

# **TEXAS STATE UNIVERSITY SYSTEM**



## **SYSTEM ADMINISTRATION**

# **ANNUAL FINANCIAL REPORT**

*Year Ended August 31, 2007*

**Texas State University System  
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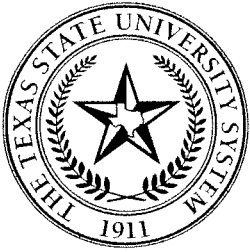
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# THE TEXAS STATE UNIVERSITY SYSTEM

Founded 1911

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

## REGENTS

**Bernie C. Francis**  
Carrollton, Acting Chairman

**Dora G. Alcalá**  
Del Rio

**Charlie Amato**  
San Antonio

**Ron Blatchley**  
Bryan | College Station

**John E. Dudley**  
Comanche

**Dionicio "Don" Flores**  
El Paso

**Magdalena Manzano**  
Huntsville, Student Regent

**Trisha S. Pollard**  
Bellaire

**Michael J. Truncale**  
Beaumont

**Greg Wilkinson**  
Dallas

## CHANCELLOR

**Charles R. Matthews**  
Austin

## SYSTEM MEMBERS

**Lamar University**  
Beaumont

**Sam Houston State University**  
Huntsville

**Sul Ross State University**  
Alpine

**Sul Ross State University**  
**Rio Grande College**  
Del Rio, Eagle Pass, Uvalde

**Texas State University--San Marcos**  
San Marcos

**Lamar Institute of Technology**  
Beaumont

**Lamar State College--Orange**  
Orange

**Lamar State College--Port Arthur**  
Port Arthur

November 20, 2007

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

Lady and Gentlemen:

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

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

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

Sincerely,

Charles R. Matthews  
Chancellor

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

**Board of Regents**

Officers

Bernie C. Francis      Acting Chairman  
Vacant                      Vice Chairman

Members

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

**Administrative Officers**

System Administration

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

UNAUDITED  
Texas State University System  
Statement of Net Assets  
August 31, 2007

	<b>Total</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	
Cash on Hand	
Cash in Bank	\$ 20,426.44
Cash in Transit/Reimbursement from Treasury	
Cash in State Treasury	142,943.54
Cash Equivalents	427,615.52
Securities Lending Collateral	
Short Term Investments	
Restricted:	
Cash and Cash Equivalents	
Cash on Hand	38.70
Cash in Bank	(29,435.57)
Cash in Transit/Reimbursement from Treasury	
Cash in State Treasury	
Cash Equivalents	3,452,052.11
Short Term Investments	
Legislative Appropriations	7,704,730.64
Investments	
Receivables from:	
Federal	
Other Intergovernmental	
Interest and Dividends	
Accounts Receivable	
Gifts	
Investment Trades	
Other	13,416.27
Interfund Receivables	
Due From Other Agencies	8,732,710.91
Consumable Inventories	2,486.49
Merchandise Inventories	
Deferred Charges	
Loans and Contracts	
Other Current Assets	88,372.43
Total Current Assets	\$ 20,555,357.48

UNAUDITED  
Texas State University System  
Statement of Net Assets  
August 31, 2007

	<b>Total</b>
Noncurrent Assets:	
Restricted:	
Cash and Cash Equivalents	
Cash on Hand	
Cash in Bank	
Cash in Transit/Reimbursement from Treasury	
Cash in State Treasury	
Cash Equivalents	
Short Term Investments	
Receivables	
Investments	
Loans and Contracts	
Other Assets	\$ 2,279,233.20
Loans and Contracts	
Investments	
Interfund Receivables	
Capital Assets:	
Non-Depreciable:	
Land and Land Improvements	
Infrastructure	
Construction in Progress	
Other Capital Assets	
Depreciable:	
Buildings and Building Improvements	
Less Accumulated Depreciation	
Infrastructure	
Less Accumulated Depreciation	
Facilities and Other Improvements	
Less Accumulated Depreciation	
Furniture and Equipment	
Less Accumulated Depreciation	
Vehicles, Boats, and Aircraft	
Less Accumulated Depreciation	
Other Capital Assets	6,439.92
Less Accumulated Depreciation	(6,439.92)
Other Noncurrent Assets	
Total Non-Current Assets	2,279,233.20
Total Assets	\$ 22,834,590.68

UNAUDITED  
Texas State University System  
Statement of Net Assets  
August 31, 2007

	<b>Total</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables:	
Accounts	\$ 54,134.64
Investment Trades	
Federal	
Other Intergovernmental	
Payroll	157,544.12
Other	10,549,447.87
Interfund Payable	
Due to Other Agencies	733.50
Deferred Revenues	489,360.75
Notes and Loans Payable	
Revenue Bonds Payable	26,798,238.39
General Obligation Bonds Payable	
Claims and Judgements	
Employees' Compensable Leave	97,786.67
Capital Lease Obligations	
Liabilities Payable from Restricted Assets	
Obligations/Reverse Purchase Agreements	
Obligations Under Securities Lending	
Funds Held for Others	
Other Current Liabilities	
Total Current Liabilities	38,147,245.94
Noncurrent Liabilities:	
Interfund Payables	
Notes and Loans Payable	
Revenue Bonds Payable	488,337,168.23
General Obligation Bonds Payable	
Claims and Judgements	
Employees Compensable Leave	56,175.43
Capital Lease Obligations	
Other Non-Current Liabilities	
Total Noncurrent Liabilities	488,393,343.66
Total Liabilities	\$ 526,540,589.60

UNAUDITED  
Texas State University System  
Statement of Net Assets  
August 31, 2007

