NEW ISSUE – BOOK ENTRY ONLY

Ratings:
Moody's: Aa2
Fitch: AA
(See "RATINGS" herein)

OFFICIAL STATEMENT

Dated: June 14, 2011

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 on corporations.

$86,775,000
BOARD OF REGENTS, TEXAS STATE UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REVENUE BONDS,
SERIES 2011

Dated: June 1, 2011 **Due: March 15, as shown on inside front cover**
Interest accrues from date of delivery

The $86,775,000 Revenue Financing System Revenue Bonds, Series 2011 (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"), a Fifteenth Supplemental Resolution to the Master Resolution adopted by the Board on February 11, 2011 (the "Fifteenth Supplemental Resolution"), and a certificate awarding the sale of the Bonds as authorized by the Fifteenth Supplemental Resolution (the "Award Certificate"). 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 members of the Revenue Financing System, and (ii) paying certain costs of issuing the Bonds. See "THE BONDS – Purpose."

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, is payable on each March 15 and September 15 thereafter, commencing September 15, 2011 until maturity or prior redemption. 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 "THE BONDS – Book-Entry-Only System."

The Bonds are subject to redemption and as provided herein. See "THE BONDS – Redemption."

CUSIP PREFIX: 88278P
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 June 21, 2011.

BARCLAYS CAPITAL

FIDELITY CAPITAL MARKETS **JEFFERIES & COMPANY** **MORGAN KEEGAN**

PIPER JAFFRAY & CO. **SIEBERT BRANDFORD SHANK & CO., LLC** **WELLS FARGO SECURITIES**

MATURITY SCHEDULE

CUSIP[1] Prefix: 88278P

$86,775,000
Revenue Financing System Revenue Bonds,
Series 2011

Due March 15	Principal Amount	Interest Rate	Initial Yield	CUSIP[1] Suffix
2012	$1,440,000	2.000%	0.480%	PD0
2013	1,985,000	3.000%	0.570%	PE8
2014	2,045,000	4.000%	0.890%	PF5
2015	2,130,000	4.000%	1.240%	PG3
2016	2,215,000	5.000%	1.510%	PH1
2017	2,320,000	5.000%	1.920%	PJ7
2018	2,435,000	4.000%	2.280%	PK4
2019	2,535,000	5.000%	2.570%	PL2
2020	2,660,000	4.500%	2.820%	PM0
2021	2,780,000	4.500%	3.000%	PN8
2022	2,910,000	5.000%	3.220%[2]	PP3
2023	3,055,000	5.000%	3.380%[2]	PQ1
2024	3,205,000	5.000%	3.590%[2]	QA5
2025	3,370,000	5.000%	3.790%[2]	PR9
2026	3,535,000	5.000%	3.920%[2]	PS7
2027	3,710,000	4.125%	4.250%	PT5
2028	3,870,000	5.000%	4.100%[2]	PU2
2029	4,060,000	5.000%	4.190%[2]	PV0
2030	4,255,000	5.000%	4.280%[2]	PW8
2031	4,480,000	5.000%	4.370%[2]	PX6

$10,805,000 5.00% Term Bonds due March 15, 2036 Priced to Yield 4.690%[2] CUSIP[1] 88278PPY4

$16,975,000 5.00% Term Bonds due March 15, 2042 Priced to Yield 4.740%[2] CUSIP[1] 88278PPZ1

(Interest accrues from the date of delivery)

---

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein 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 herein.

(2) Yield calculated based on the assumption that the Bonds maturing in the years 2022 through 2026, inclusive, in the years 2028 through 2031, inclusive, and in the years 2036 and 2042 will be called on the first optional redemption date (March 15, 2021) at par.

Redemption . . . The University System reserves the right, at its option, to redeem Bonds having stated maturities on and after March 15, 2022, in whole or in part in principal amounts of $5,000, or any integral multiple thereof, on March 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Additionally, the Bond maturing March 15 in the years 2036 and 2042 are subject to mandatory sinking fund redemption. (See “THE BONDS – Redemption”).

BOARD OF REGENTS OF TEXAS STATE UNIVERSITY SYSTEM

Name	Residence	Term Expiration
Charlie Amato, Chairman	San Antonio	February 1, 2013
Donna N. Williams, Vice Chairman	Arlington	February 1, 2017
Jaime Garza	San Antonio	February 1, 2017
Kevin J. Lilly	Houston	February 1, 2015
Ron Mitchell	Horseshoe Bay	February 1, 2015
David Montagne	Beaumont	February 1, 2015
Trisha Pollard	Bellaire	February 1, 2013
Rossanna Salazar	Beaumont	February 1, 2017
Michael J. Truncale	Beaumont	February 1, 2013
Ryan Bridges[1]	Huntsville	May 31, 2012

---

(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
Brian McCall, Ph.D.	Chancellor, Secretary of the Board	1 year
James Gaertner, Ph.D.	Interim Vice Chancellor for Academic Affairs	6 months
Fernando C. Gomez, J.D., Ph.D.	Vice Chancellor & General Counsel	21 years
Roland Smith, Ph.D.	Vice Chancellor for Finance	6 years
Sean Cunningham, J.D.	Vice Chancellor for Governmental Relations	1 year
Peter Graves, J.D.	Vice Chancellor for Contract Administration	6 years
Carole Fox, C.P.A.	Director of Audits & Analysis	4 years

CONSULTANTS

Financial Advisor

First Southwest Company
Dallas, Texas

Bond Counsel

McCall, Parkhurst & Horton L.L.P.
Austin, Texas

For additional information regarding the University System, please contact:

Roland Smith, Ph.D.
Vice Chancellor for Finance
Texas State University System
Thomas J. Rusk Building
200 East 10th Street, Suite 600
Austin, Texas 78701-2407
512/463-1887

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

INTRODUCTION 1

THE BONDS 1

- Authority for Issuance of the Bonds 1
- Purpose 2
- Sources and Uses of Proceeds 2
- General 2
- Redemption 2
- Legality 3
- Paying Agent/Registrar 3
- Successor Paying Agent/Registrar 3
- Fifteenth Supplemental Resolution 4
- Additional Defeasance Provisions 4
- Book Entry-Only System 4
- Transfer, Exchange, and Registration 7
- Limitations on Transfer of Bonds 7
- Record Date for Interest Payment 7
- Special Record Date 7
- Damaged, Mutilated, Lost, Stolen or Destroyed Bonds 7
- Bondholder Remedies 7

SECURITY FOR THE BONDS 8

- The Revenue Financing System 8
- Pledge Under Master Resolution 9
- Additional Obligations 10
- Parity Debt 10
- Nonrecourse Debt and Subordinated Debt 10

ASU TRANSFER 13

- General 13
- Outstanding Parity Debt 13
- Amendment of Master Resolution and Release 13

FUTURE CAPITAL IMPROVEMENT PLANS 14

ABSENCE OF LITIGATION 15

REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE 15

CONTINUING DISCLOSURE OF INFORMATION 16

- Annual Reports 16
- Notice of Certain Events 16
- Limitations and Amendments 17
- Compliance with Prior Agreements 17

LEGAL MATTERS 17

- General 17
- Forward Looking Statements 18

TAX MATTERS 18

- Opinion 18
- Federal Income Tax Accounting Treatment of Original Issue Discount 19
- Collateral Federal Income Tax Consequences 19
- State, Local and Foreign Taxes 20

RATINGS 20

LEGAL INVESTMENTS IN TEXAS 20

UNDERWRITING 21

FINANCIAL ADVISOR 21

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION 21

DESCRIPTION OF THE UNIVERSITY SYSTEM ..... Appendix A

UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR THE YEAR ENDED AUGUST 31, 2010 ..... Appendix B

EXCERPTS FROM THE MASTER RESOLUTION ..... Appendix C

FORM OF BOND COUNSEL'S OPINION ..... Appendix D

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

$86,775,000
BOARD OF REGENTS, TEXAS STATE UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REVENUE BONDS,
SERIES 2011

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 $86,775,000 Revenue Financing System Revenue Bonds, Series 2011 (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. All conditions precedent to the release of ASU as a member of the Revenue Financing System (defined below) pursuant to the Master Resolution were completed and the transfer and release was effectuated as of February 4, 2009. See "ASU TRANSFER". For the 2010 Fall Semester, the University System, had a total enrollment of 75,182 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 eight 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 Roland Smith, Ph.D., Vice Chancellor of Finance, Texas State University System, Thomas J. Rusk Building, Suite 600, 200 East 10th Street, Austin, Texas 78701-2407.

THE BONDS

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, and Chapter 1371, Texas Government Code, as amended, and other applicable law, and pursuant to the Master Resolution, the Fifteenth Supplemental Resolution, and a certificate awarding the sale of the Bonds as authorized by the Fifteenth Supplemental Resolution (the "Award Certificate"). The Bonds will be the seventeenth 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 June 1, 2011, long-term Parity Debt in the aggregate principal amount of $690,110,000 was outstanding. See "SECURITY FOR THE BONDS – The Revenue Financing System," "SECURITY FOR THE BONDS—Additional Obligations", "SECURITY FOR THE BONDS – Parity Debt," "TABLE 2 – DEBT SERVICE REQUIREMENTS" 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 members of the Revenue Financing System, and (ii) paying certain costs of issuing the Bonds.

Sources and Uses of Proceeds. The proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds	
Par Amount of Bonds	$ 86,775,000.00
Net Original Issue Premium	5,991,143.85
Total Sources of Funds	$ 92,766,143.85
Uses of Funds	
Deposit to Project Fund	$ 91,968,000.00
Costs of Issuance (including Underwriters' Discount)	798,143.85
Total Uses of Funds	$ 92,766,143.85

General. The Bonds will be initially issued in book-entry-only form, as discussed below under "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 June 1, 2011, 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 is payable on each March 15 and September 15 thereafter, commencing September 15, 2011 until maturity or prior redemption. 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.

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, 2022 are subject to redemption prior to maturity at the option of the Board on March 15, 2021 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.

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 are to be redeemed, the particular Bonds of such maturity shall be selected in accordance with the arrangements between the Board and the securities depository.

Mandatory Sinking Fund Redemption. The Bonds scheduled to mature on March 15 in the years 2036 and 2042 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption on the dates, and in the principal amounts, respectively, set forth in the following schedules:

Term Bonds Stated to Mature on March 15, 2036	
Redemption Date	**Principal Amount**
March 15, 2032	$ 1,955,000
March 15, 2033	2,050,000
March 15, 2034	2,155,000
March 15, 2035	2,265,000
March 15, 2036**	2,380,000

Term Bonds Stated to Mature on March 15, 2042	
Redemption Date	**Principal Amount**
March 15, 2037	$ 2,495,000
March 15, 2038	2,620,000
March 15, 2039	2,755,000
March 15, 2040	2,885,000
March 15, 2041	3,035,000
March 15, 2042**	3,185,000

** Stated Maturity

The principal amount of the Term Bonds required to be redeemed on each such redemption date shall be reduced, at the option of the Board, by the principal amount of any Term Bond of the same maturity, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by such Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Term Bonds, or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Term Bonds to be redeemed is determined by a book entry at a securities depository for such Term Bonds, if fewer than all of such Term Bonds of the same maturity are to be redeemed, the particular Term Bonds of such maturity shall be selected in accordance with the arrangements between the Board and the securities depository.

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.

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 Fifteenth 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 Fifteenth 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.

Fifteenth Supplemental Resolution. The issuance, sale and delivery of the Bonds are authorized by the Fifteenth Supplemental Resolution and the Award Certificate authorized in the Fifteenth Supplemental Resolution. The Fifteenth 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 Fifteenth 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 Fifteenth 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 Fifteenth 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 Fifteenth 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 Fifteenth 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 MASTER RESOLUTION, THE FIFTEENTH 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 FIFTEENTH 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 means the last business day of the month next preceding such interest payment date.

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 damaged, mutilated, lost, stolen or destroyed.

Bondholder Remedies. The Master Resolution and the Fifteenth 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 Fifteenth 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 Fifteenth 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 Fifteenth 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, the Fifteenth Supplemental 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. As of June 1, 2011, there was $1,255,000 in aggregate principal amount 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 "Appendix A, DESCRIPTION OF THE UNIVERSITY SYSTEM - Outstanding Indebtedness."

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, including the income therefrom and any fund balances relating thereto (see "Appendix A - DESCRIPTION OF THE UNIVERSITY SYSTEM – Higher Education Assistance Fund Appropriations"); 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 following table sets forth a historical compilation for fiscal years 2006 through 2010, inclusive, 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

	2006	2007	2008	2009	2010
Available Pledged Revenues Not Including Fund Balances(1)	$ 348,110,026	$ 397,165,060	$ 397,263,787	$ 439,196,376	$ 434,282,274
Unrestricted Net Assets(2)	325,212,508	329,926,921	322,489,790	290,472,843	320,344,551
Total Pledged Revenues and Unrestricted Net Assets	$ 673,322,543	$ 727,091,981	$ 719,753,577	$ 729,669,219	$ 754,626,825

(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. Also excludes state appropriations for reimbursement of debt service on tuition revenue bonds ("TRB's"). See Appendix A – Funding for the University System and its Component Institutions – Tuition Revenue Bonds.

(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.

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 FIFTEENTH 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.

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.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

The following table is a summary of the debt service requirements of all Parity Debt and Prior Encumbered Obligations outstanding prior to 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

(as of August 31)	Prior Encumbered Obligations(1)	Outstanding Parity Debt Service(2)(3)(4)*	The Bonds Principal	The Bonds Interest(4)	The Bonds Total(4)	Total Annual Debt Service*(2)(3)(4)
2011	$ 614,200	$ 69,834,570				$ 70,448,770
2012	182,950	69,134,643	$ 1,440,000	$ 3,028,731	$ 4,468,731	73,786,323
2013	183,075	68,711,243	1,985,000	4,101,288	6,086,288	74,980,605
2014	178,125	68,344,292	2,045,000	4,041,738	6,086,738	74,609,155
2015	183,025	66,932,705	2,130,000	3,959,938	6,089,938	73,205,667
2016	182,700	64,996,168	2,215,000	3,874,738	6,089,738	71,268,605
2017		64,752,100	2,320,000	3,763,988	6,083,988	70,836,088
2018		64,775,950	2,435,000	3,647,988	6,082,988	70,858,938
2019		58,225,575	2,535,000	3,550,588	6,085,588	64,311,163
2020		58,249,763	2,660,000	3,423,838	6,083,838	64,333,600
2021		56,172,013	2,780,000	3,304,138	6,084,138	62,256,150
2022		55,180,925	2,910,000	3,179,038	6,089,038	61,269,963
2023		44,945,869	3,055,000	3,033,538	6,088,538	51,034,406
2024		41,228,338	3,205,000	2,880,788	6,085,788	47,314,125
2025		41,244,375	3,370,000	2,720,538	6,090,538	47,334,913
2026		41,226,388	3,535,000	2,552,038	6,087,038	47,313,425
2027		36,609,325	3,710,000	2,375,288	6,085,288	42,694,613
2028		36,568,863	3,870,000	2,222,250	6,092,250	42,661,113
2029		22,290,663	4,060,000	2,028,750	6,088,750	28,379,413
2030		15,416,363	4,255,000	1,825,750	6,080,750	21,497,113
2031		15,297,813	4,480,000	1,613,000	6,093,000	21,390,813
2032		10,200,563	1,955,000	1,389,000	3,344,000	13,544,563
2033		9,271,813	2,050,000	1,291,250	3,341,250	12,613,063
2034		8,084,313	2,155,000	1,188,750	3,343,750	11,428,063
2035		4,112,313	2,265,000	1,081,000	3,346,000	7,458,313
2036		4,117,063	2,380,000	967,750	3,347,750	7,464,813
2037		4,114,219	2,495,000	848,750	3,343,750	7,457,969
2038		4,115,250	2,620,000	724,000	3,344,000	7,459,250
2039		4,112,500	2,755,000	593,000	3,348,000	7,460,500
2040		4,116,000	2,885,000	455,250	3,340,250	7,456,250
2041			3,035,000	311,000	3,346,000	3,346,000
2042			3,185,000	159,250	3,344,250	3,344,250
TOTAL	**$ 1,524,075**	**$ 1,112,381,971**	**$ 86,775,000**	**$70,136,944**	**$ 156,911,944**	**$ 1,270,817,990**

* A portion of such outstanding Parity Debt constitute Tuition Revenue Bonds that qualify the University System to be reimbursed from State appropriations for debt service payments in the amount of $21,841,362 during fiscal year 2011. Future reimbursement by the State for debt service payments is entirely subject to future appropriations by the State Legislature in each subsequent State biennium. See "Appendix A – Funding for the University System and its Component Institutions – Tuition Revenue Bonds."

