OFFICIAL STATEMENT

NEW ISSUE - BOOK-ENTRY ONLY

Ratings: Uninsured Bonds/Insured Bonds
Fitch: "AA"/"AAA"
Moody's: "Aa3"/"Aaa"
S&P: "AA"/"AAA"
See "RATINGS" and "FINANCIAL GUARANTY INSURANCE" herein

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, court decisions, regulations and published rulings. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations and other tax consequences.

$220,915,000
BOARD OF REGENTS OF TEXAS TECH UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM
REFUNDING AND IMPROVEMENT BONDS
TENTH SERIES (2006)

Dated: February 1, 2006 **Due: As shown on the inside front cover**

The Board of Regents of Texas Tech University System Revenue Financing System Refunding and Improvement Bonds, Tenth Series (2006) (the "Bonds") constitute valid and legally binding special obligations of the Board of Regents (the "Board") of the Texas Tech University System (the "University System"). The Bonds shall be issued pursuant to a Master Resolution adopted by the Board on October 21, 1993, and amended on November 8, 1996 and August 22, 1997 (as amended, the "Master Resolution"), and a Tenth Supplemental Resolution adopted by the Board on December 16, 2005. The Bonds are payable from and secured solely by the Pledged Revenues (as defined herein) of the Texas Tech University System Revenue Financing System. The Bonds are Parity Obligations (as defined herein). See "SECURITY FOR THE BONDS."

The proceeds from the sale of the Bonds will be used for the purposes of: (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for Texas Tech University and Texas Tech University Health Sciences Center, (ii) refunding certain of the Outstanding Commercial Paper Notes (as defined herein), (iii) refunding certain of the Board's Outstanding Parity Obligations, as more particularly described in Schedule I attached hereto (the "Refunded Bonds"), and (iv) paying the costs of issuance of the Bonds. See "PLAN OF FINANCE" and "Schedule I - REFUNDED BONDS."

Interest on the Bonds will accrue from February 1, 2006, and is calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable on August 15, 2006, and each February 15 and August 15 thereafter until maturity or prior redemption. Principal on the Bonds will be payable on August 15, 2006, and on each February 15 thereafter, commencing February 15, 2007, on the dates and in the amounts shown on the inside front cover page. The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of the Bonds will be payable by JPMorgan Chase Bank, National Association, Dallas, Texas, the initial Paying Agent/Registrar, to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry Only System."

Payment of the principal of and interest on the Bonds maturing on February 15 in each of the years 2008 through 2017, inclusive, and 2022 through 2031, inclusive (the "Insured Bonds") when due, will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

The Bonds will mature, bear interest, and have initial prices or yields and CUSIP numbers as shown on the inside front cover page of this Official Statement.

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

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY SYSTEM, TEXAS TECH UNIVERSITY OR TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION THEREOF. THE BOARD HAS NO TAXING POWER AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE PAYMENT OF THE BONDS. SEE "SECURITY FOR THE BONDS."

The Bonds are offered when, as, and if issued, subject to approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Austin, Texas. The Bonds are expected to be available for delivery through DTC on or about March 8, 2006.

UBS INVESTMENT BANK

ESTRADA HINOJOSA & COMPANY, INC. **LEHMAN BROTHERS**
RBC CAPITAL MARKETS **SIEBERT BRANDFORD SHANK & CO., LLC**

Dated: February 2, 2006

MATURITY SCHEDULE

$220,915,000
Board of Regents of Texas Tech University System
Revenue Financing System
Refunding and Improvement Bonds, Tenth Series (2006)

$215,930,000 Serial Bonds

Due (Aug. 15)	Maturing Amount	Interest Rate	Price or Yield	CUSIP Numbers [1]
2006	$ 2,590,000	4.00%	3.22%	8827976Y4

Due (Feb. 15)	Maturing Amount	Interest Rate	Price or Yield	CUSIP Numbers [1]
2007 [2]	$ 3,575,000	4.00%	3.26%	8827976Z1
2008	3,160,000	4.00%	3.34%	8827977A5
2009	3,290,000	4.00%	3.38%	8827977B3
2010	3,425,000	4.00%	3.46%	8827977C1
2011	4,925,000	4.00%	3.55%	8827977D9
2012	5,160,000	5.00%	3.66%	8827977E7
2013	5,410,000	5.00%	3.76%	8827977F4
2014	10,245,000	5.00%	3.85%	8827977G2
2015	10,780,000	5.00%	3.93%	8827977H0
2016	11,320,000	5.00%	3.99%	8827977J6
2017	11,625,000	5.00%	4.05% [c]	8827977K3
2018 [2]	14,555,000	4.20%	4.21%	8827977L1
2019 [2]	15,195,000	4.25%	4.28%	8827977M9
2020 [2]	15,855,000	4.35%	100%	8827977N7
2021 [2]	16,570,000	4.40%	4.41%	8827977P2
2022	10,910,000	5.00%	4.27% [c]	8827977Q0
2023	11,465,000	5.00%	4.31% [c]	8827977R8
2024	12,060,000	5.00%	4.34% [c]	8827977S6
2025	12,680,000	5.00%	4.38% [c]	8827977T4
2026	13,330,000	5.00%	4.41% [c]	8827977U1
2027	6,785,000	5.00%	4.44% [c]	8827977V9
2028	5,375,000	5.00%	4.46% [c]	8827977W7
2029	5,645,000	5.00%	4.48% [c]	8827977X5

$4,985,000 Term Bond

$4,985,000 4.50% Term Bond due February 15, 2031, Priced at 97.364% - CUSIP 8827977Y3

(accrued interest from February 1, 2006 to be added)

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(1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the Board nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
(2) The Bonds maturing in the years 2006, 2007 and 2018 through 2021, inclusive, are not insured by Ambac Assurance Corporation.
(3) Yield calculated based upon assumption that Bonds maturing in the years 2017 and 2022 through 2029, inclusive, will be called on first optional call date at a redemption price of par plus accrued interest to the date of redemption (February 15, 2016).

BOARD OF REGENTS

OF THE TEXAS TECH UNIVERSITY SYSTEM

Name	Residence	Term Expiration
Mr. L. Frederick Francis, Chair	El Paso	January 31, 2007
Mr. J. Frank Miller, III, Vice Chair	Dallas	January 31, 2009
Mr. C. Robert Black	Horseshoe Bay	January 31, 2007
Dr. Bob L. Stafford	Amarillo	January 31, 2007
Mr. F. Scott Dueser	Abilene	January 31, 2009
Mrs. Windy Sitton	Lubbock	January 31, 2009
Mr. Larry K. Anders	Dallas	January 31, 2011
Mr. Mark Griffin	Lubbock	January 31, 2011
Mr. Daniel T. Serna	Arlington	January 31, 2011

PRINCIPAL ADMINISTRATORS

Name	Title
Dr. David R. Smith*	Chancellor
Mr. Jim Brunjes	Senior Vice Chancellor and Chief Financial Officer
Dr. Jon S. Whitmore	President (Texas Tech University)
Dr. M. Roy Wilson	President (Texas Tech University Health Sciences Center)

*On January 24, 2006, Dr. Smith announced his resignation as Chancellor of the Texas Tech University System, to be effective on February 28, 2006. On January 30, 2006, the Board of Regents appointed a search committee to identify a permanent replacement for Dr. Smith.