	<b>Total</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$ (515,135,406.62)
Restricted for	
Education	269,709.03
Debt Retirement	
Capital Projects	(5,156,947.35)
Employee Benefit	
Funds Held As Permanent Investments:	
Non-Expendable	8,343,405.14
Expendable	
Other	
Unrestricted	7,973,240.88
Total Net Assets	\$ (503,705,998.92)



UNAUDITED  
Texas State University System  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended August 31, 2007

	<b>Total</b>
<b>OPERATING REVENUES</b>	
Sales of Goods and Services	
Tuition and Fees (PR-Chgs for Services)	
Tuition and Fees - Pledged (PR-Chgs for Services)	
Discounts and Allowances	
Hospitals (PR-Chgs for Services)	
Hospitals - Pledged (PR-Chgs for Services)	
Discounts and Allowances	
Professional Fees (PR-Chgs for Services)	
Professional Fees - Pledged (PR-Chgs for Services)	
Discounts and Allowances	
Auxiliary Enterprises (PR-Chgs for Services)	
Auxiliary Enterprises - Pledged (PR-Chgs for Services)	
Discounts and Allowances	
Other Sales of Goods and Services	
Other Sales of Goods and Services - Pledged	
Discounts and Allowances	
Premium Revenue (PR-Chgs for Services)	
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)	
Federal Pass Through Revenue (PR-OP Grants/Contributions)	
State Grant Revenue (PR-OP Grants/Contributions)	
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	
Other Grants and Contracts (PR-OP Grants/Contributions)	\$ 22,464.07
Land Income (PR-Chgs for Services)	
Contributions to Retirement Systems (PR-Chgs for Services)	
Other Operating Revenues (PR-Chgs for Services)	
Other Operating Revenues (GR)	
Total Operating Revenues	22,464.07
<b>OPERATING EXPENSES</b>	
Instruction	
Research	
Hospitals and Clinics	
Public Service	
Academic Support	
Student Services	
Institutional Support	2,552,740.59
Operation and Maintenance of Plant	
Scholarship and Fellowships	
Auxiliary Enterprise Expenditures	
Depreciation and Amortization	
Total Operating Expenses	2,552,740.59
Operating Income (Loss)	\$ (2,530,276.52)

UNAUDITED  
Texas State University System  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended August 31, 2007

	<b>Total</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Legislative Revenue (GR)	\$ 1,132,323.00
Additional Appropriations (GR)	257,987.23
HEAF Appropriation Revenue (GR)	
Federal Revenue Non-Operating (PR-OP Grants/Contributions)	
Gifts (PR-OP Grants/Contributions)	1,861,952.05
Investment Income (Expense) (PR-OP Grants/Contributions)	1,741,057.86
Investment Income (Expense) (GR)	7,082.94
Loan Premium/Fees on Securities Lending (PR-OP Grants/Contributions)	
Investing Activities Expense	(313,033.22)
Interest Expense and Fiscal Charges	(23,397,789.05)
Borrower Rebates and Agent Fees	
Gain (Loss) on Sale of Capital Assets (GR)	
Net Increase (Decrease) in Fair Value of Investments (PR-OP Grants/Contributions)	
Net Increase (Decrease) in Fair Value of Investments (GR)	
Settlement of Claims (PR-Chgs for Services)	
Settlement of Claims (GR)	
Other Nonoperating Revenues (Expenses) (PR-Chgs for Services)	(403,862.40)
Other Nonoperating Revenues (Expenses) (GR)	(13,846.25)
Total Nonoperating Revenues (Expenses)	(19,128,127.84)
Income (Loss) before Other Revenues, Expenses, Gains/Losses and Transfers	(21,658,404.36)
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS</b>	
Capital Contributions	
Capital Appropriations (HEAF)	
Contributions to Permanent and Term Endowments	
Special Items	
Extraordinary Items	
Transfer In	27,413,285.24
Transfer Out	(23,000,000.00)
Legislative Transfer In	18,591,105.67
Legislative Transfer Out	(13,082,788.53)
Lapses	
Total Other Revenues, Expenses, Gains/Losses and Transfers	9,921,602.38
<b>CHANGE IN NET ASSETS</b>	(11,736,801.98)
Net Assets, September 1, 2006	(491,969,196.94)
Restatements	
Net Assets, September 1, 2006, as Restated	(491,969,196.94)
<b>NET ASSETS, August 31, 2007</b>	\$ (503,705,998.92)

UNAUDITED  
Texas State University System  
Matrix of Operating Expenses Reported by Function  
For the Fiscal Year Ended August 31, 2007

	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
Operating Expenses											
Cost of Goods Sold											
Salaries and Wages						\$ 1,632,405.26					\$ 1,632,405.26
Payroll Related Costs						232,689.12					232,689.12
Professional Fees and Services						420,978.09					420,978.09
Federal Pass-Through Expense											
State Grant Pass-Through Expense											
Travel						76,996.59					76,996.59
Materials and Supplies						66,527.94					66,527.94
Communication and Utilities						48,135.28					48,135.28
Repairs and Maintenance						1,478.71					1,478.71
Rentals and Leases						27,876.80					27,876.80
Printing and Reproduction						10,093.38					10,093.38
Depreciation and Amortization*											
Bad Debt Expense											
Interest						11.10					11.10
Scholarships											
Claims and Judgments											
Other Operating Expenses						35,548.32					35,548.32
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,552,740.59</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,552,740.59</b>

UNAUDITED  
Texas State University System  
Statement of Cash Flows  
For the Fiscal Year Ended August 31, 2007