(1) Texas State University – San Marcos, Series 1986 (Housing) and Series 1996 (Utility System).

(2) Includes outstanding Angelo State University debt issued prior to September 1, 2007 and related refunding bonds.

(3) Debt service for fiscal years 2011 and 2012 reflect the gross amount of debt service and has not been reduced for the portion of that debt service which will be paid from capitalized interest funded from the proceeds of the Series 2010A Bonds.

(4) Totals of these columns do not calculate exactly due to rounding of pennies for purposes of this table.

OUTSTANDING DEBT OBLIGATIONS

Parity Debt (as of June 1, 2011)	Total
Series 2002[1]	$ 10,060,000
Series 2003[1]	17,005,000
Series 2004[1]	65,025,000
Series 2005[1]	37,415,000
Series 2006	125,570,000
Series 2006A	20,080,000
Series 2008[1]	171,860,000
Series 2009[1]	79,810,000
Series 2010[1]	98,445,000
Series 2010A[1]	64,840,000
	$ 690,110,000
Prior Encumbered Debt (as of June 1, 2011)	
Housing System, Series 1986	$ 845,000
Utility System, Series 1996	410,000
	$ 1,255,000
Other Obligations (as of June 1, 2011)	
Capital Leases	**$ 100,196**
TOTAL	**$ 691,465,196**

[1] All or a portion of such issue constitutes Tuition Revenue Bonds that qualify the University System to be reimbursed from State appropriations for debt service payments in the amount of $21,841,362 during fiscal year 2011. Future reimbursement by the State for debt service payments is entirely subject to future appropriations by the State Legislature in each subsequent State biennium. See “APPENDIX A – Funding for the University System and its Component Institutions – Tuition Revenue Bonds.”

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

ASU TRANSFER

General

The 80th Texas Legislature approved House Bill 3564 ("H.B. 3564") 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, had been appropriated or dedicated to or were held for the use and benefit of ASU under the governance of the Board of the University System were 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

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 (i) 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; (ii) the Board shall have received an Opinion of Counsel to the effect 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 (iii) 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.

Amendment of Master Resolution and Release

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. The Amending Resolution also provides for the automatic 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 were subject to the following conditions:

(1) 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

(2) 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.

On December 30, 2008, the Board received the executed (i) "Agreement between the Board of Regents, Texas Tech University System and the Board of Regents, Texas State University System" (the "TT-TSUS Agreement"), dated as of December 19, 2008, and the (ii) Board of Regents of Texas Tech University System Revenue Financing System Refunding Note Thirteenth Series (2008)(the "Note"), which together with the TT-TSU Agreement constitute a binding obligation in accordance with Section 7 of the Master Resolution related to the transfer and release of ASU as a Member of the Revenue Financing System. The Note provides for payments coming due in amounts and at times necessary to pay the debt service due on the ASU related Parity Debt and is 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. On January 14, 2009, the Board received the approval of the Note by the Attorney General of the State of Texas and the Texas Bond Review Board. Under the terms of the TT-TSUS Agreement, the Board is obligated to use the payments it receives under the Note to make payments on the ASU-related Parity Debt. The TT-TSUS Agreement also provides that Texas Tech may assume, refund or defease all or a portion of the ASU-related Parity Debt provided that the assumption, refunding or defeasance does not result in additional costs to the University System. In the event Texas Tech assumes, refunds or defeases all or a portion of the ASU-related Parity Debt, an amount of the Note equal to the amount of the ASU-related Parity Debt so assumed, refunded or defeased shall be cancelled and discharged on the effective date of such assumption, refunding or defeasance. The Board shall not refinance, refund, defease or prepay the ASU-related Parity Debt without the prior written consent of Texas Tech, which consent shall not be unreasonably withheld. On February 4, 2009, Bond Counsel to the System delivered the opinion required by Master Resolution; that all conditions precedent to the release of ASU as a member of the Revenue Financing System pursuant to the Master Resolution were completed and the transfer was effectuated as of February 4, 2009. As of June 1, 2011, all parties are current on payments required under the TT-TSUS Agreement.

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 University System's current capital improvement program for the years 2011 through 2016 is set forth below. The Campus Master Plans are subject to change and 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 $262,500,000 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.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Texas State University System
Capital Improvement Program FY 2011-2016

INSTITUTION	2011	2012	2013	2014	2015	2016	Total by Institution
Lamar Institute of Technology	$16,504,683	$16,202,972	$0	$0	$28,325,000	$0	$61,032,655
Lamar State College – Orange	$0	$0	$6,410,000	$0	$18,006,000	$0	$24,416,000
Lamar State College – Port Arthur	$3,250,000	$7,000,000	$0	$0	$0	$0	$10,250,000
Lamar University	$35,406,593	$72,774,000	$104,617,000	$33,260,000	$0	$0	$246,057,593
Sam Houston State University	$38,292,000	$59,551,000	$37,180,000	$46,875,000	$129,149,000	$78,241,000	$389,288,000
Sul Ross State University	$7,800,000	$275,000	$11,100,000	$23,770,000	$0	$0	$42,945,000
Texas State University – San Marcos	$67,310,082	$306,005,464	$14,442,774	$95,136,012	$31,978,000	$10,058,000	$524,930,332
TOTAL BY YEAR	$168,563,358	$461,808,436	$173,749,774	$199,041,012	$207,458,000	$88,299,000	
SYSTEM TOTAL							$ 1,298,919,580

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 the Fifteenth Supplemental Resolution, 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 the Municipal Securities Rulemaking Board (the "MSRB"). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Annual Reports. The Board will provide, in an electronic format prescribed by the MSRB, certain updated financial information and operating data to the MSRB 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-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 may provide updated information in full text or such information may be included by specific reference to any document available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission (the "SEC"), 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 the MSRB of the change.

Notice of Certain Events. The Board will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions; other than pursuant to its terms; and (6) appointment of a successor or additional trustee or paying agent/registrar or the change of name of a trustee or paying agent/registrar.

The Board will also provide notice to the MSRB of any of the following events with respect to the Bonds, without regard to whether such even is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership, or similar event of the Board (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Board in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court of governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board).

The Board will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The Board will also provide timely notice of any failure by the Board to provide annual financial information in accordance with their agreement described above under "—Annual Reports".

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. The Board became obligated to make annual disclosure of certain financial information for Texas State University – San Marcos in an offering that took place in 1996. Due to an administrative oversight, the System's fiscal year end 2008 financial statements were not timely filed as required by that and subsequent undertakings. Certain required financial information was not timely filed or was missing for fiscal years ending 2007 and 2008. All information has subsequently been filed, including a notice of late filing. The Board has implemented procedures to ensure timely filing of all future financial information.

Except for these late filings, 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 during the past five years.

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 Fifteenth Supplemental Resolution and the Revenue Financing System contained in this Official Statement under the captions "THE BONDS" (other than information under the subcaptions "Sources and Uses of Proceeds," "Book-Entry-Only System" and "Bondholder Remedies"), "SECURITY FOR THE BONDS," "REGISTRATION AND QUALIFICATION OF THE BONDS FOR SALE," "CONTINUING DISCLOSURE OF INFORMATION" (other than information under the subcaption "—Compliance with Prior Agreements"), "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS", "LEGAL MATTERS" (except for the last sentence of the first paragraph thereof), 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

Opinion. 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 of which would be included as an alternative minimum tax preference 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 certain information and representations of the Board, including information and representations contained in the Board's federal tax certificate; and 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. 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.

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 have been assigned the ratings of "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Fitch Ratings ("Fitch"). 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.

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 $574,703.69 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.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA, and SIPC and Wells Fargo Bank, National Association.

Piper Jaffray & Co. ("Piper"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commissions, exclusive of management fees, paid to Piper.

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 Fifteenth Supplemental Resolution approved 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/ Dr. Brian McCall
Chancellor, Secretary of the Board of Regents
Texas State University System

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

[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. All conditions precedent to the release of ASU as a member of the Revenue Financing System (defined below) pursuant to the Master Resolution were completed and the transfer and release was effectuated as of February 4, 2009. 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

---

* Unless otherwise indicated, the information set forth in the tables in this Appendix A has been provided by the University System.

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. Brian McCall serves as a Chancellor for the University System. Prior to his appointment as Chancellor, Dr. McCall was president of the Dallas-based Westminster Capital Corporation since 2000 and a member of the Texas House of Representatives since 1991 where he has held several key posts, including chairman of the Calendars Committee, member of the Higher Education Committee, and a member of the Legislative Budget Board. Dr. McCall holds a B.A. from Baylor University, a Master of Liberal Arts degree from Southern Methodist University, and his Ph.D in Humanities, Aesthetics from the University of Texas-Dallas.

Dr. James Gaertner serves as Interim Vice Chancellor for Academic Affairs. Dr. Gaertner was a member of the Business School faculty at the University of Notre Dame where he directed the School's London MBA Program. He later served as department chair, dean of Business, and interim provost at the University of Texas at San Antonio before becoming president of Sam Houston State University in 2001. Upon his retirement from Sam Houston State University in 2010, the Board of Regents named him President Emeritus.

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.

Sean Cunningham serves as Vice Chancellor for Governmental Relations and Educational Policy for the University System. Prior to his appointment, Mr. Cunningham was Chief of Staff to a Texas House of Representatives member and Special Advisor to the House Committee on Calendars where he assisted the committee in recommending and prioritizing the daily legislative agenda for the Texas House. During his 19 years working in the Texas House for only one member of the legislature, additional duties including serving as clerk of various subcommittees and full committees within the House. Mr. Cunningham earned his bachelor's degree in Government and his Doctor of Jurisprudence from The University of Texas at Austin. While in law school, Mr. Cunningham completed a judicial internship with the Honorable Lawrence Meyers of the Texas Court of Criminal Appeals and studied international law during his semester abroad at the University of College London.

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 560 full and part-time faculty members and offers its 13,969 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 3,243 students receiving academic credit and 1,183 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 2,649 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 2,374 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 800 full and part-time faculty members serve the 17,236 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 doctoral degrees in Educational Leadership, Criminal Justice, Forensic Clinical Psychology, Counselor Education, and Clinical Psychology. 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 32,575 students, taught by over 1,500 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 2,047 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 1,092 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 2006	Fall 2007*	Fall 2008*	Fall 2009*	Fall 2010*
Angelo State University	6,211	N/A	N/A	N/A	N/A
Lamar University	9,867	10,213	13,280	13,992	13,969
Lamar Institute of Technology	2,409	2,590	2,885	3,154	3,243
Lamar State College - Orange	2,011	2,005	2,147	2,262	2,649
Lamar State College - Port Arthur	2,387	2,279	1,985	2,162	2,374
Sam Houston State University	15,893	16,400	16,612	16,715	17,236
Texas State University-San Marcos	27,485	28,121	29,105	30,803	32,572
Sul Ross State University	1,829	1,765	1,841	2,019	2,047
Sul Ross State University-Rio Grande College	948	941	939	1,045	1,092
Total	**69,040**	**64,314**	**68,794**	**72,151**	**75,182**

* Excludes ASU. See "ASU TRANSFER."

Source: Texas Higher Education Coordinating Board PREP Database.

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 2006	Fall 2007*	Fall 2008*	Fall 2009*	Fall 2010*
Angelo State University	482	N/A	N/A	N/A	N/A
Lamar University - Beaumont	1,437	1,854	4,730	4,896	4,392
Sam Houston State University	2,136	2,253	2,313	2,160	2,558
Texas State University-San Marcos	3,917	4,083	4,295	4,802	5,124
Sul Ross State University	529	537	581	582	612
Sul Ross State University Rio Grande College	280	242	219	301	284
Total	**8,781**	**8,969**	**12,138**	**12,741**	**12,970**

* Excludes ASU. See "ASU TRANSFER."

(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.

Source: Texas Higher Education Coordinating Board PREP database.

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 2006	Fall 2007(3)	Fall 2008(3)	Fall 2009(3)	Fall 2010(3)
Angelo State University	5,164	N/A	N/A	N/A	N/A
Lamar University	7,702	7,818	9,144	9,057	9,874
Lamar Institute of Technology(2)	1,743	1,871	2,075	2,296	2,281
Lamar State College – Orange(2)	1,262	1,274	1,359	1,420	1,672
Lamar State College - Port Arthur(2)	1,466	1,410	1,245	1,358	1,566
Sam Houston State University	13,275	13,590	13,767	13,802	14,111
Texas State University-San Marcos	22,157	22,864	23,527	24,770	26,140
Sul Ross State University	1,406	1,298	1,367	1,525	1,513
Sul Ross State University Rio Grande College	503	497	510	537	581
Total	**54,678**	**50,622**	**52,994**	**54,765**	**57,738**

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

(2)Includes clock-hour Full Time Equivalent Enrollments.

(3) Excludes ASU. See "ASU TRANSFER."

Source: University System based on consultant analysis of Texas Higher Education Coordinating Board information.

The following table sets forth 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 2006	Fall 2007*	Fall 2008*	Fall 2009*	Fall 2010*
Texas Residents	66,649	61,994	66,203	69,385	72,300
Non-Texas Residents	1,276	1,153	1,354	1,478	1,540
Foreign Students	1,115	1,167	1,237	1,288	1,342
Total	**69,040**	**64,314**	**68,794**	**72,151**	**75,182**

*Excludes ASU. See "ASU TRANSFER."
Source for years 2006 through 2010: Texas Higher Education Coordinating Board PREP database.

[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)]

	2006	2007[(2)]	2008[(2)]	2009[(2)(3)]	2010[(2)]
Applications Submitted	54,287	53,590	53,345	52,681	58,066
Applications Accepted	40,760	37,596	35,525	36,743	38,268
Matriculation	24,115	22,000	20,263	20,285	21,585
Percentage Accepted	75.08%	70.15%	66.59%	69.75%	65.90%
Percentage Matriculated	59.16%	58.52%	57.04%	55.21%	56.40%

[(1)] This table reflects only admissions and matriculation information of undergraduates for Angelo State University (for 2006 only), Lamar University, Sam Houston State University, Sul Ross State University, Texas State University-San Marcos, Lamar Institute of Technology, Lamar State College – Orange, Lamar State College – Port Arthur, and Sul Ross State University – Rio Grande College. This information is inclusive of the fall, spring and summer sessions of the respective fiscal years.

[(2)] Excludes ASU. See “ASU TRANSFER.”

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

	2006	2007	2008*	2009*	2010*
Associate	737	733	765	794	771
Certificate	534	581	526	490	615
Baccalaureate	8,489	8,839	9,329	9,934	10,124
Master’s	2,247	2,248	2,465	3,746	5,037
Doctoral	58	88	73	77	81
Total	**12,065**	**12,489**	**13,158**	**15,041**	**16,628**

***** Excludes ASU. See “ASU TRANSFER.”

Source: University System based on consultant analysis of Texas Higher Education Coordinating Board information.

[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 2010 are set forth in the following table:

TABLE A-7
Faculty and Employees

	Faculty	Employees[(1)]	Total
University System Administration	0	21	21
Lamar University	568	2,019	2,587
Sam Houston State University	804	2,897	3,701
Sul Ross State University	118	520	638
Sul Ross State University Rio Grande College	29	91	120
Texas State University-San Marcos	1,533	6,118	7,651
Lamar Institute of Technology	187	160	347
Lamar State College – Orange	51	234	285
Lamar State College - Port Arthur	117	222	339
Total	3,407	12,282	15,689

(1) Includes part-time and full-time employees.