CONSULTANTS

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

For additional information regarding the University System, please contact:

Mr. Charles D. Wall
Assistant Vice Chancellor, Investments
and Assistant Chief Financial Officer
Texas Tech University System
15th and University
Drane Hall, Room 315
Lubbock, Texas 79409-1098
(806) 742-3243

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

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Board to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and in no instance may this Official Statement be reproduced or used for any other purpose.

Certain information set forth in this Official Statement has been furnished by the Board and other sources which are believed to be reliable, but such information is not to be construed as a representation by the Underwriters. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds. Neither the Board nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers.

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

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

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

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

Marketability

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

Securities Laws

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT APPROVED OR DISAPPROVED THE SECURITIES OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

Financial Guaranty Insurance Policy

Payment of the principal of and interest on the Bonds maturing on February 15 in each of the years 2008 through 2017, inclusive, and 2022 through 2031, inclusive (the "Insured Bonds") when due, will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

TABLE OF CONTENTS

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OFFICIAL STATEMENT
Relating to

$220,915,000
BOARD OF REGENTS OF TEXAS TECH UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM
REFUNDING AND IMPROVEMENT BONDS
TENTH SERIES (2006)

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents of the Texas Tech University System (the "Board"), acting for and on behalf of the Texas Tech University System (the "University System") of its bonds, entitled "Board of Regents of Texas Tech University System Revenue Financing System Refunding and Improvement Bonds, Tenth Series (2006)" (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined have the same meanings assigned to such terms in "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

The University System currently consists of Texas Tech University (the "University") and Texas Tech University Health Sciences Center (the "Health Sciences Center"). The University and the Health Sciences Center were established pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State") as institutions of higher education. Pursuant to a Master Resolution adopted by the Board on October 21, 1993 and amended on November 8, 1996 and August 22, 1997 (the "Master Resolution"), the Board created the Texas Tech University System Revenue Financing System (the "Revenue Financing System") for the purpose of providing a system-wide financing structure for revenue-supported indebtedness to reduce costs, increase borrowing capacity, provide additional security to the credit markets and provide the Board with increased financial flexibility. Currently, the University and the Health Sciences Center are the only Participants in the Revenue Financing System. Pursuant to the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to any Participant in the Revenue Financing System that may lawfully be pledged to secure the payment of revenue-supported debt obligations and has pledged those sources as Pledged Revenues to secure the payment of revenue-supported debt obligations of the Board incurred as Parity Obligations under the Master Resolution. See "SECURITY FOR THE BONDS—The Revenue Financing System" and "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

This Official Statement contains summaries and descriptions of the plan of finance, the Resolution, the Bonds, the Board, the University System, the University, the Health Sciences Center, and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Mr. Charles D. Wall, Assistant Vice Chancellor, Investments and Assistant Chief Financial Officer, Texas Tech University System, 15th and University, Drane Hall, Room 315, Lubbock, Texas 79409-1098.

PLAN OF FINANCE

Authority for Issuance. The Bonds are being issued in accordance with the general laws of the State, including particularly Chapter 55, Texas Education Code, as amended; Chapter 1371, Texas Government Code, as amended; and Chapter 1207, Texas Government Code, as amended. Certain of the Bonds are being issued pursuant to Section 55.1749, Texas Education Code, as amended. The Bonds are being issued pursuant to the Master Resolution and a Tenth Supplemental Resolution adopted by the Board on December 16, 2005 (the "Supplemental Resolution"). The Master Resolution and the Supplemental Resolution are referred to herein collectively as the "Resolution." The Bonds will be the tenth series of debt obligations issued as Parity Obligations and payable from the Pledged Revenues. Certain of the Parity Obligations previously issued pursuant to the Master Resolution are no longer outstanding. For a description of the Outstanding Parity Obligations and the ability of the Board to issue Additional Parity Obligations, see "SECURITY FOR THE BONDS—Outstanding Parity Obligations" and "—Additional Obligations."

Purpose. The Bonds are being issued for the purposes of: (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads or related infrastructure for the University and the Health Sciences Center, (ii) refunding $33,500,000 of the "Board of Regents of Texas Tech University System Revenue Financing System Commercial Paper Notes, Series A" (the "Commercial Paper Notes"), (iii) refunding certain of the Board's Outstanding Parity Obligations, as more particularly described in Schedule I attached hereto (the "Refunded Bonds"), and (iv) paying the costs of issuance of the Bonds. The Commercial Paper Notes constitute Parity Obligations under the terms of the Master Resolution.

Refunded Bonds. A portion of the proceeds from the issuance and sale of the Bonds will be applied to refund the Refunded Bonds. The refunding will result in the defeasance of the Refunded Bonds in accordance with the terms thereof.

The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the Board and JPMorgan Chase Bank, National Association, Dallas, Texas (the "Escrow Agent"). The Supplemental Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriters, the Board will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity and redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. The Escrow Fund will not be available to pay the principal of and interest on the Bonds.

Grant Thornton, LLP, certified public accountants, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Board will have effected the defeasance of all of the Refunded Bonds in accordance with Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton, LLP, certified public accountants, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the Board payable from Pledged Revenues nor for the purpose of applying any limitation on the issuance of debt.

The Board has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of an additional amount required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Refunded Notes. A portion of the proceeds from the issuance and sale of the Bonds will be applied to refund Outstanding Commercial Paper Notes (the "the Refunded Notes"). The Board will make any necessary contribution sufficient, together with a portion of the proceeds of the Bonds, to provide for the payment of the principal of and interest due on the Refunded Notes in accordance with the terms thereof.

The principal of and interest due on the Refunded Notes are to be paid on their scheduled payment dates from funds to be paid to Bankers Trust Company, as the Issuing and Paying Agent for the Refunded Notes (the "Issuing and Paying Agent") in accordance with the provisions of the supplemental resolution authorizing the Commercial Paper Notes, to refund the Refunded Notes.

By the deposit of the cash with the Issuing and Paying Agent, the Board will have effected the defeasance of all of the Refunded Notes in accordance with Chapter 1207. It is the opinion of Bond Counsel that as a result of such defeasance, the Refunded Notes will be outstanding only for the purpose of receiving payments from such cash held by the Issuing and Paying Agent for the Refunded Notes and such Refunded Notes will not be deemed as being outstanding obligations of the Board payable from Pledged Revenues or for the purpose of applying any limitation on the issuance of debt.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Bonds	$ 220,915,000.00
Net Original Issue Premium	8,482,552.70
Accrued Interest	1,066,658.10
Other Available System Funds	307,032.35
Total Sources of Funds	$ 230,771,243.15
Uses of Funds	
Deposit to Project Construction Fund	$ 63,132,000.00
Deposit to Escrow Fund for Refunded Bonds	130,628,097.33
Deposit to Retire Commercial Paper Notes	33,500,000.00
Deposit to Debt Service Fund	1,066,658.10
Original Issue Discount	209,368.85
Costs of Issuance [1]	2,235,118.87
Total Uses of Funds	$ 230,771,243.15

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[1] Includes Underwriters' discount, bond insurance and other costs of issuance.

