

TEXAS  STATE
UNIVERSITY SYSTEM

Founded 1911

COMBINED

ANNUAL FINANCIAL REPORT

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

Year Ended August 31, 2005

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	10
Combined Statement of Cash Flows	11
Notes to the Financial Statements	13

Supplemental Supporting Information

1A - Schedule of Expenditures of Federal Awards (NOT USED)	
1B - Schedule of State Grant Pass-Throughs To/From State Agencies (NOT USED)	
2A - Miscellaneous Bond Information	40
2B - Changes in Bonded Indebtedness	41
2C - Debt Service Requirements	42
2D - Schedule of Funds Available for Debt Service	46
2E - Defeased Bonds Outstanding	47
2F - Schedule of Early Extinguishment and Refunding (NOT USED)	48
3 - Reconciliation of Cash in State Treasury	49

TEXAS  STATE
UNIVERSITY SYSTEM

December 1, 2005

REGENTS

Alan W. Dreeben
San Antonio, Chairman

Kent M. Adams
Beaumont, Vice Chairman

Dora G. Alcalá
Del Rio

John E. Dudley
Comanche

Dionicio "Don" Flores
El Paso, Past Chair

Bernie C. Francis
Carrollton

Pollyanna A. Stephens
San Angelo, Past Chair

Greg Wilkinson
Dallas

CHANCELLOR

Charles R. Matthews
Austin

SYSTEM MEMBERS

Angelo State University
San Angelo

Lamar Institute of Technology
Beaumont

Lamar State College-Orange
Orange

Lamar State College-Port Arthur
Port Arthur

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

Mr. Charles Matthews
Chancellor
Texas State University System
200 East 10th Street, Suite 600
Austin, Texas 78701-2407

Dear Mr. Matthews:

Submitted herein is the Combined Annual Financial Report of the Texas State University System for the fiscal year ended August 31, 2005, in compliance with Texas Government Code ANN §2101.011.

The accompanying unaudited annual financial report has been prepared in accordance with reporting requirements promulgated by the Texas Comptroller of Public Accounts and may not meet all generally accepted accounting principles (GAAP). The report is in general compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as interpreted by the Comptroller. The State of Texas Annual Financial Report, which includes the financial data from the Texas State University System Combined Annual Financial Report, will be audited by the office of the State Auditor.

Please contact me at (512) 463-1808 or otherwise let me know if you have any questions regarding the report or any related material.

Sincerely,



Roland Smith, CPA
Vice Chancellor for Finance

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
Organizational Data
For the Fiscal Year Ended August 31, 2005

Board of Regents

Officers

Alan W. Dreeben Chairman
Kent M. Adams Vice Chairman

Members

<u>Name</u>	<u>City (Texas)</u>	<u>Term Expires</u>
Kent M. 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 Flores	El Paso	2/1/2005
Bernie C. Francis	Carrollton	2/1/2009
James A. Hayley	Texas City	2/1/2005
Pollyanna A. Stephens	San Angelo	2/1/2007
Vacant		2/1/2005

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
Jerry W. Neef Director of Audits and Analysis

University Presidents

E. James Hindman Angelo State University
James M. Simmons Lamar University - Beaumont
J. Michael Shahan Lamar State College - Orange
W. Sam Monroe Lamar State College - Port Arthur
Robert D. Krienke Lamar Institute of Technology
James F. Gaertner Sam Houston State University
R. Vic Morgan Sul Ross State University
Denise M. Trauth Texas State University-San Marcos

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
Student Enrollment Data
For the Year Ended August 31, 2005

TYPE OF STUDENT	NUMBER OF STUDENTS BY SEMESTER			
	FALL 2004	SPRING 2005	SUMMER TERM 2005	
			FIRST	SECOND
Texas Residents	63,593	60,338	23,675	19,066
Out of State (Classified as Residents)	323	284	91	60
Out of State	773	700	282	219
Foreign	1,059	928	413	411
Children of Disabled	7	10	5	5
Concurrent Enrollment	56	51		
Foster Children of the State	56	52	18	16
Good Neighbor	14	9	2	3
High School Honor Scholarships	67	56		
Hazelwood Act	448	441	265	167
Senior Citizens	17	17	12	7
Commission for the Blind/Deaf	189	191	95	83
Fireman Exempt	15	14	2	1
Thesis Only	3	7	2	
Student Service Fees	217	196	167	59
Nursing	126	145	117	1
Faculty/Staff	40	44	30	21
Teaching Assistants	32	30	11	7
Competitive Scholarships	520	505	250	262
Military Personnel	11	8	1	
Louisiana Adjacent County	322	286	141	83
Mexico Pilot	5	6	1	
National Student Exchange Program	12	9	1	1
New Mexico Adjacent County	20	9	1	2
Texas Tomorrow Waiver	7	6	1	
Adopted Students	2	2	2	2
Military Dependent		1		
Pase	15	10	6	3
TANF	2	1		
H.B. 877	1	1		
Distance Learning	150	248	138	137
Totals	<u>68,102</u>	<u>64,605</u>	<u>25,729</u>	<u>20,616</u>

Enrollment Trend Data (Fall Semester)

FISCAL YEAR	STUDENTS	SEMESTER HOURS
2005	68,102	759,896
2004	66,121	738,920
2003	64,419	738,914
2002	61,536	699,134
2001	59,892	679,771
2000	57,807	656,827
1999	57,451	654,429
1998	56,718	642,345
1997	57,078	645,244
1996	56,139	633,527
1995	57,308	641,954

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
August 31, 2005

	TOTAL
ASSETS	
Current Assets:	
Cash and Cash Equivalents	
Cash on Hand	\$ 164,843.85
Cash in Bank	17,670,223.23
Cash in Transit/Reimbursement from Treasury	9,245,279.44
Cash in State Treasury	51,678,185.79
Cash Equivalents	302,808,641.19
Securities Lending Collateral	
Short Term Investments	397,750.55
Restricted:	
Cash and Cash Equivalents	
Cash on Hand	340.00
Cash in Bank	(1,966,942.65)
Cash in Transit/Reimbursement from Treasury	
Cash in State Treasury	
Cash Equivalents	24,237,925.98
Short Term Investments	
Legislative Appropriations	47,503,384.84
Investments	
Receivables from:	
Federal	10,231,119.64
Other Intergovernmental	
Interest and Dividends	286,628.15
Accounts Receivable	50,662,762.33
Gifts	
Investment Trades	
Other	2,257,614.58
Interfund Receivables	
Due From Other Agencies	788,708.00
Consumable Inventories	1,218,256.97
Merchandise Inventories	2,362,381.99
Deferred Charges	21,074,660.18
Loans and Contracts	5,904,242.30
Other Current Assets	17,891,994.21
Total Current Assets	\$ 564,418,000.57

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
August 31, 2005

	TOTAL
Noncurrent Assets:	
Restricted:	
Cash and Cash Equivalents	
Cash on Hand	
Cash in Bank	\$ 297,902.22
Cash in Transit/Reimbursement from Treasury	
Cash in State Treasury	
Cash Equivalents	34,871,964.94
Short Term Investments	8,217,787.51
Receivables	105,781,696.11
Investments	835,883.19
Loans and Contracts	2,838,294.02
Other Assets	1,609,427.42
Loans and Contracts	45,363,487.67
Investments	
Interfund Receivables	
Capital Assets:	
Non-Depreciable:	
Land and Land Improvements	59,611,099.01
Infrastructure	
Construction in Progress	175,484,627.75
Other Capital Assets	4,290,657.38
Depreciable:	
Buildings and Building Improvements	924,704,919.19
Less Accumulated Depreciation	(568,355,548.48)
Infrastructure	59,789,649.13
Less Accumulated Depreciation	(26,077,745.53)
Facilities and Other Improvements	57,831,426.79
Less Accumulated Depreciation	(25,201,971.72)
Furniture and Equipment	85,588,360.05
Less Accumulated Depreciation	(55,880,234.42)
Vehicles, Boats, and Aircraft	10,982,400.29
Less Accumulated Depreciation	(7,829,529.53)
Other Capital Investments	95,020,770.18
Less Accumulated Depreciation	(46,641,354.77)
Other Noncurrent Assets	1,233,487.87
Total Non-Current Assets	944,367,456.27
Total Assets	\$ 1,508,785,456.84