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 (the "State Comptroller"). 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 State Comptroller 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 unaudited Combined Annual Financial Report for the University System for the fiscal year ended August 31, 2010. 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 –UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR THE YEAR ENDED AUGUST 31, 2010," are the most recent primary statements of the unaudited combined annual financial reports of the University System for Fiscal Year ended August 31, 2010. The University System's unaudited combined primary financial statements consist of the Statement of Net Assets as of August 31, 2010, the Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2010, and the Combined Statement of Cash Flows for the Year Ended August 31, 2010. See "APPENDIX B - UNAUDITED COMBINED FINANCIAL REPORT OF TEXAS STATE UNIVERSITY SYSTEM FOR THE YEAR ENDED AUGUST 31, 2010."

The following table reflects the Condensed Combined Statement of Net Assets of the University System for the fiscal years ended August 31, 2006 through 2010.

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

	FY2006	**FY2007**	**FY2008**	**FY2009**	**FY2010**
Assets:					
Current Assets	593.5	670.0	806.8	775.9	805.4
Noncurrent Assets	1,135.3	1,154.5	1,040.3	1,222.9	1,309.0
Total Assets	**1,728.8**	**1,824.5**	**1,847.1**	**1,998.8**	**2,114.4**
Liabilities:					
Current Liabilities	304.4	333.5	342.0	388.2	400.0
Non-Current Liabilities	503.3	503.3	644.7	685.5	712.4
Total Liabilities	**807.7**	**836.8**	**986.7**	**1,073.7**	**1,112.4**
Net Assets:					
Invested in Capital Assets, Net of Related Debt	383.2	400.4	220.2	254.0	338.4
Restricted	212.7	257.4	317.7	380.6	343.2
Unrestricted	325.2	329.9	322.5	290.5	320.3
Total Net Assets	**921.1**	**987.7**	**860.4**	**925.1**	**1,001.2**
Total Liabilities and Net Assets	**1,728.8**	**1,824.5**	**1,847.1**	**1,998.8**	**2,114.4**

For more detailed information, see "APPENDIX B - Combined Statement of Net Assets as of August 31, 2010." APPENDIX B includes information relating to ASU. See "ASU TRANSFER."

[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, 2006 through 2010.

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

	FY2006	FY2007	FY2008	FY2009	FY2010
Operating Revenues	502.4	550.7	549.0	554.6	603.3
Operating Expenses	761.5	836.7	788.0	883.7	958.9
Operating Income (Loss)	**(259.1)**	**(286.0)**	**(239.0)**	**(329.1)**	**(355.6)**
Nonoperating Revenues (Expenses)	329.7	322.7	280.8	344.4	389.7
Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers	70.6	36.6	41.8	15.3	34.1
Other Revenues, Expenses, Gains, Losses And Transfers	(7.5)	29.9	(169.0)[1]	49.5	43.0
Change in Net Assets	**63.1**	**66.5**	**(127.2)**	**64.8**	**77.1**
Net Assets, Beginning of Year	857.7	921.1	987.6	860.4	925.1
Restatements for Depreciation/Capitalization[1]	0.3				
Net Assets, Beginning of Year as Restated	858.0	921.1	987.6	860.4	924.9
Net Assets, End of Year	**921.1**	**987.6**	**860.4**[1]	**925.1**	**1,002.0**

[1]Reflects the transfer of assets and liabilities related to the ASU transfer.

For more detailed information, see "APPENDIX B - Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2010." APPENDIX B includes information relating to ASU. See "ASU TRANSFER.".

The table below presents the Condensed Combined Statement of Cash Flows of the University System for the fiscal years ended August 31, 2006 through 2010.

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

	FY2006	FY2007	FY2008	FY2009	FY2010
Cash Provided (Used) by:					
Operating Activities	(195.3)	(230.8)	(190.4)	(245.5)	(312.5)
Noncapital Financing Activities	315.5	299.8	224.8	376.7	380.5
Capital and Related Financing Activities	(108.6)	(39.1)	66.2	(75.6)	(90.9)
Investing Activities	(14.7)	33.5	16.5	(65.9)	(11.7)
Net Change in Cash	**(3.1)**	**63.4**	**117.1**	**(10.3)**	**(34.6)**
Cash, Beginning of Year	**439.0**	**435.7**	**499.1**	**616.2**	**606.0**
Restatements to Beginning Cash	(0.2)	-	-	-	-
Cash, End of Year	**435.7**	**499.1**	**616.2**	**606.0**	**571.4**

For more detailed information, see "APPENDIX B – Combined Statement of Cash Flows for the Year Ended August 31, 2010." APPENDIX B includes information relating to ASU. See "ASU TRANSFER."

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, 2010, see "APPENDIX B - Combined Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year ended August 31, 2010."

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's appropriation bill for the 2010-2011 biennium, S.B.1, contains specific appropriations for the University System and its component institutions. S.B.1 was passed in the previous legislative session that concluded on June 1, 2009, and S.B. 1 became effective September 1, 2009.

The 82nd regular session of the State Legislature convened on January 11, 2011 and ended on May 30, 2011. The State Legislature passed a budget but failed to pass legislation providing $3.5 billion in revenue to balance the budget, as is required by the Texas Constitution. On May 31, 2011, Governor Rick Perry called the State Legislature back into special session to consider the revenue bill, but as of the date hereof the State Legislature has not passed a revenue bill in the current special session and the Governor has not signed the budget that was passed by the State Legislature in the 82nd regular session. The Governor has until June 19, 2011 to sign the budget, let it become law without his signature, or veto all or a portion of the appropriations made in the budget. State appropriations for the 2012-2013 biennium, including appropriations for the University System, will not be final until all legislation required to provide a balanced budget has been passed. However, based on the current budget that was adopted by the State Legislature in the 82nd regular session, General Revenue appropriations to the System for the 2012-2013 biennium have declined by approximately 13.3% from the preceding biennium. The System anticipates that these decreases will be offset, in part, by previously enacted and future tuition and fee increases at its component institutions. As noted above, the State Legislature is currently conducting a special session with respect to providing a balanced budget for the 2012-13 biennium as required by the State Constitution, and the System can give no assurances as to what level of appropriations that it will ultimately receive in any final budget for such biennium or as to what impact such legislation may have on the System and its operations, including tuition and fee charged at its component institutions.

Results for the component institutions indicate General Revenue appropriations for each component institution in the following amounts for Fiscal Years 2008 through 2011:

	FY2008(1)	FY2009(1)	FY2010(1)(2)(3)	FY2011(1)(2)(3)
System Administration	$1,133,248	$1,133,248	$1,133,248	$1,133,248
Lamar University	33,752,251	33,702,149	43,370,588	43,318,247
Lamar Institute of Technology	8,865,737	8,862,913	10,011,227	10,010,328
Lamar State College – Orange	6,828,024	6,822,724	6,959,683	6,953,879
Lamar State College – Port Arthur	8,933,819	9,386,001	9,231,490	9,682,172
Sam Houston State University	44,480,170	44,335,355	46,336,872	46,461,324
Texas State University-San Marcos	88,731,855	85,571,099	91,468,157	91,713,986
Sul Ross State University	15,119,113	15,082,542	15,348,957	15,374,551
Sul Ross State University Rio Grande College	5,375,824	5,375,974	5,739,800	5,742,343
HB 63 – Hurricane Rita Relief	7,548,484	0	0	0
Total	**$220,768,525**	**$210,272,005**	**$229,600,022**	**$230,390,078**

(1) Does not include General Revenue Dedicated Funds appropriated by the State's appropriation bill.
(2) Does not include $14.36 million in funding that is expendable over the 2010-2011 period.
(3) Does not include $43.69 million of reimbursements for the debt service on Tuition Revenue Bonds over the 2010-2011 period.

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.

Budget Reduction Requests and State Budget Shortfall. On January 15, 2010, Governor Rick Perry, Lieutenant Governor David Dewhurst and Speaker of the House Joe Straus issued a joint request to all executive, legislative and judicial agencies of the State, including institutions of higher education (individually a "State Agency" and, collectively, "State Agencies"), requesting that each State Agency submit a plan ("Savings Plan") to identify savings in priority increments totaling 5% of general revenue and general revenue-dedicated appropriations for the 2010-11 biennium. The request exempted (i) certain State programs and services and (ii) debt service payments on previously issued obligations. The Board submitted its Savings Plan on February 16, 2010. In order to achieve the requested savings, each component institution of the University System identified targeted reductions in various areas, including administrative and support services, professional service contracts, equipment and maintenance renewals, and staff salaries and benefits.

On May 27, 2010, the Legislative Budget Board and the Budget, Planning and Policy division of the Governor's Office issued a letter directing the process to be used by each State Agency in developing legislative appropriations requests for the 2012-13 biennial budget (the "LAR Letter"). The LAR Letter required that a State Agency's baseline for such request should not exceed the sum of amounts expended in fiscal year 2010 and budgeted in fiscal year 2011 adjusted to take into account the 5% reductions discussed in the preceding paragraph. The LAR Letter also directed each State Agency to submit a supplemental schedule detailing how it would reduce its baseline request an additional 10% (in 5% increments) in general revenue-related funding if the State Legislature were to require further reductions in 2012-13 funding. The University System's component institutions complied with legislative appropriations requests for the 2012-13 biennium and will provide for such reductions in accordance with the LAR Letter through the continued implementation of the reduction measures discussed in the preceding paragraph and through additional measures such as energy efficiency initiatives, hiring freezes, deferred pay increases, and reduced summer school offerings.

Additionally, on December 6, 2010, the Governor, Lieutenant Governor, and Speaker of the House issued another joint request to all State Agencies requesting that each State Agency further reduce spending an additional 2.5% for fiscal year 2011. This request also exempts (i) certain State programs and services and (ii) debt service payments on previously issued obligations. Components institutions were not required to submit an additional savings plan to the State, but the request requested that State Agencies take a broad view across all programs and services to find savings opportunities.

With respect to the University System as a whole, the 5% reduction equates to approximately $21,217,507 for the 2010-11 biennium and the 2.5% reduction equates to approximately $5,392,718 for the 2011 fiscal year. The reductions have been implemented by the State Comptroller who has reduced each component institution's appropriations for fiscal year 2011. At this time, the Board cannot predict the effect, if any, resulting from the implementation of the budget reduction measures on the operations or financial condition of the State. However, the Board does not expect any such measures to adversely affect the University System's operations or financial condition or the provision for or payment of debt service on the Board's outstanding debt.

At the commencement of each regular session of the State Legislature, the State Constitution requires the State Comptroller to submit to the Governor and the State Legislature a statement that contains, among other things, an itemized estimate of anticipated revenues, based on laws then in effect, that will be received by the State during the succeeding biennium. On January 10, 2011, in anticipation of the commencement of the regular session of the 82nd State Legislature the following day, the Texas Comptroller of Public Accounts released her State revenue estimates for the 2012-13 biennium which provides for an approximately $27 billion shortfall between estimated available general revenue funds and projected State expenditures necessary to maintain current levels of service. The Texas Constitution requires the State Legislature to pass a balanced budget for each biennium; and, no assurances can be provided as to how the Legislature will balance the State's budget for the 2012-13 biennium.

Article III, Section 49-g of the State Constitution establishes the Economic Stabilization Fund (the "Rainy Day Fund") which can be used to help balance the State's Budget. At the beginning of the current legislative session, the Rain Day Fund contained approximately $8.2 billion. On March 15, 2011, the Governor, Speaker of the House, and the State Comptroller announced their support for a one-time draw not to exceed $3.2 billion from the Rainy Day Fund to help fund the fiscal year 2011 budget deficit. No assurances can be given, however, as to whether the State Legislature will appropriate all or any of the Rainy Day Fund to help fund the 2011 budget deficit or the 2012-13 budget or whether the Governor would approve an additional draw from the Rainy Day Fund if presented by the State Legislature. Additionally, no assurances can be given that any of the Rainy Day Fund moneys, if so appropriated, would be available to the University System.

Because the University System cannot express a view on what measures the State Legislature will enact during its current special legislative session with respect to the State's budget or the appropriations made to the University System, it is unable to assess the manner in which the State Legislature will ultimately address the expected budget shortfall or what effect such actions will have on the University System.

For financial information concerning the State of Texas, reference is made to the bond disclosure appendix (referred to as Appendix A) prepared by the Texas Comptroller of Public Accounts and published quarterly, which may be obtained (i) using the MSRB's internet website, www.emma.msrb.org, by using the muni search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: http://www.window.state.tx.us /treasops/bondapp.html.

Higher Education Assistance Fund Appropriations. 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. (see "Appendix A – Higher Education Assistance Fund (HEAF) Bonds") The annual allocation to the University System for fiscal years 2008 through 2011 is set forth below and the Board has allocated this amount to the component institutions of the University System as follows:

Higher Education Assistance Fund Appropriations

	FY2008	FY2009	FY2010	FY2011
Lamar University	$11,210,508	$8,028,333	$8,028,333	$8,330,933
Lamar Institute of Technology	-	1,825,332	1,825,332	2,332,463
Lamar State College – Orange	1,115,048	1,140,745	1,140,745	1,235,752
Lamar State College – Port Arthur	1,190,119	1,217,124	1,217,124	1,244,694
Sam Houston State University	9,916,306	10,184,001	10,184,001	11,893,110
Texas State University-San Marcos	19,799,276	20,258,249	20,258,249	21,863,258
Sul Ross State University Alpine	2,043,772	2,090,896	2,090,896	1,625,061
Sul Ross State University Rio Grande College	379,831	388,203	388,203	442,379
Total	**$45,654,860**	**$45,654,860**	**$45,132,883**	**$48,967,650**

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 2009-2010 and 2010-2011 academic years the Texas Higher Coordinating Board has computed $327 and $360, 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.

No less than 20% of the Board Designated tuition charged in excess of $46 per semester hour shall be set aside to provide financial assistance to resident undergraduate students, consistent with the provisions of Subchapter B, Chapter 56, Texas Education Code, which were contained in House Bill 3015.

The University System has no assurance that the State Legislature will not place future limits on the Board's ability to charge Board Designated tuition in an amount that it considers necessary for the effective operation of its institutions. However, Section 55.16 of the Texas Education Code specifically allows the Board to levy and collect any necessary fees, tuition, rentals, rates, or other charges necessary to provide funds sufficient for the payment of outstanding Parity Debt.

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.

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.

Tuition Revenue Bonds. Pursuant to Chapter 55, Texas Education Code, revenue bonds issued by a university system, such as the University System, may be equally secured by and payable from a pledge of all or a portion of certain revenue funds of the university system, and all of the Parity Debt of the University System, including the Bonds, are secured solely by and payable solely from a pledge of and lien on the Pledged Revenues. See "SECURITY FOR THE BONDS".

Historically, the State Legislature has appropriated general revenue funds in the State's budget each biennium to reimburse institutions of higher education for an amount equal to all or a portion of the debt service on certain revenue bonds ("Tuition Revenue Bonds") issued pursuant to specific statutory authorizations for individual institutions and projects identified in Chapter 55 of the Texas Education Code.

The reimbursement of the payment of debt service on such Tuition Revenue Bonds does not constitute a debt of the State, and the State is not obligated to continue making any such appropriations in the future. Furthermore, the State Legislature is prohibited by the State Constitution from making any appropriations for a term longer than two years. Accordingly, the State Legislature's appropriations for the reimbursement of debt service on Tuition Revenue Bonds may be reduced or discontinued at any time after the current biennium, and the State Legislature is under no legal obligation to continue such appropriations in any future biennium.

A portion of the Parity Debt of the University System constitute Tuition Revenue Bonds. See "Outstanding Indebtedness" below. Tuition Revenue Bonds issued by the University System carry no additional pledge or security and constitute Parity Debt of the University System which are equally and ratably secured by and payable from a pledge of and lien on Pledged Revenues on parity with all other Parity Debt of the University System.

The State Legislature has appropriated funds to reimburse the University System in prior years in an amount equal to all or a portion of the debt service on the University System's Tuition Revenue Bonds, including appropriations made during the 2009 legislative session totaling $43,686,554 ($21,845,192 for Fiscal Year 2010 and $21,841,362 for the Fiscal Year 2011).