	<b>Total</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers	\$ 1,214,116.66
Proceeds from Tuition and Fees	
Proceeds from Research Grants and Contracts	
Proceeds from Gifts	
Proceeds from Loan Programs	
Proceeds from Auxiliaries	
Proceeds from Other Revenues	
Payments to Suppliers for Goods and Services	(790,855.85)
Payments to Employees for Salaries	(1,760,744.14)
Payments to Employees for Benefits	(320,849.65)
Payments for Loans Provided	
Payments for Other Expenses	(400.00)
Net Cash Provided by Operating Activities	(1,658,732.98)
<b>Cash Flows from Noncapital Financing Activities</b>	
Proceeds from Debt Issuance	
Proceeds from State Appropriations	14,431,114.32
Proceeds from Gifts	
Proceeds from Endowments	
Proceeds of Transfers from Other Funds	
Proceeds from Grant Receipts	105,000.00
Proceeds from Advances from Other Funds	
Proceeds from Loan Programs	
Proceeds from Other Financing Activities	
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	(13,082,788.53)
Payments for Grant Disbursements	(29,435.57)
Payments for Advances to Other Funds	(731,898.03)
Payments for Other Uses	
Net Cash Provided by Noncapital Financing Activities	691,992.19
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from the Sale of Capital Assets	
Proceeds from Debt Issuance	24,011,918.29
Proceeds from State Grants and Contracts	
Proceeds from Federal Grants and Contracts	
Proceeds from Gifts	1,861,952.05
Proceeds from Other Financing Activities	
Proceeds from Capital Contributions	
Proceeds from Advances from Other Funds	44,999,668.39
Payments for Additions to Capital Assets	
Payments of Principal on Debt	(23,925,000.00)
Payments for Capital Lease	(23,000,000.00)
Payments of Interest on Debt Issuance	(24,394,618.47)
Payments of Other Costs of Debt Issuance	(327,083.17)
Net Cash Provided by Capital and Related Financing Activities	(773,162.91)

UNAUDITED  
Texas State University System  
Statement of Cash Flows  
For the Fiscal Year Ended August 31, 2007

	<b>Total</b>
<b>Cash Flows from Investing Activities</b>	
Proceeds from Sales of Investments	
Proceeds from Interest Income	\$ 1,300,214.29
Proceeds from Investment Income	
Proceeds from Principal Payments on Loans	
Payments to Acquire Investments	
Net Cash Provided by Investing Activities	1,300,214.29
Net Increase (Decrease) in Cash and Cash Equivalents	(439,689.41)
Cash and Cash Equivalents, September 1, 2006	4,453,330.15
Changes in Accounting Principal	
Changes in Reporting Entity	
Restatements to Beginning Cash and Cash Equivalents	
Cash and Cash Equivalents, September 1, 2006 - Restated	4,453,330.15
Cash and Cash Equivalents, August 31, 2007	4,013,640.74
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income (Loss)	(2,530,276.52)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Amortization and Depreciation	
Bad Debt Expense	
Operating Income and Cash Flow Categories: Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	
Increase (Decrease) in Due from Other Funds	
(Increase) Decrease in Inventories	(70.70)
(Increase) Decrease in Prepaid Expenses	(2,232.27)
(Increase) Decrease in Notes Receivable	
(Increase) Decrease in Loans & Contracts	
(Increase) Decrease in Other Assets	86,140.16
(Increase) Decrease in State Appropriations	
Increase (Decrease) in Payables	(95,808.03)
Increase (Decrease) in Deposits	
Increase (Decrease) in Due to Other Funds	1,001,883.67
Increase (Decrease) in Deferred Income	
Increase (Decrease) in Compensated Absence Liability	(118,369.29)
Increase (Decrease) in Benefits Payable	
Increase (Decrease) in Other Liabilities	
Total Adjustments	871,543.54
Net Cash Provided by Operating Activities	\$ (1,658,732.98)
<b>Non Cash Transactions</b>	
Donation of Capital Assets	
Net Change in Fair Value of Investments	
Borrowing Under Capital Lease Purchase	
Other	

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**TEXAS STATE UNIVERSITY SYSTEM  
SYSTEM ADMINISTRATION**

**NOTES TO THE FINANCIAL STATEMENTS**

August 31, 2007

**NOTE 1: Summary of Significant Accounting Policies**

**Entity**

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

The Texas State University System is comprised of System Administration and the following institutions: Angelo State University, Lamar University, Sam Houston State University, Sul Ross State University, Texas State University-San Marcos, Lamar Institute of Technology, Lamar State College - Orange, and Lamar State College - Port Arthur. System Administration's primary role is to provide administrative support services for the component entities. Other groups served by System Administration include the Board of Regents, other state agencies, and the citizens of Texas, including the staffs and students of the component institutions.

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.

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**Note 1 Continued**

**Proprietary Funds**

**Business Type Activity**

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

**Component Units**

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

**Basis of Accounting**

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

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

**Budget and Budgetary Accounting**

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

**Assets, Liabilities, and Fund Balances/Net Assets**

**ASSETS**

**Cash and Cash Equivalents**

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

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**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 balance sheet. The costs of securities lending transactions are reported as expenditures or expenses in the Operating Statement. These costs are reported at gross.

Restricted Assets

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

Inventories and Prepaid Items

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

Capital Assets

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

Current Receivables - Other

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



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**Note 1 Continued**

**LIABILITIES**

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet 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 non-current 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 non-current 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 non-current in the statement of net assets. Bond proceeds and principal payments are reported in the Statement of Cash Flows.

**FUND BALANCE/NET ASSETS**

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

Invested in Capital Assets, Net of Related Debt

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

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**Note 1 Continued**

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**

System Administration has the following types of transactions among funds:

Transfers

Legally required transfers that are reported when incurred as “Transfers In” by the recipient fund and as “Transfers Out” by the disbursing fund.

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.

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”.

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 System Administration’s Interfund activities is presented in Note 8.

