	333.5
Non-Current Liabilities	324.1	348.1	375.5	503.3	503.3
Total Liabilities	**568.0**	**621.2**	**651.1**	**807.7**	**836.8**
Net Assets:					
Invested in Capital Assets, Net of Related Debt	321.1	369.3	356.4	383.2	400.4
Restricted	263.0	213.4	225.1	212.7	257.4
Unrestricted	244.6	275.5	276.2	325.2	329.9
Total Net Assets	**828.8**	**858.2**	**857.7**	**921.1**	**987.7**
Total Liabilities and Net Assets	**1,396.8**	**1,479.4**	**1,508.8**	**1,728.8**	**1,824.5**

For more detailed information, see "APPENDIX B - Combined Statement of Net Assets as of August 31, 2007."

APPENDIX B includes information relating to ASU. See "ASU TRANSFER" for a description of the status of ASU effective September 1, 2007.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

The table below presents the Condensed Combined Statement of Revenues, Expenses and Changes in Net Assets of the University System for the fiscal years ended August 31, 2004 through 2007.

Condensed Combined Statement of Revenues, Expenses, and Changes in Net Assets
(In ($) Millions)

	FY2004	FY2005	FY2006	FY2007
Operating Revenues	409.3	455.1	502.4	550.7
Operating Expenses	648.9	697.2	761.5	836.7
Operating Income (Loss)	**(239.6)**	**(242.1)**	**(259.1)**	**(286.0)**
Nonoperating Revenues (Expenses)	253.9	263.9	329.7	322.7
Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers	14.4	21.8	70.6	36.6
Other Revenues, Expenses, Gains, Losses And Transfers	35.8	39.5	(7.5)	29.9
Change in Net Assets	**50.2**	**61.3**	**63.1**	**66.5**
Net Assets, Beginning of Year	828.8	858.2	857.7	921.1
Restatements for Depreciation/Capitalization	(20.7)	(61.9)	0.3	
Net Assets, Beginning of Year as Restated	808.1	796.3	858.0	921.1
Net Assets, End of Year	**858.3**	**857.6**	**921.1**	**987.6**

For more detailed information, see "APPENDIX B - Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2007." APPENDIX B includes information relating to ASU. See "ASU TRANSFER," for a description of the status of ASU effective September 1, 2007.

The table below presents the Condensed Combined Statement of Cash Flows of the University System for the fiscal years ended August 31, 2004 through 2007.

Condensed Combined Statement of Cash Flows
(In ($) Millions)

	FY2004	FY2005	FY2006	FY2007
Cash Provided (Used) by:				
Operating Activities	(196.5)	(191.7)	(195.3)	(230.8)
Noncapital Financing Activities	333.6	258.1	315.5	299.8
Capital and Related Financing Activities	(133.5)	(83.1)	(108.6)	(39.1)
Investing Activities	(13.4)	42.6	(14.7)	33.5
Net Change in Cash	**(9.9)**	**25.9**	**(3.1)**	**63.4**
Cash, Beginning of Year	**424.0**	**413.1**	**439.0**	**435.7**
Restatements to Beginning Cash	-	-	(0.2)	-
Cash, End of Year	**414.0**	**439.0**	**435.7**	**499.1**

For more detailed information, see "APPENDIX B – Combined Statement of Cash Flows for the Year Ended August 31, 2007." APPENDIX B includes information relating to ASU. See "ASU TRANSFER," for a description of the status of ASU effective September 1, 2007.

FUNDING FOR THE UNIVERSITY SYSTEM AND ITS COMPONENT INSTITUTIONS.

Funding for the University System is derived from operating and non-operating revenues. For a discussion of the funding sources for the fiscal year ended August 31, 2007, see "APPENDIX B - Combined Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year ended August 31, 2007."

State Appropriations. The operations of the University System and its component institutions are heavily dependent upon the continued support of the State through biennial appropriations of general revenues, and levels of continued State support of the component institutions are dependent on the results of biennial legislative sessions. The State Legislature finished its last regular session on May 28, 2007. Results for the component institutions indicate General Revenue appropriations for each component institution in the following amounts for Fiscal Years 2008 and 2009:

	FY2008	FY2009
System Administration	$1,133,248	$1,133,248
Lamar University	33,752,251	33,702,149
Lamar Institute of Technology	8,865,737	8,862,913
Lamar State College – Orange	6,828,024	6,822,724
Lamar State College – Port Arthur	8,933,819	9,386,001
Sam Houston State University	44,480,170	44,335,355
Texas State University-San Marcos	88,731,855	85,571,099
Sul Ross State University	15,119,113	15,082,542
Sul Ross State University Rio Grande College	5,375,824	5,375,974
HB 63 – Hurricane Rita Relief	7,548,484	0
Total	**$219,635,277**	**$209,138,757**

The Board and the component institutions have no assurance that the State Legislature will continue to appropriate to the component institutions the general revenue funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the component institutions taking into consideration the availability of financial resources and other potential uses of such resources.

The University System receives a portion of an annual appropriation of funds made by the State Legislature pursuant to the provisions of Article VII, Section 17 of the State Constitution. The annual allocation to the University System for fiscal year 2008 and 2009 is set forth below and the Board has allocated this amount to the component institutions of the University System as follows:

	FY2008	**FY2009**
Lamar University	$11,210,508	$11,210,508
Lamar Institute of Technology	-	-
Lamar State College – Orange	1,115,048	1,115,048
Lamar State College – Port Arthur	1,190,119	1,190,119
Sam Houston State University	9,916,306	9,916,306
Texas State University-San Marcos	19,799,276	19,799,206
Sul Ross State University - Alpine	2,043,772	2,043,772
Sul Ross State University – Rio Grande College	379,831	379,831
Total	**$45,654,860**	**$45,654,860**

The component institutions of the University System may use the appropriation for capital improvements and renovations to campus facilities, other than auxiliary enterprises. In addition, the component institutions of the University System may issue bonds against such appropriation and pledge up to 50% of the appropriation to secure the debt service payments due on such bonds. See "—Higher Education Assistance Fund (HEAF) Bonds" below.

Tuition and Fees. Each component institution of the University System granting degrees charges tuition and fees as set by the State Legislature and the Board under Chapters 54 and 55 of the Texas Education Code. Tuition charges are comprised of "State Mandated Tuition" and "Board Designated Tuition" as further described below.

State Mandated Tuition. Section 54.051, Texas Education Code, currently requires (i) undergraduate tuition applicable to state residents to be charged at $50 per semester credit hour; and (ii) tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be an amount per semester hour equal to the average of the nonresident undergraduate tuition charged to a resident of the State at a public state university in each of the five most populous states other than the State (the amount of which would be computed by the Texas Higher Education Coordinating Board for each academic year). For the 2007-2008 and 2008-2009 academic years the Texas Higher Coordinating Board has computed $328 and $331, respectively, per semester credit hour for nonresident undergraduate tuition. The tuition rates described above are referred to in this Official Statement as "State Mandated Tuition."

Board Designated Tuition. In 2003, the Texas Legislature approved and the Governor signed into law House Bill 3015, which provided for the deregulation of a portion of tuition that a governing board of an institution of higher education, such as the Board, has the authority to charge under Section 54.0513 of the Texas Education Code. Prior to the amendment to Section 54.0513 of the Texas Education Code the amount of tuition that a governing board of an institution of higher education could independently charge students was capped at the State Mandated Tuition. Effective with the tuition that is charged for the fall 2003 semester, a governing board of an institution of higher education may charge any student an amount (referred to herein as "Board Designated Tuition") that it considers necessary for the effective operation of the institution. The legislation also granted authority to a governing board of an institution of higher education to set a different tuition rate for each program and course level offered by the institution. This authority offers more opportunity for the Board to develop a tuition schedule that assists in meeting its strategic objectives in terms of access, affordability, effective use of campus resources, and improvement of graduation rates. The Board has authorized the Board Designated Tuition rate at the various component institutions as shown in the following chart. In connection with the authorization of Board Designated Tuition, building use fees, historically included in Pledged General Fees under the Master Resolution, were rededicated as Board Designated Tuition. This rededication does not impact the pledge of Revenue Funds for the payment and security of Parity Debt. Both the State Mandated Tuition and the Board Designated Tuition are included in Revenue Funds and are pledged for the benefit of Parity Debt.

Board Authorized Tuition. Section 54.008 of the Texas Education Code permits the governing board of each institution of higher education to set tuition for graduate programs for that institution at a rate that is at least equal to that of State Mandated Tuition, but there is not more than twice that rate. Between the maximum and minimum rates, the board may set the differential tuition among programs offered by an institution of higher education.

The Board is authorized by chapter 55 of the Texas Education Code to set the Pledged General Tuition and any other necessary fees, rentals, rates, or other revenue funds of the Board at the level necessary, without limit, to enable the Board to meet its obligations with respect to the payment of debt service on the Parity Obligations.

Mandatory Fees. Mandatory fees comprise charges for certain activities and services utilized by all students and include, but are not limited to, Student Union Fees, Medical Services Fees and Information Technology Fees. Each component institution charges various types of fees and in various amounts. Fee amounts are computed either on a per semester credit hour basis or on a per semester basis. In addition, certain departments are permitted to charge additional fees for students participating in certain areas of study.

Any changes in tuition or fees will originate and be recommended by the President of the component institution, reviewed by the Chancellor and approved by the Board of Regents. Any changes in tuition will be implemented only after thorough consultation and review.

Set forth below is a table showing the State Mandated Tuition, Board Designated Tuition, Mandatory Fees and the amount set aside for financial assistance to resident undergraduate students for a full-time undergraduate student based on 15 semester credit hours for the Fall 2008 semester.

2008-2009 State Mandated Tuition, Board Designated Tuition
Mandatory Fees and Financial Assistance Set-Aside per Semester
(Based on 15 Credit Hours per Semester)

	State Mandated Tuition	Board Designated Tuition	Mandatory Fees	Total Tuition and Fees	Financial Assistance Set-Aside
Lamar University*	$750	$1,425	$838	$3,013	$147
Sam Houston State University	750	1,470	735	2,955	156
Sul Ross State University	750	990	744	2,484	60
Sul Ross State University - Rio Grande College	750	465	468	1,683	0
Texas State University-San Marcos*	750	1,800	947	3,497	222
Lamar Institute of Technology	750	540	615	1,905	0
Lamar State College – Orange	750	34	440	1,224	0
Lamar State College – Port Arthur	750	36	721	1,.507	0

* Graduate students at Lamar University and at Texas State University – San Marcos pay an additional $50 per semester credit hour for enrollment in graduate programs at those institutions.

Gifts, Grants, and Contracts. The component institutions of the University System receive federal, state, local and private grants and contracts for research which incorporate an overhead component for use in defraying operating expenses. This overhead component is treated as unrestricted current funds revenues while the balance of the grant or contract is treated as restricted current funds revenues. Indirect cost recovery rates used in calculating the overhead component are negotiated periodically with the appropriate governmental agency for each component institution.

Investment and Endowment Income. Investment and endowment income is received on both a restricted and unrestricted basis.

Sales and Services. Other educational activities and auxiliary enterprises generate revenue from sales and services which is unrestricted.

Other Interest Income. Each component institution of the University System generates interest from the investment of cash pursuant to investment policies adopted by the Board in accordance with State law. See "—Investment Policy and Procedure" below.

Other Sources. All miscellaneous revenues including rents, fees, fines, sales, and other receipts not categorized above have been grouped together as "other sources."

Current Funds Expenditures. Current funds expenditures represent the cost incurred for goods and services used in the conduct of the operations of the component institutions of the University System. They also include the acquisition cost of capital assets, such as equipment and library books to the extent current funds are budgeted for and used by operating departments for such purposes. Current fund expenditures are categorized by function generally described as follows:

Educational and General. Expenditures in this category include expenditures for all activities that are part of instructional programs and expenditures for credit and non-credit courses, for academic, vocational, and technical instruction, for remedial and tutorial instruction, and for regular, special, and extension sessions. Also, all expenditures for activities specifically organized to produce research which may be either internally or externally sponsored are included. Funds expended primarily to provide support services for instruction, research, and public service, including supporting the operation of libraries, museums, and galleries, as well as those for academic administration, technical support, and curriculum development are included. Also, expenditures for student service by institution support, and operation and maintenance of physical plant, net of amounts charged to auxiliary enterprises and independent operations are included.

Auxiliary Enterprises. Auxiliary enterprises are all expenditures relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant and institutional support for auxiliary enterprises.

INVESTMENT POLICY AND PROCEDURES.

Management of Investments. The Board has developed a written policy (the "Investment Policy") regarding the investment of all Current Funds (Unrestricted and Restricted), Loan Funds, Endowment Funds, and Plant Funds held by each component institution of the University System which are not immediately needed for day-to-day operations (together the "Non-Operating Funds"). Pursuant to the Investment Policy, and subject to its terms, the Board has delegated the responsibility for the investment of Non-Operating Funds to the chief financial officer ("CFO") of each component institution. Each CFO, his/her designees, and/or the Board authorized investment advisor act as the component's investment officer (the "Investment Officer").

Each CFO is responsible for investment management decisions and activities and is required to develop and maintain written administrative procedures and guidelines, consistent with the Investment Policy, including procedures and guidelines for safekeeping, master purchase agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, trading authorizations and other investment related activities. These procedures are also required to be a part of each component institution's written investment policy. The Board must approve each component institution's investment policy, review the policy annually and approve any modifications to the policy.

Additionally, each CFO is required to submit quarterly and annual reports to the Vice Chancellor for Finance for the University System for consolidation into a System-wide report to be submitted to the Finance Committee in the format prescribed by the Public Funds Investment Act, the State General Appropriations Act and other oversight agencies. The quarterly report must also be presented to the Board, the Chancellor and the President of each component institution.

Each component institution, in conjunction with its annual financial audit (external or internal), shall have a compliance audit of management controls on investments and adherence to statutory requirements and to the University System's and the component institution's investment policies (at least biennially), and such results are required to be reported to the Board and the State Auditor.

The Board has a standing finance committee (the "Finance and Audit Committee") which has the primary responsibility for submitting recommendations to the Board concerning financial matters for both the System Administrative Office and for each component institution. The Finance Committee may examine the procedures and documents for bond sales, depository contracts and all other financial matters. The Finance Committee also oversees the internal audit effort in the University System, including reviewing and approving annual audit plans and reviewing audit reports. The Finance Committee consists of three Board members appointed by the Chairman of the Board.

Controls. Each component institution is required to establish, and incorporate into the written administrative procedures for the component institution, a system of internal controls specifically designed to prevent loss of public funds due to fraud, employee error, misrepresentations by third parties, unanticipated market changes, or imprudent actions by employees of the component institution. The Investment Policy further requires the Internal Auditor to review the component institution's internal controls for adequacy and to test them for effectiveness in meeting the goals established in the component institution's investment plan on a biennial basis.

Each component institution shall have a compliance audit of management controls on investments and adherence to statutory requirements and to the University System's and entity's established investment policies at least once every two years. The results are required to be reported to the Board and the State Auditor.

Authorized Financial Dealers and Institutions. The Investment Policy requires competitive bidding for transactions (bids and offers) from at least three Board authorized broker/dealers who have fulfilled all compliance requirements of the Board. No exceptions are made except upon written justification and Board approval.

The Board maintains a "qualified list" of financial institutions and broker/dealers authorized to do business with the University System and its component institutions. The Board reviews the qualified list on an annual basis in order to revise and adopt a current qualified list of approved broker/dealers and banks. The Board may additionally add or remove any broker/dealer from the qualified list during the fiscal year.

A copy of the Investment Policy and the component institution's investment policies are required to be presented to any person seeking to engage in an investment transaction, including investment pools, with the University System or a component institution. The registered principal of the business organization offering to engage in an investment transaction must execute a written instrument substantially to the effect that the registered principal has (i) received and reviewed the Investment Policy and the component institution's investment policy and (ii) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the University System or the component institution and the organization that are not authorized by the policies. An Investment Officer is not permitted to acquire or otherwise obtain any authorized investment from a person who has not delivered such a instrument to the Board.

Authorized Investments. University System funds are invested in accordance with State law, the Investment Policy and each component institution's written policy. State law provides that the funds may be invested subject only to the requirement that investments be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

The Board has further provided in its Investment Policy that funds may only be invested in (i) obligations of the U.S. Government or its agencies with stated maturities of not more than five years; (ii) direct obligations of the State of Texas or its agencies with stated maturities of not more than five years; (iii) U.S. Government agency or instrumentality directly issued collateralized mortgage obligations, the underlying security for which is guaranteed by an agency or instrumentality of the United States, subject to certain exceptions set out in the Investment Policy; (iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities with stated maturities of not more than five years; (v) obligations of states, agencies, counties, cities, or other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than "A" or its equivalent with stated maturities of not more than five years; (vi) non-negotiable fully guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund certificates of deposits of banks, savings banks, or a state or federal credit union if such institutions are domiciled in Texas; (vii) fully collateralized repurchase agreements and reverse repurchase agreements meeting certain conditions set out in the Investment Policy; (viii) banker's acceptances meeting certain conditions set out in the Investment Policy; (ix) commercial paper meeting certain conditions set out in the Investment Policy; (x) mutual funds meeting certain conditions set out in the Investment Policy; (xii) guaranteed investment contracts meeting certain conditions set out in the Investment Policy; (xiii) investment pools including public funds investment pools if the Board has authorized the investment in that particular pool by rule, order, or resolution; (xiv) the Common Fund of Fairfield, Connecticut may be used for the investment of Endowment Funds or foundation funds held by each component institution; (xv) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(1)(f), Internal Revenue Code; (xvi) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit reporting agency; and (xvii) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Additionally, some of the component institutions have developed policies that further restrict the authorized investments for that institution.