The University System can provide no assurances with respect to any future appropriations by the State Legislature. Future levels of State appropriations are dependent upon the ability and willingness of the State Legislature to make appropriations to the University System taking into consideration the availability of financial resources and other potential uses of such resources. See also “FUNDING FOR THE UNIVERSITY SYSTEM AND ITS COMPONENT INSTITUTIONS - Budget Reduction Requests and State Budget Shortfall”.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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 2011 semester.

2011-2012 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 Authorized Tuition[(1)]	Board Designated Tuition	Mandatory Fees	Total Tuition and Fees	Financial Assistance Set-Aside
Lamar University						
Resident Undergraduate	$ 750		$ 1,800	$ 1,270	**$ 3,820**	$ 335
Non-Resident Undergraduate	5,400		1,800	1,270	**8,470**	162
Resident Masters	750	$ 1,125	1,800	1,270	**4,945**	279
Non-Resident Masters	5,400	1,125	1,800	1,270	**9,595**	162
Resident Doctoral	750	1,125	1,800	1,270	**4,945**	279
Non-Resident Doctoral	5,400	1,125	1,800	1,270	**9,595**	162
Sam Houston State University						
Resident Undergraduate	$ 750		$ 1,815	$ 1,099	**$ 3,664**	$ 338
Non-Resident Undergraduate	5,400		1,815	1,099	**8,314**	162
Resident Masters	750		1,815	1,099	**3,664**	281
Non-Resident Masters	5,400		1,815	1,099	**8,314**	162
Resident Doctoral	750		1,815	1,099	**3,664**	281
Non-Resident Doctoral	5,400		1,815	1,099	**8,314**	162
Sul Ross State University						
Resident Undergraduate	$ 750		$ 1,290	$ 840	**$ 2,880**	$ 233
Non-Resident Undergraduate	5,400		1,290	840	**7,530**	162
Resident Masters	750		1,290	840	**2,880**	203
Non-Resident Masters	5,400		1,290	840	**7,530**	162
Sul Ross State University - Rio Grande						
Resident Undergraduate	$ 750		$ 690	$ 543	**$ 1,983**	$ 113
Non-Resident Undergraduate	5,400		690	543	**6,633**	162
Resident Masters	750		690	543	**1,983**	113
Non-Resident Masters	5,400		690	543	**6,633**	162
Texas State University-San Marcos						
Resident Undergraduate	$ 750		$ 2,265	$ 1,024	**$ 4,039**	$ 428
Non-Resident Undergraduate	5,400		2,265	1,024	**8,689**	162
Resident Masters	750	$ 750	2,265	1,024	**4,789**	349
Non-Resident Masters	5,400	750	2,265	1,024	**9,439**	162
Resident Doctoral	750	750	2,265	1,024	**4,789**	349
Non-Resident Doctoral	5,400	750	2,265	1,024	**9,439**	162
Lamar Institute of Technology						
Resident Undergraduate	$ 750		$ 660	$ 731	**$ 2,141**	$ 113
Non-Resident Undergraduate	5,400		660	731	**6,791**	162
Lamar State College – Orange						
Resident Undergraduate	$ 750		$ 660	$ 530	**$ 1,940**	$ 113
Non-Resident Undergraduate	5,400		660	530	**6,590**	162
Lamar State College – Port Arthur						
Resident Undergraduate	$ 750		$ 660	$ 807	**$ 2,217**	$ 113
Non-Resident Undergraduate	5,400		660	807	**6,867**	162

(1) Graduate students at Lamar University and at Texas State University-San Marcos pay an additional $75 and $50 per semester credit hour, respectively, to enroll in graduate programs at those institutions. The numbers reflected in this table assume 15 credit hours per semester. There is no additional charge for graduate students at the other 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 PROCEDURES" 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 written policies (collectively, 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. Variations to the Investment Policy in effect at any institutional component must be approved by the Board.

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.

Copies of the Investment Policy and the component institution's investment procedures 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.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Component-authorized investments and diversification limits for operating funds, including bond proceeds, are as follows:

	Maximum % of Portfolio
U.S. Treasuries	100%
U.S. Agencies and Instrumentalities	100%
Mortgage-backed securities	25%
Certificates of deposit	35%
Repurchase Agreements	50%
Flex Repos per bond issue	100%
Local Government Investment Pools	100%
Ownership of the Pool	5%
Money Market Funds	100%
Ownership of the Fund	5%
Commercial Paper	20%
Any one issuer	5%
Bankers acceptances	20%
Any one bank	5%
Municipal debt	20%
Any one issuer	5%
Corporate debt	25%
Any one issuer	5%
Bond mutual funds (including Commonfund)	25%
Ownership of one fund	5%
No-load mutual funds (including Commonfund)	15%
Ownership of one fund	5%

Component-authorized investments and diversification limits for endowment funds are as follows:

	Acceptable Range
Domestic Equity	20% - 60%
International Equity	0% - 25%
Total Equity	40% - 80%
Domestic Fixed Income	25% - 65%
Total Fixed Income	25% - 65%
Cash	0% - 20%
TOTAL	100%

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, 2010:

TABLE A-9
Current Investments
(as of August 31, 2010)

Type of Security	Reported Value
U.S. Treasury Securities	$ 30,276,336.01
U.S. Government Agency Obligations	23,725,351.40
U.S. Government Agency Obligations (Texas Treasury Safekeeping)	518,286.04
Corporate Obligations	15,363,969.59
Corporate Obligations (Texas Treasury Safekeeping)	-
Corporate Asset and Mortgage Backed Securities	14,885,064.75
Equity	51,259,253.61
Repurchase Agreement	-
Fixed Income Money Market and Bond Mutual Fund	58,049,602.24
Other Commingled Funds	468,409,053.54
Other Commingled Funds – Texpool	-
Commercial Paper	-
Real Estate	26,000.00
Miscellaneous	189,813.30
Total	**$ 662,999,831.19**
Consisting of the Following:	
Proprietary Funds Current Cash Equivalents	$ 267,273,993.12
Proprietary Funds Current Restricted Cash Equivalents	174,141,775.43
Proprietary Funds Short Term Investments	99,000.00
Proprietary Funds Non-Current Restricted Cash Equivalents	26,993,284.99
Proprietary Funds Non-Current Restricted Investments	86,663,154.95
Proprietary Funds Non-Current Investments	107,828,622.70
Total as Above	**$ 662,999,831.19**

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 State Comptroller. The State 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 State 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 State 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 certain 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 the University System Administration and the component institutions:

TABLE A-10
Texas State University System
Endowment Funds Summary
(as of fiscal year ending August 31, 2010)

	2006	2007	2008*	2009*	2010*
Angelo State University	$ 80,940,829	$ 87,446,864	$ N/A	$ N/A	$ N/A
Lamar University	7,875,532	9,735,018	10,692,218	12,672,104	13,345,026
Lamar State College-Orange	10,524	10,524	15,524	15,524	15,524
Lamar State College-Port Arthur	0	0	0	0	0
Lamar Institute of Technology	0	0	0	0	0
Sam Houston State University	25,596,863	31,985,986	36,102,070	37,590,433	41,831,066
Sul Ross State University	11,282,461	12,075,519	12,685,421	12,802,000	13,254,763
Texas State University-San Marcos	22,166,889	38,119,591	29,754,085	29,506,321	16,156,896[1]
University System Administration	8,241,767	8,343,405	8,322,067	8,029,469	7,923,083
Total	**$ 156,114,865**	**$ 187,716,908**	**$ 97,571,385**	**$ 100,615,851**	**$ 92,526,358**

* Excludes ASU. The Texas Legislature transferred ASU to the Texas Tech University System effective September 1, 2007.

[1] Decrease between fiscal year ending 2009 and fiscal year ending 2010 is due to a reclassification of certain net assets.

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.

OUTSTANDING INDEBTEDNESS.

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

University System Parity Debt Obligations	
Series 2002[1]	$ 10,060,000
Series 2003[1]	17,005,000
Series 2004[1]	65,025,000
Series 2005[1]	37,415,000
Series 2006	125,570,000
Series 2006A	20,080,000
Series 2008[1]	171,860,000
Series 2009[1]	79,810,000
Series 2010[1]	98,445,000
Series 2010A[1]	64,840,000
	$ 690,110,000
The Bonds	86,775,000
Total Parity Debt Obligations	$ 776,885,000
Prior Encumbered Obligations	
Texas State University-San Marcos:	
University Housing System Revenue Bonds, 1986	$ 845,000
Utility System Revenue Bonds, Series 1996	410,000
Total Prior Encumbered Obligations	$ **1,255,000**
Other Obligations	
Capital Leases	$ 100,196
Total Indebtedness	**$ 778,240,196**

[1] All or a portion of such issue constitutes Tuition Revenue Bonds that qualify the University System to be reimbursed from State appropriations for debt service payments in the amount of $21,841,362 during fiscal year 2011. Future reimbursement by the State for debt service payments is entirely subject to future appropriations by the State Legislature in each subsequent State biennium. See "APPENDIX A – Funding for the University System and its Component Institutions – Tuition Revenue Bonds."

INSURANCE.

Property and Casualty Insurance on classroom buildings, 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 (TRS) of Texas. The contributory percentages of participant salaries currently provided by the State and by each participant are 6.644% and 6.4%, respectively, of annual compensation.

The TRS of Texas does not separately account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 2010, the present value of TRS 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 about the TRS of Texas is available at http://www.trs.state.tx.us/, and information regarding actuarial assumptions and conclusions, together with audited financial statements is included in the 2010 TRS comprehensive annual financial report available at http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR.

The State has also established an optional retirement program (ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. For participants enrolled prior to September 1, 1995, the ORP percentage 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. Effective for the period September 1, 2009 through August 31, 2011, the ORP employee contribution rate is 6.65%. Institutions are authorized to provide local supplements (up to 2.1% under certain conditions) to the 6.4% ORP state rate. Contributions are not subject to federal income tax until withdrawn or paid as benefits. ORP is an individualized defined contribution plan in which each participant selects from a variety of investments offered by several companies (authorized by the employing institution) through annuity contracts or mutual fund investments. Because participants manage their own personal investment accounts, ORP entails more individual risk and responsibility than that associated with TRS membership. Benefits are a direct result of the amounts contributed and any net return on the investments selected by each participant. Upon termination from Texas public higher education, ORP participants with more than one year of participation retain control over all investments (both employee and state contributions). Participants who terminate with one year or less of initial participation forfeit state contributions made during that period of employment. Post-termination distributions are determined by individual contract provisions, federal income tax law, and personal preference. Contracts may provide for complete or periodic withdrawals, or annuity income for a specified number of years or for life. ORP has on provisions for death and disability benefits similar to those provide by TRS. Administrative costs are paid by the participant through varying fees, "loads" and/or amount of interest paid. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

INTERNAL REVENUE SERVICE UNIVERSITY COMPLIANCE PROJECT AND CURRENT EXAMINATION OF LAMAR UNIVERSITY

In October 2008, the Internal Revenue Service (the "Service") sent compliance check questionnaires to approximately 400 colleges and universities as part of the Service's "college and universities compliance project." The questionnaires focused on information related to the entities' unrelated business income, endowments and executive compensation practices and were sent to a cross-section of small, mid-sized and large private and public four-year colleges and institutions. Two University System institutions, Lamar University and Sam Houston State University, received and responded (coordinated by the University System) to such questionnaire. On October 7, 2009, Lamar University received formal notice from the Service that Lamar University had been selected for an examination by the Service.

As of June 17, 2011, the IRS audit of Lamar University is in its final stages. The field work on the payroll tax portion of the examination has been completed and it appears the identified deficiencies will likely range from $15,000 to $23,000. An exit conference for that portion of the audit is anticipated in late July or early August. The unrelated business income portion of the examination is complete, resulting in the disallowance of the University's loss carryforwards from prior years, with a total tax liability of $9,481. An exit conference with the IRS for the unrelated business income portion of the examination is scheduled for June 27, 2011. The net effect of the disallowance of the loss carryforwards will be a greater likelihood of Lamar having taxable unrelated business income in future years, but the amount of unrelated business activity currently being conducted at the university is minimal and is unlikely to result in significant income tax liabilities in the future. Additionally, as Lamar University is an agency of the State of Texas, the examination cannot have an adverse effect on its tax-exempt status, and the Board has no reason to believe that the examination will have an adverse effect on any other aspect of the University System. According to published reports, the Service conducted similar examinations at a number of other colleges and universities.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**UNAUDITED COMBINED FINANCIAL REPORT OF
TEXAS STATE UNIVERSITY SYSTEM
FOR FISCAL YEAR ENDED AUGUST 31, 2010**

(PAGE INTENTIONALLY LEFT BLANK)

TEXAS STATE UNIVERSITY SYSTEM

Combined

ANNUAL FINANCIAL REPORT

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, 2010

Table of Contents

Miscellaneous Data

Letter of Transmittal....1
Organizational Data....2
Combined Enrollment Data....3

Texas State University System – Combined Financial Statements

Proprietary Fund Financial Statements (Primary Statements)

Combined Statement of Net Assets....4
Combined Statement of Revenues, Expenses and Changes in Net Assets....8
Matrix of Combined Operating Expenses Reported by Function....11
Combined Statement of Cash Flows....12
Notes to the Financial Statements....15

Supplemental Supporting Information

1A – Schedule of Expenditures of Federal Awards (NOT USED)
1B – Schedule of State Grant Pass-Through To/From State Agencies (NOT USED)
2A – Miscellaneous Bond Information....45
2B – Changes in Bonded Indebtedness....46
2C – Debt Service Requirements....47
2D – Schedule of Funds Available for Debt Service....52
2E – Defeased Bonds Outstanding....53
2F – Schedule of Early Extinguishment and Refunding....54
3 – Reconciliation of Cash in State Treasury....55

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, 2010

Honorable Rick Perry, Governor
Honorable Susan Combs, Texas Comptroller
John O'Brien, Deputy Director, Legislative Budget Board
John Keel, CAP 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, 2010, 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 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,

Brian McCall
Chancellor

TEXAS STATE UNIVERSITY SYSTEM
Organizational Data
For the Fiscal Year Ended August 31, 2010

Board of Regents

Officers

Ron Blatchley	Chairman
Charlie Amato	Vice Chairman

Members

Name	City (Texas)	Term Expires
Kevin J. Lilly	Houston	2/1/2015
Ron Mitchell	Horseshoe Bay	2/1/2015
David Montagne	Beaumont	2/1/2015
Trisha S. Pollard	Bellaire	2/1/2013
Michael Truncale	Beaumont	2/1/2013
Donna N. Williams	Arlington	2/1/2011
Christopher Covo, Student	San Marcos	5/31/2011

Administrative Officers

Brian McCall	Chancellor
Fernando C. Gomez	Vice Chancellor and General Counsel
James Gaertner	Vice Chancellor for Academic Affairs
Roland K. Smith	Vice Chancellor for Finance
Sean Cunningham	Vice Chancellor for Governmental Relations
Peter E. Graves	Vice Chancellor for Contract Administration
Carole L. Fox	Director of Audits and Analysis

University Presidents

James M. Simmons	Lamar University
J. Michael Shahan	Lamar State College - Orange
W. Sam Monroe	Lamar State College - Port Arthur
Paul J. Szuch	Lamar Institute of Technology
Dana Gibson	Sam Houston State University
Ricardo Maestas	Sul Ross State University
Denise M. Trauth	Texas State University - San Marcos