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
August 31, 2005

		<u>TOTAL</u>
LIABILITIES		
Current Liabilities:		
Payables From:		
Accounts	\$	24,768,510.07
Investment Trade		0.00
Federal		0.00
Other Intergovernmental		0.00
Payroll		13,666,453.33
Other		8,059,509.61
Interfund Payable		0.00
Due to Other Agencies		166,577.05
Deferred Revenues		176,339,029.47
Notes and Loans Payable		0.00
Revenue Bonds Payable		20,782,025.02
General Obligation Bonds Payable		0.00
Claims and Judgements Payable		0.00
Employees' Compensable Leave		9,538,502.26
Capital Lease Obligations		27,832.06
Liabilities Payable from Restricted Assets		0.00
Obligations/Reverse Purchase Agreements		0.00
Obligations Under Securities Lending		0.00
Funds Held for Others		9,466,282.21
Other Current Liabilities		12,748,021.29
Total Current Liabilities	\$	<u>275,562,742.37</u>
Noncurrent Liabilities:		
Interfund Payable		0.00
Notes and Loans Payable		0.00
Revenue Bonds Payable		366,045,649.07
General Obligation Bonds Payable		0.00
Claims and Judgements Payable		0.00
Employees Compensable Leave		7,279,078.67
Capital Lease Obligations		59,005.73
Other Non-Current Liabilities		2,125,984.16
Total Noncurrent Liabilities		<u>375,509,717.63</u>
Total Liabilities	\$	<u><u>651,072,460.00</u></u>

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Combined Statement of Net Assets
August 31, 2005

		TOTAL
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$	356,403,013.44
Restricted for		0.00
Education		6,907,949.94
Debt Retirement		3,015,410.48
Capital Projects		9,694,501.18
Employee Benefit		0.00
Funds Held As Permanent Investments:		0.00
Non-Expendable		141,158,927.95
Expendable		2,262,900.89
Other		62,094,078.70
Unrestricted		276,176,214.26
Total Net Assets	\$	857,712,996.84

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2005

	TOTAL
OPERATING REVENUES	
Sales of Goods and Services	
Tuition and Fees (PR-Chgs for Services)	\$ 279,444,116.86
Tuition and Fees - Pledged (PR-Chgs for Services)	8,176,234.51
Discounts and Allowances	(46,632,308.17)
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)	30,626,684.53
Auxiliary Enterprises - Pledged (PR-Chgs for Services)	47,508,501.80
Discounts and Allowances	(5,929,598.35)
Other Sales of Goods and Services	12,744,674.98
Other Sales of Goods and Services - Pledged	
Discounts and Allowances	
Premium Revenue (PR-Chgs for Services)	
Interest and Investment Income (PR-Chgs for Services)	247,532.62
Interest and Investment Income (GR)	93,117.06
Net Increase (Decrease) Fair Market Value (PR-OP Grants/Contributions)	
Net Increase (Decrease) Fair Market Value (GR)	
Federal Revenue-Operating (PR-OP Grants/Contributions)	74,161,436.14
Federal Pass Through Revenue (PR-OP Grants/Contributions)	11,325,299.04
State Grant Revenue (PR-OP Grants/Contributions)	6,708,844.47
State Grant Pass Through Revenue (PR-OP Grants/Contributions)	16,685,143.58
Other Grants and Contracts (PR-OP Grants/Contributions)	8,256,777.80
Land Income (PR-Chgs for Services)	
Contributions to Retirement Systems (PR-Chgs for Services)	
Other Operating Revenues (PR-Chgs for Services)	11,636,607.64
Other Operating Revenues (GR)	82,948.08
Total Operating Revenues	455,136,012.59
OPERATING EXPENSES	
Instruction	238,948,452.96
Research	18,492,235.18
Public Service	34,203,236.41
Academic Support	55,039,608.96
Student Services	26,738,610.06
Institutional Support	84,285,261.60
Operation and Maintenance of Plant	57,005,929.71
Scholarship and Fellowships	50,367,964.27
Auxiliary Enterprise Expenditures	103,617,929.16
Depreciation and Amortization	28,457,849.21
Total Operating Expenses	697,157,077.52
Operating Income (Loss)	\$ (242,021,064.93)

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2005

	TOTAL
NONOPERATING REVENUES (EXPENSES):	
Legislative Revenue (GR)	\$ 204,439,944.48
Additional Appropriations (GR)	43,880,911.19
HEAF Appropriation Revenue (GR)	
Federal Revenue Non-Operating (PR-OP Grants/Contributions)	
Gifts (PR-OP Grants/Contributions)	12,305,367.95
Investment Income (Expense) (PR-OP Grants/Contributions)	8,008,062.96
Investment Income (Expense) (GR)	5,345,950.25
Loan Premium/Fees on Securities Lending (PR-OP Grants/Contributions)	
Investing Activities Expense	(80,191.85)
Interest Expense and Fiscal Charges	(16,650,146.89)
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)	5,124,298.27
Net Increase (Decrease) in Fair Value of Investments (GR)	
Settlement of Claims (PR-Chgs for Services)	(34,604.67)
Settlement of Claims (GR)	(136,035.94)
Other Nonoperating Revenues (Expenses) (PR-Chgs for Services)	1,555,316.82
Other Nonoperating Revenues (Expenses) (GR)	97,368.96
Total Nonoperating Revenues (Expenses)	263,856,241.53
 Income (Loss) before Other Revenues, Expenses, Gains/Losses and Transfers	 21,835,176.60
 OTHER REVENUES, EXPENSES GAINS/ LOSSES AND TRANSFERS	 -13,029.73
Capital Contributions	34,950,547.00
Capital Appropriations (HEAF)	5,371,398.37
Additions to Permanent and Term Endowments	25,686.00
Special Items	
Extraordinary Items	703,190.67
Transfers-In	(1,434,357.67)
Transfers-Out	
Legislative Transfers-In	
Legislative Transfers-Out	(116,771.92)
Legislative Appropriations Lapsed	
Total Other Revenues, Expenses, Gains/Losses and Transfers	39,512,722.18
 CHANGE IN NET ASSETS	 61,347,898.78
Net Assets, September 1, 2004	858,228,408.32
Restatements	(61,863,310.26)
Net Assets, September 1, 2004, as Restated	796,365,098.06
NET ASSETS, August 31, 2005	\$ 857,712,996.84

TEXAS STATE UNIVERSITY SYSTEM
 Matrix of Operating Expenses Reported by Function
 For the Fiscal Year Ended August 31, 2005

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarship and Fellowships	Auxiliary Enterprises Expenditures	Depreciation and Amortization	Total Expenditures
Cost of Goods Sold	\$ 73,135.48	\$ -	\$ 503.88	\$ 7,159.48	\$ 34,499.99	\$ 50,467.59	\$ -	\$ -	\$ 5,337,426.20	\$ -	\$ 5,503,192.62
Salaries and Wages	168,694,270.91	8,770,556.23	14,688,114.41	30,502,333.47	15,365,693.04	43,738,247.42	20,101,101.02	2,184,875.52	29,763,913.87	-	333,809,305.89
Payroll Related Costs	40,575,776.36	1,818,308.06	3,336,697.36	7,278,758.55	3,678,632.35	11,243,973.02	5,585,433.01	57,245.61	7,052,486.84	-	80,627,371.16
Professional Fees and Services	4,740,669.39	2,323,408.07	6,642,359.59	2,570,386.27	1,157,639.71	4,538,745.58	4,325,967.84	500,170.44	7,277,912.01	-	34,077,268.89
Federal Pass Through Expense	20,119.55	985,240.31	549,148.21	-	-	-	-	-	-	-	1,554,508.07
State Grant Pass Through Expense	-	707,971.54	-	-	-	-	-	-	-	-	707,971.54
Travel	1,836,196.84	795,580.10	1,493,348.66	1,147,473.43	485,555.35	1,639,073.63	63,375.18	53,356.58	3,022,694.12	-	10,536,655.89
Materials and Supplies	9,930,964.02	1,602,781.46	2,492,623.80	7,013,766.84	2,358,918.53	10,396,462.91	2,660,781.76	158,677.46	20,861,426.35	-	57,476,383.13
Communication and Utilities	944,880.38	49,428.59	471,938.45	745,863.76	980,608.76	1,144,184.35	15,132,940.91	1,147.24	10,757,221.16	-	30,228,213.60
Repairs and Maintenance	674,893.74	48,675.53	214,350.25	2,185,870.11	305,369.97	2,127,955.66	3,084,682.58	96,216.79	3,625,606.53	-	12,363,601.16
Rentals and Leases	696,850.14	119,968.13	986,924.00	1,316,677.52	192,935.13	641,127.24	1,201,841.73	4,380.58	3,787,496.06	-	8,948,200.53
Printing and Reproduction	728,520.37	73,066.67	405,483.65	316,926.45	408,561.72	1,085,572.85	19,455.72	3,012.95	629,777.30	-	3,670,377.68
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	28,457,849.21	28,457,849.21
Bad Debt Expense	159,987.38	-	-	-	11,155.28	89,291.79	-	-	85,351.96	-	345,786.41
Interest	12.62	0.53	14.26	(325.46)	2.30	12,481.75	0.53	-	12.05	-	12,198.58
Scholarships	271,734.34	151,502.03	552,665.03	294,964.57	160,371.83	1,474,640.70	-	47,237,632.28	2,696,525.27	-	52,840,036.05
Claims and Losses	4,048.88	0.00	196.60	(1,943.45)	8,901.01	11,455.66	1.06	-	-	-	22,659.76
Other Operating Expenses	9,596,392.56	1,045,767.93	2,368,868.27	1,661,687.42	1,589,505.09	6,091,601.45	4,830,348.37	71,246.82	8,720,079.44	-	35,975,497.35
Total Operating Expenses	\$ 238,948,452.96	\$ 18,492,235.18	\$ 34,203,236.41	\$ 55,039,608.96	\$ 28,738,610.06	\$ 84,285,261.60	\$ 57,005,929.71	\$ 50,367,964.27	\$ 103,617,929.16	\$ 28,457,849.21	\$ 697,157,077.52