DESCRIPTION OF THE BONDS

General. The Bonds will be dated and bear interest from February 1, 2006, will bear interest at the per annum rates and will mature on the dates and in the amounts shown on the inside front cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable on August 15, 2006 and each February 15 and August 15 thereafter until maturity or prior redemption. Principal on the Bonds will be payable on August 15, 2006, and on each February 15 thereafter, commencing February 15, 2007, on the dates and in the amounts shown on the inside front cover page. The Bonds are initially issuable in book-entry only form.

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

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

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

Record Date for Interest Payment. The record date ("Record Date") for the interest payable on any interest payment date means the close of business on the last Business Day of the month next preceding each interest payment date.

Redemption.

Optional Redemption. The Bonds scheduled to mature on and after February 15, 2017 are subject to redemption prior to maturity at the option of the Board on February 15, 2016, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or any multiple thereof (and, if in part, the particular Bonds or portion thereof to be redeemed shall be selected by the Board) at a price of 100% of the principal amount plus accrued interest to the redemption date.

During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See "DESCRIPTION OF THE BONDS—Book-Entry Only System" below.

Mandatory Redemption. The Bonds maturing February 15, 2031 are subject to mandatory sinking fund redemption prior to their scheduled maturity on February 15, 2030, and shall be redeemed by the Board, in part, prior to their scheduled maturity, with the particular Bonds or portions thereof to be redeemed to be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of $5,000), at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption, on the dates, and in the principal amounts set forth below:

Redemption Date	**Principal Amount**
February 15, 2030	$ 2,435,000
February 15, 2031*	$ 2,550,000

* Final Maturity

The principal amount of the Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by the Paying Agent/Registrar at the direction of the Board, in either case at a price not exceeding the par or principal amount of such Bonds, or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against mandatory sinking fund redemption.

Notice of Redemption. Not less than 30 days prior to a redemption date, a notice of redemption of any Bond prior to its maturity will be published once in a financial publication, journal, or report of general circulation among securities dealers in the City of New York, New York, or in the State in accordance with the Resolution. Additional notice will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, not less than 30 days prior to the date fixed for redemption, to each registered owner of a Bond to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date, to each registered securities depository, and to any national information service that disseminates redemption notices. FAILURE TO MAIL OR RECEIVE SUCH NOTICE WILL NOT AFFECT THE PROCEEDINGS FOR REDEMPTION, AND PUBLICATION OF NOTICE

OF REDEMPTION IN THE MANNER SET OUT ABOVE SHALL BE THE ONLY NOTICE ACTUALLY REQUIRED AS A PREREQUISITE FOR REDEMPTION. In addition, in the event of a redemption caused by an advance refunding, the Paying Agent/Registrar shall send a second notice of redemption to registered owners subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to the registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to any registered owner who has not submitted Bonds for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the series, the dates of issue, the interest rates, the maturity dates, the CUSIP numbers, the amounts of Bonds called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the name of the Paying Agent/Registrar, and the address at which the Bonds may be redeemed including a contact person and telephone number.

Paying Agent/Registrar. In the Resolution, the Board reserves the right to replace the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. The Board covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any successor Paying Agent/Registrar shall be a competent and legally qualified bank, trust company, financial institution, or other qualified agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants to promptly appoint a competent and legally qualified bank, trust company, financial institution or other qualified agency to act as Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar, the Board agrees to promptly cause a written notice thereof to be sent to each registered owner of Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Defeasance. The Resolution provides for the defeasance of the Bonds. See "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Defeasance."

Book-Entry Only System. The following information has been furnished by DTC for use in disclosure documents such as this Official Statement. Neither the Board nor the Underwriters make any representation or warranty regarding the information furnished by DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Security Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Ratings

Services, A Division of The McGraw-Hill Companies, Inc. highest rating: "AAA." The DTC Rules applicable to its Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents.

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

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

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

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

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

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

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

SECURITY FOR THE BONDS

The Revenue Financing System. The Master Resolution created the Revenue Financing System to provide a financing structure for revenue-supported indebtedness of the University and the Health Sciences Center and other entities which may be included in the future by Board action, as Participants in the Revenue Financing System. The Revenue Financing System is intended to facilitate the assembling of all of the Participants' revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to Participants and to maximize the financing options available to the Board. The Master Resolution provides that once a university or agency becomes a Participant, the lawfully available revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances attributable to that entity and pledged by the Board become part of the Pledged Revenues; provided, however, that, if at the time an entity becomes a Participant it has outstanding obligations secured by such sources, such obligations will constitute Prior Encumbered Obligations under the Master Resolution and the pledge of such sources as Pledged Revenues will be subject and subordinate to such outstanding Prior Encumbered Obligations. Thereafter, the Board may issue bonds, notes, commercial paper, contracts, or other evidences of indebtedness, including credit agreements, on behalf of such institution, on a parity, as to payment and security, with the Outstanding Parity Obligations, subject only to the outstanding Prior Encumbered Obligations, if any, with respect to such Participant. Upon becoming a Participant, an entity may no longer issue obligations having a lien on Pledged Revenues prior to the lien on the Outstanding Parity Obligations. Generally, Prior Encumbered Obligations are those bonds or other obligations issued on behalf of a Participant which were outstanding on the date such entity became a Participant in the Revenue Financing System. Currently, there are no Prior Encumbered Obligations outstanding and the Board does not anticipate adding Participants to the Revenue Financing System which would result in the assumption of Prior Encumbered Obligations. See "Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Pledge Under Master Resolution. The Parity Obligations are special obligations of the Board equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues as described below.

The Pledged Revenues consist of, subject to the provisions of the proceedings authorizing the issuance of any Prior Encumbered Obligations, the Revenue Funds (hereinafter defined), including all of the funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any Participant of the Revenue Financing System which are lawfully available to the Board for payments on Parity Obligations; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a Supplement to the Master Resolution: (a) amounts received by any Participant under Article VII, Section 17 of the State Constitution (generally, this provision of the State Constitution provides for an annual appropriation to be allocated among eligible agencies and institutions of higher education for the purpose of providing funds for acquisition of capital assets and the construction of capital improvements; through the end of Fiscal Year 2007, the amount of the annual appropriation is $175 million and for fiscal years beginning September 1, 2007 the amount of the annual appropriation is increased to $262.5 million), including the income therefrom and any fund balances relating thereto; (b) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the State Legislature; and (c) Practice Plan Funds of any Participant, including the income therefrom and any fund balances relating thereto not included in Pledged Practice Plan Funds. The “Revenue Funds” are defined in the Master Resolution to include the “revenue funds” of the Board (as defined in Section 55.01 of the Texas Education Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of the Participants, including specifically the Pledged General Tuition, and to the extent and subject to the provisions of the Master Resolution, the Pledged General Fee and the Pledged Tuition Fee; provided, that Revenue Funds do not include, with respect to each series or issue of Parity Obligations, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of adoption of the supplement relating to such Parity Obligations, is exempt by law from paying such tuition, rentals, rates, fees, or other charges. All legally available funds of the Participants, including unrestricted fund and reserve balances, are pledged to the payment of the Parity Obligations. For a more detailed description of the Pledged General Tuition, the Pledged Tuition Fee, the Pledged General Fee and the Pledged Practice Plan Funds, see “Appendix D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.” For a more detailed description of the types of revenues and expenditures of the University System, see “Appendix A - TEXAS TECH UNIVERSITY SYSTEM.” Subsequent to the adoption of the Master Resolution, State law was amended to recharacterize Pledged General Tuition and Pledged General Fee as "State Mandated Tuition," "Board Designated Tuition" and "Board Authorized Tuition." See "Appendix A – TEXAS TECH UNIVERSITY SYSTEM – Selected Financial Information". Such sources constitute Revenue Funds, and are available for the payment of debt service on Parity Obligations.