UNAUDITED

Institution Name **Texas State University System**

Student Enrollment Data

For the Year Ended August 31, 2010

TYPE OF STUDENT	FALL 2009	SPRING 2010	SUMMER TERM 2010 FIRST	SUMMER TERM 2010 SECOND
Texas Residents	60,042	58,779	18,985	13,989
Out of State (Classified as Residents)	699	658	228	161
Out of State	774	729	477	201
Foreign	1,103	1,097	379	267
Children of Disabled	9	9	5	3
Concurrent Enrollment	718	651	10	6
Foster Children of the State	123	112	42	36
Good Neighbor	8	7	5	4
High School Honor Scholarships	40	41	0	0
High Ranking Senior	6	6	0	0
Hazelwood Act	590	723	437	325
Senior Citizens	65	55	5	4
Commission for the Blind/Deaf	198	194	94	73
Fireman Exempt	11	14	2	0
Thesis Only	2	3	8	0
Student Service Fees	115	135	85	40
Nursing	152	121	95	1
Faculty/Staff	1,848	1,878	1,380	1,306
Teaching Assistants	683	527	54	47
Competetive Scholarships	1,079	1,120	558	388
Military Personnel	103	129	22	15
Louisiana Adjacent County	353	357	175	96
Mexico Pilot	0	0	0	0
National Student Exchange Program	8	3	0	0
New Mexico Adjacent County	2	5	1	2
Texas Tomorrow Waiver	55	38	17	25
Adopted Students	66	62	31	23
Military Dependent	1	2	1	0
Pase	7	8	4	3
TANF	0	0	0	0
H.B. 877	0	0	0	0
Distance Learning	3,532	3,002	2,223	1,634
Family & Consumer Science Alliance Agreement	8	4	5	3
Clinical Preceptor Exempt	8	9	3	1
Beaumont-Louisiana Non-resident	72	72	45	38
UACH	0	0	0	0
Early HS Grad	78	51	0	0
TAPS Tuition Voucher 54.2111	1	0	0	0
TDCJ-54.218 Education Code	27	24	28	0
Trio Grant Math 0301	14	11	0	0
HB 1406 Non US Citizen	4	4	1	2
Totals	72,604	70,640	25,405	18,693

Enrollment Data (Fall Semester)

Fiscal Year	STUDENT HEADCOUNT	SEMESTER HOURS
2010	72,604	673,072
2009	69,062	776,240
2008	64,397	745,674
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

UNAUDITED

Texas State University System
Combined
Statement of Net Assets
For the Fiscal Year Ended August 31, 2010

Current Assets:		
Cash and Cash Equivalents		
Cash on Hand	$	394,743.62
Cash in Bank		43,434,938.94
Cash in Transit/Reimbursement from Treasury		11,644,599.61
Cash in State Treasury		45,911,367.90
Cash Equivalents		267,273,993.12
Securities Lending Collateral		
Short Term Investments		
Restricted:		
Cash and Cash Equivalents		
Cash on Hand		461.17
Cash in Bank		2,242,518.74
Cash in Transit/Reimbursement from Treasury		
Cash in State Treasury		
Cash Equivalents		174,141,775.43
Short Term Investments		99,000.00
Legislative Appropriations		84,504,727.84
Investments		
Receivables from:		
Federal		19,290,937.63
Other Intergovernmental		
Interest and Dividends		543,453.48
Accounts Receivable		87,415,112.24
Gifts		4,585,833.98
Investment Trades		
Other		157,065.66
Interfund Receivables		
Due From Other Agencies		3,944,632.85
Consumable Inventories		754,653.25
Merchandise Inventories		3,465,423.19
Deferred Charges		9,874,955.17
Loans and Contracts		8,300,416.66
Other Current Assets		37,456,196.63
Total Current Assets	$	805,436,807.11

UNAUDITED

Texas State University System
Combined
Statement of Net Assets
For the Fiscal Year Ended August 31, 2010

Noncurrent Assets:		
Restricted:		
Cash and Cash Equivalents		
Cash on Hand		
Cash in Bank	$	(601,974.60)
Cash in Transit/Reimbursement from Treasury		
Cash in State Treasury		
Cash Equivalents		26,993,284.99
Short Term Investments		
Receivables		4,194,452.72
Investments		86,663,154.95
Loans and Contracts		1,021,080.88
Other Assets		
Loans and Contracts		600,207.18
Investments		107,828,622.70
Derivative Instrument Assets		
Deferred Outlow of Resources		
Interfund Receivables		
Capital Assets:		
Non-Depreciable:		
Land and Land Improvements		67,631,111.19
Infrastructure		
Construction in Progress		196,547,000.47
Other Capital Assets		6,774,883.80
Depreciable:		
Buildings and Building Improvements		1,236,507,213.90
Less Accumulated Depreciation		(638,139,133.13)
Infrastructure		62,018,381.80
Less Accumulated Depreciation		(35,249,321.26)
Facilities and Other Improvements		112,214,148.02
Less Accumulated Depreciation		(33,756,788.97)
Furniture and Equipment		112,311,191.31
Less Accumulated Depreciation		(66,545,398.53)
Vehicles, Boats, and Aircraft		11,700,924.89
Less Accumulated Depreciation		(8,453,104.50)
Other Capital Assets		118,223,213.43
Less Accumulated Depreciation		(70,487,703.40)
Amortizable Assets-Intangible		19,256,201.88
Less Accumulated Amortization		(8,295,936.58)
Other Noncurrent Assets		
Total Non-Current Assets		1,308,955,713.14
Total Assets	$	2,114,392,520.25

UNAUDITED

Texas State University System
Combined
Statement of Net Assets
For the Fiscal Year Ended August 31, 2010

Current Liabilities:		
Payables:		
Accounts	$	40,081,271.64
Investment Trades		
Federal		
Other Intergovernmental		
Payroll		22,478,149.53
Other		13,329,741.01
Interfund Payable		
Due to Other Agencies		2,874,688.21
Deferred Revenues		260,553,292.72
Notes and Loans Payable		
Revenue Bonds Payable		39,181,473.71
General Obligation Bonds Payable		
Claims and Judgements		
Employees' Compensable Leave		11,561,893.27
Capital Lease Obligations		153,208.21
Liabilities Payable from Restricted Assets		
Obligations/Reverse Purchase Agreements		
Obligations Under Securities Lending		
Funds Held for Others		5,640,824.03
Other Current Liabilities		4,159,334.62
Total Current Liabilities	$	400,013,876.95
Noncurrent Liabilities:		
Interfund Payables		
Notes and Loans Payable		
Revenue Bonds Payable	$	701,970,272.07
General Obligation Bonds Payable		
Derivative Instrument Liabilities		
Deferred Inflow of Resources		
Net OPEB Obligation		
Pollution Remidiation Obligations		
Liabilities Payable from Restricted Assets		
Claims and Judgements		
Employees Compensable Leave		8,956,483.94
Capital Lease Obligations		113,423.47
Other Non-Current Liabilities		1,365,794.41
Total Noncurrent Liabilities		712,405,973.89
Total Liabilities	$	1,112,419,850.84

UNAUDITED

Texas State University System
Combined
Statement of Net Assets
For the Fiscal Year Ended August 31, 2010

Invested in Capital Assets, Net of Related Debt	$	338,446,031.99
Restricted for		
Education		22,307,252.61
Debt Retirement		3,224,686.46
Capital Projects		164,956,051.11
Employee Benefit		
Funds Held As Permanent Investments:		
Non-Expendable		92,526,358.49
Expendable		7,301,344.46
Other		52,866,392.95
Unrestricted		320,344,551.34
Total Net Assets	$	1,001,972,669.41

UNAUDITED

Texas State University System
Combined
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2010

OPERATING REVENUES		
Sales of Goods and Services		
Tuition and Fees (PR-Chgs for Services)		
Tuition and Fees - Pledged (PR-Chgs for Services)	$	451,431,534.12
Discounts and Allowances		(90,606,143.57)
Professional Fees (PR-Chgs for Services)		
Professional Fees - Pledged (PR-Chgs for Services)		
Discounts and Allowances		
Auxiliary Enterprises (PR-Chgs for Services)		38,559,162.16
Auxiliary Enterprises - Pledged (PR-Chgs for Services)		67,062,614.94
Discounts and Allowances		
Other Sales of Goods and Services		17,685,682.71
Other Sales of Goods and Services - Pledged		
Discounts and Allowances		
Interest and Investment Income (PR-Chgs for Services)		
Interest and Investment Income (GR)		
Net Increase (Decrease) Fair Market Value (PR-OP Grants/Contributions)		
Net Increase (Decrease) Fair Market Value (GR)		
Federal Revenue-Operating (PR-OP Grants/Contributions)		44,026,740.58
Federal Pass Through Revenue (PR-OP Grants/Contributions)		10,339,085.67
State Grant Revenue (PR-OP Grants/Contributions)		9,400,968.96
State Grant Pass Through Revenue (PR-OP Grants/Contributions)		32,022,317.40
Other Grants and Contracts (PR-OP Grants/Contributions)		5,568,149.20
Land Income (PR-Chgs for Services)		
Contributions to Retirement Systems (PR-Chgs for Services)		
Other Operating Revenues (PR-Chgs for Services)		17,095,342.79
Other Operating Revenues (GR)		715,635.75
Total Operating Revenues	$	603,301,090.71

UNAUDITED

Texas State University System
Combined
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2010

OPERATING EXPENSES	
Instruction	$ 292,287,211.02
Research	41,247,486.15
Public Service	34,691,016.98
Academic Support	93,353,616.76
Student Services	48,447,591.71
Institutional Support	91,118,967.31
Operation and Maintenance of Plant	67,774,809.59
Scholarship and Fellowships	95,382,293.87
Auxiliary Enterprise Expenditures	141,479,488.82
Depreciation and Amortization	53,098,875.55
Total Operating Expenses	958,881,357.76
Operating Income (Loss)	$ (355,580,267.05)
NONOPERATING REVENUES (EXPENSES):	
Legislative Revenue (GR)	214,269,761.96
Additional Appropriations (GR)	52,914,921.78
Federal Revenue Non-Operating (PR-OP Grants/Contributions)	99,301,941.44
Federal Pass Through Revenue Non-Operating	17,863,768.15
Gifts (PR-OP Grants/Contributions)	22,859,051.29
Investment Income (Expense) (PR-OP Grants/Contributions)	10,454,447.25
Investment Income (Expense) (GR)	(163,072.63)
Loan Premium/Fees on Securities Lending (PR-OP Grants/Contributions)	
Investing Activities Expense	(1,430,694.91)
Interest Expense and Fiscal Charges	(28,107,569.41)
Borrower Rebates and Agent Fees	
Gain (Loss) on Sale of Capital Assets (GR)	(126,782.08)
Net Increase (Decrease) in Fair Value of Investments (PR-OP Grants/Contributions)	(2,537,479.99)
Net Increase (Decrease) in Fair Value of Investments (GR)	
Settlement of Claims (PR-Chgs for Services)	1,260,610.81
Settlement of Claims (GR)	(159,360.87)
Other Nonoperating Revenues (Expenses) (PR-Chgs for Services)	3,273,830.80
Other Nonoperating Revenues (Expenses) (GR)	
Total Nonoperating Revenues (Expenses)	389,673,373.59
Income (Loss) before Other Revenues, Expenses, Gains/Losses and Transfers	$ 34,093,106.54

UNAUDITED

Texas State University System
Combined
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended August 31, 2010

OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS	
Capital Contributions	$ 680,890.41
Capital Appropriations (HEAF)	45,132,882.00
Federal Grant-Capital Grant Contributions	147,233.33
Contributions to Permanent and Term Endowments	331,336.56
Special Items	
Extraordinary Items	
Increase Interagency Trasnfer Capital Assets	
Decrease Interagency Transfer Capital Assets	
Transfer In	1,799,386.60
Transfer Out	(4,809,175.45)
Legislative Transfer In	2,947,222.36
Legislative Transfer Out	
Lapses	(3,203,456.74)
Total Other Revenues, Expenses, Gains/Losses and Transfers	43,026,319.07
CHANGE IN NET ASSETS	77,119,425.61
Net Assets, September 1 2009	925,051,021.68
Restatements	(197,777.88)
Net Assets. September 1, 2009, as Restated	924,853,243.80
NET ASSETS, August 31, 2010	$ 1,001,972,669.41

UNAUDITED

Texas State University System

Combined Matrix of Operating Expenses Reported by Function

For the Fiscal Year Ended August 31, 2010

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	$ 1,804.82	$ 1,997.84	$ 56,009.75	$ 9,705.31	$ 40,819.15	$ 56,776.09		$ 1,932.42	$ 8,190,076.40		$ 8,359,121.78
Salaries and Wages	215,853,439.65	18,454,464.62	15,935,606.81	42,530,154.56	27,246,077.20	48,212,303.71	23,817,046.64	2,934,929.45	39,937,025.93		434,921,048.57
Payroll Related Costs	51,443,450.72	3,320,585.62	4,774,361.16	10,130,198.05	6,502,030.11	12,371,643.14	7,546,408.38	21,407.00	9,267,556.79		105,377,640.97
Professional Fees and Services	2,546,228.85	5,750,601.92	3,849,010.18	10,116,515.91	2,903,532.82	5,390,095.44	3,923,759.74	6,181.15	9,863,149.92		44,349,075.93
Federal Pass-Through Expense	0.00	879,167.29	288,367.15	0.00	18,469.61	0.00	0.00	0.00	0.00		1,186,004.05
State Grant Pass-Through Expense	0.00	435,781.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00		435,781.55
Travel	2,339,543.42	2,129,568.31	899,556.71	2,288,721.82	1,361,806.12	1,071,624.73	36,870.02	68,001.92	3,777,183.17		13,972,876.22
Materials and Supplies	11,851,834.53	6,131,553.02	3,380,600.27	10,412,852.52	3,941,409.14	7,714,672.46	3,693,765.30	42,671.23	36,511,283.32		83,680,641.79
Communication and Utilities	687,150.12	113,035.64	305,081.20	3,015,925.10	490,289.74	4,494,999.62	20,061,346.08	570.00	17,386,771.27		46,555,168.77
Repairs and Maintenance	655,160.30	301,022.17	313,994.32	3,812,683.65	590,275.04	1,507,949.57	4,430,699.21	1,829.95	5,815,436.09		17,429,050.30
Rentals and Leases	487,820.18	287,509.61	523,305.05	1,219,964.57	280,757.74	631,119.67	1,563,640.70	6,874.28	1,382,087.66		6,383,079.46
Printing and Reproduction	967,509.14	281,093.50	385,474.79	532,788.17	958,089.97	686,997.71	58,650.30	32,990.92	797,392.16		4,700,986.66
Depreciation and Amortization										53,098,875.55	53,098,875.55
Bad Debt Expense	(112,405.77)		16,392.47	7,806.02	(26,343.39)	126,173.91			4,740.73		16,363.97
Interest	10.45	20.93	420.09	190.31	3,806.19	5,249.70	2.51		25,500.23		35,200.41
Scholarships	1,229,137.71	744,614.99	281,245.85	4,874,600.59	666,307.75	573,222.57	0.00	92,191,104.67	2,661,313.12		103,221,547.25
Claims and Judgments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Net Change in Pension/OPEB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Other Operating Expenses	4,336,526.90	2,416,469.14	3,681,591.18	4,401,510.18	3,470,264.52	8,276,138.99	2,642,620.71	73,800.88	5,859,972.03		35,158,894.53
Total Operating Expenses	$ 292,287,211.02	$ 41,247,486.15	$ 34,691,016.98	$ 93,353,616.76	$ 48,447,591.71	$ 91,118,967.31	$ 67,774,809.59	$ 95,382,293.87	$ 141,479,488.82	$ 53,098,875.55	$ 958,881,357.76

UNAUDITED

Texas State University System

Combined

Statement of Cash Flow

For the Fiscal Year Ended August 31, 2010

Cash Flows from Operating Activities		
Receipts from Customers	$	16,593,410.67
Proceeds from Tuition and Fees		383,837,711.62
Proceeds from Research Grants and Contracts		119,523,847.59
Proceeds from Gifts		
Proceeds from Loan Programs		32,375,745.19
Proceeds from Auxiliaries		101,359,741.66
Proceeds from Other Revenues		26,549,532.58
Payments to Suppliers for Goods and Services		(284,068,880.87)
Payments to Employees for Salaries		(445,122,996.80)
Payments to Employees for Benefits		(100,583,984.64)
Payments for Loans Provided		(31,324,315.83)
Payments for Other Expenses		(131,652,790.09)
Net Cash Provided by Operating Activities	$	(312,512,978.92)
Cash Flows from Noncapital Financing Activities		
Proceeds from Debt Issuance	$	1,849,500.00
Proceeds from State Appropriations		269,015,573.07
Proceeds from Gifts		18,714,663.89
Proceeds from Endowments		6,969,174.50
Proceeds of Transfers from Other Funds		3,475,962.35
Proceeds from Grant Receipts		97,301,877.81
Proceeds from Advances from Other Funds		
Proceeds from Loan Programs		
Proceeds from Other Financing Activities		2,690,668.83
Proceeds from Contributed Capital		
Payments of Principal on Debt Issuance		
Payments of Interest		
Payments of Other Costs of Debt Issuance		
Payments for Transfers to Other Funds		(5,696,304.37)
Payments for Grant Disbursements		
Payments for Advances to Other Funds		
Payments for Other Uses		(13,799,559.44)
Net Cash Provided by Noncapital Financing Activities	$	380,521,556.64