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2005

	Total
Cash Flows from Operating Activities	
Receipts from Customers	\$ 18,412,996.78
Proceeds from Tuition and Fees	256,862,384.79
Proceeds from Research Grants and Contracts	39,651,246.04
Proceeds from Gifts	2,256,068.31
Proceeds from Loan Programs	11,893,178.34
Proceeds from Auxiliaries	65,794,437.85
Proceeds from Other Revenues	87,632,434.75
Payments to Suppliers for Goods and Services	(181,442,593.50)
Payments to Employees for Salaries	(330,073,935.97)
Payments to Employees for Benefits	(78,410,771.33)
Payments for Loans Provided	(11,565,031.69)
Payments for Other Expenses	(72,712,337.42)
Net Cash Provided (Used) by Operating Activities	\$ (191,701,922.88)
Cash Flows from Noncapital Financing Activities	
Proceeds from Debt Issuance	276,521,135.50
Proceeds from State Appropriations	10,751,074.93
Proceeds from Gifts	1,122,288.62
Proceeds from Endowments	(18,526,105.10)
Proceeds from Grant Receipts	321,839.87
Proceeds from Advances from Other Funds	
Proceeds from Loan Programs	
Proceeds from Other Financing	10,890,374.02
Proceeds from Contributed Capital	
Payments of Principal on Debt Issuance	(4,780,626.80)
Payments of Interest	
Payments of Other Costs of Debt Issuance	
Payments for Transfers to Other Funds	(4,273,362.75)
Payments for Grant Disbursements	
Payments for Advances to Other Funds	
Payments for Other Uses	(13,888,513.72)
Net Cash Provided by Noncapital Financing Activities	\$ 258,138,104.57
Cash Flows from Capital and Related Financing Activities	
Proceeds from the Sale of Capital Assets	37,315.28
Proceeds from Debt Issuance	43,567,214.43
Proceeds from State Grants and Contracts	
Proceeds from Federal Grants and Contracts	
Proceeds from Gifts	
Proceeds from Other Financing Activities	
Proceeds from Capital Contributions	
Proceeds from Advances from Other Funds	37,944,540.82
Payments for Additions to Capital Assets	(96,353,456.24)
Payments of Principal on Debt	(49,194,320.24)
Payments for Capital Lease	44,843.12
Payments of Interest on Debt Issuance	(17,450,908.78)
Payments of Other Costs of Debt Issuance	(1,720,993.96)
Net Cash Provided by Capital and Related Financing Activities	\$ (83,125,765.57)

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2005

	Total
Cash Flows from Investing Activities	
Proceeds from Sales of Investments	\$ 47,340,806.86
Proceeds from Interest Income	3,716,393.04
Proceeds from Investment Income	12,946,669.09
Proceeds from Principal Payments on Loans	
Payments to Acquire Investments	(21,443,635.78)
Net Cash Provided by Investing Activities	\$ 42,560,233.21
Net Increase (Decrease) in Cash and Cash Equivalents	25,870,649.33
Cash and Cash Equivalents, September 1, 2004	413,137,714.66
Changes in Accounting Principal	
Changes in Reporting Entity	
Restatements to Beginning Cash and Cash Equivalents	
Cash and Cash Equivalents, September 1, 2004 - Restated	413,137,714.83
Cash and Cash Equivalents, August 31, 2005	\$ 439,008,363.99
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (242,021,064.93)
Adjustments to Reconcile Operating Income	
to Net Cash Provided (Used) by Operating Activities:	
Amortization and Depreciation	28,457,849.21
Bad Debt Expense	345,786.41
Operating Income and Cash Flow Categories:	
Classification Differences	(123,521.69)
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(2,243,980.67)
(Increase) Decrease in Due from Other Funds	(726,416.50)
(Increase) Decrease in Inventories	420,315.46
(Increase) Decrease in Prepaid Expenses	(5,010,012.63)
(Increase) Decrease in Notes Receivable	(169,091.57)
(Increase) Decrease in Loans & Contracts	(747,560.20)
(Increase) Decrease in Other Assets	1,258,984.24
(Increase) Decrease in State Appropriations	
Increase (Decrease) in Payables	9,436,889.08
Increase (Decrease) in Deposits	46,203.76
Increase (Decrease) in Due to Other Funds	4,824,803.36
Increase (Decrease) in Deferred Income	14,947,475.65
Increase (Decrease) in Compensated Absence Liability	2,738,603.22
Increase (Decrease) in Benefits Payable	
Increase (Decrease) in Other Liabilities	(3,137,185.08)
Total Adjustments	\$ 50,319,142.05
Net Cash Provided by Operating Activities	\$ (191,701,922.88)
 Non Cash Transactions	
Donation of Capital Assets	
Net Change in Fair Value of Investments	\$ 4,972,102.09
Borrowing Under Capital Lease Purchase	
Other	(9,708,747.26)

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2005

NOTE 1: Summary of Significant Accounting Policies

Entity

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

The Texas State University System 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. The System's primary role is to provide post secondary educational opportunities for the citizens of the State of Texas. The component institutions also perform research activities and provide public service programs for their constituents.

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

Fund Structure

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

Proprietary Funds

Business Type Activity

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

UNAUDITED

Component Units

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

Basis of Accounting

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

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

Budget and Budgetary Accounting

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

Assets, Liabilities, and Fund Balances/Net Assets

ASSETS

Cash and Cash Equivalents

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

Securities Lending Collateral

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

UNAUDITED

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

Restricted Assets

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

Inventories and Prepaid Items

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

Capital Assets

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

Current Receivables - Other

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

LIABILITIES

Accounts Payable

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

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,

UNAUDITED

and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the Statement of Net Assets.

Capital Lease Obligations

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

Bonds Payable - General Obligation Bonds and Revenue Bonds

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

FUND BALANCE/NET ASSETS

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

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

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:

UNAUDITED

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

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

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2005 is presented on the next page.

UNAUDITED

	Balance 09/01/04	Adjustments	Reclassifications		Reclassifications Dec-Int'g Trans	Additions	Deletions	Balance 08/31/05
			Completed CIP	Inc-Int'g Trans				
BUSINESS-TYPE ACTIVITIES								
Non-Depreciable Assets								
Land and Land Improvements	\$ 58,789,940.80	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 830,651.17	\$ (9,492.96)	\$ 59,611,099.01
Infrastructure	186,427,855.24	-	-	-	-	-	-	-
Construction in Progress	118,152,642.82	(114,759,540.3200)	(97,050,771.31)	-	-	86,323,945.96	(216,402.14)	175,484,627.75
Other Assets	363,370,438.86	(114,759,540.3200)	(97,050,771.31)	-	-	897,534.88	-	4,290,657.38
Total Non-Depreciable Assets		(114,759,540.32)	(97,050,771.31)	-	-	88,052,132.01	(225,895.10)	239,386,384.14
Depreciable Assets								
Buildings and Building Improvements	830,095,833.81	-	95,963,654.65	110,286.00	(110,286.00)	2,876,145.84	(4,230,715.11)	924,704,919.19
Infrastructure	59,109,309.46	-	536,028.13	-	-	144,311.54	-	59,789,649.13
Facilities & Other Improvements	57,096,113.15	-	504,255.04	-	-	231,058.60	-	57,831,426.79
Furniture and Equipment	80,664,407.45	(99,844.10)	15,245.00	159,436.00	(132,083.00)	8,762,814.15	(3,781,615.45)	85,588,360.05
Vehicle, Boats & Aircraft	10,884,202.81	-	-	19,472.00	(19,472.00)	803,656.29	(705,458.81)	10,982,400.29
Other Assets	48,687.44	86,883,322.98	-	-	-	8,256,853.08	(168,093.32)	95,020,770.18
Total Depreciable Assets at Historical Costs	1,037,898,554.12	86,783,478.88	97,019,182.82	289,194.00	(261,841.00)	21,074,839.50	(8,885,882.69)	1,233,917,525.63
Less Accumulated Depreciation for:								
Buildings and Improvements	554,138,125.17	(1,389,665.24)	-	7,275.75	(7,275.75)	19,488,382.42	(3,881,294.07)	568,355,548.48
Infrastructure	28,181,249.24	(4,247,214.93)	-	-	-	2,143,711.22	-	26,077,745.53
Facilities & Other Improvements	21,759,951.47	1,511,447.31	-	-	-	1,930,572.94	-	25,201,971.72
Furniture and Equipment	56,237,344.81	(3,733,664.90)	-	38,544.50	(128,070.50)	6,920,928.67	(3,454,848.16)	55,880,234.42
Vehicles, Boats & Aircraft	8,059,455.24	(291,740.10)	-	19,472.00	(19,472.00)	778,620.74	(716,806.35)	7,829,529.53
Other Capital Assets	40,303.90	41,001,776.94	-	-	-	3,863,766.29	(264,492.36)	46,641,354.77
Total Accumulated Depreciation	668,416,430.03	34,850,939.08	-	65,292.25	(154,818.25)	35,125,982.28	(8,317,440.94)	729,986,384.45
Depreciable Assets, Net	369,482,124.09	51,932,539.80	97,019,182.82	223,901.75	(107,022.75)	(14,051,142.78)	(568,441.75)	503,931,141.18
Business Type-Activities Capital Assets, Net	\$ 732,852,562.95	\$ (62,827,000.52)	\$ (31,388.49)	\$ 223,901.75	\$ (107,022.75)	\$ 74,001,069.23	\$ (794,336.85)	743,317,525.32