Diversification of Investments. The Investment Policy requires investment funds to be diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Each component institution is required to diversify maturities to match investment purchases and maturities with the component institution's anticipated cash flow requirements. Unless matched to a specific requirement, the component institution may not invest more than 25% of the investment portfolio of the Non-Operating Funds for a period greater than three years (excluding equity in endowment funds) and further may not invest a portion of the Non-Operating Funds for a period greater than 10 years unless matched to a specific requirement.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Types of investments allowed for each component together with the percentage limitation for that portfolio's holding follows:

Non-Operating Funds Other than Endowments:	
Fixed Rate Investments –	
U.S. Treasury Securities	100%
Bullet Federal Agency Securities	100%
Callable Federal Agency Securities	50%
Step-Up Federal Agency Securities	50%
Mortgage-Backed Securities	25%
Collateralized Mortgage Obligations	25%
Money Market Securities	25%
Municipal Securities	25%
Variable Rate Investments –	
Federal Agency Notes	25%
Mortgage-Backed Securities	25%
Collateralized Mortgage Obligations	25%
Corporate Securities	25%
State of Israel Bonds	25%
Mutual Funds –	
Money Market Funds	100%
Mutual Funds	15%
Endowment Funds:	
All securities with limitations described for Non-Operating Funds Other than Endowments	
Domestic and Foreign Stocks -	
Domestic	50%
Foreign	10%
Domestic and Foreign Bonds –	
Domestic	50%
Foreign	10%
Common Funds:	____
Real Property Received as a Gift	70% Authorized

Safekeeping and Collateralization. All security transactions, including collateral for repurchase agreements but excluding investment pool funds and mutual funds, entered into by the component institutions are required to be entered on a delivery versus payment basis. All securities are to be held by a third party custodian in the name of the component institution. The third party custodian must issue a safekeeping receipt to the component institution listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information. Any collateral safekeeping receipt must be clearly marked that the security is "pledged to the component institution" on its face. Any safekeeping receipt for component institution owned securities shall clearly be identified as the component institution's securities.

Collateralization shall be required on certificates of deposit and repurchase agreements as well as deposits addressed in the University System's Policy and Procedures for the Control of Depository Funds. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level will be at least 102% of market value of principal and interest.

Amendment of Investment Policies and Procedures. The Board has the right to amend its policies and procedures relating to the management of investments, including the Investment Policy, at its discretion and at any time, subject to applicable State law.

Set forth below is a description of the combined investments by general category, for all of the component institutions of the University System as of August 31, 2007:

TABLE A-9
Current Investments
(as of August 31, 2007)

Type of Security	Reported Value
U.S. Treasury Securities	$3,256,988.20
U.S. Government Agency Obligations	8,329,706.37
U.S. Government Agency Obligations (Texas Treasury Safekeeping)	8,073,545.65
Corporate Obligations	59,512,371.74
Corporate Obligations (Texas Treasury Safekeeping)	0.00
Corporate Asset and Mortgage Backed Securities	2,911.00
Equity	19,107,952.45
Repurchase Agreement	1,570,419.03
Fixed Income Money Market and Bond Mutual Fund	68,683,579.55
Other Commingled Funds	16,652,984.35
Other Commingled Funds – Texpool	413,632,696.21
Commercial Paper	4,435,482.00
Real Estate	0.00
Miscellaneous	7,288,764.49
Total	**$610,547,401.04**
Consisting of the Following:	
Proprietary Funds Current Cash Equivalents	$361,617,620.01
Proprietary Funds Current Restricted Cash Equivalents	26,365,589.51
Proprietary Funds Short Term Investments	198,000.00
Proprietary Funds Non-Current Restricted Cash Equivalents	27,413,701.59
Proprietary Funds Non-Current Restricted Investments	75,067,360.06
Proprietary Funds Non-Current Investments	119,885,129.87
Total as Above	**$610,547,401.04**

Table A-9 includes information relating to ASU. See "ASU TRANSFER" for a description of the status of ASU effective September 1, 2007.

Gifted Securities. Gifted securities are managed and safeguarded in their original form in accordance with the donor's written instructions. However, upon the partial or total disposition of the original investment, the proceeds are invested in accordance with the policies described above.

Management of Funds Held in the State Treasury. The Texas Education Code requires that the University System deposit into the State Treasury all funds except those derived from auxiliary enterprises and noninstructional services, agency funds, designated and restricted funds, endowment and other gift funds, and student loan funds. All such funds held in the State Treasury are administered by the Comptroller of Public Accounts of the State (the "Comptroller"). The Comptroller invests money in the State Treasury in authorized investments consistent with applicable law and the Texas State Treasury Investment Policy, dated August 1993. The Comptroller pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately among the various State agencies whose funds are so pooled. Currently, most pooled funds are invested in the following instruments: repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; commercial paper having the highest credit rating; and fully-collateralized deposits in authorized State depositories. All State Treasury investments are marked to market daily using an external financial service. The Comptroller, acting primarily through a special purpose trust company, also holds approximately 20 separate accounts outside the State Treasury. The largest such account is a local government investment pool, known as TexPool, which was established in 1989 as an investment alternative for local governments in the State. TexPool operates on a $1 net asset value basis and allows same day or next day redemptions and deposits. Interest is allocated daily based on portfolio earnings and account balance.

Investment of Bond Proceeds. Guaranteed investment contracts and investment funds managed by the State Comptroller are used as investment vehicles for bond proceeds.

ENDOWMENTS.

Although not pledged to the payment of debt obligations, the University System and component institutions control and are benefited by endowments consisting of securities and investments, land, and other real estate holdings and mineral rights. Such land, real estate, and mineral rights are valued at their book value as of the date of acquisition of such property. Each component of an endowment is subject to various restrictions as to application and use.

Set forth below is the value of endowments controlled by or benefiting the University System Administration and the component institutions:

TABLE A-10
Texas State University System
Endowment Funds Summary

	2003	2004	2005	2006	2007
Angelo State University	$ 68,485,840	$ 73,212,545	$ 77,895,230	$80,940,829	$87,446,864
Lamar University	7,021,950	7,476,376	7,624,874	7,875,532	9,735,018
Lamar State College-Orange	5,524	5,524	5,524	10,524	10,524
Lamar State College-Port Arthur	0	0	0	0	0
Lamar Institute of Technology	0	0	0	0	0
Sam Houston State University	16,466,360	18,173,335	20,629,643	25,596,863	31,985,986
Texas State University-San Marcos	28,099,730	16,868,085	19,127,553	22,166,889	38,119,591
Sul Ross State University	8,775,251	9,555,599	10,545,429	11,282,461	12,075,519
University System Administration	540,252	545,842	5,330,674	8,241,767	8,343,405
Total	**$129,394,608**	**$125,837,306**	**$141,158,927**	**$156,114,865**	**$187,716,908**

SEE "ASU TRANSFER" FOR A DESCRIPTION OF THE STATUS OF ASU EFFECTIVE SEPTEMBER 1, 2007.

CAPITAL IMPROVEMENTS PLANNING AND AUTHORIZATION.

The University System has developed a Procedure for Planning and Constructing a Project which is applicable to all new construction and all remodeling or repair of existing facilities in the amount of $100,000 or more. Additionally, all new construction, repairs, or renovations costing in excess of $20,000 but less than $100,000, exclusive of work performed by employees of the component institution, are required to be reported to the Director of Planning and Construction before the expenditure is made.

The President of each component institution is responsible to the Board for the planning and management of campus construction projects. The Associate Vice Chancellor for Contract Administration advises the Board on such projects and assists the President of each component institution by (i) acting in an advisory capacity for each component institution during the project creation and preliminary plan development, (ii) assisting in the development of detailed design plans, (iii) coordinating the project with appropriate State agencies other than the Coordinating Board, (iv) preparing the required contract documents for architects and contractors and (v) acting in an advisory role to the component institution administration in the contract administration stage.

In addition, approval from the Coordinating Board is also required prior to the award of any contracts except those specifically authorized by the Texas Legislature, including tuition revenue bond projects. See "DESCRIPTION OF THE UNIVERSITY SYSTEM—Coordinating Board." Construction contracts for approved projects are awarded by the Board to the lowest responsible bidder.

Unless otherwise approved by the Board, all requests by a component institution for the construction of new facilities, major repair and rehabilitation projects, or the purchase of real estate, shall be in accordance with a comprehensive and current Campus Master Plan approved by the Board and filed with the Coordinating Board.

HIGHER EDUCATION ASSISTANCE FUND (HEAF) BONDS.

Pursuant to Article VII, Section 17 of the State Constitution, the component institutions of the University System are eligible to receive an annual allocation from amounts constitutionally appropriated to institutions of higher education for capital improvements (except those for auxiliary enterprises) (See "—Funding for the University System and its Component Institutions—State Appropriations" above). Under this constitutional provision commonly referred to as the "HEAF Fund", the Board is authorized to issue bonds and notes to finance permanent improvements at the respective institutions and to pledge up to 50% of its allocation to secure the payment of principal and interest on the bonds and notes. The Board currently has no outstanding Higher Education Assistance Fund bonds for the members of the University System.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

OUTSTANDING INDEBTEDNESS.

Upon the delivery of the Bonds the Board will have the following described indebtedness:

Prior Encumbered Obligations	
Texas State University-San Marcos:	
University Housing System Revenue Bonds, 1986	$1,295,000
Utility System Revenue Bonds, Series 1996	$1,170,000
Total Prior Encumbered Obligations	$2,465,000
University System Parity Debt Obligations	
Outstanding Parity Debt Obligations	$461,450,000
The Bonds	$207,395,000
Total Parity Debt Obligations[1]	$668,845,000
Total Indebtedness	$671,310,000

---

(1) $53,008,272 is associated with ASU and $615,836,728 is associated with the University System components other than ASU.

INSURANCE.

The State of Texas is "self-insured" as to buildings and contents. This policy applies to higher educational institutions only to the extent that university buildings are supported and maintained by State appropriations. Auxiliary Enterprise buildings such as dormitories, bookstores and student centers are not funded by the State. New construction, maintenance and renovation of these buildings is the responsibility of the individual universities. Insurance on these buildings and their contents and business interruption coverage is carried by the University System to defray any losses so incurred.

It is stated policy of the State and the Board not to acquire commercial general liability insurance for torts committed by employees of the State who are acting within the scope of their employment. Three exceptions to this policy authorize the Board to acquire commercial automobile insurance for the use and benefit of its employees who operate state-owned motorized vehicles and special equipment, fidelity bond coverage for all employees and directors and officers liability coverage.

Employees of the University System are provided Worker's Compensation coverage under a self-insuring, self-managed program as authorized by State law. The program providing the coverage is operated and administered by the State with the University System acting as a participant.

RETIREMENT PLANS.

The State has joint contributory retirement plans for substantially all of its benefits eligible employees. One of the primary plans in which the University System participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries currently provided by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component governmental agencies, since the Teacher Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 2007, the present value of the Teacher Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was more than the assets of the

Retirement System. Further information regarding actuarial assumptions and conclusions, together with audited financial statement is included in the Teacher Retirement System's annual financial report.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. For participants enrolled, prior to September 1, 1995, the optional retirement percentages of participant salaries currently provided by the State, the University System, and each participant was 7.31%, 1.19%, and 6.65%, respectively, of annual compensation. For participants enrolled on or after September 1, 1995, the optional retirement percentage of participant salaries currently provided by the State and each participant is 6.0% and 6.65%, respectively, of annual salary. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

[This Page is Intentionally Left Blank]

Appendix B

EXCERPTS FROM THE UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR FISCAL YEAR ENDED AUGUST 31, 2007 WITH SELECTED SCHEDULES

[This Page is Intentionally Left Blank]

TEXAS STATE UNIVERSITY SYSTEM

COMBINED

ANNUAL FINANCIAL REPORT

Angelo State University
Lamar University
Lamar Institute of Technology
Lamar State College-Orange
Lamar State College-Port Arthur
Sam Houston State University
Sul Ross State University
Texas State University-San Marcos

Year Ended August 31, 2007

TABLE OF CONTENTS

THE TEXAS STATE UNIVERSITY SYSTEM

Founded 1911

Thomas J. Rusk Building • 200 East 10th Street, Suite 600 • Austin, Texas 78701-2407
(512) 463-1808 • Fax (512) 463-1816 • www.tsus.edu

November 20, 2007

Honorable Rick Perry, Governor
Honorable Susan Combs, Texas Comptroller
John O'Brien, Deputy Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Combined Annual Financial Report of the Texas State University System for the fiscal year ended August 31, 2007, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Roland Smith, Vice Chancellor for Finance at (512) 463-1808.

Sincerely,

Charles R. Matthews
Chancellor

TEXAS STATE UNIVERSITY SYSTEM
Organizational Data
For the Fiscal Year Ended August 31, 2007

Board of Regents

Officers

Bernie C. Francis	Acting Chairman
Vacant	Vice Chairman

Members

Name	City (Texas)	Term Expires
Kent Adams	Beaumont	2/1/2007
Dora G. Alcala	Del Rio	2/1/2009
Alan W. Dreeben	San Antonio	2/1/2007
John E. Dudley	Comanche	2/1/2009
Dionicio "Don" Flores	El Paso	2/1/2005
Bernie C. Francis	Carrollton	2/1/2009
Ken Luce	Dallas	2/1/2011
Trisha S. Pollard	Bellaire	2/1/2013
Greg Wilkinson	Dallas	2/1/2011
Magdalena Manzano, Student	Huntsville	2/1/2008

Administrative Officers

System Administration

Charles R. Matthews	Chancellor
Fernando C. Gomez	Vice Chancellor and General Counsel
Kenneth R. Craycraft	Vice Chancellor for Academic Affairs
Roland K. Smith	Vice Chancellor for Finance
Patricia V. Hayes	Vice Chancellor for Govt. Relations and Educational Policy
Carol Fox	Director of Audits and Analysis

University Presidents

Joseph C. Rallo	Angelo State University
James M. Simmons	Lamar University
J. Michael Shahan	Lamar State College - Orange
W. Sam Monroe	Lamar State College - Port Arthur
Paul Szuch	Lamar Institute of Technology
James F. Gaertner	Sam Houston State University
R. Vic Morgan	Sul Ross State University
Denise M. Trauth	Texas State University-San Marcos

UNAUDITED
Texas State University System
Student Enrollment Data
For the Year Ended August 31, 2007

TYPE OF STUDENT	FALL 2006	SPRING 2007	SUMMER TERM 2007 FIRST	SUMMER TERM 2007 SECOND
Texas Residents	61,714	57,437	20,442	15,604
Out of State (Classified as Residents)	577	593	208	121
Out of State	763	623	264	159
Foreign	946	909	468	411
Children of Disabled	9	9	5	4
Concurrent Enrollment	97	93	2	4
Foster Children of the State	50	43	22	24
Good Neighbor	13	11	4	5
High School Honor Scholarships	76	80	0	0
Hazelwood Act	487	468	262	205
Senior Citizens	167	173	19	22
Commission for the Blind/Deaf	183	162	98	79
Fireman Exempt	8	7	1	3
Thesis Only	12	8	7	0
Student Service Fees	111	123	122	0
Nursing	162	156	143	20
Faculty/Staff	1,687	1,714	1,235	1,178
Teaching Assistants	134	140	12	12
Educational Aide	13	12	3	3
Competetive Scholarships	630	662	464	457
Military Personnel	70	101	13	10
Louisiana Adjacent County	47	32	12	8
Mexico Pilot	6	7	2	2
National Student Exchange Program	18	14	0	0
New Mexico Adjacent County	13	14	7	9
Texas Tomorrow Waiver	16	12	1	11
Adopted Students	16	15	6	6
Military Dependent	2	2	2	2
Pase	5	5	8	4
TANF	0	0	0	0
H.B. 877	0	1	0	0
Distance Learning	1,848	2,152	1,325	1,060
Family & Consumer Science Alliance Agreement	44	17	9	1
Hurricane Katrina Waiver.	0	0	0	0
Economic Development	0	0	1	1
Sub - Totals	69,924	65,795	25,167	19,425
Less: LU Tuition Exemption Duplicates	(691)	(672)	(411)	(398)
Totals	69,233	65,123	24,756	19,027

NUMBER OF STUDENTS BY SEMESTER

Enrolment Data (Fall Semester)

Fiscal Year	STUDENTS	SEMESTER HOURS
2007	69,233	806,869
2006	69,625	807,807
2005	68,102	759,896
2004	66,121	738,920
2003	64,419	738,914
2002	61,536	699,134
2001	59,892	679,771
2000	57,807	656,827
1999	57,451	654,429
1998	56,718	642,345
1997	57,078	645,244
1996	56,139	633,527

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Statement of Net Assets

Statement of Net Assets

August 31, 2007

		Total
ASSETS		
Current Assets:		
Cash and Cash Equivalents		
Cash on Hand	$	201,975.26
Cash in Bank		20,905,578.69
Cash in Transit/Reimbursement from Treasury		9,561,139.37
Cash in State Treasury		52,668,366.22
Cash Equivalents		361,617,620.01
Securities Lending Collateral		
Short Term Investments		
Restricted:		
Cash and Cash Equivalents		
Cash on Hand		650.00
Cash in Bank		346,679.90
Cash in Transit/Reimbursement from Treasury		
Cash in State Treasury		
Cash Equivalents		26,365,589.51
Short Term Investments		198,000.00
Legislative Appropriations		57,575,276.83
Investments		5,673,887.27
Receivables from:		
Federal		14,315,518.70
Other Intergovernmental		
Interest and Dividends		446,830.41
Accounts Receivable		58,207,994.74
Gifts		2,558,025.44
Investment Trades		
Other		2,166,545.87
Interfund Receivables		
Due From Other Agencies		783,136.65
Consumable Inventories		1,096,117.07
Merchandise Inventories		3,241,260.78
Deferred Charges		23,760,222.62
Loans and Contracts		5,453,197.24
Other Current Assets		22,874,808.57
Total Current Assets	$	670,018,421.15

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
Statement of Net Assets
August 31, 2007