UNAUDITED

Texas State University System
Combined
Statement of Cash Flow
For the Fiscal Year Ended August 31, 2010

Cash Flows from Capital and Related Financing Activities		
Proceeds from the Sale of Capital Assets		
Proceeds from Debt Issuance	$	67,558,648.03
Proceeds from State Grants and Contracts		
Proceeds from Federal Grants and Contracts		194,970.70
Proceeds from Gifts		7,302,663.71
Proceeds from Other Financing Activities		23,176,521.62
Proceeds from Capital Contributions		
Proceeds from Advances from Other Funds		70,152,459.55
Payments for Additions to Capital Assets		(137,494,226.48)
Payments of Principal on Debt		(71,044,933.39)
Payments for Capital Lease		(155,404.10)
Payments of Interest on Debt Issuance		(49,726,234.28)
Payments of Other Costs of Debt Issuance		(833,371.75)
Net Cash Provided by Capital and Related Financing Activities	$	(90,868,906.39)
Cash Flows from Investing Activities		
Proceeds from Sales of Investments		(137,384,193.29)
Proceeds from Interest Income		4,266,305.91
Proceeds from Investment Income		10,112,791.31
Proceeds from Principal Payments on Loans		
Payments to Acquire Investments		111,300,856.78
Net Cash Provided by Investing Activities	$	(11,704,239.29)
Net Increase (Decrease) in Cash and Cash Equivalents	$	(34,564,567.96)
Cash and Cash Equivalents, September 1, 2009 - Restated		606,000,276.88
Changes in Accounting Principal		
Changes in Reporting Entity		
Restatements to Beginning Cash and Cash Equivalents		
Cash and Cash Equivalents, September 1, 2008 - Restated		606,000,276.88
Cash and Cash Equivalents, August 31, 2009	$	571,435,708.92

UNAUDITED

Texas State University System

Combined

Statement of Cash Flow

For the Fiscal Year Ended August 31, 2010

Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income (Loss)	$	(355,580,267.05)
Adjustments to Reconcile Operating Income		
to Net Cash Provided by Operating Activities:		
Amortization and Depreciation		53,098,875.55
Bad Debt Expense		(81,344.26)
Operating Income and Cash Flow Categories:		
Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables		(6,162,811.98)
Increase (Decrease) in Due from Other Funds		13,932,528.26
(Increase) Decrease in Inventories		206,849.23
(Increase) Decrease in Prepaid Expenses		(2,995,409.71)
(Increase) Decrease in Notes Receivable		2,336,176.81
(Increase) Decrease in Loans & Contracts		471,552.17
(Increase) Decrease in Other Assets		(4,496.51)
(Increase) Decrease in State Appropriations		
Increase (Decrease) in Payables		(1,258,755.72)
Increase (Decrease) in Deposits		204,311.62
Increase (Decrease) in Due to Other Funds		(13,701,367.39)
Increase (Decrease) in Deferred Income		3,971,895.68
Increase (Decrease) in Compensated Absence Liability		(314,318.20)
Increase (Decrease) in Benefits Payable		1,917,531.46
Increase (Decrease) in Other Liabilities		(8,553,928.88)
Total Adjustments		43,067,288.13
Net Cash Provided by Operating Activities	$	(312,512,978.92)

Non Cash Transactions	
Donation of Capital Assets	177,060.00
Net Change in Fair Value of Investments	(2,814,212.31)
Borrowing Under Capital Lease Purchase	

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2010

NOTE 1: Summary of Significant Accounting Policies

Entity

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

The Texas State University System is comprised of System Administration and the following institutions: 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 basis 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,

UNAUDITED

Note 1 Continued

the predominance of their funding comes through charges to students, sales of goods and services, and grant revenues.

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 19.

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.

UNAUDITED

Note 1 Continued

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 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.

UNAUDITED

Note 1 Continued

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.

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.

UNAUDITED

Note 1 Continued

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.

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.

UNAUDITED

Note 1 Continued

(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 12.

NOTE 2: Capital Assets

All capital assets acquired are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

A summary of changes in Capital Assets for the year ended August 31, 2010 is presented on the next page.

UNAUDITED

Note 2 Continued

	Balance 9/1/2009	Adjustments	Reclassifications Completed CIP	Additions	Deletions	Balance 8/31/2010
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	63,196,976.07	-	558,787.00	3,875,348.12	-	67,631,111.19
Construction in Progress	188,792,626.91	2,391,927.69	(133,636,201.41)	138,998,647.28	-	196,547,000.47
Other Assets	6,636,938.36	-	-	137,945.44	-	6,774,883.80
Total Non-Depreciable Assets	258,626,541.34	2,391,927.69	(133,077,414.41)	143,011,940.84	-	270,952,995.46
Depreciable Assets						
Buildings and Building Improvements	1,159,328,877.68	-	78,532,421.41	214,692.80	(1,568,777.99)	1,236,507,213.90
Infrastructure	55,109,220.88	-	6,909,160.92	-	-	62,018,381.80
Facilities & Other Improvements	66,866,702.22	-	45,347,445.80	-	-	112,214,148.02
Furniture and Equipment	117,125,130.20	(15,492,594.13)	-	14,643,447.82	(3,964,792.58)	112,311,191.31
Vehicle, Boats & Aircraft	11,319,666.26	(25,000.00)	-	813,467.50	(407,208.87)	11,700,924.89
Other Assets	112,197,840.04	-	-	7,079,279.36	(1,053,905.97)	118,223,213.43
Total Depreciable Assets at Historical Costs	1,521,947,437.28	(15,517,594.13)	130,789,028.13	22,750,887.48	(6,994,685.41)	1,652,975,073.35
Less Accumulated Depreciation for:						
Buildings and Improvements	(609,429,819.00)	-	-	(30,015,434.64)	1,306,120.51	(638,139,133.13)
Infrastructure	(33,167,761.30)	-	-	(2,081,559.96)	-	(35,249,321.26)
Facilities & Other Improvements	(31,080,648.38)	-	-	(2,676,140.59)	-	(33,756,788.97)
Furniture and Equipment	(65,871,131.87)	5,929,439.15	-	(10,379,952.65)	3,776,246.84	(66,545,398.53)
Vehicles, Boats & Aircraft	(7,960,060.45)	-	-	(832,514.33)	339,470.28	(8,453,104.50)
Other Capital Assets	(66,255,282.96)	-	-	(4,757,664.60)	525,244.16	(70,487,703.40)
Total Accumulated Depreciation	(813,764,703.96)	5,929,439.15	-	(50,743,266.77)	5,947,081.79	(852,631,449.79)
Amortizable Assets-Intangible						
Computer Software		15,514,642.87	2,288,386.28	1,462,762.73	(9,590.00)	19,256,201.88
Total Amortizable Assets-Intangible		15,514,642.87	2,288,386.28	1,462,762.73	(9,590.00)	19,256,201.88
Accumulate Amortization						
Comuter Software		(5,949,917.80)	-	(2,355,608.78)	9,590.00	(8,295,936.58)
Total Accumulated Amortization		(5,949,917.80)		(2,355,608.78)		(8,305,526.58)
Depreciable Assets, Net	708,182,733.32	(23,429.91)	133,077,414.41	(28,885,225.34)	(1,057,193.62)	811,294,298.86
Business-Type Activities Capital Assets, Net	966,809,274.66	2,368,497.78	-	114,126,715.50	(1,057,193.62)	1,082,247,294.32

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, 2010, the carrying value of demand deposits at local banks was $45,075,483.08 as presented below:

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES		
CASH IN BANK-CARRYING VALUE PER AFR	**$**	**45,075,483.08**
Proprietary Funds Current Assets Cash in Banks	**$**	**43,434,938.94**
Proprietary Funds Current Assets Restricted Cash in Banks		**2,242,518.74**
Proprietary Funds Noncurrent Assets Restricted Cash in Banks		**(601,974.60)**
Cash in Bank per AFR	**$**	**45,075,483.08**

At August 31, 2010, the actual balance on deposit with local banks was $39,136,829.35.

Investments

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

UNAUDITED

Note 3 Continued

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES	**Fair value**
U.S. Government	
U.S. Treasury Securities	$ 30,276,336.01
U.S. Government Agency Obligations	23,725,351.40
U.S. Government Agency Obligations (Texas Treasury Safekeeping)	518,286.04
Corportate Obligations	15,363,969.59
Corporate Obligations (Texas Treasury Safekeeping)	-
Corporate Asset and Mortgage Backed Securities	14,885,064.75
Equity	51,259,253.61
Repurchase Agreements	-
Fixed Income Money Market and Bond Mutual Fund	58,049,602.24
Other Commingled Funds	297,100.71
Other Commingled Funds - Texpool	468,409,053.54
Commercial Paper	-
Real Estate	26,000.00
Miscellaneous	189,813.30
Total	$ 662,999,831.19

Proprietary Funds Current Cash Equivalents	$ 267,273,993.12
Proprietary Funds Current Restricted Cash Equivalents	174,141,775.43
Proprietary Funds Short Term Investments	99,000.00
Proprietary Funds Non-Current Restricted Cash Equivalents	26,993,284.99
Proprietary Funds Non-Current Restricted Investments	86,663,154.95
Proprietary Funds Non-Current Investments	107,828,622.70
Total as Above	$ 662,999,831.19

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).

As of August 31, 2010 the System's credit quality distribution for securities with credit risk exposure was as follows.

UNAUDITED

Note 3 Continued

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	AAA	AA	A
05	9999	U.S. Government Agency Obligations	$ 53,957,621.01	$ -	$ -
		U.S. Government Agency Obligations -			
05	9999	Texas Treasury Safekeeping Trust Co.	-	-	-
05	9999	Corporate Obligations	4,661,303.60	8,211,179.54	1,724,266.55
		Corporate Obligations -			
05	9999	Texas Treasury Safekeeping Trust Co.	-	-	-
05	9999	Corporate Asset and Mortgage Backed Securities	485,722.41	-	-
05	9999	Repurchase Agreement	-	-	-
05	9999	Miscellaneous - Commerical Paper	-	-	-
05	9999	Miscellaneous - Municipal Bonds	-	44,066.40	-

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	BBB	BB	B	CCC
05	9999	Corporate Obligations	$ 767,219.90	$ -	$ -	$ -

NOTE 4: Short-Term Debt

During the fiscal year ended August 31, 2010, Texas State University System had no short term debt activity.

NOTE 5: Summary of Long-term Liabilities

Changes in Long-term Liabilities

During the year ended August 31, 2010, the following changes occurred in long-term liabilities.

BUSINESS TYPE ACTIVITES	BALANCE 9/1/2009	ADDITIONS	REDUCTIONS	BALANCE 8/31/2010	AMOUNTS DUE WITHIN ONE YEAR
General Obligation B/P	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Revenue B/P	**712,191,475.23**	**165,685,000.00**	**108,567,275.50**	**$ 741,151,745.78**	**39,181,473.71**
Compensable Leave	**20,088,216.33**	**2,650,108.97**	**2,219,948.09**	**$ 20,518,377.21**	**11,561,893.27**
Capital Lease Obligations	**422,035.78**	**-**	**155,404.10**	**$ 266,631.68**	**153,208.21**
TOTALS	**$ 732,701,727.34**	**$ 168,335,108.97**	**$ 110,942,627.69**	**$ 761,936,754.67**	**$ 50,896,575.19**

Bonds Payable

See Note 6 for a discussion of Bonds Payable.

Note 5 Continued

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 7 for a discussion of Capital Lease obligations.

NOTE 6: 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 therefrom 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,

Note 6 Continued

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 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 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 6 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 2008-2009 biennium, for the Tuition Revenue financed share, $98,935,000, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia 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.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2008-2009 biennium, for the Tuition Revenue financed share, $27,000,000, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated

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.

Note 6 Continued

- Issued December 3, 2004.
- $85,950,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Lamar University ($19,500,000), Sul Ross State University ($20,240,000), and to refund 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 2008-2009 biennium, for the Tuition Revenue financed share, $31,865,395, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia 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) and used to refund of certain outstanding debt ($30,079,652) and to pay costs of issuance ($563,938).
- 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 2008-2009 biennium, for the Tuition Revenue financed share, $13,565,244, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia 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.

UNAUDITED

Note 6 Continued

- 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.
- 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.

Revenue and Refunding Bonds, Series 2008

- 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 August 19, 2008.
- $207,395,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Sam Houston State University ($50,000,000) and to Texas State University-San Marcos ($145,671,999).
- Debt refunded: Series 1998A - $5,270,000; Series 1998B - $13,270,000.
- Debt service payments will be made from mandatory transfers from the prospective 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 2008-2009 biennium, for the Tuition Revenue financed share, $85,920,000, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated.

Revenue Financing Revenue Bonds, Series 2009

- 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.

Note 6 Continued

- Issued June 30, 2009.
- $86,745,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Lamar University ($45,700,861), Sam Houston State University ($3,200,000), and Texas State University-San Marcos ($41,342,900).
- Debt service payments will be made from mandatory transfers from the prospective 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 2008-2009 biennium, for the Tuition Revenue financed share, $4,335,000, of the issued bonds. Funding for the 2008-2009 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated.

Revenue Financing System Refunding Bonds, Series 2010

- To provide funds to refund a portion of the University System's outstanding obligations for debt service savings and to pay any costs related to the issuance of the bonds.
- Issued August 12, 2010.
- $99,950,000; all authorized bonds have been issued.
- Debt refunded: Series 2001 - $4,245,000; Series 2002 - $83,955,000; Series 2003 - $16,640,000.
- Debt service payments will be made from mandatory transfers from the prospective 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 2009-2010 biennium, for the Tuition Revenue financed share, $63,745,000.00 of the issued bonds. Funding for the 2010-2011 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated.

Revenue Financing Revenue Bonds, Series 2010A

- 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 August 19, 2010.
- $65,735,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Lamar State College Port Arthur ($1,849,500), Sam Houston State University ($18,000,000), and Texas State University-San Marcos ($46,125,000).
- Debt service payments will be made from mandatory transfers from the prospective universities.

UNAUDITED

Note 6 Continued

- Source of revenue for debt service – Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2010-2011 biennium, for the Tuition Revenue financed share, $1,735,000, of the issued bonds. Funding for the 2010-2011 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated.

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, 2010:

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 6 Continued

DEFEASED BONDS

The following bonds are partially defeased at August 31, 2010:

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 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 and Refunding Bonds, Series 2010.
- Certain outstanding maturities with par value totaling $3,320,000
- Year defeased – 2005
- Certain outstanding maturities with par value totaling $4,245,000
- Year defeased - 2010
- Economic gain on defeasement – Present Value Savings $459,764.88 and $419,830.30.

Revenue and Refunding Series 2002

- To acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, facilities or related infrastructures for component institutions ($147,445,000) and to pay costs of issuance related to the bonds.
- Issued October 17, 2002.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2010-2011 biennium, for the Tuition Revenue financed share, $98,935,000, of the issued bonds. Funding for the 2010-2011 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated.
- Bonds partially defeased through the issuance of Refunding Bonds, Series 2010.
- Certain outstanding maturities with par value totaling $83,955,000.00.
- Year defeased – 2010
- Economic gain on defeasement-Present Value Savings $4,805,435.10.

UNAUDITED

Note 6 Continued

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.
- 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.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2010-2011 biennium, for the Tuition Revenue financed share, $98,935,000, of the issued bonds. Funding for the 2010-2011 biennium meets the debt service for Tuition Revenue Bonds and full funding for future biennia is anticipated
- Bonds partially defeased through the issuance of Refunding Bonds Series 2010.
- Year defeased 2010
- Certain outstanding maturities with par values totaling $16,640,000.00 were defeased.
- Economic gain on defeasement – Present Value Savings $1,994,034.43.