UNAUDITED

NOTE 3: Deposits, Investments, & Repurchase Agreements

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

Deposits of Cash in Banks

As of August 31, 2005, the carrying value of demand deposits at local banks was \$16,001,182.80 as presented below:

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

CASH IN BANK - CARRYING VALUE PER AFR	<u>\$16,001,182.80</u>
Proprietary Funds Current Assets Cash in Banks	\$17,670,223.23
Proprietary Funds Current Assets Restricted Cash in Banks	-1,966,942.65
Proprietary Funds Noncurrent Assets Restricted Cash in Banks	<u>297,902.22</u>
Cash in Banks per AFR	<u>\$16,001,182.80</u>

At August 31, 2005, the actual balances on deposit with local banks was \$37,184,425.80.

Investments

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

UNAUDITED

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES	<u>Fair Value</u>
U.S. Government	
U.S. Treasury Securities	\$2,180,188.80
U.S. Government Agency Obligations	4,998,290.06
U.S. Government Agency Obligations (Texas Treasury Safekeeping)	15,787,961.93
Corporate Obligations	57,729,823.93
Corporate Obligations (Texas Treasury Safekeeping)	295,641.00
Corporate Asset and Mortgage Backed Securities	118,186.96
Equity	11,407,004.71
Repurchase Agreement	776,921.88
Fixed Income Money Market and Bond Mutual Fund	28,888,927.58
Other Commingled Funds	20,772,927.58
Other Commingled Funds - Texpool	360,955,873.63
Commerical Paper	1,804,614.93
Real Estate	342,020.00
Miscellaneous	<u>7,403,083.45</u>
Total	<u><u>\$513,461,466.44</u></u>
Consisting of the Following	
Proprietary Funds Current Cash Equivalents	\$302,808,641.19
Proprietary Funds Current Restricted Cash Equivalents	24,237,925.98
Proprietary Funds Short Term Investments	397,750.55
Proprietary Funds Non-Current Restricted Cash Equivalents	34,871,964.94
Proprietary Funds Non-Current Restricted Investments	105,781,696.11
Proprietary Funds Non-Current Investments	<u>45,363,487.67</u>
Total as Above	<u><u>\$513,461,466.44</u></u>

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

Included with the Corporate Obligations are bonds owned by the Carr Foundation totaling \$47,406,158.27. The Foundation's investment policies allow 15% of its portfolio to be invested in high yield bonds. These below investment grade bonds must have a CCC rating or better. The Foundation's policies allow 100% of its portfolio to be investment grade fixed income securities. The target for investments in this type of securities is 70%.

As of August 32, 2005 the System's credit quality distribution for securities with credit risk exposure was as follows.

UNAUDITED

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	AAA	AA	A
05	9999	U.S. Government Agency Obligations	\$4,861,920.00	\$0.00	\$0.00
		U.S. Government Agency Obligations -			
05	9999	Texas Treasury Safekeeping Trust Co.	15,787,961.93		
05	9999	Corporate Obligations	2,456,969.70	5,730,286.00	27,731,298.48
		Corporate Obligations -			
05	9999	Texas Treasury Safekeeping Trust Co.		295,641.00	
05	9999	Corporate Asset and Mortgage Backed Sec	118,186.96		
05	9999	Repurchase Agreement	776,921.88		
05	9999	Miscellaneous - Commerical Paper	305,800.67	1,498,814.26	
05	9999	Miscellaneous - Municipal Bonds	27,584.25		

STANDARDS & POOR'S

Fund Type	GAAP Fund	Investment Type	BBB	BB	B
05	9999	Corporate Obligations	\$11,583,915.50	\$6,148,905.25	\$4,078,449.00

NOTE 4: Not Used

NOTE 5: Summary of Long-term Liabilities

Changes in Long-term Liabilities

During the year ended August 31, 2005, the following changes occurred in long-term liabilities.

BUSINESS TYPE ACTIVITES	BALANCE 9/1/2004	ADDITIONS	REDUCTIONS	BALANCE 8/31/2005	AMOUNTS DUE WITHIN ONE YEAR
General Obligation B/P	\$ 4,310,000.00	\$0.00	(\$4,310,000.00)	\$0.00	\$0.00
Revenue B/P	359,159,128.44	92,104,131.08	(64,435,585.43)	386,827,674.09	20,782,025.02
Compensable Leave	14,075,819.73	3,089,927.32	(348,166.12)	16,817,580.93	9,538,502.26
Capital Lease Obligations	41,994.67	57,729.12	(12,886.00)	86,837.79	27,832.06
Other Noncurrent Liabilites	2,159,096.50	149,730.76	(182,843.10)	2,125,984.16	-
TOTALS	\$ 379,746,039.34	\$ 95,401,518.28	\$ (69,289,480.65)	\$ 405,858,076.97	\$ 30,348,359.34

Bonds Payable

See Note 13 for a discussion of Bonds Payable.

UNAUDITED

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.

Capital Leases

See Note 6 for a discussion of Capital Lease obligations.

NOTE 6: Capital Leases

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

The following summary presents the original capitalized costs of all such property under lease as well as the accumulated depreciation at August 31, 2005.

<u>ASSETS UNDER CAPITAL LEASES</u>	<u>AMOUNT</u>
Furniture and Equipment	\$ 149,717.56
Less: Accumulated Depreciation	<u>(1,581.34)</u>
TOTAL	<u>\$ 148,136.22</u>

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at August 31, 2005 follows.

<u>FUTURE MINIMUM LEASE PAYMENTS</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2006	\$ 27,832.06	\$ 7,741.94
2007	26,759.15	4,873.95
2008	28,893.85	1,951.07
2009	<u>3,352.73</u>	<u>28.20</u>
TOTALS	<u>\$ 86,837.79</u>	<u>\$ 14,595.16</u>

NOTE 7: Operating lease Obligations

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

UNAUDITED

YEAR ENDING AUGUST 31,	AMOUNT
2006	\$ 1,162,206.19
2007	1,162,236.50
2008	1,090,961.18
2009	1,103,465.41
2010	1,103,710.57
2011-2015	5,515,221.57
2016-2020	5,515,856.12
2021-2025	5,515,879.24
2026-2030	5,515,673.13
2031	<u>2,561,993.62</u>
TOTAL MINIMUM FUTURE LEASE PAYMENTS	<u>\$ 30,247,203.53</u>

NOTE 8: Interfund Balances / Activities
--

As explained in Note 1 on Interfund Activities and Balances, there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

- Due From Other Agencies or Due To Other Agencies
- Legislative Transfers In or Legislative Transfers Out
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out
- Legislative Transfers In or Transfers Out

The Texas State University System 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, 2005 follows:

Required Note 8 Presentation Current Portion	INTERFUND		PURPOSE
	RECEIVABLE	PAYABLE	
GENERAL REVENUE (01)	<u>\$0.00</u>	<u>\$0.00</u>	

UNAUDITED

Required Note 8 Presentation
Noncurrent Portion

	INTERFUND		PURPOSE
	RECEIVABLE	PAYABLE	
GENERAL REVENUE (01)	\$0.00	\$0.00	
SPECIAL REVENUE (2)	-	-	
ENTERPRISE FUND (5)	-	-	
TOTALS	0.00	0.00	