The following table sets forth the Pledged Revenues under the Revenue Financing System for the five most recent Fiscal Years:

	2001	2002	2003	2004	2005
Available Pledged Revenues					
Revenues Not Including Fund Balances	$ 252,728,842	$ 283,468,573	$ 299,106,319	$ 322,166,932	$ 352,957,321
Pledgeable Unappropriated Funds and Reserve Balances (1)(2)	101,826,730	93,393,972	105,685,345	127,830,064	138,468,032
Total Pledged Revenues	$ 354,555,572	$ 376,862,545	$ 404,791,664	$ 449,996,996	$ 491,425,353

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(1) The pledge of Educational and General Funds appropriated by the State Legislature is limited to State Mandated Tuition, including Board Designated Tuition and Board Authorized Tuition indirect costs, and sales and services. Non-pledgeable Designated and Auxiliary Enterprise Funds consist of State Appropriations, Student Service Fees, Student Complex Fees, and Higher Education Assistance Fund Income.

(2) In addition to current year Pledged Revenues, any unappropriated or reserve fund balances remaining at year-end are available for payment of the subsequent year’s debt service.

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

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY SYSTEM, THE UNIVERSITY, THE HEALTH SCIENCES CENTER, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE. THE BOARD HAS NO TAXING POWER AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED AS SECURITY FOR THE BONDS.

THE BREACH OF ANY COVENANT, AGREEMENT, OR OBLIGATION CONTAINED IN THE RESOLUTION WILL NOT IMPOSE OR RESULT IN GENERAL LIABILITY ON OR A CHARGE AGAINST THE GENERAL CREDIT OF THE BOARD, THE UNIVERSITY SYSTEM, THE UNIVERSITY, OR THE HEALTH SCIENCES CENTER.

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Outstanding Parity Obligations. Following the issuance of the Bonds, the Board will have the following described indebtedness which constitute Parity Obligations and are payable from the Pledged Revenues:

	Outstanding Principal as of 2/16/06 [(1)]
Revenue Financing System Refunding and Improvement Bonds, Fourth Series (Taxable 1996)	$ 935,000
Revenue Financing System Commercial Paper Notes, Series A	43,858,000
Revenue Financing System Refunding and Improvement Bonds, Sixth Series (1999)	57,885,000
Revenue Financing System Bonds, Seventh Series (2001)	29,920,000
Revenue Financing System Bonds, Eighth Series (Taxable 2001)	38,660,000
Revenue Financing System Refunding and Improvement Bonds, Ninth Series (2003)	88,480,000
The Bonds	220,915,000
Total	$ 480,653,000 [(2)]

(1) Does not include the Refunded Bonds.
(2) Excludes the Outstanding Commercial Paper Notes being retired with proceeds of the Bonds.

Commercial Paper Notes. Commercial Paper Notes issued by the Board are Parity Obligations under the terms of the Master Resolution. On February 27, 2003, the Board adopted an Amended and Restated Fifth Supplemental Resolution to the Master Resolution, pursuant to which the Board established (i) the authority to issue from time to time and at any one time Commercial Paper Notes in an amount not to exceed $100,000,000, and (ii) that the payment of the Commercial Paper Notes may be, but is not required to be, supported by either a credit facility or a liquidity facility issued pursuant to the terms of a "Liquidity Agreement." Under the terms of the Amended and Restated Fifth Supplemental Resolution to the Master Resolution, the Board covenanted to maintain available funds plus any available bank loan commitment issued under the terms of a Liquidity Agreement in an amount equal to the total principal amount of outstanding Commercial Paper Notes plus interest to accrue thereon for the following 270 days. Acting upon the authority provided by the Amended and Restated Fifth Supplemental Resolution to the Master Resolution, on May 8, 2003, the Board began to provide its own liquidity in support of the Commercial Paper Notes then and thereafter outstanding.

Under the terms of the Amended and Restated Fifth Supplemental Resolution to the Master Resolution, to the extent that the "Dealer" for the Board's commercial paper program cannot sell Commercial Paper Notes to renew or refund outstanding Commercial Paper Notes on their maturity, the Board covenanted to use lawfully available funds to purchase Commercial Paper Notes issued to renew and refund maturing Commercial Paper Notes. Under the terms of the Amended and Restated Fifth Supplemental Resolution to the Master Resolution, such payment, issuance and purchase is not intended to constitute an extinguishment of the obligation represented by such maturing Commercial Paper Notes and the Board may issue Commercial Paper Notes to renew and refund the Commercial Paper Notes held by it when the Dealer is again able to sell Commercial Paper Notes. While such Commercial Paper Notes are held by the Board they shall bear interest at the rate being earned by the funds used to purchase such Commercial Paper Notes on the date of purchase. The commercial paper program established under the terms of the Amended and Restated Fifth Supplemental Resolution to the Master Resolution expires on December 31, 2033.

In connection with providing self-liquidity in support of the Commercial Paper Notes, the Board has established a failed remarketing policy, where the Dealer will provide notice to the Board of its inability to remarket maturing Commercial Paper Notes and the Board will then take steps to provide funds either from available cash or through the liquidation of Short/Intermediate Term Investment Fund assets (see "Appendix A - TEXAS TECH UNIVERSITY SYSTEM—Selected Financial Information—Investment Policies and Procedures and Endowments") in a manner sufficient to provide for the timely payment due to holders of maturing Commercial Paper Notes.

<u>Additional Obligations</u>. The Board may issue additional obligations to provide funds for new construction, renovation of existing facilities, acquisition of equipment and to refund outstanding Debt. See "FUTURE CAPITAL IMPROVEMENT PLANS."

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

<u>Nonrecourse Debt and Subordinated Debt</u>. The Master Resolution provides that Non-Recourse Debt and Subordinated Debt may be incurred by the Board without limitation. No such Non-Recourse Debt or Subordinated Debt has been issued by the Board.

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DEBT SERVICE REQUIREMENTS[1]

The following table is a summary of the debt service requirements of all Parity Obligations outstanding following the issuance of the Bonds.