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**NOTE 2: Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2007 is presented as follows:

	Balance 09/01/06	Adjustments	Additions	Deletions	Balance 08/31/07
<b>BUSINESS-TYPE ACTIVITIES</b>					
Depreciable Assets					
Furniture and Equipment	\$ 19,571.92			\$ 19,571.92	\$ 0
Other Capital Assets	6,439.92				6,439.92
Total Depreciable Assets	26,011.84			19,571.92	6,439.92
Less Accumulated Depreciation for:					
Furniture and Equipment	15,370.59			15,370.59	0
Other Capital Assets	6,439.92				6,439.92
Total Accumulated Depreciation	21,810.51			15,370.59	6,439.92
<b>Capital Assets, Net</b>	<b>\$ 4,201.33</b>	<b>\$</b>	<b>\$</b>	<b>\$ 4,201.33</b>	<b>\$ 0</b>

**NOTE 3: Deposits, Investments, & Repurchase Agreements**

The Texas State University System - System Administration 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:

- Obligations of the United States or its agencies,
- Direct obligations of the State of Texas or its agencies,
- Obligations of political subdivisions rated not less than A by a national investment rating firm,
- Certificates of deposit, and
- Other instruments and obligations authorized by statute.

**Deposits of Cash in Banks**

As of August 31, 2007, the actual bank balance was \$95,903.95. The carrying value, identified as a Governmental and Business-Type Activity, was (\$8,970.43) as presented below.

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**Note 3 Continued****GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

CASH IN BANK - CARRYING VALUE PER AFR	<u>\$ (8,970.43)</u>
Proprietary Funds Current Assets Cash in Banks	\$ 20,426.44
Proprietary Funds Current Assets Restricted Cash in Banks	<u>-29,396.87</u>
<b>Cash in Banks per AFR</b>	<u><b>\$ (8,970.43)</b></u>

**Investments**

The carrying and fair values of investments as of the balance sheet date (both short and long term) are shown below.

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	<u>Fair Value</u>
Other Commingled Funds	\$ -
Other Commingled Funds - Texpool	<u>3,879,667.63</u>
<b>Total Investments</b>	<u><u><b>\$ 3,879,667.63</b></u></u>

**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

Proprietary Funds Current Assets Cash Equivalents	\$ 427,615.52
Proprietary Funds Current Assets Restricted Cash Equivalents	<u>3,452,052.11</u>
<b>Total Investments</b>	<u><u><b>\$ 3,879,667.63</b></u></u>

**NOTE 4: Short-Term Debt**

Note not applicable.

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**NOTE 5: Summary of Long Term Liabilities**

**Changes in Long-term Liabilities**

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

BUSINESS - TYPE ACTIVITIES	BALANCE			AMOUNTS	
	09/01/06	ADDITIONS	REDUCTIONS	BALANCE 08/31/07	DUE WITHIN ONE YEAR
General Obligation Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds	517,220,649.07	23,475,000.00	25,560,242.45	515,135,406.62	26,798,238.39
Compensable Leave	272,331.39		118,369.29	153,962.10	97,786.67
<b>TOTALS</b>	<b>\$ 517,492,980.46</b>	<b>\$ 23,475,000.00</b>	<b>\$ 25,678,611.74</b>	<b>\$ 515,289,368.72</b>	<b>\$ 26,896,025.06</b>

**General Obligation and Revenue Bonds Payable**

See Note 13 for a discussion of Bonds Payable.

**Employees' 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 month. 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.

**NOTE 6: Capital Leases**

Note not applicable.

**NOTE 7: Operating Leases**

Note not applicable.

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**NOTE 8: Interfund Balances/Activities**

System Administration experienced routine transfers with other State agencies, which were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statements.

Individual balances and activity at August 31, 2007 follows:

OPTIONAL NOTE 8 PRESENTATION	DUE FROM OTHER AGENCIES	DUE TO OTHER AGENCIES	SOURCE
Appd. Fund 9999, D23 Fund 0001			
Agency 734, D23 Fund 7999	\$ 8,620,581.78		Local
Agency 737, D23 Fund 7999	41,304.98		Local
Agency 753, D23 Fund 7999	13,157.12	733.50	Local
Agency 754, D23 Fund 7999	14,697.61		Local
Agency 756, D23 Fund 7999	36,917.33		Local
Agency 787, D23 Fund 7999	2,273.61		Local
Agency 788, D23 Fund 7999	1,291.11		Local
Agency 789, D23 Fund 7999	2,487.37		Local
<b>TOTALS</b>	<b>\$ 8,732,710.91</b>	<b>\$ 733.50</b>	

OPTIONAL NOTE 8 PRESENTATION	TRANSFER IN	TRANSFER OUT	PURPOSE
Appd. Fund 9999, D23 Fund 0001			
Agency 734, D23 Fund 7999	\$ 5,252,398.36		Reimbursement
Agency 734, D23 Fund 7999		\$ 16,700,000.00	Bond Proceeds
Agency 737, D23 Fund 7999	1,521,166.08		Reimbursement
Agency 753, D23 Fund 7999	6,705,939.66		Reimbursement
Agency 754, D23 Fund 7999	11,826,743.76		Reimbursement
Agency 754, D23 Fund 7999		6,300,000.00	Bond Proceeds
Agency 756, D23 Fund 7999	1,431,719.93		Reimbursement
Agency 787, D23 Fund 7999	179,757.08		Reimbursement
Agency 788, D23 Fund 7999	242,195.62		Reimbursement
Agency 789, D23 Fund 7999	253,364.75		Reimbursement
<b>TOTALS</b>	<b>\$ 27,413,285.24</b>	<b>\$ 23,000,000.00</b>	

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**Note 8 Continued**

REQUIRED NOTE 8 PRESENTATION	LEGISLATIVE TRANSFERS	
	IN	OUT
GENERAL REVENUE (01)		
Appd. Fund 0001, D23 Fund 0001		
Agency 734, D23 Fund 0001	\$ 2,244,225.00	\$ 8,382,315.29
Agency 737, D23 Fund 0001	4,124,122.63	
Agency 753, D23 Fund 0001	2,080,339.00	
Agency 754, D23 Fund 0001	5,581,789.00	
Agency 756, D23 Fund 0001	2,778,447.00	
Agency 787, D23 Fund 0001	448,449.04	705,374.14
Agency 788, D23 Fund 0001	780,945.00	2,866,007.00
Agency 789, D23 Fund 0001	552,789.00	1,129,092.10
<b>Totals</b>	<b>\$ 18,591,105.67</b>	<b>\$ 13,082,788.53</b>

**NOTE 9: Contingent Liabilities**

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

**NOTE 10: Continuance Subject to Review**

Note not applicable.