Optional Note 8 Presentation

	OTHER AGENCIES		SOURCE
	DUE FROM	DUE TO	
GENERAL REVENUE (01)			
Appd. Fund 0001, D23 Fund 0001			
Agency 320, D23 Fund 0001	\$0.00	\$1,917.25	
Agency 405, D23 Fund 0006		10,986.83	
Agency 601, D23 Fund 0006	90,628.59		Federal P-T
Agency 701, D23 Fund 0148	43,569.48		Federal P-T
Agency 723, D23 Fund 7999	17.26		Federal P-T
Agency 730, D23 Fund 7999		149,435.99	Federal P-T
Agency 756, D23 Fund 7999	117,135.48		Federal P-T
Agency 781, D23 Fund 0001	78,008.74		Federal P-T
Appd. Fund 0256, D23 Fund 0256			
Agency 305, D23 Fund 0001	7,798.62		State
Agency 320, D23 Fund 0165		4,236.98	State
Agency 530, D23 Fund 0001	6,818.38		State
Agency 601, D23 Fund 5015	396.00		State
Agency 701, D23 Fund 0001	50,174.57		State
Agency 758, D23 Fund 0001	3,401.87		State
Appd. Fund 0260, D23 Fund 0260			
Agency 601, D23 Fund 5015	14,950.00		State
Agency 781, D23 Fund 5079	255,281.33		State
Appd. Fund 0347, D23 Fund 0347			
Agency 902, D23 Fund 0347	25,491.45		Shared-State
Appd. Fund 5015, D23 Fund 5015			State
Agency 601, D23 Fund 5015	3,960.00		N/A
SPECIAL REVENUE (2)			
Appd. Fund 9999, D23 Fund 9999			
Agency 300, D23 Fund 0421	3,442.90		
Agency 302, D23 Fund 0421	51,849.13		State P-T
Agency 601, D23 Fund 0421	9,593.00		N/A
Agency 902, D23 Fund 0347	26,191.20		N/A
TOTALS	\$788,708.00	\$166,577.05	

UNAUDITED

Required Note 8 Presentation

	LEGISLATIVE TRANSFERS	
	IN	OUT
GENERAL REVENUE (01)	\$0.00	\$0.00
	\$0.00	\$0.00

NOTE 9: Contingent Liabilities

At August 31, 2005, 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.

NOTE 10: Not Used

NOTE 11: Risk Financing and Related Insurance

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

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

The Texas State Univeristy System incurred no losses during the fiscal year ended August 31, 2005 and no claims were pending at that date.

The following Insurance coverage is maintained by the Texas State Univeristy System:

Property and other Insurance Coverage - The individual components are required by certain bond covenants to carry Fire and Extended Coverage (including boiler and flood insurance) on buildings financed through the issuance of bonds. This includes pledged Auxiliary Enterprises and other non-Educational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. No material property insurance claims were made during the fiscal year ending August 31, 2005.

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

UNAUDITED

single liability. The coverage exceeds the extent of the waivers of State immunity in the Tort Claims Act.

NOTE 12: Not Used

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 which are 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

Housing System Revenue Refunding Bonds, Series 1989

University Housing System Revenue Refunding Bonds, Series 1993

Utility System Revenue Refunding Bonds, Series 1993

University Housing System Bonds, Series 1994

University Housing System Bonds, Series 1995

Utility System Revenue Bonds, Series 1996

UNAUDITED

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

Each component institution receives its portion of the bond proceeds and accounts for the earnings and disbursements of the bond proceeds. Assets created and/or acquired as a result of 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 2002-2003 Biennium, for the Tuition Revenue financed share, \$80,950,000, of the issued bonds. Funding for the 2004-2005 Biennium debt service was less than the total requirements; however, future funding is expected to meet the debt service for Tuition Revenue Bonds.

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 2002-2003 Biennium, for the Tuition Revenue financed share, \$23,530,000 of the issued bonds.
- Funding for the 2004-2005 Biennium debt service was less than the total requirements; however, future funding is expected to meet the debt service for Tuition Revenue Bonds.

UNAUDITED

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

UNAUDITED

- The Texas Legislature has appropriated General Revenue Funds as an alternative funding source in the 2002-2003 Biennium, for the Tuition Revenue financed share, \$98,935,000, of the issued bonds. Funding for the 2004-2005 Biennium debt service was less than the total requirements; however, future funding is expected to meet the debt service for Tuition Revenue Bonds.

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 was transferred to Sam Houston State University, \$27,000,000 was transferred to Texas State University-San Marcos, and \$135,000 was deposited to the debt Service Fund.
- 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 (\$19,850,000), Sul Ross State University (\$21,040,000), and refund of certain outstanding debt and pay cost of issuance (\$45,060,000).
- 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 2004-2005 biennium, for the Tuition Revenue financed share, \$31,865,395, of the issued bonds. However, the funding for the 2004-2005 biennium debt service was less than the total requirements. Funding for the 2006 2007 biennium meets the debt service for Tuition Revenue Bonds.

The Board has also approved the issuance of bonds secured by the pledge of a portion of its allocation from the Higher Education Assistance Fund. A description of these bonds follows:

Constitutional Appropriation Bonds, Series 1998

- To provide funds to acquire, construct, improve, renovate, enlarge, or

UNAUDITED

equip property, buildings, structures, or facilities and for paying costs related to the issuance of the Bonds.

- Issued April 30, 1998.
- \$26,460,000; all authorized bonds have been issued.
- Bond proceeds were distributed to Texas State University-San Marcos.
- The debt has been retained on the books of System Administration.
- The Bonds are payable solely from a first lien on the pledge of up to one-half of the annual appropriation to the Board from the State Treasury pursuant to Article 7, Section 17 of the Texas Constitution, as amended and Chapter 62, Texas Education Code, as amended.

In addition to the outstanding bonds secured by the Texas State University System Revenue Financing System the following Southwest Texas State University bonds were outstanding at August 31, 2005:

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.
- 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 the issuance costs of the bonds.
- Issued February 15, 1996.
- \$4,415,000; all authorized bonds have been issued.
- Source of revenue for debt service – Utility System net operating revenues.

DEFEASED BONDS

The following bonds are fully defeased at August 31, 2005:

ANGELO STATE UNIVERSITY

Student Housing System Revenue Bonds, series 1967-A and 1983

- To construct and/or remodel student housing.
- Issued June 1, 1967 and June 1, 1983
- \$3,500,999 (1967) and \$3,000,000 (1983); all authorized bonds have been issued.
- Housing and food service revenue.
- Outstanding par value defeased \$2,090,000 (1967) and \$470,000 (1983).
- Year defeased 1992

UNAUDITED

LAMAR UNIVERSITY

Combined Fee Revenue, Series 1979

- Year defeased 1990.

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

Combined Fee/Revenue System Refunding, Series 1990-A

Combined Fee/Revenue System Refunding, Series 1990-B

- Outstanding par value defeased \$15,850,000 (1990-A) and \$1,950,000 (1990-B).
- Year defeased 1998.

TEXAS STATE UNIVERSITY-SAN MARCOS

Student Housing System Revenue Bonds, Series 1970

- Year defeased 1987

University Housing System Bonds, Series 1995

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

TEXAS STATE UNIVERSITY SYSTEM

The following bonds are partially defeased at August 31, 2005:

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.

UNAUDITED

- The Texas Legislature has continually appropriated General Revenue Funds as an alternative funding source through the 2004-2005 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 the 2006-2007 biennium meets the debt service for Tuition Revenue Bonds.
- Bonds partially defeased through the issuance of Revenue and Refunding Bonds Series 2004
- Certain outstanding maturities with par values totaling \$38,080,000 were defeased.
- Year defeased 2004
- Economic gain on defeasement – Present Value Savings \$833,431.28.

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
- Certain outstanding maturities with par values totaling \$7,550,000 were defeased.
- Year defeased 2004
- Economic gain on defeasement – Present Value Savings \$164,359.13.

NOTE 14: Subsequent Events

The Board of Regents approved the issuance of \$43,250,000 of revenue bonds at a called meeting on July 11, 2005. The bonds will be the tenth in a series of bonds utilizing the Revenue Financing System pursuant to the Master Resolution. The bonds (\$15 million) are to be used for building project on the campus of Sam Houston State University. The remaining bonds (\$28.25 million) are to be use to refund certain outstanding bonds for a debt service savings of \$1,344,673. The bond sale was held on September 1, 2005.

Hurricane Rita made landfall in Southeast Texas on September 24, 2005. Extensive damage was sustained at Lamar University Lamar Institute of Technology, Lamar State College - Orange, and Lamar State College – Port Arthur. The total cost of repairs has not been determined, but estimates set the cost of rehabilitation of assets to be in the millions of dollars. Payments from

UNAUDITED

the Federal government (FEMA) and insurance claims are expected to cover at least 80% of the cost of damages.

Classes were suspended at each campus from September 26, 2005 through October 17, 2005. No appreciable long-term effects, upon the operations of the institutions, are anticipated.

NOTE 15: Not Used

NOTE 16: Not Used

NOTE 17: The Financial Reporting Entity and Joint Venture

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

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

ANGELO STATE UNIVERSITY

Houston Harte Foundation Available

The Angelo Houston Harte Foundation Available is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The assets of the foundation are managed under a Fiduciary Agreement by the Wells Fargo Bank, San Angelo, Texas. The Foundation remitted unrestricted gifts of \$60,000.00 to the University during the year ended August 31, 2005. Since the assets are managed externally; the Foundation does not have any employees. The only service provided by the University is the keeping of the minutes.