Fiscal Year Ending 8/31	Annual Debt Service on Outstanding Parity Obligations [2]	Less the Refunded Bonds	The Bonds		Total Annual Debt Service on Parity Obligations
			Principal	Interest	
2006	$ 35,869,074	$ 3,237,253	$ 2,590,000	$ 5,592,748	$ 40,814,569
2007	34,531,124	6,474,506	3,575,000	10,203,195	41,834,813
2008	31,990,917	6,474,506	3,160,000	10,068,495	38,744,906
2009	32,001,641	6,474,506	3,290,000	9,939,495	38,756,629
2010	31,592,557	6,474,506	3,425,000	9,805,195	38,348,246
2011	29,315,965	7,818,281	4,925,000	9,638,195	36,060,879
2012	28,599,865	7,818,863	5,160,000	9,410,695	35,351,698
2013	28,267,965	7,810,638	5,410,000	9,146,445	35,013,773
2014	27,703,671	12,253,344	10,245,000	8,755,070	34,450,398
2015	28,742,934	12,257,256	10,780,000	8,229,445	35,495,123
2016	25,596,190	12,252,969	11,320,000	7,676,945	32,340,166
2017	25,321,459	11,982,031	11,625,000	7,103,320	32,067,748
2018	24,353,053	14,318,856	14,555,000	6,507,040	31,096,236
2019	24,353,446	14,321,981	15,195,000	5,878,491	31,104,956
2020	24,352,359	14,316,906	15,855,000	5,210,751	31,101,204
2021	24,345,103	14,319,163	16,570,000	4,501,365	31,097,305
2022	18,058,065	8,028,375	10,910,000	3,864,075	24,803,765
2023	18,059,865	8,024,625	11,465,000	3,304,700	24,804,940
2024	10,767,600	8,032,000	12,060,000	2,716,575	17,512,175
2025	10,766,985	8,029,625	12,680,000	2,098,075	17,515,435
2026	10,768,735	8,031,875	13,330,000	1,447,825	17,514,685
2027	10,762,145	8,023,375	6,785,000	944,950	10,468,720
2028	9,050,430	6,313,000	5,375,000	640,950	8,753,380
2029	9,043,260	6,305,750	5,645,000	365,450	8,747,960
2030	5,527,850	2,789,500	2,435,000	169,538	5,342,888
2031	5,527,290	2,793,000	2,550,000	57,375	5,341,665
	$ 565,269,547	$ 224,976,691	$ 220,915,000	$ 143,276,403	$ 704,484,260

[1] Does not include debt service on the Outstanding Commercial Paper Notes.
[2] Includes debt service on the Refunded Bonds.

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FINANCIAL GUARANTY INSURANCE

The information contained or referred to in this Official Statement relating to Ambac Assurance Corporation ("Ambac Assurance") and the insurance policy hereinafter described relating to the Bonds maturing on February 15 in each of the years 2008 through 2017, inclusive, and 2022 through 2031, inclusive (the "Insured Bonds") has been provided by Ambac Assurance. Such information has not been independently verified by the Board, the System or the Underwriters and is not guaranteed as to completeness or accuracy by the Board, the System or the Underwriters and is not to be construed as a representation of the Board, the System or the Underwriters. Reference is made to the specimen of Ambac Assurance's policy attached hereto as Appendix F.

Payment Pursuant to Financial Guaranty Insurance Policy . . . Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Insured Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to the The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent/Registrar. The insurance will extend for the term of the Insured Bonds and, once issued, cannot be canceled by Ambac Assurance. Bonds other than the Insured Bonds are not covered by the Financial Guaranty Insurance Policy.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent/Registrar has notice that any payment of principal of or interest on an Insured Bond which has become Due for Payment and which is made to a Bondholder of such Insured Bond by or on behalf of the Board has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Financial Guaranty Insurance Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Paying Agent/Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of the Bondholder of such Insured Bond entitlement to interest payments and an appropriate assignment of such Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Corporation . . . Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,645,000,000 (unaudited) and statutory capital of approximately $5,403,000,000 (unaudited) as of September 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE".

Available Information . . . The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference . . . The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;

6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;

7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005;

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005;

9. The information furnished and deemed to be filed under Item 2.02 contained in the Company's Current Report on Form 8-K dated and filed on October 19, 2005;

10. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2005 and filed on November 9, 2005;

11. The Company's Current Report on Form 8-K dated November 29, 2005 and filed on December 5, 2005; and

12. The Company's Current Report on Form 8-K dated and filed on January 25, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

FUTURE CAPITAL IMPROVEMENT PLANS

In addition to the projects to be financed with the proceeds of the Bonds, the System has various other projects under consideration as part of its 5-year capital plan. Projects with aggregate estimated costs of $132 million may require financing of approximately $104 million in future years. The System may consider other construction projects as well.

ABSENCE OF LITIGATION

Neither the Board nor the University System is a party to any litigation, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending or, to the knowledge of such parties, threatened, in any court, governmental agency, public board or body or before any arbitrator or any governmental body or other administrative body (either state or federal) which, if decided adversely to such parties, would have a material adverse effect on the Pledged Revenues or on the business, properties or assets or the condition, financial or otherwise, of the University System, and no litigation of any nature has been filed or, to their knowledge, threatened which seeks to restrain or enjoin the establishment of the Revenue Financing System, the issuance or delivery of the Bonds or the collection or application of Pledged Revenues to pay the principal of and interest on the Bonds, or in any manner questioning the validity of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Board. In the Supplemental Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board has agreed that, so long as the Board is an "obligated person" under the Rule (as hereinafter defined), it will provide certain updated financial information and operating data about the University System annually, and timely notice of specified material events, to certain information vendors described below. This information is to be available to securities brokers and others who subscribe to receive the information from the vendors.

Availability of Information from NRMSIRs and SID. The Board has agreed to provide the following information only to each nationally recognized municipal securities information repository ("NRMSIR") and any state information depository ("SID") that is designated by the State and approved by the staff of the United States Securities and Exchange Commission (the "SEC"). The Board has not undertaken any other continuing disclosure obligation with respect to the Bonds. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State as a SID and recognized by the SEC as a qualified SID. The address of the MAC is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

Central Post Office. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the Board. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIR and the appropriate SID for filing. The central post office can be accessed and utilized at www.DisclosureUSA.com ("DisclosureUSA"). The Board may utilize DisclosureUSA for the filing of information relating to the Bonds.

Annual Reports. The Board is to provide certain updated financial information and operating data to each NRMSIR and the SID annually. The information to be updated by the Board includes all quantitative financial information and operating data with respect to the University System of the general type included herein under the captions "DEBT SERVICE REQUIREMENTS," "Appendix A - TEXAS TECH UNIVERSITY SYSTEM—General Description—Enrollment," "—Admissions and Matriculation," "—Financial Management" and "—Selected Financial Information," and in "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT" and all such financial information and operating data are incorporated herein by reference. The Board is to update and provide this information within six months after the end of each of its Fiscal Years ending in or after August 31, 2006.

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the time required. If audited financial statements are not available by the required time, the Board will provide such statements when and if they become available. Any such financial statements are to be prepared in accordance with generally accepted accounting principles. No outside audit of the University System's financial statements is currently required or obtained by the Board.

The State's current Fiscal Year end is August 31. Accordingly, the Board must provide updated information (the unaudited primary financial statements of the University System dated as of August 31 prepared from the books of the University System) within 180 days following the close of the Fiscal Year, unless the State changes its fiscal year. If the State changes its Fiscal Year, the Board will notify each NRMSIR and any SID of the change.

Material Event Notices. The Board will provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Supplemental Resolution make any provision for debt service reserves. In addition, the Board will provide timely notice of any failure by it to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The Board will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Limitations and Amendments. The Board has agreed to update information and to provide notices of material events only as described above. It has not agreed to provide other information that may be relevant or material to a complete presentation of the University System's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board does not make any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Board if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Board so amends its agreement, it will provide notice of such amendment to any SID and to either each NRMSIR or the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings. The Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with the Rule.