		Total
Noncurrent Assets:		
Restricted:		
Cash and Cash Equivalents		
Cash on Hand		
Cash in Bank	$	48,713.50
Cash in Transit/Reimbursement from Treasury		
Cash in State Treasury		
Cash Equivalents		27,413,701.59
Short Term Investments		
Receivables		4,969,149.41
Investments		75,067,360.06
Loans and Contracts		1,077,400.15
Other Assets		5,952,838.00
Loans and Contracts		1,150,297.45
Investments		119,885,129.87
Interfund Receivables		
Capital Assets:		
Non-Depreciable:		
Land and Land Improvements		62,291,277.35
Infrastructure		
Construction in Progress		73,989,121.17
Other Capital Assets		4,714,288.63
Depreciable:		
Buildings and Building Improvements		1,232,285,161.61
Less Accumulated Depreciation		(618,793,464.17)
Infrastructure		71,438,389.03
Less Accumulated Depreciation		(30,996,141.29)
Facilities and Other Improvements		70,649,072.73
Less Accumulated Depreciation		(29,596,502.67)
Furniture and Equipment		94,211,316.57
Less Accumulated Depreciation		(60,991,832.34)
Vehicles, Boats, and Aircraft		12,085,950.15
Less Accumulated Depreciation		(8,848,330.61)
Other Capital Assets		106,526,946.02
Less Accumulated Depreciation		(60,000,206.85)
Other Noncurrent Assets		
Total Non-Current Assets	$	1,154,529,635.36
Total Assets	**$**	**1,824,548,056.51**

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
Statement of Net Assets
August 31, 2007

		Total
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts	$	19,891,325.10
Investment Trades		
Federal		
Other Intergovernmental		
Payroll		30,193,785.17
Other		10,779,686.33
Interfund Payable		
Due to Other Agencies		
Deferred Revenues		218,475,192.87
Notes and Loans Payable		
Revenue Bonds Payable		27,288,238.39
General Obligation Bonds Payable		
Claims and Judgements		
Employees' Compensable Leave		8,601,786.02
Capital Lease Obligations		143,733.21
Liabilities Payable from Restricted Assets		
Obligations/Reverse Purchase Agreements		
Obligations Under Securities Lending		
Funds Held for Others		13,292,870.43
Other Current Liabilities		4,901,662.07
Total Current Liabilities		333,568,279.59
Noncurrent Liabilities:		
Interfund Payables		
Notes and Loans Payable		
Revenue Bonds Payable		490,802,168.23
General Obligation Bonds Payable		
Claims and Judgements		
Employees Compensable Leave		9,619,397.64
Capital Lease Obligations		421,063.83
Other Non-Current Liabilities		2,449,929.07
Total Noncurrent Liabilities		503,292,558.77
Total Liabilities	**$**	**836,860,838.36**

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Statement of Net Assets

Statement of Net Assets

August 31, 2007

		Total
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$	400,383,617.27
Restricted for		
Education		1,866,894.34
Debt Retirement		3,438,326.76
Capital Projects		3,743,454.05
Employee Benefit		
Funds Held As Permanent Investments:		
Non-Expendable		187,716,908.07
Expendable		13,550,678.92
Other		47,060,417.43
Unrestricted		329,926,921.31
Total Net Assets	**$**	**987,687,218.15**

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended August 31, 2007

	Total
OPERATING REVENUES	
Sales of Goods and Services	
Tuition and Fees (PR-Chgs for Services)	
Tuition and Fees - Pledged (PR-Chgs for Services)	$ 347,453,789.92
Discounts and Allowances	(51,866,075.12)
Professional Fees (PR-Chgs for Services)	
Professional Fees - Pledged (PR-Chgs for Services)	
Discounts and Allowances	
Auxiliary Enterprises (PR-Chgs for Services)	
Auxiliary Enterprises - Pledged (PR-Chgs for Services)	104,300,469.18
Discounts and Allowances	(7,075,837.81)
Other Sales of Goods and Services	12,283,137.72
Other Sales of Goods and Services - Pledged	
Discounts and Allowances	
Premium Revenue (PR-Chgs for Services)	
Interest and Investment Income (PR-Chgs for Services)	769,438.26
Interest and Investment Income (GR)	71,260.30
Net Increase (Decrease) Fair Market Value (PR-OP Grants/Contributions)	
Net Increase (Decrease) Fair Market Value (GR)	
Federal Revenue-Operating (PR-OP Grants/Contributions)	80,636,835.20
Federal Pass Through Revenue (PR-OP Grants/Contributions)	13,517,873.68
State Grant Revenue (PR-OP Grants/Contributions)	6,687,202.65
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	20,912,486.93
Other Grants and Contracts (PR-OP Grants/Contributions)	9,263,953.84
Land Income (PR-Chgs for Services)	
Contributions to Retirement Systems (PR-Chgs for Services)	
Other Operating Revenues (PR-Chgs for Services)	13,710,577.13
Other Operating Revenues (GR)	15,669.27
Total Operating Revenues	550,680,781.15
OPERATING EXPENSES	
Instruction	281,217,105.53
Research	20,070,842.50
Public Service	41,192,930.65
Academic Support	71,929,572.99
Student Services	39,436,914.46
Institutional Support	89,007,294.14
Operation and Maintenance of Plant	66,365,535.43
Scholarship and Fellowships	57,109,039.12
Auxiliary Enterprise Expenditures	126,507,606.10
Depreciation and Amortization	43,906,939.69
Total Operating Expenses	836,743,780.61
Operating Income (Loss)	**$ (286,062,999.46)**

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2007

	Total
NONOPERATING REVENUES (EXPENSES):	
Legislative Revenue (GR)	$ 219,413,903.00
Additional Appropriations (GR)	49,546,097.72
HEAF Appropriation Revenue (GR)	
Federal Revenue Non-Operating (PR-OP Grants/Contributions)	
Gifts (PR-OP Grants/Contributions)	28,471,117.12
Investment Income (Expense) (PR-OP Grants/Contributions)	15,097,223.56
Investment Income (Expense) (GR)	11,197,736.16
Loan Premium/Fees on Securities Lending (PR-OP Grants/Contributions)	
Investing Activities Expense	(395,255.34)
Interest Expense and Fiscal Charges	(23,533,582.58)
Borrower Rebates and Agent Fees	
Gain (Loss) on Sale of Capital Assets (GR)	13,205,780.52
Net Increase (Decrease) in Fair Value of Investments (PR-OP Grants/Contributions)	2,812,180.54
Net Increase (Decrease) in Fair Value of Investments (GR)	2,316,006.49
Settlement of Claims (PR-Chgs for Services)	(86,680.35)
Settlement of Claims (GR)	(136,854.45)
Other Nonoperating Revenues (Expenses) (PR-Chgs for Services)	5,117,930.57
Other Nonoperating Revenues (Expenses) (GR)	(329,817.27)
Total Nonoperating Revenues (Expenses)	322,695,785.69
Income (Loss) before Other Revenue, Expense	
Gains/Losses ans Transfer	**36,632,786.23**
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS	
Capital Contributions	(354,562.05)
Capital Appropriations (HEAF)	32,827,106.00
Contributions to Permanent and Term Endowments	584,409.85
Special Items	
Extraordinary Items	
Transfer In	
Transfer Out	(3,100,028.88)
Legislative Transfer In	
Legislative Transfer Out	
Lapses	(12,290.96)
Total Other Revenues, Expenses, Gains/Losses and Transfer	29,944,633.96
Change in Net Assets	**66,577,420.19**
Net Assets, September 1 2006	921,125,749.77
Restatements	(15,951.81)
Net Assets. September 1, 2006, as Restated	921,109,797.96
NET ASSETS, August 31, 2007	**$ 987,687,218.15**

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Matrix of Operating Expenses Reported by Function

For the Fiscal Year Ended August 31, 2007

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarship and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses based on Sum
Cost of Goods Sold	$ (5,642.50)	$ -	$ 46,700.59	$ 18.00	$ 57,636.81	$ 2,226.00	$ -	$ -	$ 6,706,868.87	$ -	$ 6,807,807.77
Salaries and Wages	195,461,889.94	9,504,668.89	17,623,789.41	35,005,534.63	20,829,723.57	47,794,504.55	21,929,393.22	2,796,646.08	34,278,547.60		385,224,697.89
Payroll Related Costs	46,992,766.05	1,676,178.05	4,419,488.20	8,147,684.16	4,984,052.32	12,118,398.51	6,086,377.71	27,412.29	7,927,037.55		92,379,394.84
Professional Fees and Services	6,333,559.65	2,735,778.36	7,454,356.59	3,473,364.13	2,440,432.39	5,518,484.80	1,384,702.17	15,365.24	9,284,150.60		38,640,193.93
Federal Pass-Through Expense		151,489.92	65,539.02								217,028.94
State Grant Pass-Through Expense		541,418.04	29,577.48								570,995.52
Travel	2,903,537.90	960,233.56	1,155,866.93	2,102,354.45	1,077,512.75	1,210,284.27	147,326.31	37,107.98	3,190,546.68		12,784,770.83
Materials and Supplies	13,794,347.48	2,428,902.32	3,900,144.88	11,926,960.81	3,832,481.93	8,966,305.73	3,705,918.08	197,575.32	27,281,361.89		76,033,998.44
Communication and Utilities	2,791,273.14	264,605.30	941,364.10	2,487,677.33	2,111,482.98	1,411,188.15	23,498,623.75	600.68	18,021,634.57		51,528,450.00
Repairs and Maintenance	1,391,918.99	188,961.23	341,402.84	3,490,023.53	795,989.08	1,857,746.54	4,835,761.29	130,988.72	3,698,347.62		16,731,139.84
Rentals and Leases	845,339.29	116,768.61	1,419,049.63	882,793.25	365,699.30	755,177.66	1,427,925.75	5,186.23	4,751,775.59		10,569,715.31
Printing and Reproduction	995,567.12	97,182.54	549,209.56	508,189.45	920,083.97	918,800.32	79,581.04	1,839.81	905,058.97		4,975,512.78
Depreciation and Amortization*										43,906,939.69	43,906,939.69
Bad Debt Expense	61,331.85				7,960.84	91,235.84			28,404.64		188,933.17
Interest	0.57	4,153.02	4,058.67	(129.07)	2.60	15,768.49	0.00		5,673.98		29,528.26
Scholarships	362,571.30	232,521.73	647,626.20	209,293.50	147,661.26	603,307.52		53,829,687.87	3,563,073.67		59,595,743.05
Claims and Judgments	1,846.94	32.62	564.94	1,696.66	9,420.04	25,867.74	51.74				39,480.68
Other Operating Expenses	9,286,797.81	1,167,948.31	2,594,191.61	3,694,112.16	1,856,774.62	7,717,998.02	3,269,874.37	66,628.90	6,865,123.87		36,519,449.67
Total Operating Expenses	$ 281,217,105.53	$ 20,070,842.50	$ 41,192,930.65	$ 71,929,572.99	$ 39,436,914.46	$ 89,007,294.14	$ 66,365,535.43	$ 57,109,039.12	$ 126,507,606.10	$ 43,906,939.69	$ 836,743,780.61

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Cash Flow
For the Fiscal Year Ended August 31, 2007

	Total
Cash Flows from Operating Activities	
Receipts from Customers	$ 21,386,431.70
Proceeds from Tuition and Fees	308,622,640.86
Proceeds from Research Grants and Contracts	44,030,186.33
Proceeds from Gifts	3,941,326.13
Proceeds from Loan Programs	12,535,658.45
Proceeds from Auxiliaries	89,551,790.67
Proceeds from Other Revenues	102,618,537.78
Payments to Suppliers for Goods and Services	(243,951,298.13)
Payments to Employees for Salaries	(385,437,587.36)
Payments to Employees for Benefits	(92,346,740.28)
Payments for Loans Provided	(9,582,435.15)
Payments for Other Expenses	(82,212,771.70)
Net Cash Provided by Operating Activities	(230,844,260.70)
Cash Flows from Noncapital Financing Activities	
Proceeds from Debt Issuance	
Proceeds from State Appropriations	287,959,038.69
Proceeds from Gifts	29,993,678.37
Proceeds from Endowments	11,362,666.60
Proceeds of Transfers from Other Funds	156,128.85
Proceeds from Grant Receipts	501,121.33
Proceeds from Advances from Other Funds	
Proceeds from Loan Programs	32,254.08
Proceeds from Other Financing Activities	5,198,942.55
Proceeds from Contributed Capital	
Payments of Principal on Debt Issuance	(5,645,288.71)
Payments of Interest	(135,793.53)
Payments of Other Costs of Debt Issuance	
Payments for Transfers to Other Funds	(16,573,063.70)
Payments for Grant Disbursements	(29,435.57)
Payments for Advances to Other Funds	(731,898.03)
Payments for Other Uses	(12,296,628.97)
Net Cash Provided by Noncapital Financing Activities	299,791,721.96
Cash Flows from Capital and Related Financing Activities	
Proceeds from the Sale of Capital Assets	13,278,415.07
Proceeds from Debt Issuance	40,711,918.29
Proceeds from State Grants and Contracts	
Proceeds from Federal Grants and Contracts	399,280.52
Proceeds from Gifts	1,850,977.05
Proceeds from Other Financing Activities	2,757,782.56
Proceeds from Capital Contributions	6,511,267.01
Proceeds from Advances from Other Funds	44,999,668.39
Payments for Additions to Capital Assets	(50,583,110.96)
Payments of Principal on Debt	(49,677,842.13)
Payments for Capital Lease	(23,078,488.36)
Payments of Interest on Debt Issuance	(24,840,112.00)
Payments of Other Costs of Debt Issuance	(1,445,237.37)
Net Cash Provided by Capital and Related Financing Activities	$ (39,115,481.93)

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Cash Flow
For the Fiscal Year Ended August 31, 2007

	Total
Cash Flows from Investing Activities	
Proceeds from Sales of Investments	$ 14,626,260.93
Proceeds from Interest Income	6,041,301.88
Proceeds from Investment Income	23,326,744.24
Proceeds from Principal Payments on Loans	
Payments to Acquire Investments	(10,485,760.67)
Net Cash Provided by Investing Activities	33,508,546.38
Net Increase (Decrease) in Cash and Cash Equivalents	63,340,525.71
Cash and Cash Equivalents, September 1, 2005	435,789,488.34
Changes in Accounting Principal	
Changes in Reporting Entity	
Restatements to Beginning Cash and Cash Equivalents	
Cash and Cash Equivalents, September 1, 2005 - Restated	435,789,488.34
Cash and Cash Equivalents, August 31, 2006	**499,130,014.05**
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	(286,062,999.46)
Adjustments to Reconcile Operating Income	
Net Cash Provided by Operating Activities:	
Amortization and Depreciation	43,906,939.69
Bad Debt Expense	188,933.17
Operating Income and Cash Flow Categories:	
Classification Differences	(234,826.59)
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(10,140,039.59)
Increase (Decrease) in Due from Other Funds	(552,807.71)
(Increase) Decrease in Inventories	(922,003.07)
(Increase) Decrease in Prepaid Expenses	(8,285,385.83)
(Increase) Decrease in Notes Receivable	206,305.24
(Increase) Decrease in Loans & Contracts	136,642.13
(Increase) Decrease in Other Assets	4,985,733.17
(Increase) Decrease in State Appropriations	(5,108,432.45)
Increase (Decrease) in Payables	4,007,142.27
Increase (Decrease) in Deposits	9,872,333.27
Increase (Decrease) in Due to Other Funds	916,000.32
Increase (Decrease) in Deferred Income	14,703,586.77
Increase (Decrease) in Compensated Absence Liability	978,524.54
Increase (Decrease) in Benefits Payable	-
Increase (Decrease) in Other Liabilities	560,093.43
Total Adjustments	55,218,738.76
Net Cash Provided by Operating Activities	**$ (230,844,260.70)**
Non Cash Transactions	
Donation of Capital Assets	$ 53,594.70
Net Change in Fair Value of Investments	5,177,137.57
Borrowing Under Capital Lease Purchase	491,021.44
Other	(9,363.65)

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2007

NOTE 1: Summary of Significant Accounting Policies

Entity

The Texas State University System (System) is considered an Institution of Higher Education of the State of Texas, and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Institutions of Higher Education.

The Texas State University System was comprised of System Administration and the following institutions: Angelo State University, Lamar University, Sam Houston State University, Sul Ross State University, Texas State University-San Marcos, Lamar Institute of Technology, Lamar State College - Orange, and Lamar State College - Port Arthur. The System's primary role is to provide post secondary educational opportunities for the citizens of the State of Texas. The component institutions also perform research activities and provide public service programs for their constituents.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No 34. *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

Fund Structure

The accompanying financial statements are presented on the bases of funds. A fund is considered a separate accounting entity. The fund designation for institutions of higher education is a Business Type Activity within the Proprietary Fund Type.

Proprietary Funds

Business Type Activity

Business type funds are used for activities that are financed through the charging of fees and sales for goods or services to the ultimate user. Institutions of higher education are required to report their financial activities as business type; because, the predominance of their funding comes through charges to students, sales of goods and services, and grant revenues.

UNAUDITED

Note 1 Continued

Component Units

The fund types of the individual discrete component units are available from the component units' separately issued financial statements. Additional information about component units can be found in Note 17.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Business activity type funds (proprietary funds) are accounted for using the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Budget and Budgetary Accounting

The operating budget is prepared annually and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act) and other revenues generated by System Administration. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and Fund Balances/Net Assets

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Securities Lending Collateral

Investments are stated at fair value in all funds except pension trust funds in accordance with **GASB Statement 31-Accounting and Financial Reporting for Certain Investments and for External Investment Pools.** For pension trust funds, investments are required to be reported at fair value using the accrual basis of accounting in accordance with **GASB Statement 25 - Financial Reporting**

Note 1 Continued

for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

Securities lent are reported as assets on the Statement of Net Assets. The costs of securities lending transactions are reported as expenditures or expenses in the Operating Statement. These costs are reported at gross.

Restricted Assets
Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Inventories and Prepaid Items
Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the proprietary fund types. The cost of these items is expensed when the items are consumed.

Capital Assets
Assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Road and highway infrastructure is reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight -line method.

Current Receivables - Other
Other receivables include year-end revenue accruals not included in any other receivable category.

LIABILITIES

Accounts Payable
Accounts Payable represents the liability for the value of assets or services received at the Statement of Net Assets date for which payment is pending.

UNAUDITED

Note 1 Continued

Current Payables - Other
Other payables are the accrual at year -end of expenditure transactions not included in any of the other payable descriptions.

Employees' Compensable Leave Balances
Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the Statement of Net Assets.

Capital Lease Obligations
Capital Lease Obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Liabilities are reported separately as either current or noncurrent in the Statement of Net Assets.

Bonds Payable - General Obligation Bonds and Revenue Bonds
General Obligation and Revenue Bonds are accounted for in the proprietary funds by institutions of higher education. The bonds payable are reported at par less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or noncurrent in the Statement of Net Assets. Bond proceeds and principal payments are reported in the Statement of Cash Flows.

FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund statements, and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

Invested in Capital Assets, Net of Related Debt
Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets
Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

UNAUDITED

Note 1 Continued

Unrestricted Net Assets
Unrestricted net assets consist of net assets which do not meet the definition of the two *preceding* categories. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The Texas State University System has the following types of transactions among funds:

(1) Transfers: Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund.
(2) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
(3) Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as "Current", repayment for two (or more) years is classified as "Non-Current".
(4) Interfund Sales and Purchases: Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of Texas State University System's Interfund activities is presented in Note 8.

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2007 is presented on the next page.

UNAUDITED

Note 2 Continued

	Balance 09/01/06	Adjustments	Reclassifications Completed CIP	Reclassifications Inc-Int'agy Trans	Reclassifications Dec-Int'agy Trans	Additions	Deletions	Balance 08/31/07
BUSINESS-TYPE ACTIVITIES								
Non-Depreciable Assets								
Land and Land Improvements	$ 60,896,031.70	$ (88,616.22)	$ 619,990.62	$ -	$ -	$ 891,889.63	$ (28,018.38)	$ 62,291,277.35
Construction in Progress	$ 194,567,485.03	$ (34,687,061.88)	$ (173,432,611.25)			$ 88,493,338.27	$ (952,029.00)	$ 73,989,121.17
Other Assets	$ 4,508,839.69	$ -		$ -	$ -	$ 205,448.94	$ -	$ 4,714,288.63
Total Non-Depreciable Assets	259,972,356.42	-34,775,678.10	-172,812,620.63	0.00	0.00	89,590,676.84	-980,047.38	140,994,687.15
Depreciable Assets								
Buildings and Building Improvements	$ 1,072,659,191.16	$ 88,616.22	$ 168,244,972.05	$ -	$ -	$ 2,320,781.48	$ (11,028,399.30)	$ 1,232,285,161.61
Infrastructure	$72,448,572.72	$ -	$ -	$ -	$ -	$ -	$ (1,010,183.69)	$71,438,389.03
Facilities & Other Improvements	$ 66,062,618.19	$ -	$ 3,955,278.49	$ -	$ -	$ 845,093.55	$ (213,917.50)	$ 70,649,072.73
Furniture and Equipment	$ 88,606,210.31	$ -	$ 612,370.09	$ -	$ -	$ 11,124,999.63	$ (6,132,263.46)	$ 94,211,316.57
Vehicle, Boats & Aircraft	$ 11,602,534.13	$ -	$ -	$ -	$ (9,363.65)	$ 873,612.55	$ (380,832.88)	$ 12,085,950.15
Other Assets	$ 100,799,683.81	$ (64,346.89)	$ -	$ -	$ -	$ 6,198,625.13	$ (407,016.03)	$ 106,526,946.02
Total Depreciable Assets at Historical Costs	1,412,178,810.32	24269.33	172,812,620.63	0	(9,363.65)	21,363,112.34	(19,172,612.86)	1,587,196,836.11
Less Accumulated Depreciation for:	$ -	$ -	$ -	$ -	$ -		$ -	
Buildings and Improvements	$ (590,700,067.64)	$ -	$ -	$ -	$ -	$ (29,304,925.96)	$ 1,211,529.43	$ (618,793,464.17)
Infrastructure	$ (28,274,202.17)	$ -	$ -	$ -	$ -	$ (2,730,357.32)	$ 8,418.20	$ (30,996,141.29)
Facilities & Other Improvements	$ (27,222,053.75)	$ -	$ -	$ -	$ -	$ (2,435,058.68)	$ 60,609.76	$ (29,596,502.67)
Furniture and Equipment	$ (59,325,226.57)	$ 39,375.57	$ -	$ -	$ -	$ (7,318,856.67)	$ 5,612,875.33	$ (60,991,832.34)
Vehicles, Boats & Aircraft	$ (8,376,349.85)	$ (14,947.85)	$ -	$ -	$ 9,363.65	$ (786,801.63)	$ 320,405.07	$ (8,848,330.61)
Other Capital Assets	$ (54,426,163.16)	$ 3.47	$ -	$ -	$ -	$ (5,824,283.88)	$ 250,236.72	$ (60,000,206.85)
Total Accumulated Depreciation	(768,324,063.14)	24,431.19	0.00	0.00	9,363.65	(48,400,284.14)	7,464,074.51	(809,226,477.93)
Depreciable Assets, Net	643,854,747.18	48,700.52	172,812,620.63	0.00	0.00	(27,037,171.80)	(11,708,538.35)	777,970,358.18
Business-Type Activities Capital Assets, Net	903,827,103.60	(34,726,977.58)	0.00	0.00	0.00	62,553,505.04	(12,688,585.73)	918,965,045.33

UNAUDITED

NOTE 3: Deposits, Investments, & Repurchase Agreements

The Texas State University System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Endowment Funds may be invested in accordance with the Uniform Management of Institutional Funds Act, Property Code Chapter 163. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

Deposits of Cash in Banks
As of August 31, 2007, the carrying value of demand deposits at local banks was $21,300,972.09 as presented below:

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

CASH IN BANK-CARRYING VALUE PER AFR	$	21,300,972.09
Proprietary Funds Current Assets Cash in Banks	$	20,905,578.69
Proprietary Funds Current Assets Restricted Cash in Banks		346,679.90
Proprietary Funds Noncurrent Assets Restricted Cash in Banks		48,713.50
Cash in Bank per AFR	$	21,300,972.09

At August 31, 2007, the actual balance on deposit with local banks was $ 34,452,693.85 .

Investments
The carrying and fair values of investments as of the Statement of Net Assets date (both short and long term) are shown below.

UNAUDITED

Note 3 Continued

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		Fair value
U.S. Government		
U.S. Treasury Securities	$	3,256,988.20
U.S. Government Agency Obligations		8,329,706.37
U.S. Government Agency Obligations (Texas Treasury Safekeeping)		8,073,545.65
Corportate Obligations		59,512,371.74
Corporate Obligations (Texas Treasury Safekeeping)		-
Corporate Asset and Mortgage Backed Securities		2,911.00
Equity		19,107,952.45
Repurchase Agreement		1,570,419.03
Fixed Income Money Market and Bond Mutual Fund		68,683,579.55
Other Commingled Funds		16,652,984.35
Other Commingled Funds - Texpool		413,632,696.21
Commercial Paper		4,435,482.00
Real Estate		-
Miscellaneous		7,288,764.49
Total	$	610,547,401.04
Consisting of the Following		
Proprietary Funds Current Cash Equivalents	$	361,617,620.01
Proprietary Funds Current Restricted Cash Equivalents		26,365,589.51
Proprietary Funds Short Term Investments		198,000.00
Proprietary Funds Non-Current Restricted Cash Equivalents		27,413,701.59
Proprietary Funds Non-Current Restricted Investments		75,067,360.06
Proprietary Funds Non-Current Investments		119,885,129.87
Total as Above	$	610,547,401.04

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The *Investment Policies* of the Texas State University System allow the investment of State funds in corporate bonds to be no more than 5% of the total portfolio. The bonds must be rated in one of the three highest rating categories (i.e. AAA to A).

Included with the Corporate Obligations are bonds owned by the Carr Foundation totaling $49,382,316.84. The Foundation's investment policies allow 15% of its portfolio to be invested in high yield bonds. These below-investment grade bonds must have a CCC rating or better. The Foundation's policies allow 100% of its portfolio to be investment grade fixed income securities. The target for investments in this type of securities is 70%.

UNAUDITED

Note 3 Continued

As of August 31, 2007 the System's credit quality distribution for securities with credit risk exposure was as follows.

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	AAA	AA	A
05	9999	U.S. Government Agency Obligations	$15,213,325.40	$ -	$ -
05	9999	U.S. Government Agency Obligations - Texas Treasury Safekeeping Trust Co.	1,189,926.60	-	-
05	9999	Corporate Obligations	2,008,202.50	16,465,618.51	20,686,900.49
05	9999	Corporate Obligations - Texas Treasury Safekeeping Trust Co.	-	-	-
05	9999	Corporate Asset and Mortgage Backed Securities	2,911.00	-	-
05	9999	Repurchase Agreement	-	-	-
05	9999	Miscellaneous - Commerical Paper	302,304.00	4,133,178.00	-
05	9999	Miscellaneous - Municipal Bonds	10,350.00	-	-

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	BBB	BB	B	CCC
05	9999	Corporate Obligations	$10,092,835.75	$5,865,412.50	$4,345,402.00	$ 48,000.00

NOTE 4: Short-Term Debt

During the fiscal year ended August 31, 2007, Texas State University System had no short term debt activity.

UNAUDITED

NOTE 5: Summary of Long-term Liabilities

Changes in Long-term Liabilities

During the year ended August 31, 2007, the following changes occurred in long-term liabilities.

BUSINESS TYPE ACTIVITES	BALANCE 9/1/2006	ADDITIONS	REDUCTIONS	BALANCE 8/31/2007	AMOUNTS DUE WITHIN ONE YEAR
General Obligation B/P	$ -	$ -	$ -	$ -	$ -
Revenue B/P	520,645,649.07	23,475,000.00	(26,030,242.45)	518,090,406.62	27,288,238.39
Compensable Leave	17,639,212.51	1,219,962.23	(637,991.08)	18,221,183.66	8,601,786.02
Capital Lease Obligations	59,820.85	619,250.70	(114,274.51)	564,797.04	143,733.21
TOTALS	$ 538,344,682.43	$ 25,314,212.93	$ (26,782,508.04)	$ 536,876,387.32	$ 36,033,757.62

Bonds Payable

See Note 13 for a discussion of Bonds Payable.

Compensable Leave

A state employee is entitled to be paid for any unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. An expense and liability for Business Type Activities are recorded in the accounts as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Capital Leases

See Note 6 for a discussion of Capital Lease obligations.

NOTE 6: Capital Leases

Certain Leases to finance the purchase of equipment are capitalized at the present value of future minimum lease payments.

The following summary presents the original capitalized costs of all such property under lease as well as the accumulated depreciation at August 31, 2007.

ASSETS UNDER CAPITAL LEASE	AMOUNT
Furniture & Equipment	$ 732,820.31
Less: Accumulated Depreciation	(18,412.27)
TOTAL	$ 714,408.04

UNAUDITED

Note 6 Continued

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at August 31, 2007 follows.

FUTURE MINIMUM LEASE PAYMENTS	PRINCIPAL	INTEREST
2008	$ 143,733.21	$ 27,535.52
2009	116,108.15	27,689.82
2010	120,223.92	20,199.89
2011	115,086.03	11,333.58
2012	69,645.73	3,404.31
TOTALS	$ 564,797.04	$ 90,163.12

NOTE 7: Operating Lease Obligations

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are shown below:

YEAR ENDING AUGUST 31,	AMOUNT
2008	$ 1,148,458.83
2009	1,145,650.23
2010	1,118,109.03
2011	1,099,046.71
2012	1,078,625.44
2013-2017	5,338,389.99
2018-2022	2,827,774.28
2023-2027	-
2028-2032	-
TOTAL MINIMUM FUTURE LEASE PAYMENTS	$ 13,756,054.51

UNAUDITED

NOTE 8: Interfund Balances / Activities

As explained in Note 1 on Interfund Activities and Balances, there are numerous transactions between funds and agencies. The Texas State University System experienced routine transfers within the System which were eliminated for the combined presentation.

Transfers with other State agencies and universities were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statements. Individual balances and activity at August 31, 2007 follows:

	INTERFUND	
Required Note 8 Presentation	**RECEIVABLE**	**PAYABLE**
All Funds	$ -	$ -

	LEGISLATIVE TRANSFERS	
Required Note 8 Presentation	**IN**	**OUT**
All Funds	$ -	$ -

	TRANSFERS	
Optional Note 8 presentation	**IN**	**OUT**
Lamar Beaumont 734		
Agency 347, Fund 0507		$ 999,156.02
Agency 781, Fund 5103		234,549.40
Angelo State 737		
Agency 781, Fund 5103		106,355.20
Agency 537, Fund 7999		9,363.65
Sam Houston 753		
Agency 902		409,785.20
Texas State 754		
Agency 781, Fund 7999		1,332,528.90
Sul Ross 756		
Agency 781, Fund 5103		7,096.19
Lamar Institute of Technology 789		
Agency 781, Fund 7999		1,194.32
TOTAL		$ 3,100,028.88

UNAUDITED

Note 8 Continued

OPTIONAL Note 8 presentation	DUE FROM	DUE TO	SOURCE
Lamar Beaumont 734			
Agency 601, Fund 5015	$ 660.00	$ -	Shared Funds
Agency 781, Fund 5079	1,793.71		Shared Funds
Sam Houston 753			
Agency 601, Fund 5015	10,176.00		State P-T
Agency 781, Fund 5103	39,178.80		State P-T
Texas State 754			
Agency 781, Fund 5079	259,746.29		Shared Funds
Agency 601, Fund 5015	9,892.00		Shared Funds
Agency 781, Fund 7999	430,724.16		Shared Funds
Agency 580, Fund 4831	12,422.40		State
Agency 601, Fund 0006	14,667.29		Federal P-T
Sul Ross 756			
Agency 601, Fund 5015	3,876.00		Shared Funds
TOTAL	$ 783,136.65	$ -	

NOTE 9: Contingent Liabilities

At August 31, 2007, various lawsuits and claims involving the Board of Regents, Texas State University System were pending. While the ultimate liability with respect to litigation and other claims asserted against the Board of Regents cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the Board of Regents, Texas State University System. Under Texas law the Texas State University System, as an agency of the State of Texas, enjoys immunity from most causes of action. The majority of such claims are dismissed prior to trial.

NOTE 10: Continuance Subject to Review

The Texas State University System is not subject to the Texas Sunset Act.

UNAUDITED

NOTE 11: Risk Financing and Related Insurance

The Texas State University System is exposed to a variety of civil claims resulting from the performance of its duties. It is the System's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

The Texas State University System assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance, nor is the System involved in any risk pool with other government entities for these risks.

Wiley v. Texas State University – San Marcos, claim resulting from the university's termination of an executive level employee related to the performance of public duties, was settled for $125,000.00. No other losses occurred during the fiscal year ended August 31, 2007 and no claims were pending as of that date.

The following Insurance coverage is maintained by the Texas State University System:
Property and other Insurance Coverage - The individual components are required by certain bond covenants to carry Fire and Extended Coverage (including boiler and flood insurance) on buildings financed through the issuance of bonds. This includes pledged Auxiliary Enterprises and other non-Educational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. No material property insurance claims were made during the fiscal year ending August 31, 2007.

Vehicle Insurance - The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a State highway be insured for minimum limits of liability in the amount of $20,000/$40,000 bodily injury and $15,000 property damage. All vehicles owned and/or leased by the System are covered by commercial insurance contracted by the Texas State University System Administration with coverage of $1,000,000 combined single liability. The coverage exceeds the extent of the waivers of State immunity in the Tort Claims Act.

UNAUDITED

NOTE 12: Segment Information

The Texas State University System has no segments to report as of August 31, 2007.

NOTE 13: Bonded Indebtedness

The Board of Regents approved the order establishing the Master Resolution for the Texas State University System Revenue Financing System in August 1998. The Master Resolution provides a financing structure under which revenue supported indebtedness of the Revenue Financing System can be incurred. Each component institution and the System Administration of TSUS are members of the Revenue Financing System. The Board pledged all of the funds (revenues) and balances derived or attributable to any member of the Revenue Financing System that is lawfully available to the Board for payments on Parity Debt. Specifically exempted from pledged revenues are:

(a) Amounts received on behalf of any member under Article 7, Section 17 of the Constitution of the State of Texas, including the income there from and any balances relating thereto, and

(b) General Revenue Fund appropriations, except to the extent so specifically appropriated for debt service to the Board by the Legislature of the State of Texas.

Pledged revenue is also subject to the provisions of the "Prior Encumbered Obligations". Prior encumbered obligations means the revenues included in the Revenue Financing System for Texas State University-San Marcos are subject to a prior claim for the following heretofore issued bonds of the Board on behalf of that University that were not refunded by the issuance of Revenue Refunding Bonds, Series 1998B or Taxable Series 1998:

Housing System Revenue Bonds, Series 1986

Utility System Revenue Bonds, Series 1996

Members may use the Revenue Financing System as a long-term debt program to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure. An institution's request for the use of the Revenue Financing System is evaluated for an adequate revenue stream and bonding capacity for the specific institution prior to Board approval of issuing additional parity debt.

Each component institution receives its portion of the bond proceeds and accounts for the earnings and disbursements of the bond proceeds. Assets created and/or acquired as a result of

UNAUDITED

Note 13 Continued

the Revenue Financing System bond proceeds expended and subsequently capitalized are reported on the component institutions' Financial Reports. The associated bond liability and debt service activities are reported in total by the TSUS - System Administration.

The following bonds have been issued utilizing the Revenue Financing System:

Revenue Bonds, Series 1998A

- To acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, facilities, roads or related infrastructures for the members of the Revenue Financing System and to pay costs of issuance related to the bonds.
- Issued September 16, 1998.
- $94,540,000; all authorized bonds have been issued.
- Bond proceeds were distributed to the TSUS components.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2006-2007 biennium, for the Tuition Revenue financed share, $80,950,000, of the issued bonds.
- Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue Refunding Bonds, Series 1998B

- To provide funds to refund certain obligations of the Board and to pay costs of issuance related to the bonds.
- Issued September 16, 1998.
- $53,505,000; all authorized bonds have been issued.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2006-2007 biennium, for the Tuition Revenue financed share, $23,530,000 of the issued bonds.
- Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

UNAUDITED

Note 13 Continued

Revenue Refunding Bonds, Taxable Series 1998

- To provide funds to refund certain obligations of the Board and to pay costs of issuance related to the bonds.
- Issued September 16, 1998.
- $15,920,000; all authorized bonds have been issued.
- Source of revenue for debt service - Revenue Financing System.

Revenue Bonds Series 2000

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related infrastructure and to pay any costs related to the issuance of the bonds.
- Issued September 26, 2000.
- $26,000,000; all authorized bonds were issued.
- Bond proceeds of $10,000,000 and $16,000,000 were distributed to Sam Houston State University and Texas State University-San Marcos, respectively.
- The debt has been retained on the books of System Administration.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.