Robert G. Carr and Nona K. Carr Scholarship Foundation

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

UNAUDITED

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

Prior to the 2005 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rental and bonuses, and oil and gas payment commissions totaling \$56,881,319.85 and realized an appreciation on investments of \$1,145,008.31. During the 2005 fiscal year, the Foundation received payments for oil and gas royalties, oil and gas lease rentals and bonuses, and oil and gas payment commissions, and refunds totaling \$3,973,288.01.

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

The value at which oil, gas, and other mineral properties is carried on the financial statements is the value that was agreed to in the settlement with the Internal Revenue Service of the Federal Estate Tax Liability of the Estate of Robert G. Carr. No provision has been made for depletion of these properties. The interest income earned on the Trust is transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship and expense funds. During the 2005 fiscal year, the investment income received from the investment agent totaled \$3,523,677.03. Of this amount, \$685,000.00 was transferred by the trustees to the Foundation Trust Estate Expense Account for the payment of salaries and wages, and other operating expenses of the foundation. Disbursements from the expense account for the 2005 fiscal year totaled \$592,997.02. \$2,285,827.27 was transferred to the Angelo State University Robert G. Carr and Nona K. Carr Scholarship Foundation Account. Depository interest of \$6,849.76 was transferred. During the 2005 fiscal year, the scholarship account earned interest totaling \$94,353.61.

Total scholarships awarded prior to the 2005 fiscal year amounted to \$43,433,765.39. During the 2005 fiscal year, scholarship awards amounted to \$2,704,517.51. It is estimated that the amount of annual scholarship awards from the scholarship fund will total \$2,800,000.00 in fiscal year 2006.

The records of the Foundation are audited annually by the firm of Armstrong, Backus and Company, San Angelo, Texas.

UNAUDITED

Other Organizations

The Ex-Students Association contributed \$73,358.50 to the University during the 2005 fiscal year for operation of the Alumni office. The University paid \$79,394.43 above the contributed amount for maintaining the records on the students who have graduated from the University. The University also provided office space and utilities to the Alumni Office.

The ASU President's Circle is a non-profit organization with the sole purpose of supporting educational and other activities of the University. The Foundation solicits donations and acts a Coordinator of Gifts made by other parties. The association expended \$347,733.70 on behalf of the University during the year ended August 31, 2005. During the year the University furnished limited staff assistance to the association.

LAMAR UNIVERSITY

Lamar University Foundation

The Lamar University Foundation is a nonprofit organization with the sole purpose of supporting educational activities of Lamar University. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$630,916.38 to the University during the year ended August 31, 2005. 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, \$64,361.65. Accounts receivable of \$147,368.85 is due from the Foundation at August 31, 2005.

LAMAR INSTITUTE OF TECHNOLOGY

Lamar Institute of Technology Foundation

The Lamar Institute of Technology Foundation is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the Institute. Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2005.

The Lamar Institute of Technology Foundation gave \$15,000 in scholarship money directly to Lamar Institute of Technology students during the year ended August 31, 2005.

LAMAR STATE COLLEGE - ORANGE

Lamar State College – Orange Foundation, Inc. is a non-profit organization, which was established in December 1983, to support the development and promotion of

UNAUDITED

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, 2005. Lamar State College – Orange received \$21,100 from the Lamar State College – Orange Foundation during the year ended August 31, 2005.

LAMAR STATE COLLEGE - PORT ARTHUR

Port Arthur Higher Education Foundation

The Port Arthur Higher Education Foundation is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the College. Neither the transactions of this organization or its fund balances are reflected in the financial statements during the year ended August 31, 2005.

The Port Arthur Higher Education Foundation gave \$201,505.15 in scholarship money directly to Lamar State College-Port Arthur students during the year ended August 31, 2005.

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, 2005.

The Lamar-Port Arthur Alumni Association gave \$2,420 in scholarship money directly to Lamar College-Port Arthur students during the year ended August 31, 2005.

SAM HOUSTON STATE UNIVERSITY

Sam Houston Foundation

The Sam Houston Foundation is a separate nonprofit organization which was established for the purpose of cooperating with and working on behalf of the University. Neither the balance nor the transactions of this organization's fund are reflected in the financial statements during the year ended August 31, 2005. Gifts to the University from the Sam Houston Foundation for fiscal year 2005 totaled \$8,900 to Restricted Funds.

SHSU Lettermen's Association

The SHSU Lettermen's Association was created in October 1974 for the stated purpose of providing a means for the former students of Sam Houston State

UNAUDITED

University who won varsity letters in any of the sports recognized by the Conference to gather from time to time for certain fraternal beneficiary society purposes and to encourage support of the athletic staff and athletic programs of Sam Houston State University through the efforts of its members, including donations to Sam Houston State University for use by such educational institution.

The Lettermen's Association's funds are carried on the University's books, and comprise \$17,703.51 of Total Deposits Held in Custody for Others - Agency Funds, at August 31, 2005. Sam Houston State University has performed stewardship functions in support of this account, including the receipt of deposits and payment of expenditures. The University received a gift from the Lettermen's Association for fiscal year 2005 of \$3,000.

TEXAS STATE UNIVERSITY-SAN MARCOS

Texas State University-San Marcos Development Foundation

The Texas State University-San Marcos Development Foundation was formed for exclusively charitable, educational and scientific purposes and to assist in the development of Texas State University-San Marcos. In total the Development Foundation Board reported payments of \$773,218 for University support and \$782,375 for student scholarships from Development Foundation funds during the fiscal year ended August 31, 2005. This includes restricted gifts of \$286,950 and unrestricted gifts of \$27,005. The University furnished a variety of services including office space, utilities, accounting assistance, and other overhead to the Foundation during 2004-2005. The accounts of the Development Foundation are carried on the University's books and comprise \$19,332,786.71 of Total Deposits Held in Custody for Others – Agency Funds at August 31, 2005.

Texas State University-San Marcos Support Foundation

The Texas State University-San Marcos University Support Foundation was formed for exclusively charitable, educational and scientific purposes to assist in the development of the University, to obtain and maintain the best faculty and staff available, for the establishment and maintenance of facilities and laboratories, and for the advancement of research and other literary and scientific undertakings. In Fiscal Year 2005, the Support Foundation Board reported payments of \$279,272 for University support and \$399,701 for student scholarships from Development Foundation funds. Donations to the Development Foundation are restricted gifts of \$901,462 and unrestricted gifts of \$1,107,842. The University furnished a variety of services including office space, utilities, accounting assistance, and other overhead to the Foundation during 2004-2005.

UNAUDITED

Texas State University-San Marcos Alumni Association

The efforts and funds of the Texas State Alumni Association, Inc. are dedicated to the University for student scholarships, campus support, and membership activities. Numerous alumni social, educational and promotional events occurred on and off campus. Many of these events had joint sponsorship from key campus departments or groups. The Alumni Association raised \$539,824 in operating income. The accounts of the Alumni Association are carried on the University's books and comprise \$20,836 of Total Deposits Held in Custody for Others – Agency Funds at August 31, 2005. The Development Foundation holds \$101,941 in accounts for the Alumni Association.

TEXAS STATE UNIVERSITY SYSTEM

Texas State University System Foundation, Inc.

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. The Foundation is governed by a five member board appointed by the Board of Regents for the Texas State University System. 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 are repayable from revenues generated by the housing projects. The loans are not liabilities of System Administration or component institutions.

NOTE 18: Restatement of Fund Balances and Net Assets

During the 2005 fiscal year the System adopted the GASB rules recognizing the Library holdings as being subject to depreciation. An adjustment for prior years' accumulated depreciation, together with the write off of non-depreciable Library periodicals was made. Adjustments were also made to correct prior years carrying value of other assets and accumulated depreciation

Net Assets - per AFR, 8/31/2004		\$ 858,228,408.32
Adjustments and/or Restatements:		
Fixed Assets - Non-Library Book	(\$1,994.35)	
Fixed Assets -Library Books	(23,338,222.64)	
Prior Years' Depreciatio - Non-Library Books	8,151,672.21	
Prior Years' Depreciation - Library Books	(46,674,765.48)	(61,863,310.26)
Net Assets - Restated, 8/31/2004		<u>\$ 796,365,098.06</u>

UNAUDITED

NOTE 19: Not Used

NOTE 20: Not Used

NOTE 21: Donor-Restricted Endowments

DONOR RESTRICTED ENDOWMENT	AMOUNT OF NET APPRECIATION	REPORTED IN NET ASSETS
Endowments - True Endowments	\$ 2,237,207.45	Restricted to Spendable
Endowments - True Endowments	2,614,962.22	Restricted to Nonspendable
Endowments - Term Endowments	-	Restricted to Spendable
TOTAL	<u>\$ 4,852,169.67</u>	