**NOTE 11: Risk Financing and Related Insurance**

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.

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**Note 11 Continued**

Wiley v. Texas State University – San Marcos, a claim resulting from the university’s termination of an executive level employee related to the performance of public duties, was settled for \$215,000. No other losses occurred during the fiscal year ended August 31, 2007 and no claims were pending at that date.

**NOTE 12: Segment Information**

Note not applicable

**NOTE 13: Bonded Indebtedness**

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

- (a) Amounts received on behalf of any member under Article 7, Section 17 of the Constitution of the State of Texas, including the income there from and any balances relating thereto, and
- (b) General Revenue Fund appropriations, except to the extent so specifically appropriated for debt service to the Board by the Legislature of the State of Texas.

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

Housing System Revenue Bonds, Series 1986  
Utility System Revenue Bonds, Series 1996

Members may use the Revenue Financing System as a long-term debt program to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings,



UNAUDITED

**Note 13 Continued**

structures, facilities, roads, or related infrastructure. An institution's request for the use of the Revenue Financing System is evaluated for an adequate revenue stream and bonding capacity for the specific institution prior to Board approval of issuing additional parity debt.

Each component institution receives its portion of the bond proceeds and accounts for the earnings and disbursements of the bond proceeds. Assets created and/or acquired as a result of the Revenue Financing System bond proceeds expended and subsequently capitalized are reported on the component institutions' Financial Reports. The associated bond liability and debt service activities are reported in total by the TSUS - System Administration.

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

Revenue Bonds, Series 1998A

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

Revenue Refunding Bonds, Series 1998B

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

UNAUDITED

**Note 13 Continued**

Revenue Refunding Bonds, Taxable Series 1998

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

Revenue Bonds Series 2000

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

Revenue Bonds Series 2001

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

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.

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**Note 13 Continued**

- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2006-2007 biennium, for the Tuition Revenue financed share, \$98,935,000, of the issued bonds. Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue Bonds Series 2003

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

Revenue and Refunding Bonds Series 2004

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure; refund certain outstanding debt obligations of the Board; and to pay cost of issuance related to the bonds.
- Issued December 3, 2004.
- \$85,950,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Lamar University (\$19,500,000), Sul Ross State University (\$20,240,000), and refund of certain outstanding debt and pay cost of issuance (\$46,210,000).
- Debt service payments will be made from mandatory transfers from the Universities.

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**Note 13 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 2006-2007 biennium, for the Tuition Revenue financed share, \$31,865,395, of the issued bonds. Funding for the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds and full funding for future bienniums is anticipated.

Revenue and Refunding Bonds Series 2005

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

Revenue Financing Revenue Bonds, Series 2006

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

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**Note 13 Continued**

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 Universities.
- Source of revenue for debt service – Revenue Financing System.

**DEFEASED BONDS**

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

Revenue Bonds, Series 1998A

- To acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, facilities, roads or related infrastructures for the members of the Revenue Financing System and to pay costs of issuance related to the bonds.
- Issued September 16, 1998.
- \$94,540,000; all authorized bonds have been issued.
- Bond proceeds were distributed to the TSUS components.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2006-2007 biennium, for the Tuition Revenue financed share, \$80,950,000, of the issued bonds. However, the funding for the 2004-2005 biennium debt service was less than the total requirements. Funding for 2007-2008 biennium meets the debt service for Tuition Revenue Bonds.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds, Series 2004 and Revenue and Refunding Bonds, Series 2005 included Tuition Revenue Bonds of \$31,728,606 and \$12,177,362 for 2004 and 2005, respectively.
- Certain outstanding maturities with par values totaling \$38,080,000 were defeased in 2004 and \$13,475,000 in 2005.
- Year defeased 2004
- Economic gain on defeasement – Present Value Savings \$833,431.28 in 2004 and \$334,976.98 in 2005.

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**Note 13 Continued**

Revenue Refunding Bonds, Series 1998B

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

Revenue Bonds Series 2000

- To provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip the property, buildings, structures, facilities, roads, or related infrastructure and to pay any costs related to the issuance of the bonds.
- Issued September 26, 2000.
- \$26,000,000; all authorized bonds were issued.
- Bond proceeds of \$10,000,000 and \$16,000,000 were distributed to Sam Houston State University and Texas State University-San Marcos, respectively.
- The debt has been retained on the books of System Administration.
- Debt service payments will be made from mandatory transfers from the respective universities.
- Source of revenue for debt service - Revenue Financing System.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds, Series 2004 and Revenue and Refunding Bonds, Series 2005.
- Certain outstanding maturities with par values totaling \$7,550,000 were defeased.
- Year Defeased 2004.
- Economic gain on defeasement – Present Value Savings \$164,359.23.
- Certain outstanding maturities with par values totaling \$8,920,000 were defeased.
- Year defeased 2005
- Economic gain on defeasement – Present Value Savings \$112,096.59.

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.

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**Note 13 Continued**

- 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.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds, Series 2005.
- Certain outstanding maturities with par values totaling \$3,320,000.
- Year defeased 2005.
- Economic gain on defeasement – Present Value Savings \$459,764.88.