LEGAL MATTERS

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

TAX MATTERS

Opinion. On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds," the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "Appendix E, – FORM OF OPINION OF BOND COUNSEL."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Board, including information and representations contained in the Board's federal tax certificate, (b) covenants of the Board contained in the bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith and (c) the report prepared by Grant Thornton LLP, certified public accountants (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS"). Failure by the Board to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LEGAL INVESTMENTS IN TEXAS

The Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) provides that a city, county, or school district may invest in the Bonds provided that the Bonds have received a rating of not less than "A" from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations, or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company, financial advisor to the University System (the "Financial Advisor"), relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Bonds and the restricted Federal Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by the Financial Advisor on behalf of the Board. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P") are expected to assign ratings of "AAA", "Aaa" and "AAA," respectively, to the Insured Bonds based upon the financial guaranty insurance policy of Ambac Assurance to be issued simultaneously with the delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE". Bonds other than the Insured Bonds have been assigned ratings of "AA," "Aa3" and "AA," respectively.

An explanation of the significance of each such rating may be obtained from the company furnishing the rating (from Fitch at One State Street Plaza, New York, New York 10004; from Moody's at 99 Church Street, New York, New York 10007; and from S&P at 25 Broadway, New York, New York 10004). The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if circumstances so warrant. Any such downward revision or withdrawal of any or a rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

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

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the Board at a price equal to $227,913,287.10 (representing the par amount of the Bonds of $220,915,000, plus a net original issue premium of $8,273,183.85 and less an underwriting discount of $1,274,896.75) plus accrued interest on the Bonds from February 1, 2006 to the delivery date of the Bonds. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

The Resolution authorizing the issuance of the Bonds also approved the form and content of this Official Statement, and authorized the undersigned to approve any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

/s/ Mr. Jim Brunjes
Senior Vice Chancellor and Chief Financial Officer
Texas Tech University System

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Schedule I

REFUNDED BONDS

Revenue Financing System Refunding and Improvement Bonds, Sixth Series (1999)

Original Dated Date	Original Maturity Date	Interest Rates	Original Principal Amount	Principal Amount Refunded	Amount Outstanding
4/1/99	2/15/11	5.250%	$ 6,335,000	$ 1,380,000	$ 4,955,000
	2/15/12	5.250%	6,565,000	1,455,000	5,110,000
	2/15/13	5.250%	6,535,000	1,525,000	5,010,000
	2/15/14	5.250%	6,825,000	1,610,000	5,215,000
	2/15/15	5.250%	7,190,000	1,700,000	5,490,000
	2/15/16	5.250%	5,415,000	1,790,000	3,625,000
	2/15/17	5.000%	5,700,000	1,890,000	3,810,000
	2/15/18	5.000%	1,980,000	1,980,000	-
	2/15/19	5.000%	2,085,000	2,085,000	-
	2/15/29	5.000%	27,735,000	27,735,000	-
			$ 76,365,000	$ 43,150,000	$ 33,215,000

Redemption Date: 2/15/2009, at a price of par plus accrued interest to the redemption date.

Revenue Financing System Bonds, Seventh Series (2001)

Original Dated Date	Original Maturity Date	Interest Rates	Original Principal Amount	Principal Amount Refunded	Amount Outstanding
1/1/02	8/15/14	5.500%	$ 4,440,000	$ 4,440,000	$ -
	8/15/15	5.500%	4,685,000	4,685,000	-
	8/15/16	5.500%	4,940,000	4,940,000	-
	8/15/17	5.500%	4,935,000	4,935,000	-
	8/15/18	5.500%	7,550,000	7,550,000	-
	8/15/19	5.500%	7,965,000	7,965,000	-
	8/15/21	5.125%	17,225,000	17,225,000	-
	8/15/25	5.000%	12,895,000	12,895,000	-
	8/15/31	5.000%	17,350,000	17,350,000	-
			$ 81,985,000	$ 81,985,000	$ -

Redemption Date: 2/15/2012, at a price of par plus accrued interest to the redemption date.

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Appendix A

TEXAS TECH UNIVERSITY SYSTEM

GENERAL DESCRIPTION

Background. In 1999, the 76th Texas Legislature created the University System and provided that the University System would include all of those institutions and entities then under the governance, control, jurisdiction and management of the Board of Regents of Texas Tech University and such other institutions and entities as from time to time assigned by specific legislation to the governance, control, jurisdiction and management of the University System. The legislation creating the University System vested the governance, control, jurisdiction and management of the University System in the Board of Regents of Texas Tech University and designated such board as the Board of Regents of the Texas Tech University System. Currently, the University and the Health Sciences Center are the only component institutions of the University System, and the only Pariticipants under the Revenue Financing System.

Governance. The Board consists of nine members, each of whom is appointed by the Governor of the State subject to confirmation by the State Senate. Each regent serves a six-year term, with three new appointments made to the Board every two years. A regent may be reappointed to serve on the Board. The members of the Board elect one of the regents to serve as Chair of the Board and may elect any other officers they deem necessary. The regents serve without pay except for reimbursement for actual expenses incurred in the performance of their duties, subject to the approval of the Chair of the Board.

The Board is legally responsible for the establishment and control of policy for the University System. The Board appoints a Chancellor who directs the operations of the University System and is responsible for carrying out policies determined by the Board. The Chancellor is assisted by a Senior Vice Chancellor and Chief Financial Officer, a Vice Chancellor and General Counsel, a Vice Chancellor for Institutional Advancement, a Vice Chancellor for Governmental Relations, a Vice Chancellor for Facilities Planning and Construction, a Vice Chancellor for Community Relations, the President of the University and the President of the Health Sciences Center.

Administration. The President of the University directs the operations of the University and is assisted by a Vice President for Operations, a Vice President for Student Affairs, a Provost, a Vice President for Research and Graduate Studies, a Vice President for Fiscal Affairs and an Athletic Director.

The President of the Health Sciences Center directs the operations of the Health Sciences Center and is assisted by a Vice President for Operations and Student Support Services, a Vice President for Health Policy and Public Affairs, an Executive Vice President, a Vice President for Rural and Community Health, a Vice President for Health Care Systems, a Vice President for Information Technology, the Dean of the School of Medicine and the Graduate School of Biomedical Sciences, the Dean of the School of Nursing, the Dean of the School of Pharmacy and the Dean of the School of Allied Health.

A list of the current members of the Board and certain principal administrative officers of the University and the Health Sciences Center appears on page (ii) of this Official Statement. Set forth below is biographical information for the principal administrative officers of the University System, the University and the Health Sciences Center appearing on page (ii) of this Official Statement:

Dr. David R. Smith became Chancellor of the Texas Tech University System in May 2002. He had served as Interim Chancellor for the Texas Tech University System since September 2001 while continuing to serve as President of the Health Sciences Center, a position he held since October 1996. On January 24, 2006, Dr. Smith announced his resignation, as Chancellor of the Texas Tech University System, to be effective on February 28, 2006.