Revenue Bonds Series 2001

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related infrastructure and to pay any costs related to the issuance of the bonds.
- Issued June 21, 2001.
- $12,400,000; all authorized bonds were issued.
- Bond proceeds were distributed to Texas State University-San Marcos.
- The debt has been retained on the books of System Administration.
- Debt service payments will be made from mandatory transfers from the University.
- Source of revenue for debt service - Revenue Financing System.

UNAUDITED

Note 13 Continued

Revenue and Refunding Series 2002 and Taxable Series 2002A

- To acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, facilities or related infrastructures for component institutions ($147,445,000). To refund certain taxable outstanding bond issues for Texas State University-San Marcos ($14,170,000).
- Bond proceeds were also used to pay costs of issuance related to the bonds.
- Issued October 17, 2002.
- $161,615,000; all authorized bonds have been issued.
- Bond proceeds were delivered to the TSUS components.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2006-2007 biennium, for the Tuition Revenue financed share, $98,935,000, of the issued bonds. Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue Bonds Series 2003

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related infrastructure and to pay any costs related to the issuance of the bonds.
- Issued October 7, 2003.
- $47,635,000; all authorized bonds issued.
- Bond proceeds of $20,500,000 were transferred to Sam Houston State University, $27,000,000 was transferred to Texas State University-San Marcos, and $135,000 was utilized for debt service.
- The debt has been retained on the books of System Administration.
- Debt service payments will be made from mandatory transfers from the prospective university.
- Source of revenue for debt service - Revenue Financing System.

Revenue and Refunding Bonds Series 2004

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure; refund certain outstanding debt obligations of the Board; and to pay cost of issuance related to the bonds.
- Issued December 3, 2004.
- $85,950,000; all authorized bonds have been issued.

UNAUDITED

Note 13 Continued

- Bond proceeds were distributed to Lamar University ($19,500,000), Sul Ross State University ($20,240,000), and refund of certain outstanding debt and pay cost of issuance ($46,210,000).
- Debt service payments will be made from mandatory transfers from the universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2006-2007 biennium, for the Tuition Revenue financed share, $31,865,395, of the issued bonds. Funding for
- the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue and Refunding Bonds Series 2005

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure; refund certain outstanding debt obligations of the Board; and to pay cost of issuance related to the bonds.
- Issued September 1, 2005.
- $43,250,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Sam Houston State University $15,000,000, refund of certain outstanding debt and pay cost of issuance $28,505.
- Debt service payments will be made from mandatory transfers from the Universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2006-2007 biennium, for the Tuition Revenue financed share, $13,565,244, of the issued bonds. Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue Financing Revenue Bonds, Series 2006

- To provide funds to purchase certain student housing and educational facilities located at Texas State University-San Marcos, Lamar University, and Angelo State University and financed by a Chapter 53, Texas Education Code non-profit corporation for the benefit of Texas State University System Foundation, Inc. and related entities and to pay cost of issuance related to the bonds.
- Issued June 8, 2006.
- $140,260,000; all authorized bonds have been issued.
- Debt refunded, Bobcat Village Texas State University-San Marcos - $39,075,000, San Marcos Hall Texas State University-San Marcos - $39,690,000, Cardinal Village Lamar University - $44,270,000, and Texan Hall Angelo State University - $17,225,000.

UNAUDITED

Note 13 Continued

- Debt service payments will be made from mandatory transfers from the prospective universities.
- Source of revenue for debt service – Revenue Financing System.

Revenue Financing Revenue Bonds, Series 2006A

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related
- Infrastructure and to pay any costs related to the issuance of the bonds.
- Issued September 1, 2006.
- $23,475,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Lamar University $16,700,000 and to Texas State University-San Marcos $6,300,000.
- Debt service payments will be made from mandatory transfers from the prospective universities.
- Source of revenue for debt service – Revenue Financing System.

In addition to the outstanding bonds secured by the Texas State University System Revenue Financing System the following Texas State University-San Marcos bonds were outstanding at August 31, 2007:

Housing System Revenue Bonds, Series 1986

- To acquire an apartment complex known as Comanche Hills
- Issued April 1, 1986
- $3,500,000; all authorized bonds have been issued
- Interest Rates-3.0%
- Maturity Date - 2016
- Revenue Bond
- Source of revenue for debt service – Auxiliary Enterprises net operating revenues

Utility System Revenue Bonds, Series 1996

- To improve and enlarge the utility system of the University, and to pay for issuance of bonds
- Issued February 15, 1996
- $4,415,000; all authorized bonds have been issued
- Interest Rates-3.6%-5.45%
- Maturity Date - 2011
- Revenue Bond
- Source of revenue for debt service – Utility System net operating revenues

UNAUDITED

Note 13 Continued

DEFEASED BONDS

The following bonds are fully defeased at August 31, 2007:

LAMAR UNIVERSITY

Combined Fee Revenue, Series 1979
- Year defeased 1990.

LAMAR UNIVERSITY, LAMAR INSTITUTE OF TECHNOLOGY, LAMAR STATE COLLEGE-ORANGE, AND LAMAR STATE COLLEGE-PORT ARTHUR

Combined Fee/Revenue System Refunding, Series 1990-A
Combined Fee/Revenue System Refunding, Series 1990-B
- Outstanding par value defeased $15,850,000 (1990-A) and $1,950,000 (1990-B).
- Year defeased 1998.

TEXAS STATE UNIVERSITY-SAN MARCOS

Student Housing System Revenue Bonds, Series 1970
- Year defeased 1987

University Housing System Bonds, Series 1995
- To acquire, purchase, renovate, construct, improve, enlarge, and equip housing facilities and replacement of University bookstore.
- Issued May 1, 1995.
- $4,255,000; all authorized bonds have been issued.
- Source of revenue for debt service - Auxiliary Enterprise Funds net operating revenues.
- Outstanding par value defeased $3,275,000.
- Year defeased 2002.
- Economic gain on defeasement - Present Value Savings $124,773.

UNAUDITED

Note 13 Continued

TEXAS STATE UNIVERSITY SYSTEM
The following bonds are partially defeased at August 31, 2007:

Revenue Bonds, Series 1998A

- To acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, facilities, roads or related infrastructures for the members of the Revenue Financing System and to pay costs of issuance related to the bonds.
- Issued September 16, 1998.
- $94,540,000; all authorized bonds have been issued.
- Bond proceeds were distributed to the TSUS components.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2006-2007 biennium, for the Tuition Revenue financed share, $80,950,000, of the issued bonds. However, the funding for the 2004-2007 biennium debt service was less than the total requirements. Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds Series 2004 and Revenue and Refunding Bonds, Series 2005 included Tuition Revenue Bonds of $31,728,606 and $12,177,362 for 2004 and 2005 respectively.
- Certain outstanding maturities with par values totaling $38,080,000 were defeased in 2004 and $13,475,000 in 2005.
- Year defeased 2004
- Economic gain on defeasement – Present Value Savings $833,431.28 in 2004 and $334,976.98 in 2005.

Revenue Refunding Bonds, Series 1998B

- To provide funds to refund certain obligations of the Board and to pay cost of issuance related to the bonds.
- Issued September 16, 1998
- $53,505,000; all authorized bonds have been issued.
- Source of Revenue for debt service – Revenue Financing System.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds, Series 2005.
- Certain outstanding maturities with par values totaling $2,700,000 including $1,387,882 of Tuition Revenue Bonds were defeased.
- Year Defeased 2005.
- Economic gain on defeasement –Present Value Savings $132,071.29.

UNAUDITED

Note 13 Continued

Revenue Bonds Series 2000

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related infrastructure and to pay any costs related to the issuance of the bonds.
- Issued September 26, 2000.
- $26,000,000; all authorized bonds were issued.
- Bond proceeds of $10,000,000 and $16,000,000 were distributed to Sam Houston State University and Texas State University-San Marcos, respectively.
- The debt has been retained on the books of System Administration.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds Series 2004 and Revenue and Refunding Bonds, Series 2005.
- Certain outstanding maturities with par values totaling $7,550,000 were defeased.
- Year defeased 2004
- Certain outstanding maturities with par values totaling $8,920,000 were defeased.
- Year defeased 2005
- Economic gain on defeasement – Present Value Savings $164,359.13.

Revenue Bonds, Series 2001

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related insfrastructure and to pay any costs related to the issuance of bonds.
- Issued June 21, 2001
- $12,400,000; all authorized bonds were issued.
- Bonds proceeds were distributed to Texas State University-San Marcos.
- The debt has been retained on the books of the System Administration.
- Debt service payments will be made from mandatory transfers from the university.
- Source of revenue for debt service- Revenue Financing System.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds, Series 2005.
- Certain outstanding maturities with par value totaling $3,320,000
- Year defeased 2005
- Economic gain on defeasement – Present Value Savings $459,764.88.

UNAUDITED

NOTE 14: Subsequent Events

Effective September 1, 2007, the governance, control, management and property of Angelo State University will be transferred from the Board of Regents of the Texas State University System to the Board of Regents of the Texas Tech University System. Existing debt issued by the Texas State University System and attributable to Angelo State University as of September 1, 2007 remains a liability of the Texas State University System. The Angelo State University debt will continue to be serviced by the Texas State University System through the existing billing arrangement between Texas State University System and Angelo State University and through direct or indirect access to Angelo State University's appropriations for Tuition Revenue Bond Debt. The transfer is governed by H.B. No 3564 and SB No 1749.

The Board of Regents approved the issuance of $80,000,000 of revenue bonds on January 18, 2007 at a special called meeting. Under the Resolution adopted that date, a maximum of $20,000,000 of bond proceeds would be allocated to Lamar University for construction of Cardinal Village IV and up to $60,000,000 allocated to refunding outstanding debt that achieved at least 3% present-value savings. The bonds were not issued because funds for the construction of Cardinal Village IV were provided when all bond proceeds initially allocated to Angelo State University from September 1, 2006 bond sale were returned to the Texas State University System (System) prior to the transfer of Angelo State University to Texas Tech University System from the Texas State University System. Now, the System intends to seek Board of Regents approval for issuance of approximately $75,000,000 of revenue bonds to support construction and renovation projects at Texas State University – San Marcos and Sam Houston State University and for an undetermined amount of additional revenue bonds to refund outstanding debt at a minimum of 3% present-value savings.

NOTE 15: Related Parties

The Texas State University System has no related parties.

NOTE 16: Stewardship, Compliance and Accountability

The Texas University System has no material issues.

NOTE 17: The Financial Reporting Entity and Joint Venture

Component Units (CUs) are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, CUs can be other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would create misleading or incomplete financial statements. The System has determined that it does not have legally separate organizations that should be considered Component Units.

UNAUDITED

Note 17 Continued

The following foundations and organizations, while not components units, are disclosed due to their significant relationship with the System and its components.

ANGELO STATE UNIVERSITY

Houston Harte Foundation Available
The Houston Harte Foundation Available is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The assets of the foundation are managed under a Fiduciary Agreement by the Wells Fargo Bank, San Angelo, Texas. The Foundation remitted unrestricted gifts of $60,000.00 to the University during the year ended August 31, 2007. Since the assets are managed externally, the Foundation does not have any employees. The only services provided by the University are the keeping of the minutes.

Robert G. Carr and Nona K. Carr Scholarship Foundation
On September 1, 1980 the Robert G. Carr Estate transferred certain assets totaling $6,815,644.46 to the Board of Regents, Texas State University System, trustees of the Robert G. Carr and Nona K. Carr Scholarship Foundation that was established for the benefit of Angelo State University under provisions of the Last Will and Testament of Robert G. Carr whose death occurred on March 17, 1978. This principal fund included $2,986,879.74 in cash, and $3,828,764.72 in oil, gas, and mineral properties.

On September 1, 1989 the Nona K. Carr Estate transferred certain assets totaling $5,098,287.68 to the Board of Regents, Texas State University System, trustees of the Robert G. Carr and Nona K. Carr Scholarship Fund that was established for the benefit of Angelo State University under provision of the last will and testament of Robert G. Carr. Nona K. Carr died on June 17, 1987.
This principal fund included $2,089,218.68 in cash and $3,009,069.00 in oil, gas, and mineral properties.

Prior to the 2007 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rental and bonuses, and oil and gas payment commissions totaling $65,947,870.01 and realized an appreciation on investments of $1,125,967.45. During the 2007 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rentals and bonuses, and oil and gas payment commissions, and refunds totaling $4,780,959.05.

All principal fund cash that is received by the Foundation is transferred to Wells Fargo Bank, San Angelo as master custodian for investment with Vaughan, Nelson, Scarborough & McCullough, L. P. and Fountain Capital Management, L.L.C. as investment managers for the Foundation.

Note 17 Continued

The value at which oil, gas, and other mineral properties is carried on the financial statements is the value that was agreed to in the settlement with the Internal Revenue Service of the Federal Estate Tax Liability of the Estate of Robert G. Carr. No provision has been made for depletion of these properties. The interest income earned on the Trust is transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship and expense funds. During the 2007 fiscal year, the investment income received from the investment agent totaled $4,259,402.50. Of this amount, $590,000.00 was transferred by the trustees to the Foundation Trust Estate Expense Account for the payment of salaries and wages, and other operating expenses of the foundation. Disbursements from the expense account for the 2007 fiscal year totaled $599,863.98. $3,484,995.40 was transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Account. Depository interest of $9,263.92 was transferred. During the 2007 fiscal year, the scholarship account earned interest totaling $220,391.27.

Total scholarships awarded prior to the 2007 fiscal year amounted to $49,358,504.40. During the 2007 fiscal year, scholarship awards amounted to $3,290,173.04. It is estimated that the amount of annual scholarship awards from the scholarship fund will total $3,200,000.00 in fiscal year 2008.

The records of the Foundation are audited annually by the firm of Oliver, Rainey & Wojtek, LLP, San Angelo, Texas.

Other Organizations

The ASU Alumni Association contributed $88,039.15 to the University during the 2007 fiscal year for operation of the Alumni office. The University paid $87,880.27 above the contributed amount for maintaining the records on the students who have graduated from the University.

The ASU Foundation is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The Foundation solicits donations and acts a Coordinator of Gifts made by other parties. The association expended $495,556.09 on behalf of the University during the year ended August 31, 2007. During the year the University furnished limited staff assistance to the association.

LAMAR UNIVERSITY

Lamar University Foundation

The Lamar University Foundation is a nonprofit organization with the sole purpose of supporting educational activities of Lamar University. The Foundation solicits

Note 17 Continued

donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $819,267.10 to the University during the year ended August 31, 2007. During the fiscal year the University furnished certain services, such as office space and utilities, to the Foundation, for which the Foundation was billed at cost, $102,644.11. Accounts receivables of $343,128.98 are due from the Foundation at August 31, 2007.

LAMAR INSTITUTE OF TECHNOLOGY

Lamar Institute of Technology Foundation

The Lamar Institute of Technology Foundation is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the Institute. Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2007.

The Lamar Institute of Technology Foundation gave $10,000 in scholarship money directly to Lamar Institute of Technology students during the year ended August 31, 2007.

LAMAR STATE COLLEGE - ORANGE

Lamar State College – Orange Foundation, Inc. is a non-profit organization, which was established in December 1983, to support the development and promotion of Lamar State College – Orange, its students, faculty, staff, and physical facilities. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2007. Lamar State College – Orange received $120,000 from the Lamar State College – Orange Foundation during the year ended August 31, 2007.

LAMAR STATE COLLEGE - PORT ARTHUR

Port Arthur Higher Education Foundation

The Port Arthur Higher Education Foundation is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the College. Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2007. The Port Arthur Higher Education Foundation gave $189,799.00 in scholarship money directly to Lamar State College-Port Arthur students during the year ended August 31, 2007.

Lamar-Port Arthur Alumni Association

The Lamar-Port Arthur Alumni Association is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the College.

Note 17 Continued

Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2007. The Lamar-Port Arthur Alumni Association gave $4,580.00 in scholarship money directly to Lamar College-Port Arthur students during the year ended August 31, 2007.

SAM HOUSTON STATE UNIVERSITY

Sam Houston Foundation
The Sam Houston Foundation is a separate nonprofit organization which was established for the purpose of cooperating with and working on behalf of the University. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2007. Gifts to the University from the Sam Houston Foundation for fiscal year 2007 totaled $14,000 to Restricted Funds.

SHSU Lettermen's Association
The SHSU Lettermen's Association was created in October 1974 for the stated purpose of providing a means for the former students of Sam Houston State University who won varsity letters in any of the sports recognized by the Conference to gather from time to time for certain fraternal beneficiary society purposes and to encourage support of the athletic staff and athletic programs of Sam Houston State University through the efforts of its members, including donations to Sam Houston State University for use by such educational institution.

The Lettermen's Association's funds are carried on the University's books, and comprise $21,855.83 of Total Deposits Held in Custody for Others - Agency Funds, at August 31, 2007. Sam Houston State University has performed stewardship functions in support of this account, including the receipt of deposits and payment of expenditures. The University received a gift from the Lettermen's Association for fiscal year 2007 of $5,000.

TEXAS STATE UNIVERSITY-SAN MARCOS

Texas State University-San Marcos Development Foundation
The Texas State University-San Marcos_Development Foundation was formed for exclusively charitable, educational and scientific purposes and to assist in the development of Texas State University-San Marcos. In total the Development Foundation Board reported payments of $793,778.79 for University support and $814,145.79 for student scholarships from Development Foundation funds during the fiscal year ended August 31, 2007. Donations to the Development Foundation are

UNAUDITED

Note 17 Continued

restricted gifts of $5,779,288.56 temporarily restricted gifts of $785,050.79 and unrestricted gifts of $1,999.44.

Texas State University-San Marcos Support Foundation
The Texas State University-San Marcos Support Foundation was formed exclusively for charitable, educational and scientific purposes to assist in the development of the University. During fiscal year 2007, the Support Foundation expended $14,148 in support to the University, including payment for University-provided services. This included a donation of $8,000 to the Texas State University-San Marcos Development Foundation as the Randy and Janice Young Scholarship in accordance with the Memorandum of Understanding.