**NOTE 14: Subsequent Events**

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

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

**NOTE 15: Related Parties**

Note not applicable.

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**NOTE 16: Stewardship, Compliance, and Accountability**

Note not applicable.

**NOTE 17: 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 Administration has determined that it does not have legally separate organizations that should be considered Component Units.

The following foundation, while not component unit, is disclosed due to its significant relationship with the System Administration:

The Texas State University System Foundation, Inc. was incorporated in November 1977. The Corporation was organized to advance education through financial support of the component institutions and system office. A five-member board appointed by the Board of Regents for the Texas State University System governs the Foundation. During the 2002 fiscal year the Foundation created three limited liability companies (LLC) an additional LLC was created in fiscal year 2003 to act as the “Borrowers” for loan funds of bond proceeds of bonds issued by the Raven Hills Higher Education Corporation. The loan funds were used to build student housing on the campuses of Angelo State University, Lamar University, and Texas State University-San Marcos. The loans were repayable from revenues generated by the housing projects. The loans were not liabilities of System Administration or component institutions. Bonds were issued by the System on June 8, 2006 to buy the Foundation’s assets for the respective universities. See Note 13, Revenue Financing Revenue Bonds, Series 2006, for the discussion of the debt.

**NOTE 18: Restatement of Fund Balance/Net Assets**

Note not applicable.

**NOTE 19: Employees Retirement Plans**

Note not applicable.



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**NOTE 20: Deferred Compensation**

Note not applicable.

**NOTE 21: Donor Restricted Endowments**

Note not applicable.

**NOTE 22: Management Discussion & Analysis (MD&A)**

Note not applicable.

**NOTE 23: Post Employment Health Care and Life Insurance Benefits**

Note not applicable.

**NOTE 24: Special and Extraordinary Items**

Note not applicable.

**NOTE 25: Disaggregation of Receivable and Payable Balances**

Other Noncurrent Assets at August 31, 2007 of \$2,279,233.20 for System Administration denotes the escrow interest amortization on the Revenue Bonds, Series 1998A and Series 2000.

Other Current Liabilities at August 31, 2007 of \$10,549,447.87 represents the accrued interest payable on the outstanding bonds payable.

**NOTE 26: Termination Benefits**

Note not applicable.

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

<u>Business Type Activity</u> Description	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Year	
<b>REVENUE BONDS</b>					
Revenue Financing System Bonds					
Texas State University System					
Series 1998A	\$ 94,540,000.00	4.5% to 5.5%	2000	2018	03-15-08
Series 1998B	53,505,000.00	4.5% to 5.5%	1999	2015	03-15-08
Taxable Series 1998	15,920,000.00	5.52% to 6.46%	1999	2010	03-15-08
Series 2000	26,000,000.00	4.8% to 5.5%	2001	2020	03-15-10
Series 2001	12,400,000.00	4.25% to 5.25%	2002	2021	03-15-11
Series 2002	147,445,000.00	2.0% to 5.25%	2003	2022	03-15-12
Taxable Series 2002A	14,170,000.00	1.875% to 4.375%	2003	2011	NA
Series 2003	47,635,000.00	3.625% to 4.625%	2004	2023	03-15-13
Series 2004	85,950,000.00	2.25% to 5.00%	2005	2034	09-15-14
Series 2005	43,250,000.00	3.25% to 5.00%	2006	2034	03-15-15
Series 2006	140,260,000.00	4.25% to 5.00%	2007	2034	03-15-16
Series 2006A	23,475,000.00	4.00% to 5.50%	2008	2026	03-15-16
<b>TOTAL</b>	<b>\$ 704,550,000.00</b>				

**UNAUDITED**

TEXAS STATE UNIVERSITY SYSTEM  
SYSTEM ADMINISTRATION

SCHEDULE 2B

COMBINED CHANGE IN BONDED INDEBTEDNESS

For the Year Ended August 31, 2007

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

**UNAUDITED**

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

<u>Business Type Activity</u>			
Description	Year	Principal	Interest
Revenue Financing System Bonds			
Texas State University System			
Series 1998A	2008	\$ 4,735,000.00	633,231.26
	2009	0.00	384,643.76
	2010	0.00	384,643.76
	2011	0.00	384,643.76
	2012	0.00	384,643.76
	2013-2017	5,380,000.00	1,713,943.80
	2018-2021	2,305,000.00	118,131.20
		<u>\$ 12,420,000.00</u>	<u>\$ 4,003,881.30</u>
Series 1998B	2008	\$ 2,985,000.00	\$ 1,060,981.24
	2009	2,670,000.00	904,268.76
	2010	2,800,000.00	784,118.74
	2011	2,940,000.00	654,618.72
	2012	3,085,000.00	518,643.76
	2013-2015	7,365,000.00	653,999.98
		<u>\$ 21,845,000.00</u>	<u>\$ 4,576,631.20</u>
Taxable Series 1998	2008	\$ 1,695,000.00	\$ 347,330.50
	2009	1,810,000.00	240,376.01
	2010	1,925,000.00	124,354.98
		<u>\$ 5,430,000.00</u>	<u>\$ 712,061.49</u>
Series 2000	2008	\$ 1,090,000.00	\$ 184,981.26
	2009	1,155,000.00	126,393.76
	2010	1,225,000.00	64,312.50
		<u>\$ 3,470,000.00</u>	<u>\$ 375,687.52</u>
Series 2001	2008	\$ 500,000.00	\$ 317,437.50
	2009	525,000.00	294,937.50
	2010	550,000.00	271,312.50
	2011	575,000.00	242,437.50
	2012	0.00	212,250.00
	2013-2017	765,000.00	1,061,250.00
	2018-2021	3,480,000.00	446,250.00
		<u>\$ 6,395,000.00</u>	<u>\$ 2,845,875.00</u>