NOTE 7: 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, 2010.

ASSETS UNDER CAPITAL LEASE	AMOUNT
Furniture & Equipment	$ 769,624.69
Less: Accumulated Depreciation	(281,097.72)
TOTAL	$ 488,526.97

UNAUDITED

Note 7 Continued

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at August 31, 2010 follows.

FUTURE MINIMUM LEASE PAYMENTS	PRINCIPAL	INTEREST
2011	$ 153,208.21	$ 20,766.39
2012	90,283.37	8,712.67
2013	23,140.10	2,805.90
2014	-	-
2015	-	-
TOTALS	$ 266,631.68	$ 32,284.96

NOTE 8: Operating Leases

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, 2010	AMOUNT
2011	1,371,328.64
2012	1,335,559.12
2013	1,236,428.88
2014	1,171,827.04
2015	1,143,994.87
2016-2020	4,112,713.55
2021-2025	853,376.67
2030-2034	
TOTAL MINIMUM FUTURE LEASE PAYMENTS	$ 11,225,228.77

NOTE 9: Retirement Plans

The State has established an optional retirement program for institutions of higher education. Participation in ORP is in lieu of participation in the Teacher Retirement System and is available to certain eligible employees. The contributions made by plan members and employers for the fiscal year ended August 31, 2010 are:

YEAR ENDING AUGUST 31, 2010	
Member Contributions	10,772,014.90
Employer Contributions	11,947,171.41
Total	22,719,186.31

UNAUDITED

NOTE 10: Deferred Compensation

Not applicable.

NOTE 11: Post Employment Health Care and Life Insurance Benefits

Not applicable.

NOTE 12: Interfund Activity and Transactions

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, 2010 follows:

	LEGISLATIVE TRANSFERS	
Required Note 12 Presentation	**IN**	**OUT**
Texas State University System 758		
Agency 737, Fund 0001	2,947,222.36	
TOTAL	$ 2,947,222.36	$ -

	TRANSFERS	
Optional Note 12 presentation	**IN**	**OUT**
Lamar Beaumont 734		
Agency 781, Fund 7999		$ 683,295.00
Sam Houston 753		
Agency 781, Fund 5103		1,048,250.60
Agency 781, Fund 0001		8,816.00
Texas State 754		
Agency 781, Fund 5103		3,019,632.18
Lamar Institute of Technology 789		
Agency 781, Fund 7999		1,271.00
Texas State System 758		
Agency 737, Fund 7999	1,799,386.60	
Sul Ross 756		
Agency 781, Fund 5103		47,910.67
TOTAL	$ 1,799,386.60	$ 4,809,175.45

UNAUDITED

Note 12 Continued

OPTIONAL Note 12 presentation	DUE FROM	DUE TO
Lamar Beaumont 734		
Agency 701, Fund 7999		936,114.69
Lamar State College-Orange 787		
Agency 781, Fund 7999	$ 205.00	
Sam Houston 753		
Agency 601, Fund 0006	277,587.68	
Agency 320, Fund 5026	2,737.50	
Agency 730, Fund 7999	22,420.69	
Agency 781, Fund 0369	740,013.10	
Agency 781, Fund 0001		36,150.45
Agency 802, Fund 0951	772.07	
Agency 608, Fund 5015	18,293.65	
Texas State 754		
Agency 501, Fund 5015	23,580.94	
Agency 739, Fund 0369	7,482.00	
Agency 781, Fund 0369	15,314.23	
Agency 781, Fund 0369	75,964.63	
Agency 781, Fund 0369		53,193.36
Agency 300, Fund 7999		1,187,845.80
Agency 300, Fund 7999	137,988.55	
Agency 300, Fund 7999	395,748.78	
Agency 305, Fund 7999	666.50	
Agency 530, Fund 7999	369,452.15	
Agency 537, Fund 7999	4,346.07	
Agency 551, Fund 7999	8,308.92	
Agency 555, Fund 7999	1,132.79	
Agency 556, Fund 7999	2,809.22	
Agency 556, Fund 7999	4,938.32	
Agency 582, Fund 7999	143,815.27	
Agency 582, Fund 7999	207,411.01	
Agency 582, Fund 7999	390.81	
Agency 582, Fund 7999	6,350.27	128.35
Agency 601, Fund 7999	94,522.46	
Agency 701, Fund 7999	141,232.15	
Agency 701, Fund 7999	265,945.00	
Agency 701, Fund 7999	691,219.48	
Agency 714, Fund 7999		982.57
Agency 716, Fund 7999		39,575.34
Agency 720, Fund 7999		4,906.50
Agency 721, Fund 7999		375,479.89
Agency 723, Fund 7999	16,555.32	
Agency 730, Fund 7999	8,454.68	
Agency 737, Fund 7999		17,903.94
Agency 743, Fund 7999	62,899.03	
Agency 744, Fund 7999		15,895.67
Agency 750, Fund 7999		4,196.09
Agency 781, Fund 7999	46,804.18	
Agency 781, Fund 7999		189,890.59
Agency 802, Fund 7999	20,587.77	
Agency 802, Fund 7999	3,389.12	
Agency 802, Fund 7999	29,973.43	
Agency 802, Fund 7999	48,230.83	
Agency 802, Fund 7999	37,273.34	
Agency 802, Fund 7999		10,140.68
Agency 802, Fund 7999		2,284.29
Sul Ross 756		
Agency 608, Fund 5015	9,815.91	
TOTAL	$ 3,944,632.85	$ 2,874,688.21

UNAUDITED

NOTE 13: Continuance Subject To Review

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

NOTE 14: Adjustments to Fund Balances and Net Assets

During fiscal 2010 adjustments were made that required the restatement of net assets. Following are the reasons for the restatements:

An accounting error with revenue overstated	**$**	**(2,616,275.66)**
An adjustment for capital assets and depreciation		**2,418,497.78**
	$	**(197,777.88)**

The beginning net asset balance is restated to reflect the adjustments.

Net Assets- September 1, 2009	**$**	**925,051,021.68**
Adjustment to fixed assets		**(197,777.88)**
Restated Net Assets- September 1, 2009	**$**	**924,853,243.80**

NOTE 15: Contingent Liabilities

At August 31, 2010, 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 16: Subsequent Events

There are no subsequent events to report for the year ended August 31, 2010.

NOTE 17: Risk Management

System Administration is exposed to a variety of civil claims resulting from the performance of its duties. It is System Administration’s policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. System Administration 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 System Administration involved in any risk pool with other government entities for these risks.

UNAUDITED

NOTE 18: Management Discussion and Analysis

Note is not applicable for Texas State University System.

NOTE 19: The Financial Reporting Entity

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.

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

TEXAS STATE UNIVERSITY SYSTEM

Texas State University System Foundation, Inc.
The Texas State University System Foundation, Inc. is a non-profit corporation created in 1977 to provide financial support for the Universities and Colleges within the Texas State University System and for the System Office. The Foundation provides funds for student scholarships, faculty awards and for assisting the Chancellor in the performance of his duties. During fiscal year 2010, the Foundation had net assets of $8,076,767. The Foundation provided $39,439 in scholarships for students, and faculty awards in the amount of $5,132.

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 donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $ 1,520,428.04 to the University during the year ended August 31, 2010. 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, $ 155,727.70. Accounts receivable of $ 447,282.26 are due from the Foundation at August 31, 2010.

UNAUDITED

Note 19 Continued

LAMAR INSTITUTE OF TECHNOLOGY

Lamar Institute of Technology Foundation

The Lamar Institute of Technology Foundation is a nonprofit organization with the sole purpose of supporting educational activities of Lamar Institute of Technology. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $51,549.62 to the Institute during the year ended August 31, 2010.

LAMAR STATE COLLEGE – ORANGE

Lamar State College - Orange is a state-supported college, governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are presented for Lamar State College - Orange. There are no component units.

Lamar State College-Orange Foundation, Inc.

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, 2010.

Lamar State College – Orange received $65,000 from the Lamar State College – Orange Foundation during the year ended August 31, 2010.

LAMAR STATE COLLEGE - PORT ARTHUR

Lamar State College Port Arthur is a state-supported university, governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are presented for Lamar State College Port Arthur. There are no component units.

The College is affiliated with one foundation and an alumni association that has the sole purpose of supporting the educational and other activities of the College. These entities solicit donations and act as coordinator of gifts made by other parties.

UNAUDITED

Note 19 Continued

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, 2010.

The Port Arthur Higher Education Foundation gave $189,209.00 in scholarship money directly to Lamar State College Port Arthur students during the year ended August 31, 2010. The Foundation also contributed $191,671 to the Centennial Scholarship Fund during the year ended August 31, 2010.

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. Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2010.

SAM HOUSTON STATE UNIVERSITY

Sam Houston State University is an agency of the State of Texas and a component of the Texas State University System and its financial records comply with applicable State statutes and regulations. As required by generally accepted accounting principles, these financial statements present Sam Houston State University.

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, 2010.

Gifts were made to the University from the Sam Houston Foundation for fiscal year 2010 of $20,000 to Endowment Funds.

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.

Note 19 Continued

The Lettermen's Association's funds are carried on the University's books, and comprise $16,127.23 of Total Deposits Held in Custody for Others - Agency Funds, at August 31, 2010. Sam Houston State University has performed stewardship functions in support of this account, including the receipt of deposits and payment of expenditures. A gift was made to the University from the Lettermen's Associations for fiscal year 2010 of $10,000 to Restricted Funds.

SUL ROSS STATE UNIVERISTY

Sul Ross State University Friends of the Center for Big Bend Studies, Inc.
Sul Ross State University Friends of the Center for Big Bend Studies, Inc. was formed in 2003 to seek, receive, and disperse funding in support of the programs of the Sul Ross State University Friends of the Center for Big Bend Studies. During 2010, the Friends of the Center for Big Bend studies expended $295,000.00 in support of the Center for Big Bend Studies.

Sul Ross State University Support Organization
Sul Ross State University Support Organization was formed in 2003 exclusively for charitable, educational, and scientific purposes. During 2010, the Support Organization expended $-0- in support of the mission and programs of the University.

TEXAS STATE UNIVERSITY-SAN MARCOS

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.

COMPONENT UNIT

The Texas State University-San Marcos Research Foundation was formed as an independent 501(c)(3) organization on July, 22, 2010. The Research Foundation was formed to support the university's mission and objectives of promoting higher education, conducting research, providing public service, and assisting in economic development in Texas. The Research Foundation has a fiscal year end of June 30 and is exclusively associated with the university.

The Research Foundation is included in the financial statements of Texas State University – San Marcos (University) as a blended component unit in accordance with GASB Statement 14 as amended by GASB Statement 39. The key business officers of the University comprise the entirety of the Research Foundation's officers

UNAUDITED

Note 19 Continued

and directors, thereby giving the University the ability to impose its will on the Research Foundation.

During fiscal year 2010, there were no financial transactions to report for the Research Foundation.

Related Organizations

The following affiliated foundations, while not component units, are disclosed due to their close relationship with the university. Affiliated foundations are controlled by separate boards of directors, pay their own expenses and are not included in the basic financial statements of the university.

Texas State University-San Marcos Development Foundation

The Texas State University-San Marcos Development Foundation was formed in 1977 to support the educational, scientific and research mission of Texas State. The Development Foundation raises and manages endowment funds designated for scholarships and other support for the university. In total, the Development Foundation Board reported payments of $243,568.31 for university support and $336,368.00 for student scholarships from Development Foundation funds during the fiscal year ended August 31, 2010. Donations to the Development Foundation are restricted gifts of $2,241,016.41, temporarily restricted gifts of $255,605.44 and unrestricted gifts of $1,304.71.

The McCoy College of Business Administration Development Foundation

The McCoy Foundation, founded in 2004, is 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 in support of chairs or professorships, undergraduate scholarships, graduate fellowships, faculty development, and student development. Based upon estimated, unaudited, figures during the fiscal year ended August 31, 2010 the foundation approved a new $465,444.00 distribution from endowments to the university, received new contributions of $611,830.00 from endowments and ended with net accrued assets and liabilities of $22,700,000.00 and $14,600.00 respectively. The foundation pays for its own operating expenses (including staff salaries, accounting, supplies and auditing), which totaled approximately $74,134.00 in fiscal year 2010 or less than 0.4% of the assets of the foundation. Fees for investment management were less than 0.9% of the assets.

Note 19 Continued

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 2010, the Support Foundation sold the house that was contributed in fiscal year 2009, and the net proceeds of $222,070.40 was gifted to the Development Foundation for the Strutter Gallery. The Support Foundation expended $5,053.00 of which $3,600.00 was in direct support of the university, including payment for university-provided services.

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. During the fiscal year ended August 31, 2010 the Alumni Association raised $441,003.00 in operating income and reported payments of $520,260.00. At August 31, 2010, Texas State University-San Marcos holds $36,463.00 in deposits that are considered Held in Trust for Others – Agency Funds on behalf of the Alumni Association. Agency funds are assets not owned by the university but held in custodianship, to be used or withdrawn by the depositors at will. The Agency funds resources, including those of the Alumni Association, are reflected in the university's financial records as cash and cash equivalents with a corresponding liability to the depositing organizations. The Texas State University-San Marcos Development Foundation holds $760,227.00 in account for the Alumni Association.

NOTE 20: Stewardship, Compliance and Accountability

The Texas State University System has no material issues.

NOTE 21: N/A

NOTE 22: Donor-Restricted Endowments

DONOR RESTRICTED ENDOWMENT	AMOUNT OF NET APPRECIATION
Endowments - True Endowments	$ 6,278.00
Endowments - True Endowments	4,208,692.06
Endowments - Term Endowments	2,120,683.64
TOTAL	$ 6,335,653.70

UNAUDITED

NOTE 23: Extraordinary and Special Items

The Texas State University System had no special or extraordinary items to report for the fiscal year ended August 31, 2010.

NOTE 24: Disaggregation of Receivable and Payable Balances

The following accounts are disaggregated as follows:

FEDERAL RECEIVABLE		Amount
Education	$	554,589.88
Instruction		395,420.72
Research		7,203,986.18
Public Service		1,341,651.42
Scholarships		8,493,165.46
Student Services		47,404.22
Operation /Maintenance of Plant		1,254,719.75
TOTAL	$	19,290,937.63

OTHER PAYABLES - CURRENT		
Interst Payable on outstanding bonds		12,467,027.29
Other Payables		862,713.72
TOTAL	$	13,329,741.01

NOTE 25: Termination Benefits

During the fiscal year ended August 31, 2010, Texas State University System did not provide termination benefits.

NOTE 26: Segment Information

The Texas State University System has no segments to report as of August 31, 2010.