The McCoy College of Business Administration Development Foundation
The McCoy Foundation, founded in 2004, is a 501c.3. organization dedicated exclusively to the support of Texas State University-San Marcos College of Business Administration. The McCoy Foundation administers its investments and transfers designated funds to the McCoy College of Business Administration twice a year. During fiscal year 2007, the McCoy Foundation distributed $811,000 to the University to support activities for the following endowments: eight chairs or professorships, undergraduate scholarships, graduate fellowships, faculty development, and student development. The approximate FY2007 net accrued assets were $26.4 million with net accrued liabilities of $12,000. The Foundation pays its own expenses which in FY2007 were approximately 0.3% of assets for administration, and 0.9% for investment management fees.

Texas State Alumni Association
The efforts and funds of the Texas State Alumni Association are dedicated to Texas State University-San Marcos for student scholarships, campus support, and alumni outreach activities. The Alumni Association raised $432,785 in operating income. The accounts of the Alumni Association are carried on the University's books and comprise $90,110 of Total Deposits Held in Custody for Others – Agency Funds at August 31, 2007.

Friends of Fine Arts
The Friends of Fine Arts and Communication, in its 27th year of service to the College of Fine Arts, supports students and the performing and visual arts at Texas State University-San Marcos. Membership and corporate sponsorship supports the academic areas of art and design, theatre and dance, music, communication, mass communication and journalism through scholarship and teaching awards.

UNAUDITED

Note 17 Continued

Bobcat Athletic Foundation
The stated purpose of the Bobcat Athletic Foundation is to assist in the development and implementation of a strategic plan for athletics development including major gifts, leadership gifts, and endowments for Texas State University-San Marcos in compliance with rules and regulations set forth by the National Collegiate Athletic Association and the Board of Regents of the Texas State University System.

Texas State Parents Association
The Texas State Parents Association was founded in 1976 with the primary goal of enhancing student success by encouraging the participation of parents and students in programs at Texas State. Funds raised from membership and donations have assisted student learning, career development, and many critical areas of the educational process.

NOTE 18: Restatement of Fund Balances and Net Assets

During the 2007 fiscal year adjustments were made to other fixed assets for the year ended August 31, 2006. The beginning fund balance is restated to reflect the adjustments to the accounts as follows:

Net Assets- per AFR, 8/31/2006	$	921,125,749.77
Adjustments		(15,951.81)
Net Assets- per AFR, 8/31/2006	$	921,109,797.96

NOTE 19: Employees Retirement Plans

The Texas State University System is not the administering agency for any employee retirement plans.

NOTE 20: Deferred Compensation

The Employee's Retirement System will report the plan, balances and liabilities for the state.

UNAUDITED

NOTE 21: Donor-Restricted Endowments

DONOR RESTRICTED ENDOWMENT	AMOUNT OF NET APPRECIATION
Endowments - True Endowments	$ 12,849.00
Endowments - True endowmwnts	6,389,122.58
Endowments - Term Endowments	3,563,394.96
TOTAL	$ 9,965,366.54

NOTE 22: Management Discussion and Analysis

Note is not applicable for Texas State University System.

NOTE 23: Postemployment Health Care and Life Insurance Benefits

The disclosure of information on post employment benefits will be provided by the Texas Retirement Systems.

NOTE 24: Special or Extraordinary Items

The Texas State University System had no special or extraordinary items to report for the fiscal year ended August 31, 2007.

NOTE 25: Disaggregation of Receivable and Payable Balances

The following accounts are disaggregated as follows:

FEDERAL RECEIVABLE	**Amount**
Education	$ 3,038,475.45
Instruction	1,403,511.99
Research	3,590,982.39
Public Service	3,702,028.85
Scholarships	2,580,520.02
TOTAL	$ 14,315,518.70

UNAUDITED

Note 25 Continued

OTHER RECEIVABLES - CURRENT		
Vendor Overpayments	$	391,233.64
Pledges Receivable		544,768.98
Notes Receivable - Student Loans		1,230,543.25
TOTAL	$	2,166,545.87

NONCURRENT RESTRICTED RECEIVABLES		
Texas Public Education Grant	$	3,560,870.68
Perkins Grant		885,735.14
Pledges Receivable		522,543.59
TOTAL	$	4,969,149.41

OTHER PAYABLES - CURRENT		
Accrued Interest Payable on Bonds	$	10,549,447.87
Funds Held in clearing Account		153,354.78
Other Payables		76,883.68
TOTAL	$	10,779,686.33

NOTE 26: Termination Benefits

During the fiscal year ended August 31, 2007, Texas State University System did not provide termination benefits.

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2A
MISCELLANEOUS BOND INFORMATION
For the Year Ended August 31, 2007

Business Type Activity Description	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call Date
REVENUE BONDS					
Student Housing System Revenue Bonds,					
Southwest Texas State University					
Series 1986	$ 3,500,000.00	3.0%	1988	2016	10-01-96
Subtotal	3,500,000.00				
Utility System Revenue Bonds					
Southwest Texas State University					
Series 1996	4,415,000.00	3.6% to 5.45%	1997	2011	08-01-06
Subtotal	4,415,000.00				
Revenue Financing System Bonds					
Texas State University System					
Series 1998A	94,540,000.00	4.5% to 5.5%	2000	2018	03-15-08
Series 1998B	53,505,000.00	4.5% to 5.5%	1999	2015	03-15-08
Taxable Series 1998	15,920,000.00	5.52% to 6.46%	1999	2010	03-15-08
Series 2000	26,000,000.00	4.8% to 5.5%	2001	2020	03-15-10
Series 2001	12,400,000.00	4.25% to 5.25%	2002	2021	03-15-11
Series 2002	147,445,000.00	2.0% to 5.25%	2003	2022	03-15-12
Taxable Series 2002A	14,170,000.00	1.875% to 4.375%	2003	2011	NA
Series 2003	47,635,000.00	3.625% to 4.625%	2004	2023	03-15-13
Series 2004	85,950,000.00	2.25% to 5.00%	2005	2034	09-15-14
Series 2005	43,250,000.00	3.25% to 5.00%	2006	2034	03-15-15
Series 2006	140,260,000.00	4.25% to 5.00%	2007	2034	03-15-16
Series 2006A	23,475,000.00	4.00% to 5.50%	2008	2026	03-15-16
Subtotal	704,550,000.00				
TOTAL	$ 712,465,000.00				

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2B
COMBINED CHANGE IN BONDED INDEBTEDNESS
For the Year Ended August 31, 2007

Business Type Activity Description	Bonds Outstanding 09-01-06	Bonds Issued	Bonds Matured	Bonds Refunded or Extinguished	Bonds Outstanding 08-31-07	Amounts Due Within One Year
REVENUE BONDS						
Student Housing System Revenue Bonds,						
Southwest Texas State University						
Series 1986	$ 1,570,000.00	$	$ 135,000.00	$	$ 1,435,000.00	$ 140,000.00
Subtotal	1,570,000.00	0.00	135,000.00	0.00	1,435,000.00	140,000.00
Utility System Revenue Bonds						
Southwest Texas State University						
Series 1996	1,855,000.00		335,000.00		1,520,000.00	350,000.00
Subtotal	1,855,000.00	0.00	335,000.00	0.00	1,520,000.00	350,000.00
Revenue Financing System Bonds						
Texas State University System						
Series 1998A	16,915,000.00		4,495,000.00		12,420,000.00	4,735,000.00
Series 1998B	24,685,000.00		2,840,000.00		21,845,000.00	2,985,000.00
Taxable Series 1998	7,020,000.00		1,590,000.00		5,430,000.00	1,695,000.00
Series 2000	4,505,000.00		1,035,000.00		3,470,000.00	1,090,000.00
Series 2001	6,875,000.00		480,000.00		6,395,000.00	500,000.00
Series 2002						
Par Value	124,175,000.00		5,495,000.00		118,680,000.00	5,715,000.00
Premium	6,385,528.76		906,623.49		5,478,905.27	856,787.54
Taxable Series 2002A						
Par Value	9,310,000.00		1,685,000.00		7,625,000.00	1,765,000.00
Discount	(13,735.64)		(4,030.95)		(9,704.69)	(3,926.62)
Series 2003	43,420,000.00		1,825,000.00		41,595,000.00	1,875,000.00
Series 2004						
Par Value	85,715,000.00		1,000,000.00		84,715,000.00	1,035,000.00
Premium	5,213,855.95		732,649.91		4,481,206.04	750,377.47
Series 2005	42,755,000.00		475,000.00		42,280,000.00	490,000.00
Series 2006	140,260,000.00		3,005,000.00		137,255,000.00	2,515,000.00
Series 2006A		23,475,000.00			23,475,000.00	795,000.00
Subtotal	517,220,649.07	0.00	25,560,242.45	0.00	491,660,406.62	26,798,238.39
Total Revenue Bonds	$520,645,649.07	$ 23,475,000.00	$26,030,242.45	$ -	$518,090,406.62	$27,288,238.39

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2007

Business Type Activity

Description	Year	Principal	Interest
Student Housing System Revenue Bonds,			
Southwest Texas State University			
Series 1986	2008	$ 140,000.00	$ 40,950.00
	2009	145,000.00	36,675.00
	2010	150,000.00	32,250.00
	2011	155,000.00	27,675.00
	2012	160,000.00	22,950.00
	2013-2016	685,000.00	41,925.00
		$ 1,435,000.00	$ 202,425.00
Utility System Revenue Bonds			
Southwest Texas State University			
Series 1996	2008	$ 350,000.00	$ 77,513.00
	2009	370,000.00	60,013.00
	2010	390,000.00	41,513.00
	2011	410,000.00	21,525.00
	2012		
		$ 1,520,000.00	$ 200,564.00
Revenue Financing System Bonds			
Texas State University System			
Series 1998A	2008	$ 4,735,000.00	$ 633,231.26
	2009	0.00	384,643.76
	2010	0.00	384,643.76
	2011	0.00	384,643.76
	2012	0.00	384,643.76
	2013-2017	5,380,000.00	1,713,943.80
	2018-2021	2,305,000.00	118,131.20
		$ 12,420,000.00	$ 4,003,881.30
Series 1998B	2008	$ 2,985,000.00	$ 1,060,981.24
	2009	2,670,000.00	904,268.76
	2010	2,800,000.00	784,118.74
	2011	2,940,000.00	654,618.72
	2012	3,085,000.00	518,643.76
	2013-2015	7,365,000.00	653,999.98
		$ 21,845,000.00	$ 4,576,631.20
Taxable Series 1998	2008	$ 1,695,000.00	$ 347,330.50
	2009	1,810,000.00	240,376.01
	2010	1,925,000.00	124,354.98
		$ 5,430,000.00	$ 712,061.49

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2007

Series 2000	2008	$ 1,090,000.00	$ 184,981.26
	2009	1,155,000.00	126,393.76
	2010	1,225,000.00	64,312.50
		$ 3,470,000.00	$ 375,687.52
Series 2001	2008	$ 500,000.00	$ 317,437.50
	2009	525,000.00	294,937.50
	2010	550,000.00	271,312.50
	2011	575,000.00	242,437.50
	2012	0.00	212,250.00
	2013-2017	765,000.00	1,061,250.00
	2018-2021	3,480,000.00	446,250.00
		$ 6,395,000.00	$ 2,845,875.00
Series 2002	2008	$ 5,715,000.00	$ 5,860,612.54
	2009	6,010,000.00	5,574,862.54
	2010	6,310,000.00	5,274,362.52
	2011	6,630,000.00	4,958,862.42
	2012	6,860,000.00	4,726,812.52
	2013-2017	39,245,000.00	17,939,300.00
	2018-2022	47,910,000.00	7,185,599.92
		$ 118,680,000.00	$ 51,520,412.46
Series 2002 - Premium Amortization	2008	$ 856,787.54	$ -856,787.54
	2009	762,424.58	-762,424.58
	2010	672,417.65	-672,417.65
	2011	586,604.80	-586,604.80
	2012	599,409.85	-599,409.85
	2013-2017	1,708,397.32	-1,708,397.32
	2018-2022	292,863.53	-292,863.53
		$ 5,478,905.27	$ -5,478,905.27
Series 2002 - Total	2008	$ 6,571,787.54	$ 5,003,825.00
	2009	6,772,424.58	4,812,437.96
	2010	6,982,417.65	4,601,944.87
	2011	7,216,604.80	4,372,257.62
	2012	7,459,409.85	4,127,402.67
	2013-2017	40,953,397.32	16,230,902.68
	2018-2022	48,202,863.53	6,892,736.39
		$ 124,158,905.27	$ 46,041,507.19

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2007

Taxable Series 2002A	2008	$	1,765,000.00	$	308,543.76
	2009		1,850,000.00		244,562.50
	2010		1,950,000.00		170,562.50
	2011		2,060,000.00		90,125.00
		$	7,625,000.00	$	813,793.76
Taxable Series 2002A - Discount Amortization	2008	$	-3,926.62	$	3,926.62
	2009		-2,383.18		2,383.18
	2010		-2,486.36		2,486.36
	2011		-908.53		908.53
		$	-9,704.69	$	9,704.69
Taxable Series 2002A - Total	2008	$	1,761,073.38	$	312,470.38
	2009		1,847,616.82		246,945.68
	2010		1,947,513.64		173,048.86
	2011		2,059,091.47		91,033.53
		$	7,615,295.31		823,498.45
Series 2003	2008	$	1,875,000.00	$	1,803,905.00
	2009		1,945,000.00		1,735,936.26
	2010		2,025,000.00		1,665,430.00
	2011		2,105,000.00		1,584,430.02
	2012		2,190,000.00		1,500,230.02
	2013-2017		12,460,000.00		6,016,393.86
	2018-2022		15,455,000.00		2,956,059.94
	2023		3,540,000.00		163,724.95
		$	41,595,000.00	$	17,426,110.05
Series 2004	2008		1,035,000.00		4,182,867.50
	2009		5,915,000.00		4,151,817.49
	2010		6,215,000.00		3,856,067.52
	2011		6,525,000.00		3,545,317.54
	2012		8,215,000.00		3,219,067.52
	2013-2017		29,685,000.00		10,124,020.00
	2018-2022		9,025,000.00		5,922,500.00
	2023-2027		9,955,000.00		3,427,000.00
	2028-2032		5,530,000.00		1,510,250.00
	2033-2034		2,615,000.00		197,750.00
			84,715,000.00		40,136,657.57
Series 2004 - Premium Amortization	2008	$	750,377.47	$	-750,377.47
	2009		770,651.60		-770,651.60
	2010		663,698.47		-663,698.47
	2011		564,491.89		-564,491.89
	2012		471,649.15		-471,649.15
	2013-2017		906,908.83		-906,908.83
	2018-2022		244,380.44		-244,380.44
	2023-2027		82,113.99		-82,113.99
	2028-2032		23,688.76		-23,688.76
	2033-2034		3,245.44		-3,245.44
		$	4,481,206.04	$	-4,481,206.04

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2007

Series 2004 - Total	2008	$ 1,785,377.47	$ 3,432,490.03
	2009	6,685,651.60	3,381,165.89
	2010	6,878,698.47	3,192,369.05
	2011	7,089,491.89	2,980,825.65
	2012	8,686,649.15	2,747,418.37
	2013-2017	30,591,908.83	9,217,111.17
	2018-2022	9,269,380.44	5,678,119.56
	2023-2027	10,037,113.99	3,344,886.01
	2028-2032	5,553,688.76	1,486,561.24
	2033-2034	2,618,245.44	194,504.56
		$ 89,196,206.04	$ 35,655,451.53
Series 2005	2008	$ 490,000.00	$ 2,038,475.00
	2009	970,000.00	2,021,325.00
	2010	1,025,000.00	1,987,375.02
	2011	2,380,000.00	1,948,937.54
	2012	1,760,000.00	1,829,937.52
	2013-2017	16,910,000.00	7,822,437.60
	2018-2022	14,625,000.00	2,341,612.48
	2023-2026	4,120,000.00	472,418.76
		$ 42,280,000.00	$ 20,462,518.92
Series 2006	2008	$ 2,515,000.00	6,775,112.50
	2009	2,810,000.00	6,668,225.00
	2010	3,065,000.00	6,548,800.00
	2011	3,295,000.00	6,418,537.50
	2012	3,485,000.00	6,278,500.00
	2013-2017	20,240,000.00	28,595,500.00
	2018-2022	25,890,000.00	22,997,500.00
	2023-2027	33,030,000.00	15,846,000.00
	2028-2032	37,030,000.00	6,724,250.00
	2033-2034	5,895,000.00	416,750.00
		$ 137,255,000.00	$ 107,269,175.00
Series 2006A	2008	$ 795,000.00	1,092,837.52
	2009	825,000.00	1,061,037.52
	2010	865,000.00	1,019,787.52
	2011	910,000.00	976,537.52
	2012	950,000.00	940,137.52
	2013-2017	5,420,000.00	4,023,987.60
	2018-2022	6,935,000.00	2,502,962.56
	2023-2026	6,775,000.00	778,725.00
		$ 23,475,000.00	$ 12,396,012.76

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2D
COMBINED SCHEDULE OF ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Year Ended August 31, 2007

Business Type Activity - Revenue Bonds	Pledged and Other Sources and Related Expenditures for the Year			
	Net Available for Debt Service		Debt Service	
Description of Issues	Total Pledged and Other Sources	Operating Expenses Expenditures and Capital Outlay	Principal	Interest
Student Housing System Revenue Bonds				
Southwest Texas State University				
Series 1986	$ 43,120,754	$ 33,179,049	$ 135,000	$ 43,388
Utility System Revenue Bonds				
Southwest Texas State University				
Series 1996 and 1993 Refunding	21,197,276	17,618,721	335,000	92,406
TSUS Revenue Financing System Revenue Bonds				
Series 1998A			4,495,000	869,219
Series 1998B			2,840,000	1,210,081
Taxable Series 1998			1,590,000	446,865
Series 2000			1,035,000	240,613
Series 2001			480,000	337,838
Series 2002			5,495,000	6,080,412
Taxable Series 2002A			1,685,000	365,413
Series 2003			1,825,000	1,870,061
Series 2004			1,000,000	4,212,867
Series 2005			475,000	2,053,913
Series 2006			3,005,000	6,027,350
Series 2006A			0	679,988
Subtotal Revenue Financing System Revenue Bonds	332,847,030	320,899,934	23,925,000	24,394,620
Total	$ 397,165,060	$ 371,697,704	$ 24,395,000	$ 24,530,414