**UNAUDITED**

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

Series 2002	2008	\$ 5,715,000.00	\$ 5,860,612.54
	2009	6,010,000.00	5,574,862.54
	2010	6,310,000.00	5,274,362.52
	2011	6,630,000.00	4,958,862.42
	2012	6,860,000.00	4,726,812.52
	2013-2017	39,245,000.00	17,939,300.00
	2018-2022	<u>47,910,000.00</u>	<u>7,185,599.92</u>
		<u>\$ 118,680,000.00</u>	<u>\$ 51,520,412.46</u>
Series 2002 - Premium Amortization	2008	\$ 856,787.54	\$ -856,787.54
	2009	762,424.58	-762,424.58
	2010	672,417.65	-672,417.65
	2011	586,604.80	-586,604.80
	2012	599,409.85	-599,409.85
	2013-2017	1,708,397.32	-1,708,397.32
	2018-2022	<u>292,863.53</u>	<u>-292,863.53</u>
		<u>\$ 5,478,905.27</u>	<u>\$ -5,478,905.27</u>
Series 2002 - Total	2008	\$ 6,571,787.54	\$ 5,003,825.00
	2009	6,772,424.58	4,812,437.96
	2010	6,982,417.65	4,601,944.87
	2011	7,216,604.80	4,372,257.62
	2012	7,459,409.85	4,127,402.67
	2013-2017	40,953,397.32	16,230,902.68
	2018-2022	<u>48,202,863.53</u>	<u>6,892,736.39</u>
		<u>\$ 124,158,905.27</u>	<u>\$ 46,041,507.19</u>
Taxable Series 2002A	2008	\$ 1,765,000.00	\$ 308,543.76
	2009	1,850,000.00	244,562.50
	2010	1,950,000.00	170,562.50
	2011	<u>2,060,000.00</u>	<u>90,125.00</u>
		<u>\$ 7,625,000.00</u>	<u>\$ 813,793.76</u>
Taxable Series 2002A - Discount Amortization	2008	\$ -3,926.62	\$ 3,926.62
	2009	-2,383.18	2,383.18
	2010	-2,486.36	2,486.36
	2011	<u>-908.53</u>	<u>908.53</u>
		<u>\$ -9,704.69</u>	<u>\$ 9,704.69</u>
Taxable Series 2002A - Total	2008	\$ 1,761,073.38	\$ 312,470.38
	2009	1,847,616.82	246,945.68
	2010	1,947,513.64	173,048.86
	2011	<u>2,059,091.47</u>	<u>91,033.53</u>
		<u>\$ 7,615,295.31</u>	<u>\$ 823,498.45</u>

**UNAUDITED**

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

Series 2003	2008	\$ 1,875,000.00	\$ 1,803,905.00
	2009	1,945,000.00	1,735,936.26
	2010	2,025,000.00	1,665,430.00
	2011	2,105,000.00	1,584,430.02
	2012	2,190,000.00	1,500,230.02
	2013-2017	12,460,000.00	6,016,393.86
	2018-2022	15,455,000.00	2,956,059.94
	2023	3,540,000.00	163,724.95
		<u>\$ 41,595,000.00</u>	<u>\$ 17,426,110.05</u>
Series 2004	2008	\$ 1,035,000.00	\$ 4,182,867.50
	2009	5,915,000.00	4,151,817.49
	2010	6,215,000.00	3,856,067.52
	2011	6,525,000.00	3,545,317.54
	2012	8,215,000.00	3,219,067.52
	2013-2017	29,685,000.00	10,124,020.00
	2018-2022	9,025,000.00	5,922,500.00
	2023-2027	9,955,000.00	3,427,000.00
	2028-2032	5,530,000.00	1,510,250.00
	2033-2034	2,615,000.00	197,750.00
		<u>\$ 84,715,000.00</u>	<u>\$ 40,136,657.57</u>
Series 2004 - Premium Amortization	2008	\$ 750,377.47	\$ -750,377.47
	2009	770,651.60	-770,651.60
	2010	663,698.47	-663,698.47
	2011	564,491.89	-564,491.89
	2012	471,649.15	-471,649.15
	2013-2017	906,908.83	-906,908.83
	2018-2022	244,380.44	-244,380.44
	2023-2027	82,113.99	-82,113.99
	2028-2032	23,688.76	-23,688.76
	2033-2034	3,245.44	-3,245.44
	<u>\$ 4,481,206.04</u>	<u>\$ -4,481,206.04</u>	
Series 2004 - Total	2008	\$ 1,785,377.47	\$ 3,432,490.03
	2009	6,685,651.60	3,381,165.89
	2010	6,878,698.47	3,192,369.05
	2011	7,089,491.89	2,980,825.65
	2012	8,686,649.15	2,747,418.37
	2013-2017	30,591,908.83	9,217,111.17
	2018-2022	9,269,380.44	5,678,119.56
	2023-2027	10,037,113.99	3,344,886.01
	2028-2032	5,553,688.76	1,486,561.24
	2033-2034	2,618,245.44	194,504.56
	<u>\$ 89,196,206.04</u>	<u>\$ 35,655,451.53</u>	