Mr. Jim Brunjes became the Senior Vice Chancellor and Chief Financial Officer of the Texas Tech University System in 1999. He had served as the Vice President for Fiscal Affairs at the University since September 1996. He earned his B.A. in mathematics in 1969 and a Master of Statistics Degree in 1972, both from Texas A&M University. Mr. Brunjes joined Texas Tech University as Vice President for Administration in 1991, responsible for administrative oversight, strategic planning, and budget coordination for the University and the Health Sciences Center. After teaching secondary school mathematics, Mr. Brunjes led a major computer system project with Lockheed for NASA-Houston and was a research mathematician at Calspan (formerly Cornell Aeronautical Laboratory) from 1972 to 1976. From 1976 to 1984, he was Associate Vice Chancellor, Budgets and Computing at the University of Houston main campus, where he served as Interim Vice Chancellor, Finance and Administration in 1982. From 1984 to 1986, Mr. Brunjes was employed by Midwestern State University in Wichita Falls, Texas, as Vice President of Business Affairs. From 1986 to 1987, he was Vice President of Systems at Dallas-based Southwest Airlines. From 1987 to 1991, Mr. Brunjes served as Associate Deputy Chancellor for Budgets and Information Systems at Texas A&M University.

Dr. Jon S. Whitmore became President of the University on August 31, 2003. Dr. Whitmore served as Chair of the Division of Theater from 1979 to 1983, Assistant to the President from 1983 to 1984, and Interim Dean of the College of Creative Arts from 1984 to 1985, all at West Virginia University. He became Dean of the Faculty of Arts and Letters at the State University of New York at Buffalo in 1985, and Dean of the College of Fine Arts at The University of Texas at Austin in 1990. Dr. Whitmore became Provost and Professor of Theatre Arts at the University of Iowa in August, 1996. Dr. Whitmore received his B.A. and M.A. in Speech from Washington State University in 1967 and 1968, respectively, and his Ph.D. in Dramatic Arts from the University of California, Santa Barbara in 1974.

Dr. M. Roy Wilson became President of the Health Sciences Center in June, 2003. Dr. Wilson earned his B.S. from Allegheny College in 1976 and his M.D. from Harvard Medical School in 1980. He received his M.S. from the University of California at Los Angeles in 1990. Dr. Wilson was Dean of the School of Medicine at Creighton University in Omaha, Nebraska from 1998 to 2003. In 2001, he was named Vice President for Health Sciences at Creighton University. Dr. Wilson has held various academic positions at Harvard Medical School; Howard University School of Medicine in Washington, D.C.; Charles R. Drew University of Medicine and Sciences in Los Angeles, California; and the University of California, Los Angeles.

Component Institutions.

Texas Tech University, a coeducational, state-supported institution of higher learning, was originally created by the State Legislature in 1923. From its beginning as a regional technological and liberal arts college, the University's purpose has changed to that of a comprehensive public university with a total headcount of 28,001 students. The University is organized into nine colleges (11 instructional schools): Agricultural Sciences and Natural Resources; Architecture; Arts and Sciences; Business Administration; Education; Engineering; Human Sciences; Mass Communication; and Visual and Performing Arts. These colleges, together with the School of Law, the Graduate School and the Honors College have approximately 65 academic departments offering the bachelor's degree in 117 fields and graduate degrees in 163 fields of study and 193 majors. The University is fully accredited by its regional accrediting body, the Southern Association of Colleges and Schools, and colleges and departments of the University are accredited with their respective professional associations.

The University is located in Lubbock, Texas, a city of over 200,000 people, situated in West Texas at the base of the Texas Panhandle, approximately 320 miles west of Dallas and 320 miles southeast of Albuquerque, New Mexico. The University has a large campus consisting of 1,839 acres in one continuous tract with 185 permanent buildings.

The main library was completed in 1962 and contains over two million bibliographic items (which include more than 20,000 periodical subscriptions and nearly 2,000,000 units of microfilm) and is one of the two Regional Depositories for U.S. Government Documents in the State. The library is a member of the Association of Research Libraries and ranks 58th in statistics published by that group. The library is also a depository of the Atomic Energy Commission. Other notable buildings include a museum, a planetarium, a computer center, a seismological observatory and the Textile Research Center. The Textile Research Center, the second of its kind in the United States, is supported by the Plains Cotton Growers, the U.S. Department of Agriculture, and others.

The University also has limited educational facilities located in Junction, Fredericksburg, Marble Falls, Abilene and Amarillo.

The College of Agricultural Sciences and Natural Resources prepares students for a wide range of careers in Agricultural Sciences, Plant and Soil Sciences and Animal and Food Sciences as well as preparation for national, individual, and team competitions, extensive internship programs and professional degrees.

The College of Architecture is a fully accredited five-year professional degree program leading directly to the Master of Architecture degree offers students a variety of specializations, including dual degree programs with business and engineering. Students may also pursue a four-year non-professional degree track leading to a B.S. in Architecture.

The College of Arts and Sciences provides courses and curricula that impart knowledge, enhance skills and stimulate creativity. The largest college at the University, the College of Arts and Sciences, offers over 90 undergraduate majors ranging from anthropology to zoology, including a dual B.A./M.B.A. degree in foreign language and business, and a biology degree focusing on ecology and the environment.

The Jerry S. Rawls College of Business Administration provides a well-rounded, general business education as well as a program of specialized technologically-oriented study. Interdisciplinary degree programs include M.D./M.B.A., B.B.A./Master of Architecture and a joint program in Agribusiness.

The College of Education is committed to the preparation and certification of qualified future counselors, administrators and teachers. Programs expose students to new technologies through extensive laboratory and field experiences including a full semester of student teaching, courses taught in local elementary and secondary schools, and contact with faculty, all of whom are experienced classroom teachers.

The College of Engineering educates students as professionals in traditional engineering fields as well as offering unique dual degree programs in computer science and engineering, a five-year program in environmental engineering and an accredited engineering technology program.

The College of Human Sciences offers diverse programs that focus on addressing economic, technical, social and environmental issues.

The College of Mass Communications provides students with a broad-based communications education and experience that integrates today's media convergence and the future's media development in five areas of mass communications. Students may select among accredited programs leading to careers in advertising, electronic media, journalism, photocommunications, and public relations.

The College of Visual and Performing Arts offers a diverse array of programs in art, music, theatre and dance. The college seeks to prepare students who will be leaders in the professions by employing the highest standards in performance, teaching, research and artistic and creative vision.

The Graduate School offers over 100 masters programs, over 59 doctoral programs and scholarships and fellowships specifically for graduate education.

The Honors College offers special programs for highly motivated and academically talented students who want to maximize their college education. The curriculum is designed to provide students with a unique and broadly integrated intellectual experience that will complement virtually every academic major and career path.

The School of Law offers courses of study in the law and is recognized statewide and nationwide for winning more national competitions in the last decade than any other law school in the nation. The School of Law distinguishes itself by providing low or no cost legal services to citizens of Lubbock and the surrounding area.

Texas Tech University Health Sciences Center. In 1969, the State Legislature authorized the creation of the Texas Tech University School of Medicine as a separate educational institution. The School of Medicine formally opened in 1972. In 1979, the State Legislature, recognizing the progress and expanding scope of the School of Medicine, designated the institution as the Texas Tech University Health Sciences Center. Subsequently, the State Legislature funded a School of Nursing which formally opened in 1981 and a School of Allied Health Sciences which formally opened in 1983. In 1985, the School of Nursing instituted graduate education and expanded its programs to the Permian Basin. In 1993, the State Legislature authorized the establishment of a Pharmacy School to be located in Amarillo, Texas, with the Lubbock campus offering the first two years of the standard pharmacy curriculum and the Amarillo campus offering the final four years of the standard curriculum leading to the six year Doctor of Pharmacy degree. During the fall of 1995, academic and clinical programs in the School of Allied Health Sciences were expanded to Amarillo and Odessa, Texas. In 1999, a Physician Assistant Program was added in Midland, Texas. The 78th Texas Legislature authorized the Health Sciences Center to initiate curriculum design and faculty recruitment in order to convert the El Paso campus into a four year medical school to be operated under the Health Sciences Center.