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2E
COMBINED SCHEDULE OF DEFEASED BONDS OUTSTANDING
For the Year Ended August 31, 2007

Description of Issues	Year Refunded		Par Value Outstanding
Revenue Bonds			
Combined Fee Revenue Bonds			
Lamar University - Beaumont			
Series 1979	1990	$	1,550,000.00
Refunding, Series 1997	1998		2,795,947.36
Lamar University Institute of Technology			
Refunding, Series 1997	1998		380,365.71
Lamar University - Orange			
Refunding, Series 1997	1998		271,072.60
Lamar University - Port Arthur			
Refunding, Series 1997	1998		372,614.33
Total Combined Fee Revenue Bonds			5,370,000.00
Revenue Bonds			
Student Housing System Revenue Bonds			
Southwest Texas State University			
Series 1970	1987		570,000.00
Total Student Housing System Revenue Bonds			570,000.00
Tuition Revenue Bonds			
Texas State University System			
Series 1998A	2005		38,080,000.00
Series 2000	2005		7,550,000.00
Series 1998A	2006		13,475,000.00
Series 1998B	2006		2,700,000.00
Series 2000	2006		8,920,000.00
Series 2001	2006		3,320,000.00
Total Tuition Revenue Bonds			74,045,000.00
Total Defeased Bonds		$	79,985,000.00

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2F
COMBINED SCHEDULE OF EARLY EXTINGUISHMENT AND REFUNDING
For the Year Ended August 31, 2007

Description of Issue	Category	Amount Extinguished or Refunded	Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Business-Type Activities					
Revenue Bonds					
Revenue Financing System Bonds					
Total		$ -	$ -	$ -	$ -

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Schedule 3

Combined Reconciliation of Cash in State Treasury

August 31, 2007

Cash in State Treasury		Unrestricted	Restricted	Current Year Total
Agency	**Fund**			
System Office	0283	$ 142,943.54		$ 142,943.54
Angelo State	0227	3,366,592.80		3,366,592.80
Lamar University Beaumont	0256	4,214,871.96		4,214,871.96
Lamar Institue of Technology	0287	2,161,168.76		2,161,168.76
Lamar State College Orange	0285	3,153,579.87		3,153,579.87
Lamar State College Port Arthur	0286	721,313.49		721,313.49
Sam Houston University	0259	18,397,164.94		18,397,164.94
Sam Houston University	0581	3,516,690.25		3,516,690.25
Sam Houston University	5083	2,045,261.78		2,045,261.78
Texas State University San Marcos	0260	13,182,744.12		13,182,744.12
Sull Ross State University	0262	1,766,034.71		1,766,034.71
Total		**$ 52,668,366.22**		**$ 52,668,366.22**

Appendix C

EXCERPTS FROM THE MASTER RESOLUTION

[This Page is Intentionally Left Blank]

MASTER RESOLUTION ESTABLISHING THE TEXAS STATE UNIVERSITY SYSTEM REVENUE FINANCING SYSTEM AS AMENDED BY THE RESOLUTION AMENDING THE MASTER RESOULTION ESTABLISHING THE TEXAS STATE UNIVERSITY SYSTEM REVENUE FINANCING SYSTEM

WHEREAS, pursuant to the provisions of Chapter 95 of the Code, the Board governs the affairs and administers the operations of the Texas State University System as a "University System", as said term is defined in Section 61.003 of the Code; and

WHEREAS, the University System is presently composed of those institutions of higher education set forth in the definition of University System in this Resolution; and

WHEREAS, the terms used in this Resolution and not otherwise defined shall have the meaning given in Exhibit A to this Resolution attached hereto and made a part hereof; and

WHEREAS, the Board heretofore authorized, issued, and delivered, or assumed, various series of outstanding bonds on behalf of the institutions in the University System; and

WHEREAS, in order to reduce costs, increase borrowing capacity, provide additional security to the credit markets, and provide the Board with greater financial flexibility, the Board deems it necessary and desirable to establish a revenue financing program, the Financing System, for revenue supported indebtedness to provide funds to acquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, roads, or related infrastructure for the Members of the Financing System; and

WHEREAS, the Board determines to make all of the institutions presently a part of the University System Members of the Financing System.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS, TEXAS STATE UNIVERSITY SYSTEM THAT:

Section 1. ESTABLISHMENT OF FINANCING SYSTEM AND ISSUANCE OF PARITY DEBT. There is hereby established the Texas State University System Revenue Financing System for the purpose of providing a financing structure for revenue supported indebtedness of components of the Texas State University System included as Members of the Financing System. This Resolution is intended to establish a master plan under which revenue supported indebtedness of the Financing System can be incurred. Each Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of each issue or series of Parity Debt and any other matters related to Parity Debt not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Resolution.

Section 2. SECURITY AND PLEDGE; (a) Pledge. Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations, Parity Debt shall be secured by and payable from a lien on the Pledged Revenues, and the Board hereby assigns and pledges the Pledged Revenues to the payment of the principal of and interest on Parity Debt, and the Pledged Revenues are further pledged to the establishment and maintenance of any funds which may be provided to secure the repayment of Parity Debt in accordance with this Resolution and any Supplement. The Board may additionally secure Parity Debt with one or more Credit Agreements.

(b) Additional Members. As provided in Section 7 of this Resolution, institutions which are not now Members of the Financing System may hereafter become Members and such institutions may, at such time, have outstanding obligations secured by Prior Encumbered Revenues and that, therefore, the lien on and pledge of the Pledged Revenues established pursuant to this Resolution and effective when such institutions become Members of the Financing System will be subject and subordinate only to such institutions' outstanding Prior Encumbered Obligations.

(c) Restriction on Issuance of Additional Debt on a Parity with Prior Encumbered Obligations. Except as provided in Section 4(g) and while any Parity Debt is outstanding, no additional bonds or obligations may be issued or incurred by the Board on a parity with any Prior Encumbered Obligations.

Section 3. RATE COVENANT: PLEDGED REVENUES. (a) Rate Covenant. In each Fiscal Year, the Board shall establish, charge, and use its reasonable efforts to collect at each Member the Pledged Revenues which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Financing System including all deposits or payments due on or with respect to Outstanding Parity Debt for such Fiscal Year.

(b) Pledged Revenues. Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of this Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member the Pledged General Tuition and other Pledged Revenues from each student enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Debt then Outstanding when and as required. The Pledged General Tuition and the other rentals, rates, fees, and charges included in Pledged Revenues shall be adjusted, if and when permitted or required by this Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with the Parity Debt then Outstanding. The Board may fix, levy, charge, and collect the Pledged Revenues in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of any item included in Pledged Revenues from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Financing System including all payments and deposits in connection with the Parity Debt then Outstanding. All changes in the Pledged General Tuition shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of this Resolution or any Supplement, but merely the carrying out of the provisions and requirements hereof.

(c) Annual Obligation. If, in the judgment of the Board, any Member has been or will be unable to satisfy its Annual Obligation, the Board shall fix, levy, charge, and collect rentals, rates, fees, and charges for goods and services furnished by such Member and the Pledged General Tuition, effective at the next succeeding regular semester or semesters or summer term or terms, in amounts sufficient, without limit (subject to the provisions of (e) below), together with other legally available funds, including other Pledged Revenues attributable to such Member, to enable it to make its Annual Obligation payments.

(d) Anticipated Deficit. If the Board determines, for any reason whatsoever, (i) that there are not anticipated to be sufficient legally available funds, including Pledged Revenues, to meet all financial obligations of the Board relating to the Financing System, including the deposits and payments due on or with respect to the Parity Debt Outstanding at that time as the same mature or come due, or (ii) that any Member will be unable to pay its Annual Direct Obligation in full, then the Board shall fix, levy, charge, and collect the Pledged General Tuition at each Member, effective at the next succeeding regular semester or semesters or summer term or terms, in such amounts, without any limitation whatsoever (other than as provided in (e) below), as will be at least sufficient to provide, together with other legally available funds, including other Pledged Revenues, the money for making when due all financial obligations of the Board relating to the Financing System including all payments and deposits due on or with respect to Outstanding Parity Debt when and as required by this Resolution or any Supplement.

(e) Economic Effect of Adjustments. Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues, including the Pledged General Tuition, at any of the Members pursuant to (c) or (d) above will be based upon a certificate and recommendation of a System Representative, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at the various Members (after taking into account the anticipated effect the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each Member) which will be anticipated to result in (i) Pledged Revenues attributable to each Member being sufficient (to the extent possible) to satisfy the Annual Obligation of such Member and (ii) Pledged Revenues being sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Financing System including all deposits and payments due on or in connection with Outstanding Parity Debt when and as required by this Resolution and any Supplement.

Section 4. GENERAL COVENANTS. The Board further represents, covenants and agrees that while Parity Debt or interest thereon is Outstanding:

(a) Payment of Parity Debt. On or before each payment date it shall make available to the Paying Agent for such Parity Debt or to such other party as required by a Supplement, money sufficient to pay the interest on, principal of, and premium, if any, on the Parity Debt as will accrue or otherwise come due or mature, or be subject to mandatory redemption prior to maturity, on such date and the fees and expenses related to the Parity Debt, including the fees and expenses of the Paying Agent and any registrar, trustee, remarketing agent, tender agent or credit provider.

(b) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and in each Supplement, and in each and every Parity Debt or evidence thereof.

(c) Redemption. It will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all Parity Debt which by its terms is mandatorily required to be redeemed prior to maturity, when and as so required.

(d) Lawful Title. It lawfully owns, has title to, or is lawfully possessed of the lands, buildings, and facilities now constituting the Texas State University System, and it will defend said title and title to any lands, buildings, and facilities which may hereafter become part of the Financing System, whether by the addition to the Financing System of a new institution or institutions, or otherwise, for the benefit of the owners of Parity Debt against the claims and demands of all persons whomsoever.

(e) Lawful Authority. It is lawfully qualified to pledge the Pledged Revenues herein pledged in the manner prescribed herein, and has lawfully exercised such right.

(f) Preservation of Lien. Subject to the conditions set forth in Sections 5, 6, and 7 of this Resolution, it will not do or suffer any act or thing whereby the Financing System might or could be impaired, and that it will at all times maintain, preserve, and keep the real and tangible property of the Financing System and every part thereof in good condition, repair, and working order and operate, maintain, preserve, and keep the facilities, buildings, structures, and equipment pertaining thereto in good condition, repair, and working order.

(g) No Additional Encumbrance. It shall not incur additional Debt secured by the Pledged Revenues in any manner, except as permitted by this Resolution in connection with Parity Debt, unless said Debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Resolution and any Supplement. Notwithstanding anything to the contrary contained herein, and in addition to the right hereunder to refund the Prior Encumbered Obligations with Parity Debt, the Board reserves the right to issue bonds to refund any Prior Encumbered Obligations and to secure the refunding bonds with the same source or sources securing the Prior Encumbered Obligations being refunded. Upon the defeasance of the refunded Prior Encumbered Obligations, the refunding bonds will be Prior Encumbered Obligations (unless the refunding bonds are made Parity Debt in accordance with the terms of this Resolution) under this Resolution and any Supplement for all purposes.

(h) Investments and Security. It will invest and secure money in all accounts and funds established pursuant to this Resolution and any Supplement in the manner prescribed by law for such funds and in accordance with written policies adopted by the Board.

(i) Records. It will keep proper books of record and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the Texas State University System. Each year while Parity Debt is Outstanding, the Board will cause to be prepared from such books of record and account an annual financial report of the Texas State University System and shall furnish such report to the principal municipal bond rating agencies and any owner of Parity Debt who shall request same. In addition, the Board shall submit such financial report and other information required by law for examination in connection with financial compliance and other audits required to be conducted by the office of the Auditor of the State of Texas.

(j) Inspection of Books. It will permit any owner or owners of twenty-five per centum (25%) or more of the then Outstanding Principal Amount, at all reasonable times to inspect all records, accounts, and data of the Board relating to the Texas State University System, except such records as federal or state law may denominate as privileged and exempt from disclosure, including, but not by way of limitation, student educational records, personnel records the disclosure of which would constitute, in the opinion of the administration of the Texas State University System, a clearly unwarranted invasion of personal privacy, or trade secrets of third parties.

(k) Annual and Direct Obligations. In establishing the annual budget for each Member, it shall provide for the satisfaction by each Member of its Annual Obligation. The Direct Obligation shall represent the financial responsibility of each Member with respect to Outstanding Parity Debt. Each Member's Direct Obligation and Annual Obligation shall be evidenced by a financing agreement between the Board and each Member.

(l) Determination of Outstanding Parity Debt. For all purposes of this Resolution, the judgment of the Auditor of the Texas State University System shall be deemed final in the determination of which obligations of the Board constitute Parity Debt.

Section 5. ISSUANCE OF ADDITIONAL DEBT.

(a) Parity Debt. The Board reserves and shall have the right and power to issue or incur Parity Debt for any purpose authorized by law pursuant to the provisions of this Resolution and a Supplement to be hereafter authorized. The Board may incur, assume, guarantee, or otherwise become liable in respect of any Parity Debt if the Board shall have determined, that it will have sufficient funds to meet the financial obligations of the Texas State University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System.

In addition, the Board shall not issue or incur Parity Debt unless (i) the Board shall determine that the Member or Members for whom the Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (ii) a System Representative shall deliver to the Board an Officer's Certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in this Resolution and any Supplement, and is not in default in the performance and observance of any of the terms, provisions, and conditions hereof or thereof.

(b) Parity Debt Issued for Equipment and Minor New Construction and Repair and Rehabilitation Projects. Notwithstanding the provisions of (a) above, Parity Debt issued in the form of Commercial Paper for equipment, minor new construction, and minor repair and rehabilitation projects which are not required to be approved by the Texas Higher Education Coordinating Board may be issued if the System Representative, on behalf of the Board, delivers a certificate to the Secretary of the Board to the effect that, after the issuance of the Commercial Paper for such purpose, (i) the Board will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System, (ii) the Member or Members for whom the Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (iii) to the best of his or her knowledge, the Board is in compliance with all covenants contained in this Resolution and any Supplement, and is not in default in the performance and observance of any of the terms, provisions, and conditions hereof or thereof.

(c) Non-Recourse Debt and Subordinated Debt. Non-Recourse Debt and Subordinated Debt may be incurred by the Board without limitation.

Section 6. DISPOSITION OF ASSETS ATTRIBUTABLE TO FINANCING SYSTEM MEMBERS.

The Board may convey, sell, or otherwise dispose of any properties of the Board attributable to a Member of the Financing System provided:

(a) Ordinary Course. Such conveyance, sale, or disposition shall be in the ordinary course of business of a Member of the Financing System which uses, operates, owns, or is otherwise responsible for such properties; or

(b) Disposition Upon Board Determination. The Board shall determine that after the conveyance, sale, or other disposition of such properties, the Board shall have sufficient funds during each Fiscal Year during which Parity Debt is to be Outstanding to meet the financial obligations of the Texas State University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and the Board shall have received an Opinion of Counsel to the effect that the conveyance, sale, or other disposition of such properties will not adversely affect the status, for Federal Income Tax purposes, of the treatment of interest on then Outstanding Parity Debt issued to acquire, construct, or rehabilitate such properties.

Section 7. COMBINATION, DIVISION, RELEASE,AND ADMISSION OF FINANCING SYSTEM MEMBERS. (a) Combination and Division. Notwithstanding anything to the contrary contained herein, it is recognized that certain Members or institutions which may be made Members of the Financing System may be combined or divided and that so long as such combined or divided institutions continue to be governed by the Board such action shall not be in violation of the provisions of this Resolution or require any amendments of the provisions hereof.

(b) Release. Subject to the conditions set forth below, any Member or portion thereof may be closed and abandoned by law or may be removed from the Financing System (thus deleting the revenues, income, funds, and balances attributable to said Member or portion thereof from Pledged Revenues) without violating the terms of this Resolution provided:

(1) the Board specifically finds that (based upon an Officers' Certificate) that, after the release of the Member or portion thereof, the Board will have sufficient funds during each Fiscal Year in which Parity Debt shall thereafter be Outstanding to meet the financial obligations of the Texas State University System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System; and

(2) the Board shall have received an Opinion of Counsel which shall state that such release will not affect the status for Federal Income Tax purposes of interest on any Outstanding Parity Debt and that all conditions precedent provided in this Resolution or any Supplement relating to such release have been complied with; and

(3) (A) if the Member or portion thereof to be released from the Financing System is to remain under the governance and control of the Board, the Board must either (i) provide, from lawfully available funds, including Pledged Revenues attributable to said withdrawing Member, for the payment or discharge of said Member's Direct Obligation or (ii) pledge to the payment of Parity Debt, additional resources not then pledged in an amount sufficient to satisfy such withdrawing Member's Direct Obligation; or

(B) if the Member or portion thereof to be released from the Financing System is to no longer be under the governance and control of the Board, the Board must receive a binding obligation of the new governing body of the withdrawing Member or the portion thereof being withdrawn, obligating said governing body to make payments to the Board at the times and in the amounts equal to said Member's Annual Obligation and to pay or discharge said Member's Direct Obligation, or, in the case of a portion of a Member being withdrawn, the proportion of the Member's Annual Obligation and Direct Obligation, as the case may be, attributable to the withdrawing portion of the Member.

(c) Admission of Members. If, after the date of the adoption of this Resolution, the Board desires for a component of the Texas State University System to become a Member of the Financing System, it may include said institution in the Financing System with the effect set forth in this Resolution by the adoption of a Supplement to this Resolution.

Section 8. WAIVER OF CERTAIN COVENANTS. The Board may omit in any particular instance to comply with any covenant or condition set forth in Sections 3 through 7 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Parity Debt then Outstanding, the consent of which would be required to amend the provisions hereof to permit such noncompliance, shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Board and the duties of the Board in respect of any such covenant or condition shall remain in full force and effect.