NOTE 22: Not Used

NOTE 23: Not Used

NOTE 24: Not Used

NOTE 25: Disaggregation of Receivable and Payable Balances

Other Current Liabilities for the System at August 31, 2005 is comprised of the following:

Accrued Interest Payable	\$7,470,887.02
Refundable Student Deposits	<u>588,622.59</u>
TOTAL OTHER CURRENT LIABILITIES	<u>\$8,059,509.61</u>

TEXAS STATE UNIVERSITY SYSTEM
 SCHEDULE 2A
 MISCELLANEOUS BOND INFORMATION
 For the Fiscal Year Ended August 31, 2005

Business Type Activity Description	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Year	
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	<u>3,500,000.00</u>				
Utility System Revenue Bonds Southwest Texas State University Refunding, Series 1993 Series 1996	11,215,000.00 4,415,000.00	2.6% to 4.9% 3.6% to 5.45%	1994 1997	2004 2011	08-01-03 08-01-06
Subtotal	<u>15,630,000.00</u>				
Revenue Financing System Bonds Texas State University System Series 1998A Series 1998B Taxable Series 1998 Series 2000 Series 2001 Series 2002 Taxable Series 2002A Series 2003 Series 2004	94,540,000.00 53,505,000.00 15,920,000.00 26,000,000.00 12,400,000.00 147,445,000.00 14,170,000.00 47,635,000.00 85,950,000.00	4.5% to 5.5% 4.5% to 5.5% 5.52% to 6.46% 4.8% to 5.5% 4.25% to 5.25% 2.0% to 5.25% 1.875% to 4.375% 3.625% to 4.625% 2.25% to 5.00%	2000 1999 1999 2001 2002 2003 2003 2004 2005	2018 2015 2010 2020 2021 2022 2011 2023 2034	03-15-08 03-15-08 03-15-08 03-15-10 03-15-11 03-15-12 NA 03-15-13 09-15-14
Subtotal	<u>497,565,000.00</u>				
TOTAL	<u>\$ 516,695,000.00</u>				

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
 SCHEDULE 2B
 COMBINED CHANGE IN BONDED INDEBTEDNESS
 For the Fiscal Year Ended August 31, 2005

Business Type Activity	Bonds Outstanding 8-31-04	Bonds Issued	Bonds Matured	Bonds Refunded or Extinguished	Bonds Outstanding 8-31-05	Amounts Due Within One Year
REVENUE BONDS						
Student Housing System Revenue Bonds, Southwest Texas State University	\$ 1,830,000.00	\$	\$ 130,000.00	\$	\$ 1,700,000.00	\$ 130,000.00
Series 1986	1,830,000.00		130,000.00		1,700,000.00	130,000.00
Subtotal						
Utility System Revenue Bonds	2,480,000.00		305,000.00		2,175,000.00	305,000.00
Southwest Texas State University	2,480,000.00		305,000.00		2,175,000.00	305,000.00
Series 1996						
Subtotal						
Revenue Financing System Bonds	76,800,000.00		4,065,000.00	38,080,000.00	34,655,000.00	4,265,000.00
Texas State University System	76,800,000.00		4,065,000.00	38,080,000.00	34,655,000.00	4,265,000.00
Series 1998A	32,825,000.00		2,665,000.00		30,160,000.00	2,775,000.00
Series 1998B	9,920,000.00		1,405,000.00		8,515,000.00	1,495,000.00
Taxable Series 1998	22,900,000.00		940,000.00	7,550,000.00	14,410,000.00	985,000.00
Series 2000	11,085,000.00		435,000.00		10,650,000.00	455,000.00
Series 2001						
Series 2002						
Par Value	134,595,000.00		5,130,000.00		129,465,000.00	5,290,000.00
Premium	8,350,173.66		995,240.57		7,354,933.09	969,404.33
Taxable Series 2002A						
Par Value	12,500,000.00		1,565,000.00		10,935,000.00	1,625,000.00
Discount	(26,045.22)		(6,441.48)		(19,603.74)	(5,868.10)
Series 2003	45,900,000.00		710,000.00		45,190,000.00	1,770,000.00
Series 2004						
Par Value	85,950,000.00		235,000.00		85,715,000.00	708,488.79
Premium	6,154,131.08		231,786.34		5,922,344.74	20,332,025.02
Subtotal	354,849,128.44	92,104,131.08	18,370,585.43	45,630,000.00	382,952,674.09	20,332,025.02
Total Revenue Bonds	359,159,128.44	92,104,131.08	18,805,585.43	45,630,000.00	386,827,674.09	20,767,025.02
GENERAL OBLIGATION BONDS						
Constitutional Appropriation Bonds, Texas State University System	4,310,000.00		4,310,000.00		0.00	
Series 1998	4,310,000.00		4,310,000.00		0.00	
TOTALS	\$ 363,469,128.44	\$ 92,104,131.08	\$ 23,115,585.43	\$ 45,630,000.00	\$ 386,827,674.09	\$ 20,767,025.02

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
 SCHEDULE 2C
 DEBT SERVICE REQUIREMENTS
 As of the Fiscal Year Ended August 31, 2005

Debt Service Requirements

Description	Year	Principal	Interest
Student Housing System Revenue Bonds, Southwest Texas State University			
Series 1986	2006	\$ 130,000.00	\$ 49,050.00
	2007	135,000.00	45,075.00
	2008	140,000.00	40,950.00
	2009	145,000.00	36,675.00
	2010	150,000.00	32,250.00
	2011-2015	820,000.00	89,850.00
	2016-2020	180,000.00	2,700.00
		<u>\$ 1,700,000.00</u>	<u>\$ 296,550.00</u>
Utility System Revenue Bonds Southwest Texas State University			
Series 1996	2006	\$ 320,000.00	\$ 111,200.00
	2007	335,000.00	93,760.00
	2008	350,000.00	77,513.00
	2009	370,000.00	60,013.00
	2010	390,000.00	41,513.00
	2011-2015	410,000.00	21,525.00
		<u>\$ 2,175,000.00</u>	<u>\$ 405,524.00</u>
Revenue Financing System Bonds Texas State University System			
Series 1998A	2006	\$ 4,265,000.00	1,778,338.00
	2007	4,495,000.00	1,543,763.00
	2008	4,735,000.00	1,307,775.00
	2009		1,059,188.00
	2010		1,059,188.00
	2011-2015	1,100,000.00	5,295,940.00
	2016-2020	20,060,000.00	2,065,320.00
		<u>\$ 34,655,000.00</u>	<u>\$ 14,109,512.00</u>
Series 1998B	2006	\$ 2,775,000.00	\$ 1,490,481.00
	2007	2,840,000.00	1,337,856.00
	2008	2,985,000.00	1,208,756.00
	2009	3,150,000.00	1,089,744.00
	2010	3,320,000.00	890,294.00
	2011-2015	15,090,000.00	2,010,132.00
		<u>\$ 30,160,000.00</u>	<u>\$ 8,027,263.00</u>
Taxable Series 1998	2006	\$ 1,495,000.00	\$ 538,957.00
	2007	1,590,000.00	446,865.00
	2008	1,695,000.00	347,331.00
	2009	1,810,000.00	240,376.00
	2010	1,925,000.00	124,355.00
		<u>\$ 8,515,000.00</u>	<u>\$ 1,697,884.00</u>

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
 SCHEDULE 2C
 DEBT SERVICE REQUIREMENTS
 As of the Fiscal Year Ended August 31, 2005

Debt Service Requirements

Description	Year	Principal	Interest
Series 2000	2006	\$ 985,000.00	\$ 772,898.00
	2007	1,035,000.00	719,954.00
	2008	1,090,000.00	664,323.00
	2009	1,155,000.00	605,735.00
	2010	1,225,000.00	543,654.00
	2011-2015	1,295,000.00	2,148,065.00
	2016-2020	7,625,000.00	1,491,887.00
		<u>\$ 14,410,000.00</u>	<u>\$ 6,946,516.00</u>
Series 2001	2006	\$ 455,000.00	\$ 526,263.00
	2007	480,000.00	506,925.00
	2008	500,000.00	486,525.00
	2009	525,000.00	464,025.00
	2010	550,000.00	440,400.00
	2011-2015	3,165,000.00	1,742,438.00
	2016-2020	4,035,000.00	860,250.00
2021-2025	940,000.00	47,000.00	
		<u>\$ 10,650,000.00</u>	<u>\$ 5,073,826.00</u>
Series 2002	2006	\$ 5,290,000.00	\$ 6,292,012.00
	2007	5,495,000.00	6,080,412.00
	2008	5,715,000.00	5,860,612.00
	2009	6,010,000.00	5,574,862.00
	2010	6,310,000.00	5,274,362.00
	2011-2015	36,290,000.00	21,681,061.00
	2016-2020	43,795,000.00	11,653,212.00
2021-2025	20,560,000.00	1,476,300.00	
		<u>\$ 129,465,000.00</u>	<u>\$ 63,892,833.00</u>
Series 2002 - Premium Amortization	2006	\$ 969,404.33	\$ (969,404.33)
	2007	906,623.49	(906,623.49)
	2008	856,787.54	(856,787.54)
	2009	762,424.58	(762,424.58)
	2010	672,417.65	(672,417.65)
	2011-2015	2,457,752.28	(2,457,752.28)
	2016-2020	711,769.55	(711,769.55)
2021-2025	17,753.67	(17,753.67)	
		<u>\$ 7,354,933.09</u>	<u>\$ (7,354,933.09)</u>
Series 2002 - Total	2006	\$ 6,259,404.33	\$ 5,322,607.67
	2007	6,401,623.49	5,173,788.51
	2008	6,571,787.54	5,003,824.46
	2009	6,772,424.58	4,812,437.42
	2010	6,982,417.65	4,601,944.35
	2011-2015	38,747,752.28	19,223,308.72
	2016-2020	44,506,769.55	10,941,442.45
2021-2025	20,577,753.67	1,458,546.33	
		<u>\$ 136,819,933.09</u>	<u>\$ 56,537,899.91</u>