**UNAUDITED**

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

Series 2005	2008	\$ 490,000.00	\$ 2,038,475.00
	2009	970,000.00	2,021,325.00
	2010	1,025,000.00	1,987,375.02
	2011	2,380,000.00	1,948,937.54
	2012	1,760,000.00	1,829,937.52
	2013-2017	16,910,000.00	7,822,437.60
	2018-2022	14,625,000.00	2,341,612.48
	2023-2026	<u>4,120,000.00</u>	<u>472,418.76</u>
		<u>\$ 42,280,000.00</u>	<u>\$ 20,462,518.92</u>
Series 2006	2008	\$ 2,515,000.00	6,775,112.50
	2009	2,810,000.00	6,668,225.00
	2010	3,065,000.00	6,548,800.00
	2011	3,295,000.00	6,418,537.50
	2012	3,485,000.00	6,278,500.00
	2013-2017	20,240,000.00	28,595,500.00
	2018-2022	25,890,000.00	22,997,500.00
	2023-2027	33,030,000.00	15,846,000.00
	2028-2032	37,030,000.00	6,724,250.00
	2033-2034	<u>5,895,000.00</u>	<u>416,750.00</u>
	<u>\$ 137,255,000.00</u>	<u>\$ 107,269,175.00</u>	
Series 2006A	2008	\$ 795,000.00	1,092,837.52
	2009	825,000.00	1,061,037.52
	2010	865,000.00	1,019,787.52
	2011	910,000.00	976,537.52
	2012	950,000.00	940,137.52
	2013-2017	5,420,000.00	4,023,987.60
	2018-2022	6,935,000.00	2,502,962.56
	2023-2026	<u>6,775,000.00</u>	<u>778,725.00</u>
	<u>\$ 23,475,000.00</u>	<u>\$ 12,396,012.76</u>	

**UNAUDITED**

TEXAS STATE UNIVERSITY SYSTEM  
SYSTEM ADMINISTRATION  
SCHEDULE 2D

SCHEDULE OF ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE  
For the Year Ended August 31, 2007

Business Type Activity - Revenue Bonds	Pledged and Other Sources and Related Expenditures for the Year			
	Description of Issues	Pledged and Other Sources	Net Available for Debt Service	
			Operating Expenses and Capital Outlay	Debt Service
		Principal	Interest	
TSUS Revenue Financing System Revenue Bonds				
Series 1998A	\$	\$	4,495,000	869,219
Series 1998B			2,840,000	1,210,081
Taxable Series 1998			1,590,000	446,865
Series 2000			1,035,000	240,613
Series 2001			480,000	337,838
Series 2002			5,495,000	6,080,412
Taxable Series 2002A			1,685,000	365,413
Series 2003			1,825,000	1,870,061
Series 2004			1,000,000	4,212,867
Series 2005			475,000	2,053,913
Series 2006			3,005,000	6,027,350
Series 2006A			0	679,988
Subtotal Revenue Financing System Revenue Bonds	\$ 332,847,030	\$ 320,899,934	\$ 23,925,000	\$ 24,394,620



**UNAUDITED**

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

<u>Description of Issues</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds		
Tuition Revenue Bonds		
Texas State University System		
Series 1998A	2005	\$ 38,080,000.00
Series 2000	2005	7,550,000.00
Series 1998A	2006	13,475,000.00
Series 1998B	2006	2,700,000.00
Series 2000	2006	8,920,000.00
Series 2001	2006	3,320,000.00
Total Defeased Bonds		<u>\$ 74,045,000.00</u>

**UNAUDITED**

TEXAS STATE UNIVERSITY SYSTEM  
SYSTEM ADMINISTRATION

SCHEDULE 2F

**SCHEDULE OF EARLY EXTINGUISHMENT AND REFUNDING**

For the Year Ended August 31, 2007

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

UNAUDITED  
Texas State University System  
Schedule 3 - Reconciliation of Cash in State Treasury  
August 31, 2007


Cash in State Treasury	Unrestricted	Restricted	Current Year Total
Texas State University System Special Mineral Fund 0283	\$142,943.54		\$ 142,943.54
Total Cash in State Treasury (stmt of Net Assets)	\$142,943.54	\$ -	\$ 142,943.54

# Texas Comptroller of Public Accounts

## Fiscal 2007 Acknowledgement of Management's Responsibility of Internal Controls over Financial Reporting

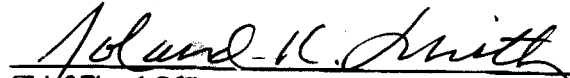
Texas State University System management is responsible for the accuracy of the financial information submitted, either in hard copy Annual Financial Report form and/or transactions and balances entered into the Uniform Statewide Accounting System, for inclusion in the 2007 Texas Comprehensive Annual Financial Report. Texas State University System management is also responsible for establishing and maintaining an adequate system of internal controls over the financial information and has designed such internal controls to ensure that materially accurate financial information will be reported. Understanding these responsibilities, Texas State University System management makes the following acknowledgements.

1. We are aware that management must ensure that the internal control structure and procedures adequately safeguard the agency's assets and provide reasonable assurance as to the proper recording of financial transactions and balances, including having an Internal Control Plan/Structure addressing but not limited to the following:
  - o Accounting and Fiscal Operations
  - o Budget
  - o Cash
  - o Investments
  - o Capital Assets
  - o Long-Term Debt
  - o Revenues and Receivables
  - o Procurement
  - o Payroll and Personnel
  - o Expenditures and Payables
  - o Interfund/Interagency Transactions
  - o Federal Funds
  - o Bonds
2. We are aware that management must evaluate the effectiveness of the internal control structure over the financial information.
3. We are aware that management must certify the financial information submitted is accurate in all material respects and that all necessary disclosures have been made according to the reporting requirements.

  
\_\_\_\_\_  
Agency Head (signature)

11/20/2007  
\_\_\_\_\_  
Date

Charles R. Matthews  
\_\_\_\_\_  
Printed Name

  
\_\_\_\_\_  
Chief Fiscal Officer (signature)

11/21/2007  
\_\_\_\_\_  
Date

Roland K. Smith  
\_\_\_\_\_  
Printed Name

  
\_\_\_\_\_  
IT Manager (signature)

11-21-07  
\_\_\_\_\_  
Date

C. Van Wyatt  
\_\_\_\_\_  
Printed Name