Section 9. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the Board contained in this Resolution and any Supplement shall be deemed to be covenants, stipulations, obligations, and agreements of the Financing System and the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the Board or agent or employee of the Board in his or her individual capacity and neither the members of the Board nor any officer or employee thereof shall be liable personally on Parity Debt when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 10. SPECIAL OBLIGATIONS; ABSOLUTE OBLIGATION TO PAY PARITY DEBT. All Parity Debt and the interest thereon shall constitute special obligations of the Board payable from the Pledged Revenues, and the owners thereof shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Resolution or any Supplement. The obligation of the Board to pay or cause to be paid the amounts payable under this Resolution and each Supplement out of the Pledged Revenues shall be absolute, irrevocable, complete, and unconditional, and the amount, manner, and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, regardless of any right of setoff, recoupment, or counterclaim that the Board might otherwise have against any owner or any other party and regardless of any contingency, force majeure, event, or cause whatsoever and notwithstanding any circumstance or occurrence that may arise or take place before, during, or after the issuance of Parity Debt while any Parity Debt is Outstanding.

Section 11. REMEDIES. Any owner of Parity Debt in the event of default in connection with any covenant contained herein or in any Supplement, or default in the payment of said obligations, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State of Texas, to carry out, respect, or enforce the covenants and obligations of this Resolution or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State of Texas.

Section 12. DEFEASANCE OF BONDS. (a) Deemed Paid. Any Parity Debt and the interest thereon shall be deemed to be Defeased Debt within the meaning of this Resolution, except to the extent provided in subsection (c) of this Section, when the payment of all principal and interest payable with respect to such Parity Debt to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof(including the giving of any required notice of redemption or provision for the giving of same having been made) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such Parity Debt for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) noncallable Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with each such Paying Agent for the payment of its services until after all Defeased Debt shall have become due and payable. At such time as Parity Debt shall be deemed to be Defeased Debt hereunder, as aforesaid, such Parity Debt and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Pledged Revenues, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as Outstanding for any purposes other than payment, transfer, and exchange.

(b) Investments. Any money so deposited with or made available to a Paying Agent may at the written direction of the Board also be invested in Government Obligations maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent which is not required for the payment of the Parity Debt and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Continuing Duty of Paying Agent and Registrar. Until all Defeased Debt shall have become due and payable, the Paying Agent and Registrar for such Defeased Debt shall perform the services of Paying Agent and Registrar for such Defeased Debt the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services.

Section 13. AMENDMENT OF RESOLUTION. (a) Amendment Without Consent. This Resolution and the rights and obligations of the Board and of the owners of the Outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the Outstanding Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the Board contained in this Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in this Resolution;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Resolution, upon receipt by the Board of an approving Opinion of Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Resolution;

(iii) To supplement the security for the Outstanding Parity Debt;

(iv) To make such other changes in the provisions hereof as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of Outstanding Parity Debt; or

(v) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Parity Debt.

(b) Amendments With Consent. Subject to the other provisions of this Resolution, the owners of Outstanding Parity Debt aggregating 51% in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to this Resolution which may be deemed necessary or desirable by the Board, provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Parity Debt, the amendment of the terms and conditions in this Resolution so as to:

(i) Grant to the owners of any Outstanding Parity Debt a priority over the owners of any other Outstanding Parity Debt;

(ii) Materially adversely affect the rights of the owners of less than all Parity Debt then Outstanding; or

(iii) Change the minimum percentage of the Outstanding Principal Amount necessary for consent to such amendment.

(c) Notice. If at any time the Board shall desire to amend this Resolution pursuant to Subsection (b) of this Section, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each Registrar for the Parity Debt for inspection by all owners of Parity Debt.

Such publication is not required, however, if the Board gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt.

(d) Receipt of Consents. Whenever at anytime not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by all of the owners or the owners of at least 51% in Outstanding Principal Amount, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(e) Effect of Amendments. Upon the adoption by the Board of any resolution to amend this Resolution pursuant to the provisions of this Section, this Resolution shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then Outstanding Parity Debt and all future Parity Debt shall thereafter be determined, exercised, and enforced under this Resolution, as amended.

(f) Consent Irrevocable. Any consent given by any owner of Parity Debt pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Parity Debt during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar for such Parity Debt and the Board, but such revocation shall not be effective if the owners of 51% in Outstanding Principal Amount, prior to the attempted revocation, consented to and approved the amendment.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Debt shall be determined as provided in each Supplement.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the Board to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity Debt under such Supplement a priority over the owners of any other Outstanding Parity Debt.

Section 14. REPEAL OF CONFLICTING RESOLUTIONS. This Resolution shall become effective immediately and all resolutions and all parts of any resolutions which are in conflict or inconsistent with this Resolution are hereby repealed and shall be of no further force or effect to the extent of such conflict or inconsistency.

Section15. FURTHER PROCEDURES. Each System Representative and the other officers, employees, and agents of the System, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the intent, the terms, and the provisions of this Resolution.

EXHIBIT "A"

DEFINITIONS

As used in this Resolution the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Agreement" means either (i) the agreement by and between the Board of Regents, Texas Tech University System and the Board of Regents, Texas State University System as approved by the Coordinating Board Order or (ii) to the extent subsequently permitted by the Coordinating Board, another arrangement approved by the Board pursuant to which the Texas Tech University System delivers a binding obligation in compliance with Section 7(b)(3)(B) of the Master Resolution providing for the Texas Tech University System to make payments to the Board at the times and in the amounts equal to ASU's Annual Obligation and to pay or discharge ASU's Direct Obligation.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Debt coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the Board on such Debt, or be payable in respect of any required purchase of such Debt by the Board) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the Board:

> (1) Committed Take out. If the Board has entered into a Credit Agreement constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity(or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the Board's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;
>
> (2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the Board) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as "Balloon

Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause (2) above), if a System Representative shall deliver to the Board an Officer's Certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such Officer's Certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the Board has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate. As to any Parity Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the Board, either (1) an interest rate equal to the average rate borne by such Parity Debt (or by comparable debt in the event that such Parity Debt has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (2) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of at least 20 years which is published in a newspaper or journal with national circulation may be used for this purpose;

(6) Guarantees. In the case of any guarantee, as described in clause (2) of the definition of Debt, no obligation will be counted if the Board does not anticipate in its annual budget that it will make any payments on the guarantee. If, however, the Board is making payments on a guarantee or anticipates doing so in its annual budget, such obligation shall be

treated as Parity Debt and calculations of annual debt service requirements with respect to such guarantee shall be made assuming that the Board will make all additional payments due under the guaranteed obligation. If the entity whose obligation is guaranteed cures all defaults and the Board no longer anticipates making payments under the guarantee, the guaranteed obligations shall not be included in the calculation of Annual Debt Service Requirements; and

(7) Commercial Paper. With respect to any Parity Debt issued in the form of commercial paper with maturities not exceeding 270 days, the interest on such Parity Debt shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition.

"Annual Direct Obligation" means the amount budgeted each Fiscal Year by the Board with respect to each Financing System Member to satisfy the Member's proportion of debt service (calculated based on the Member's Direct Obligation) due by the Board in such Fiscal Year on Outstanding Parity Debt.

"Annual Obligation" means, with respect to each Member and for each Fiscal Year, the Member's Annual Direct Obligation plus the amount budgeted by the Board for such Fiscal Year to allow the Member to retire its obligation for intra-System advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

"Board" and "Issuer" mean the Board of Regents of the Texas State University System or any successor thereto.

"Code" means the Texas Education Code, as amended.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the Board as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Debt and on a parity therewith.

"Debt" of the Board payable from Pledged Revenues means all:

(1) indebtedness incurred or assumed by the Board for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Board that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction or improvement of

property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the Board, or that is in effect guaranteed, directly or indirectly, by the Board through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the Board whether or not the Board has assumed or become liable for the payment thereof.

For the purpose of determining the "Debt" of the Board, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the Texas State University System in prior Fiscal Years.

"Defeased Debt" means any Parity Debt and the interest thereon deemed to be paid, retired and no longer Outstanding within the meaning of Section 12 of this Resolution.

"Direct Obligation" means the proportionate share of Outstanding Parity Debt attributable to and the responsibility of each respective Financing System Member.

"Financing System" see "Revenue Financing System".

"Financing System Member" or "Member" means each of the institutions currently constituting components of the Texas State University System and such institutions hereafter designated by the Board to be a Member of the Financing System.

"Fiscal Year" means the fiscal year of the Board which currently ends on August 31 of each year.

"Funded Debt" of the Financing System means all Parity Debt created, assumed, or guaranteed by the Board and payable from Pledged Revenues that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Board to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Board.

"Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, which may be in book-entry form.

"Holder" or "Bondholder" or "owner" means the registered owner of any Parity Debt registered as to ownership and the holder of any Parity Debt payable to bearer.

"Maturity" when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

"Non-Recourse Debt" means any Debt secured by a lien (other than a lien on Pledged Revenues), liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to any other property of the Board attributable to the System, provided that such Debt is being incurred in connection with the acquisition of property only, which property is not, at the time of such incurrence, owned by the Board and being used in the operations of a Member.

"Officer's Certificate" means a certificate signed by a System Representative.

"Opinion of Counsel" means a written opinion of counsel which shall be acceptable to the Board.

"Outstanding" when used with respect to Parity Debt means, as of the date of determination, all Parity Debt theretofore delivered under this Resolution or any Supplement, except:

(1) Parity Debt theretofore cancelled and delivered to the Board or delivered to the Paying Agent or the Registrar for cancellation;

(2) Parity Debt deemed paid pursuant to the provisions of Section 12 of this Resolution or any comparable section of any Supplement;

(3) Parity Debt upon transfer of or in exchange for and in lieu of which other Parity Debt has been authenticated and delivered pursuant to this Resolution or any Supplement; and

(4) Parity Debt under which the obligations of the Board have been released, discharged or extinguished in accordance with the terms thereof;

provided, that, unless the same is acquired for purposes of cancellation, Parity Debt owned by the Board shall be deemed to be Outstanding as though it was owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Debt or to a series of Parity Debt, the outstanding and unpaid principal amount of such Parity Debt paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted, or compounded interest only at maturity as of any record date established by a Registrar in connection with a proposed amendment of this Master Resolution or any Supplement.

"Parity Debt" means all Debt of the Board which may be issued or assumed in accordance with the terms of this Resolution and a Supplement, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations.

"Paying Agent" shall mean each entity designated in a Supplement as the place of payment of a series or issue of Parity Debt.

"Pledged General Tuition" means all of the aggregate amount of student tuition charges now or hereafter required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school, now or hereafter constituting a Member of the Financing System, but specifically excluding and excepting, with respect to each series or issue of Parity Debt, (1) student tuition charges for any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was exempt by law from paying such tuition, (2) the amount of tuition scholarships provided for by law at the time of the adoption of each Supplement, and (3) any tuition component of Prior Encumbered Revenues; and it is provided by law and hereby represented and covenanted that the aggregate amount of student tuition charges which are now required or authorized by law to be imposed, and which are pledged to the payment of the Parity Debt, shall never be reduced or abrogated while such obligations are outstanding; it being further covenanted that the aggregate amount of student tuition charges now required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school operated by or under the jurisdiction of the Board are set forth in the Code, to which Code reference is hereby made for all purposes.

"Pledged Revenues" means, subject to the provisions of the Prior Encumbered Obligations, the Revenue Funds, including all of the funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any Member of the Financing System which are lawfully available to the Board for payments on Parity Debt, including any payments contemplated by the Agreement; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a Supplement: (a) amounts received on behalf of any Member under Article 7, Section 17 of the Constitution of the State of Texas, including the income there from and any fund balances relating thereto and (b) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas.

"Prior Encumbered Obligations" means the following heretofore issued or assumed bond issues of the Board, to-wit:

Board of Regents, Texas State University System, Southwest Texas State University, University Housing System Revenue Bonds, Series 1986;

Board of Regents, Texas State University System, Southwest Texas State University, University Housing System Revenue Refunding Bonds, Series 1989;

Board of Regents, Texas State University System, Southwest Texas State University University Housing System Revenue Refunding Bonds, Series 1993;

Board of Regents, Texas State University System, Southwest Texas State University Utility System Revenue Refunding Bonds, Series 1993;

Board of Regents, Texas State University System, Southwest Texas State University University Housing System Revenue Bonds, Series 1994;

Board of Regents, Texas State University System, Southwest Texas State University University Housing System Revenue Bonds, Series 1995; and

Board of Regents, Texas State University System, Southwest Texas State University Utility System Revenue Bonds, Series 1996,

and those bonds or other obligations of an institution outstanding on the date it becomes a Member of the Financing System and which are secured by a lien on and pledge of the Prior Encumbered Revenues charged and collected at such institution and all existing obligations of the Board secured by a lien on a portion of the Pledged Revenues which is superior to the lien established by this Resolution on behalf of Parity Debt.

"Prior Encumbered Revenues" means all of the tuition, fees, charges and revenues of any nature pledged to the payment of Prior Encumbered Obligations and any such tuition, fees, charges and revenues of an institution which hereafter becomes a Member of the Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

"Registrar" shall mean the entity designated in a Supplement as the Registrar of a series or issue of Parity Debt.

"Resolution" or "Master Resolution" means this Master Resolution establishing the Financing System.

"Revenue Financing System" or "Financing System" or "Texas State University System Revenue Financing System" means the Texas State University System Revenue Financing System composed of the institutions and agencies currently constituting parts of the Texas State University System including the Texas State University System System Administration, and such other institutions and agencies now or hereafter under the control or governance of the Board, and made a Member of the Revenue Financing System by specific action of the Board.

"Revenue Funds" means the 'revenue funds' of the Board (as defined in Section 55.01 of the Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of each of the Members, including specifically the Pledged General Tuition. Revenue Funds does not include, with respect to each series or issue of Parity Debt, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, is exempt by law from paying such tuition, rentals, rates, fees, or other charges.

"S.B. 1907" means Senate Bill 1907 passed by the State Legislature in the Seventy-fifth Regular Legislative Session.

"Stated Maturity" when used with respect to any Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt then outstanding or subsequently issued.

"Supplement" or "Supplemental Resolution" means a resolution supplemental to, and authorized and executed pursuant to the terms of, this Resolution.

"System Representative" means any one or more of the following officers or employees of the Texas State University System, to-wit: the Chancellor, the General Counsel, the Director of Finance, or such other officer or employee of the Texas State University System, authorized by the Board to act as a System Representative.

"Term of Issue" means with respect to any Balloon Debt a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the maximum maturity date in the case of commercial paper or (ii) twenty-five years.

"Texas State University System" or "University System" means and includes each of the following existing and operating institutions, respectively:

Angelo State University;
Lamar University - Beaumont;
Lamar University Institute of Technology;

Lamar University - Orange;
Lamar University - Port Arthur;
Sam Houston State University;
Southwest Texas State University;
Sul Ross State University; and
Sul Ross State University Rio Grande College,

together with every other institution or branch thereof now or hereafter operated by or under the jurisdiction of the Board pursuant to law.

"Texas State University System Revenue Financing System" or "Revenue Financing System" or "Financing System" or "System", see "Revenue Financing System".

SPRINGING AMENDMENT

Amendments to Master Resolution Upon Certain Conditions. At such time as: (i) in accordance with any then applicable requirements imposed by the Coordinating Board pursuant to the Transfer Act, Texas Tech has delivered a binding obligation in compliance with Section 7(b)(3)(B) of the Master Resolution providing for Texas Tech to make payments to the Board at the times and in the amounts equal to ASU's Annual Obligation and to pay or discharge ASU's Direct Obligation; and (ii) the Opinion of Counsel is delivered as required by Section 7 of the Master Resolution, the Master Resolution shall be automatically amended and modified to amend or add the following definitions without further action of the Board of Regents:

"Texas State University System" or "University System" means and includes each of the following existing and operating institutions, respectively:

Lamar University - Beaumont;
Lamar University Institute of Technology;
Lamar University - Orange;
Lamar University - Port Arthur;
Sam Houston State University;
Texas State University – San Marcos;
Sul Ross State University; and
Sul Ross State University Rio Grande College,

together with every other institution or branch thereof now or hereafter operated by or under the jurisdiction of the Board pursuant to law.

The amendments to the Master Resolution contemplated above are subject to the following conditions: (i) no form of binding obligation other than as contemplated by the Coordinating Board

Agreement shall be considered to satisfy the requirements of the Amending Resolution without the prior written consent of the bond insurers of any then Outstanding Parity Debt; and (ii) no amendment of the Coordinating Board Agreement or any binding obligation delivered by Texas Tech shall become effective without the prior written consent of the bond insurers of any Outstanding Parity Debt.

Appendix D

FORM OF BOND COUNSEL OPINION

[This Page is Intentionally Left Blank]

[*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law*.]

BOARD OF
REGENTS, TEXAS STATE UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REVENUE BONDS,
SERIES 2008
IN THE PRINCIPAL AMOUNT OF $207,395,000

AS BOND COUNSEL for the Board of Regents, Texas State University System (the "Issuer"), we have examined into the legality and validity of the issue of bonds described above (the "Bonds"), which bear interest from the date and mature on the dates specified on the face of the Bonds, and being subject to redemption, all in accordance with the amended and restated twelfth supplemental resolution authorizing the issuance of such Bonds and the Award Certificate (the "Bond Resolution"). Terms used herein and not otherwise defined shall have the meaning given in the Bond Resolution.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments relating to the authorization, issuance, and delivery of the Bonds, including one of the executed Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued, and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights, or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding special obligations of the Issuer secured by and payable from, together with the Issuer's other Parity Debt, a lien on and pledge of the Pledged Revenues such lien being subject to the lien securing the Prior Encumbered Obligations.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of Grant Thornton L.L.P., and on certain representations, the accuracy of which we have not independently verified, and assume compliance by the Issuer with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

THE ISSUER has reserved the right, subject to the restrictions stated in the Bond Resolution to amend the Bond Resolution. The Issuer also has reserved the right, subject to the restrictions stated in the Bond Resolution, to issue additional Parity Debt which also may be secured by and payable from a lien on and pledge of the Pledged Revenues on a parity with the lien securing the Bonds.

THE REGISTERED OWNERS of the Bonds shall never have the right to demand payment of the principal thereof or interest thereon out of any funds raised or to be raised by taxation, or from any source whatsoever other than specified in the Bond Resolution.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of the Issuer and the sufficiency of the Pledged Revenues of the Issuer. Our role in connection with the Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

[This Page is Intentionally Left Blank]

Financial Advisory Services
Provided By

First Southwest Company