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
SCHEDULE 2C
DEBT SERVICE REQUIREMENTS
As of the Fiscal Year Ended August 31, 2005

Debt Service Requirements

Description	Year	Principal	Interest
Taxable Series 2002A	2006	\$ 1,625,000.00	\$ 412,131.25
	2007	1,685,000.00	365,412.50
	2008	1,765,000.00	308,543.75
	2009	1,850,000.00	244,562.50
	2010	1,950,000.00	170,563.00
	2011-2015	2,060,000.00	90,125.00
			<u>\$ 10,935,000.00</u>
Taxable Series 2002A - Discount Amortization	2006	\$ (5,868.10)	\$ 5,868.10
	2007	(4,030.95)	4,030.95
	2008	(3,926.62)	3,926.62
	2009	(2,383.18)	2,383.18
	2010	(2,486.36)	2,486.36
	2011-2015	(908.53)	908.53
			<u>\$ (19,603.74)</u>
Taxable Series 2002A - Total	2006	\$ 1,619,131.90	\$ 417,999.35
	2007	1,680,969.05	369,443.45
	2008	1,761,073.38	312,470.37
	2009	1,847,616.82	246,945.68
	2010	1,947,513.64	173,049.36
	2011-2015	2,059,091.47	91,033.53
			<u>\$ 10,915,396.26</u>
Series 2003	2005	\$ 710,000.00	\$ 1,959,961.25
	2006	1,770,000.00	1,934,223.75
	2007	1,825,000.00	1,870,061.25
	2008	1,875,000.00	1,803,905.00
	2009	1,945,000.00	1,735,936.25
	2010-2014	10,990,000.00	7,484,150.00
	2015-2019	13,560,000.00	4,862,068.75
	2020-2024	13,225,000.00	1,540,050.00
			<u>\$ 45,900,000.00</u>
Series 2004	2006	\$ 0.00	\$ 4,212,867.00
	2007	1,000,000.00	4,212,867.00
	2008	1,035,000.00	4,182,867.00
	2009	5,915,000.00	4,151,818.00
	2010	6,215,000.00	3,856,067.00
	2011-2015	39,805,000.00	13,899,335.00
	2016-2020	9,770,000.00	6,808,568.00
	2021-2025	10,460,000.00	4,499,250.00
	2026-2030	6,525,000.00	2,100,000.00
	2031-2035	4,990,000.00	638,750.00
		<u>\$ 85,715,000.00</u>	<u>\$ 48,562,389.00</u>

UNAUDITED

TEXAS STATE UNIVERSITY SYSTEM
 SCHEDULE 2C
 DEBT SERVICE REQUIREMENTS
 As of the Fiscal Year Ended August 31, 2005

Debt Service Requirements

<u>Description</u>	<u>Year</u>	<u>Principal</u>	<u>Interest</u>
Series 2004 - Premium Amortization	2006	\$ 708,488.79	\$ (708,488.79)
	2007	732,649.91	(732,649.91)
	2008	750,377.47	(750,377.47)
	2009	770,651.60	(770,651.60)
	2010	663,698.47	(663,698.47)
	2011-2015	1,797,464.53	(1,797,464.53)
	2016-2020	315,484.25	(315,484.25)
	2021-2025	138,645.39	(138,645.39)
	2026-2030	34,734.79	(34,734.79)
	2031-2035	10,149.54	(10,149.54)
		<u>\$ 5,922,344.74</u>	<u>\$ (5,922,344.74)</u>
Series 2004 -Total	2006	\$ 708,488.79	\$ 3,504,378.21
	2007	1,732,649.91	3,480,217.09
	2008	1,785,377.47	3,432,489.53
	2009	6,685,651.60	3,381,166.40
	2010	6,878,698.47	3,192,368.53
	2011-2015	41,602,464.53	12,101,870.47
	2016-2020	10,085,484.25	6,493,083.75
	2021-2025	10,598,645.39	4,360,604.61
	2026-2030	6,559,734.79	2,065,265.21
	2031-2035	5,000,149.54	628,600.46
		<u>\$ 91,637,344.74</u>	<u>\$ 42,640,044.26</u>
Constitutional Appropriation Bonds, Texas State University System Series 1998	2006	\$ 0.00	\$ 0.00

UNAUDITED

UNAUDITED

SCHEDULE 2E
 TEXAS STATE UNIVERSITY SYSTEM
 COMBINED SCHEDULE OF DEFEASED BONDS OUTSTANDING
 August 31, 2005

<u>Description of Issues</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds		
Combined Fee Revenue Bonds		
Lamar University - Beaumont		
Series 1979	1990	\$ 3,100,000.00
Refunding, Series 1997	1998	4,424,476.91
Lamar University Institute of Technology		
Refunding, Series 1997	1998	601,913.80
Lamar University - Orange		
Refunding, Series 1997	1998	428,961.74
Lamar University - Port Arthur		
Refunding, Series 1997	1998	589,647.55
Total Combined Fee Revenue Bonds		<u>\$ 9,145,000.00</u>
Revenue Bonds		
Student Housing System Revenue Bonds		
Angelo State University		
Series 1967A	1992	365,000.00
Southwest Texas State University		
Series 1970	1987	890,000.00
Refunding, Series 1993	2002	
Series 1995	2002	2,925,000.00
Total Student Housing System Revenue Bonds		<u>\$ 4,180,000.00</u>
Tuition Revenue Bonds		
Texas State University System		
Series 1998A	2005	38,080,000.00
Series 2000	2005	7,550,000.00
Total Tuition Revenue Bonds		<u>45,630,000.00</u>
Total Defeased Bonds		<u>\$ 58,955,000.00</u>

SCHEDULE 2F
 TEXAS STATE UNIVERSITY SYSTEM
 COMBINED SCHEDULE OF EARLY EXTINGUISHMENT AND REFUNDING
 For the Fiscal Year Ended August 31, 2005

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 1998A	Advanced Refunding	\$38,080,000.00	\$37,345,000.00	\$1,061,034.66	\$833,431.78
Series 2000	Advanced Refunding	7,550,000.00	7,715,000.00	217,159.93	164,359.13
Totals		<u>\$45,630,000.00</u>	<u>\$45,060,000.00</u>	<u>\$1,278,194.59</u>	<u>\$997,790.91</u>

UNAUDITED
TEXAS STATE UNIVERSITY SYSTEM
Schedule 3
Combined Reconciliation of Cash in State Treasury
August 31, 2005

Cash in State Treasury	Unrestricted	Restricted	Current Year Total
Fund 0283 System Administration			
Local Revenue Fund 0283	\$ 130,258.42	\$ -	\$ 130,258.42
Angelo State			
Local Revenue Fund 0227	5,051,334.22		5,051,334.22
Lamar University - Beaumont			
Local Revenue Fund 0256	1,470,130.71		1,470,130.71
Lamar Institute of Technology			
Local Revenue Fund 0287	1,339,382.78		1,339,382.78
Lamar State College - Orange			
Local Revenue Fund 0285	2,016,760.00		2,016,760.00
Lamar State College - Port Arthur			
Local Revenue Fund 0286	288,912.38		288,912.38
Sam Houston State University			
Local Revenue Fund 0259	17,657,053.38		17,657,053.38
Law Enforcement Mgt Institute Fund 0581	5,182,177.27		5,182,177.27
CJ Correctional Mgt. Institute Fund 5083	1,238,881.31		1,238,881.31
Texas State University - San Marcos			
Local Revenue Fund 0260	16,008,616.23		16,008,616.23
Sull Ross State University			
Local Revenue Fund 0262	1,294,679.09		1,294,679.09
Total Cash in State Treasury (stmt of Net Assets)	<u>\$ 51,678,185.79</u>	<u>\$ -</u>	<u>\$ 51,678,185.79</u>

Test to Statement of Net Assets for this template