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2A
COMBINED MISCELLANEOUS BOND INFORMATION
For the Year Ended August 31, 2010

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					
Taxable Series 1998	15,920,000.00	5.52% to 6.46%	1999	2010	3-15-08
Series 2000	26,000,000.00	4.8% to 5.5%	2001	2020	3-15-10
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	N/A
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
Series 2008	207,395,000.00	3.00% to 5.25%	2008	2028	03-15-18
Series 2009	86,745,000.00	3.00% to 5.25%	2009	2029	03-15-19
Series 2010	99,950,000.00	2.00% to 5.00%	2011	2022	03-15-20
Series 2010A	65,735,000.00	2.00% to 5.00%	2010	2040	03-15-20
Subtotal	1,016,330,000.00				
TOTAL	$ 1,024,245,000.00				

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2B
COMBINED CHANGE IN BONDED INDEBTEDNESS
For the Year Ended August 31, 2010

Business Type Activity Description	Bonds Outstanding 09-01-09	Bonds Issued	Bonds Matured	Bonds Refunded or Extinguished	Bonds Outstanding 08-31-10	Amounts Due Within One Year
REVENUE BONDS						
Student Housing System Revenue Bonds,						
Southwest Texas State University						
Series 1986	$ 1,150,000.00	$	$ 150,000.00	$	$ 1,000,000.00	$ 155,000.00
Subtotal	1,150,000.00	0.00		0.00	1,000,000.00	155,000.00
Utility System Revenue Bonds						
Southwest Texas State University						
Series 1996	800,000.00		390,000.00		410,000.00	410,000.00
Subtotal	800,000.00	0.00		0.00	410,000.00	410,000.00
Revenue Financing System Bonds						
Texas State University System						
Taxable Series 1998	1,925,000.00		1,925,000.00		0.00	
Series 2000	1,225,000.00		1,225,000.00		0.00	
Series 2001	5,370,000.00		550,000.00	4,245,000.00	575,000.00	575,000.00
Series 2002						
Par Value	106,955,000.00		6,310,000.00	83,955,000.00	16,690,000.00	6,630,000.00
Premium	3,859,693.15		672,417.65	3,187,275.50	0.00	0.00
Taxable Series 2002A						
Par Value	4,010,000.00		1,950,000.00		2,060,000.00	2,060,000.00
Discount	(3,394.89)		(2,486.36)		(908.53)	(908.53)
Series 2003	37,775,000.00		2,025,000.00	16,640,000.00	19,110,000.00	2,105,000.00
Series 2004						
Par Value	77,765,000.00		6,215,000.00		71,550,000.00	6,525,000.00
Premium	2,960,176.97		663,698.47		2,296,478.50	564,491.89
Series 2005	40,820,000.00		1,025,000.00		39,795,000.00	2,380,000.00
Series 2006	131,930,000.00		3,065,000.00		128,865,000.00	3,295,000.00
Series 2006A	21,855,000.00		865,000.00		20,990,000.00	910,000.00
Series 2008	187,410,000.00		7,580,000.00		179,830,000.00	7,970,000.00
Series 2009	86,385,000.00		3,850,000.00		82,535,000.00	2,725,000.00
Series 2010						
Par Value		99,950,000.00			99,950,000.00	1,505,000.00
Premium		5,683,932.26			5,683,932.26	494,254.98
Series 2010A						
Par Value		65,735,000.00	160,000.00		65,575,000.00	735,000.00
Premium		4,237,243.55			4,237,243.55	143,635.37
Subtotal	710,241,475.23	175,606,175.81	38,078,629.76	108,027,275.50	739,741,745.78	38,616,473.71
Total Revenue Bonds	$ 712,191,475.23	$ 175,606,175.81	$ 38,618,629.76	$ 108,027,275.50	$ 741,151,745.78	$ 39,181,473.71

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
COMBINED DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2010

Business Type Activity

Description	Year	Principal	Interest
Student Housing System Revenue Bonds,			
Southwest Texas State University			
Series 1986	2011	$ 155,000.00	$ 27,675.00
	2012	160,000.00	22,950.00
	2013	165,000.00	18,075.00
	2014	165,000.00	13,125.00
	2015	175,000.00	8,025.00
	2016	180,000.00	2,700.00
		$ 1,000,000.00	$ 92,550.00
Utility System Revenue Bonds			
Southwest Texas State University			
Series 1996	2011	410,000.00	21,525.00
		$ 410,000.00	$ 21,525.00
Revenue Financing System Bonds			
Texas State University System			
Series 2001	2011	575,000.00	30,187.50
		$ 575,000.00	$ 30,187.50
Series 2002	2011	6,630,000.00	736,012.58
	2012	6,860,000.02	503,962.48
	2013	265,000.01	160,962.54
	2014	279,999.99	147,049.96
	2015	294,999.98	132,349.96
	2016-2020	1,605,000.00	427,562.38
	2021-2022	754,999.98	54,150.10
		$ 16,689,999.98	$ 2,162,050.00
Taxable Series 2002A	2011	2,060,000.00	90,125.00
		$ 2,060,000.00	$ 90,125.00
Taxable Series 2002A - Discount Amortization	2011	(908.53)	908.53
		$ (908.53)	$ 908.53
Taxable Series 2002A - Total	2011	2,059,091.47	91,033.53
		$ 2,059,091.47	91,033.53

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
COMBINED DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2010

Series 2003	2011	2,105,000.00	834,487.52
	2012	2,190,000.00	750,287.50
	2013	2,279,999.99	662,687.50
	2014	2,389,999.99	571,487.50
	2015		460,950.00
	2016-2020		2,304,750.00
	2021-2023	10,144,999.96	940,500.02
		$ 19,109,999.94	$ 6,525,150.04
Series 2004	2011	6,525,000.00	3,545,317.52
	2012	8,214,999.99	3,219,067.50
	2013	8,619,999.98	2,808,317.48
	2014	8,559,999.98	2,377,317.46
	2015	7,884,999.98	1,949,317.52
	2016-2020	9,770,000.00	6,808,567.50
	2021-2025	10,460,000.00	4,499,250.00
	2026-2030	6,525,000.00	2,100,000.00
	2031-2034	4,990,000.00	638,750.00
		71,549,999.93	27,945,904.98
Series 2004 - Premium Amortization	2011	564,491.89	(564,491.89)
	2012	471,649.15	(471,649.15)
	2013	359,366.66	(359,366.66)
	2014	250,530.76	(250,530.76)
	2015	151,426.07	(151,426.07)
	2016-2020	315,484.25	(315,484.25)
	2021-2025	138,645.39	(138,645.39)
	2026-2030	34,734.79	(34,734.79)
	2031-2034	10,149.54	(10,149.54)
		$ 2,296,478.50	$ (2,296,478.50)
Series 2004 - Total	2011	7,089,491.89	2,980,825.63
	2012	8,686,649.14	2,747,418.35
	2013	8,979,366.64	2,448,950.82
	2014	8,810,530.74	2,126,786.70
	2015	8,036,426.05	1,797,891.45
	2016-2020	10,085,484.25	6,493,083.25
	2021-2025	10,598,645.39	4,360,604.61
	2026-2030	6,559,734.79	2,065,265.21
	2031-2034	5,000,149.54	628,600.46
		$ 73,846,478.43	$ 25,649,426.48

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
COMBINED DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2010

Series 2005	2011	2,380,000.00	1,948,937.54
	2012	1,760,000.01	1,829,937.52
	2013	1,365,000.01	1,750,737.52
	2014	1,620,000.01	1,682,487.52
	2015	1,320,000.00	1,601,487.52
	2016-2020	25,420,000.01	4,640,187.52
	2021-2025	4,830,000.00	912,068.76
	2026	1,100,000.00	49,500.00
		$ 39,795,000.04	$ 14,415,343.90
Series 2006	2011	3,295,000.00	6,418,537.50
	2012	3,485,000.00	6,278,500.00
	2013	3,660,000.00	6,104,250.00
	2014	3,850,000.00	5,921,250.00
	2015	4,045,000.00	5,728,750.00
	2016-2020	23,460,000.00	25,403,250.00
	2021-2025	29,965,000.00	18,917,000.00
	2026-2030	38,215,000.00	10,641,000.00
	2031-2034	18,890,000.00	1,864,500.00
		$ 128,865,000.00	$ 87,277,037.50
Series 2006A	2011	910,000.00	976,537.52
	2012	950,000.00	940,137.52
	2013	985,000.00	902,137.52
	2014	1,030,000.00	860,275.02
	2015	1,080,000.00	808,775.02
	2016-2020	6,295,000.00	3,146,225.10
	2021-2025	7,935,000.00	1,507,037.50
	2026	1,805,000.00	81,225.00
		$ 20,990,000.00	$ 9,222,350.20
Series 2008	2011	7,970,000.00	9,013,674.98
	2012	8,380,000.00	8,615,174.98
	2013	8,450,000.00	8,196,174.98
	2014	8,680,000.00	7,879,299.98
	2015	9,105,000.00	7,532,099.96
	2016-2020	45,435,000.00	30,814,737.54
	2021-2025	52,955,000.00	18,600,962.50
	2026-2028	38,855,000.00	4,046,250.00
		$ 179,830,000.00	$ 94,698,374.92

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
COMBINED DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2010

Series 2009	2011	2,725,000.00	4,165,462.50
	2012	2,825,000.00	4,056,462.50
	2013	2,960,000.00	3,915,212.50
	2014	3,115,000.00	3,767,212.50
	2015	3,270,000.00	3,611,462.50
	2016-2020	18,985,000.00	15,432,312.50
	2021-2025	24,295,000.00	10,127,237.50
	2026-2029	24,360,000.00	3,165,262.50
		$ 82,535,000.00	$ 48,240,625.00
Series 2010	2011	1,505,000.00	2,930,140.41
	2012		4,922,250.00
	2013	6,465,000.00	4,922,250.00
	2014	6,780,000.00	4,599,000.00
	2015	9,615,000.00	4,259,999.96
	2016-2020	56,305,000.00	13,582,250.08
	2021-2022	19,280,000.00	1,433,749.96
		$ 99,950,000.00	$ 36,649,640.41
Series 2010 - Premium Amortization	2011	494,254.98	(494,254.98)
	2012	494,254.98	(494,254.98)
	2013	494,254.98	(494,254.98)
	2014	494,254.98	(494,254.98)
	2015	494,254.98	(494,254.98)
	2016-2020	2,471,274.90	(2,471,274.90)
	2021-2022	741,382.86	(741,382.86)
		$ 5,683,932.66	$ (5,683,932.66)
Series 2010 - Total	2011	1,999,254.98	2,436,885.43
	2012	494,254.98	4,427,995.02
	2013	6,959,254.98	4,427,995.02
	2014	7,274,254.98	4,104,745.02
	2015	10,109,254.98	3,765,744.98
	2016-2020	58,776,274.90	11,110,975.18
	2021-2022	20,021,382.86	692,367.10
		$ 105,633,932.66	$ 30,966,707.75

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
COMBINED DEBT SERVICE REQUIREMENTS
For the Year Ended August 31, 2010

Series 2010A	2011	735,000.00	1,730,149.65
	2012	345,000.00	3,008,862.52
	2013	1,420,000.00	2,998,512.52
	2014	1,285,000.00	2,948,912.52
	2015	1,335,000.00	2,897,512.52
	2016-2020	7,450,000.00	13,714,712.60
	2021-2025	9,330,000.00	11,829,562.60
	2026-2030	11,845,000.00	9,323,362.60
	2031-2035	14,135,000.00	6,448,562.60
	2036-2040	17,875,000.00	2,700,031.28
		$ 65,755,000.00	$ 57,600,181.41
Series 2010A - Premium Amortization	2011	143,635.37	-143,635.37
	2012	143,635.37	-143,635.37
	2013	143,635.37	-143,635.37
	2014	143,635.37	-143,635.37
	2015	143,635.37	-143,635.37
	2016-2020	718,176.85	-718,176.85
	2021-2025	718,176.85	-718,176.85
	2026-2030	718,176.85	-718,176.85
	2031-2035	718,176.85	-718,176.85
	2036-2040	646,359.30	-646,359.30
		$ 4,237,243.55	$ -4,237,243.55
Series 2010A-Total	2011	878,635.37	1,586,514.28
	2012	488,635.37	2,865,227.15
	2013	1,563,635.37	2,854,877.15
	2014	1,428,635.37	2,805,277.15
	2015	1,478,635.37	2,753,877.15
	2016-2020	8,168,176.85	12,996,535.75
	2021-2025	10,048,176.85	11,111,385.75
	2026-2030	12,563,176.85	8,605,185.75
	2031-2035	14,853,176.85	5,730,385.75
	2036-2040	18,521,359.30	2,053,671.98
		$ 69,992,243.55	$ 53,362,937.86

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2D
COMBINED SCHEDULE OF ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Year Ended August 31, 2010

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	$ 44,459,043	$ 38,002,731	$ 150,000	$ 32,250.00
Utility System Revenue Refund Bonds				
Southwest Texas State University				
Series 1996	23,719,508	18,255,019	390,000	41,512.50
TSUS Revenue Financing System Revenue Bonds				
Taxable Series 1998			1,925,000	124,355.00
Series 2000			1,225,000	64,312.50
Series 2001			550,000	271,312.50
Series 2002			6,310,000	5,274,362.50
Taxable Series 2002A			1,950,000	170,562.50
Series 2003			2,025,000	1,665,430.02
Series 2004			6,215,000	3,856,067.50
Series 2005			1,025,000	1,987,375.02
Series 2006			3,065,000	6,548,800.00
Series 2006A			865,000	1,019,787.50
Series 2008			7,580,000	9,392,675.00
Series 2009			3,850,000	3,032,348.51
Series 2010				
Series 2010A			160,000	71.11
Subtotal Revenue Financing System Revenue Bonds	366,103,723	290,076,809	36,745,000	33,407,459.66
Total	$ 434,282,274	$ 346,334,559	$ 37,285,000	$ 33,481,222.16

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2E
COMBINED SCHEDULE OF DEFEASED BONDS OUTSTANDING
For the Year Ended August 31, 2010

Description of Issues	Year Refunded		Par Value Outstanding
Tuition Revenue Bonds			
Texas State University System			
Series 2001	2006	$	3,320,000.00
Total Tuition Revenue Bonds		$	3,320,000.00
Revenue Financing System Revenue Bonds			
Revenue Financing System Revenue Bonds			
Series 2001	2010	$	4,245,000.00
Revenue Financing System Revenue Bonds			
Series 2002	2010		83,955,000.00
Revenue Financing System Revenue Bonds			
Series 2003	2010		16,640,000.00
		$	104,840,000.00
Total Defeased Bonds		$	108,160,000.00

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

SCHEDULE 2F

COMBINED SCHEDULE OF EARLY EXTINGUISHMENT AND REFUNDING

For the Year Ended August 31, 2010

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					
Series 2001	Advance Refunding	$ 4,245,000.00	$ 3,970,000.00	$ 509,869.17	$ 419,830.30
Series 2002	Advance Refunding	83,955,000.00	81,270,000.00	5,618,531.25	4,805,435.10
Series 2003	Advance Refunding	16,640,000.00	14,710,000.00	2,388,172.92	1,994,034.43
Total		$ 104,840,000.00	$ 99,950,000.00	$ 8,516,573.34	$ 7,219,299.83

UNAUDITED

Texas State University System
Combined Schedule 3
Combined Reconciliation of Cash in State Treasury
For the Fiscal Year Ended August 31, 2010

Cash in State Treasury		Unrestricted	Restricted	Current Year Total
Agency	**Fund**			
System Office	0283			$ 89.17
Lamar University Beaumont	0256			7,404,298.37
Lamar Institue of Technology	0287			2,441,147.03
Lamar State College Orange	0285			3,132,453.77
Lamar State College Port Arthur	0286			67,168.47
Sam Houston University	0259			8,771,765.32
Sam Houston University	0581			885,255.53
Sam Houston University	5083			1,601,722.60
Sul Ross State University	0262			513,207.50
Texas State University San Marcos	0260			21,094,260.14
		$ -	**-**	**$ 45,911,367.90**

(PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

EXCERPTS FROM THE MASTER RESOLUTION

(PAGE INTENTIONALLY LEFT BLANK)

MASTER RESOLUTION ESTABLISHING THE TEXAS STATE UNIVERSITY SYSTEM REVENUE FINANCING SYSTEM AS AMENDED BY THE RESOLUTION AMENDING THE MASTER RESOLUTION 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 Genera] 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 lime 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 lo 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 lo 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 m 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 persona) 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) <u>Deemed Paid</u>. 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 afreet 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 extern of such conflict or inconsistency.

Section 15. 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 infra-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 Hen 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 Ihe 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 ofhigher 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 arc 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'S OPINION

(PAGE INTENTIONALLY LEFT BLANK)

LAW OFFICES
McCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
SUITE 900
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE
SUITE 1800
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET
SUITE 1525
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

[*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 2011
IN THE PRINCIPAL AMOUNT OF $86,775,000

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 "Master Resolution Establishing the Texas State University System Revenue Financing System," as amended, the Fifteenth Supplemental Resolution to the Master Resolution authorizing the issuance of such Bonds and the Award Certificate (collectively, 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, that, except as discussed below, under the statutes, regulations, published rulings, and court decisions for federal income tax purposes existing on the date of this opinion, (i) the interest on the Bonds for federal income tax purposes will be excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest of which would be included as an alternative minimum tax preference under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied 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 will be 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.

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

FirstSouthwest℠