From its inception, the Health Sciences Center has been charged with addressing the health care needs of West Texas, with a special emphasis on rural health care delivery. The Health Sciences Center has a vast service area encompassing 108 of the State's 254 counties and covering 130,451 square miles or 48% of the State's land mass. Approximately 2.6 million people live in the Health Sciences Center's service area.

In addition to the Health Sciences Center's administrative hub in Lubbock, the Health Sciences Center has established Regional Centers in Amarillo, Odessa and El Paso, Texas, to distribute health care education and services throughout the region. The Health Sciences Center's facilities in Lubbock include the classroom buildings, clinical facilities and a library/teleconference center. A new, multi-story Clinic Building is also under construction with a completion date of April 2007. The Health Sciences Center's facilities in Amarillo include a School of Medicine and Allied Health Sciences Building which houses both academic and clinical space, the School of Pharmacy Building, and the Women's Health and Research Building. The Health Sciences Center's facilities operated in El Paso include a Health Sciences Center Building, a recently expanded Clinic Building, and a recently completed Medical Sciences Research Building. The Health Sciences Center's facilities in Odessa consist of a Health Sciences Center Building and an ambulatory clinic. The Physician Assistant program in Midland operates in the Aaron Medical Science Building.

The Health Sciences Center's libraries use a state-of-the-art computer network to link the main campus in Lubbock with all of the Regional Centers, providing access at all sites to the resources anywhere in the library system. With nearly 300,000 volumes and computer access to other resources nationally, the Health Sciences Center's libraries are the most comprehensive medical and health information resource in West Texas.

The School of Medicine has educational programs leading to an M.D. and to Master's and doctoral degrees in the basic sciences. First- and second-year medical students take their basic science classes in Lubbock and third- and fourth-year students do clinical rotations at the campuses at Lubbock, Amarillo and El Paso. The Health Organization Management M.B.A. and M.D./M.B.A. programs are offered in conjunction with the University's College of Business Administration. A total of 34 graduate medical residency and fellowship programs are offered at Lubbock and the Regional Centers. In addition to educating students, the Health Sciences Center's faculty at Lubbock and the Regional Centers treat a large number of patients, including a significant number of uninsured and indigent patients. Among the Health Sciences Center's facilities, more than 40 general and specialty clinics, many of them the only one of their type in West Texas, serve the health needs of area residents. In addition to services in the primary care fields of family medicine, general internal medicine, general pediatrics and obstetrics/gynecology, the Health Sciences Center operates specialty and sub-specialty clinics in allergy, anesthesiology, dermatology, emergency medicine, neurology, pain management, cardiology, nephrology, gastroenterology, neonatology and perinatology, ophthalmology, orthopedics, pediatrics, preventive medicine and community health, surgery, trauma, burn and neuropsychiatry. In addition, ancillary services in pathology, anesthesiology and radiology are provided.

The School of Nursing offers courses leading to a bachelor's degree in Nursing with campuses in Lubbock and Odessa. In 1999, the School of Nursing initiated RN-BSN, a special program for RNs pursuing a baccalaureate degree while maintaining a full-time job. The program is offered throughout the State. The School of Nursing also offers a Master of Science in Nursing degree and a joint Master of Science in Nursing-Master of Business Administration program in cooperation with the College of Business Administration at the University. The Ph.D. in Nursing program is a partnership between the School of Nursing and Texas Woman's University. Courses are offered at Denton, and Lubbock, Texas and the degree is granted by Texas Woman's University. The School of Nursing also offers its program preparing nurse practitioners at the masters and post-masters levels collaboratively with the school of nursing at University of Texas at Tyler. Nurse practitioner educational programs include family, pediatric, geriatric, acute care and clinical trials management.

The School of Allied Health Sciences offers programs in Lubbock leading to baccalaureate degrees in clinical laboratory science, communication disorders and clinical services management. Physical therapy programs are offered at the Odessa and Amarillo Regional Health Centers as well as in Lubbock. Occupational therapy programs are offered only at the Lubbock campus. The School of Allied Health Sciences provides graduate programs in audiology, physical therapy, occupational therapy, athletic training, rehabilitation counseling, physician assistant studies, clinical practice management, molecular pathology, and speech-language pathology. The Physician Assistant Program is located on the Midland College campus.

The School of Pharmacy was established in 1993 to offer the degree of Doctor of Pharmacy (Pharm.D.). The founding class of 63 students enrolled in August of 1996 and graduated in May 2000. In June 2000, the American Council of Pharmaceutical Education granted the school full accreditation status. Students are assigned to clinical rotations in Amarillo, Lubbock, El Paso and Dallas/Fort Worth during the last two years of the curriculum. In addition to the traditional Pharm.D. program, the school also provides a non-traditional Pharm.D. program geared toward practicing bachelor-level pharmacists as well as a Ph.D. program in the basic pharmaceutical sciences.

In addition to serving students and patients, the Health Sciences Center also meets the needs of practicing health care professionals in West Texas. The Health Sciences Center's Continuing Medical Education and Continuing Nursing Education program provide training opportunities year-round for the region's health professionals. Additionally, the Health Sciences Center has been an innovator in using communications technology to take continuing education and consultative services to rural health care professionals where they practice. The Health Sciences Center's HealthNet has utilized varied communications technologies to provide face-to-face video contact between rural West Texas practitioners and the Health Sciences Center specialists.

Accreditation. The institutions, agencies, and services comprising the University System are members of the following professional associations and fully accredited by those which apply accreditation standards: Commission on Colleges of the Southern Association of Colleges and Schools; National Commission on Accrediting; Association of Texas Colleges and Universities; American Counsel on Education; Association of American Colleges; Association of Urban Universities; National Association of State Universities and Land-Grant Colleges; and Liaison Committee on Medical Education.

Enrollment. Set forth below is the fall semester headcount undergraduate and graduate enrollment at the University and the Health Sciences Center for each of the last five years:

Headcount Enrollment Information

	2001	2002	2003	2004	2005
The University	25,573	27,569	28,549	28,325	28,001
The Health Sciences Center	1,788	1,972	2,105	2,272	2,391
	27,361	29,541	30,654	30,597	30,392

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Set forth below is the fall semester graduate enrollment at the University and the Health Sciences Center for each of the last five years:

Graduate Headcount Enrollment Information

	2001	2002	2003	2004	2005
The University	4,304	4,801	4,954	4,996	4,999
The Health Sciences Center	1,325	1,490	1,580	1,775	1,758
	5,629	6,291	6,534	6,771	6,757

Set forth below is the fall semester full-time equivalent enrollment at the University and the Health Sciences Center for each of the last five years:

Full-Time Equivalent Enrollment Information

	2001	2002	2003	2004	2005
The University	21,870	23,412	24,544	24,587	24,424
The Health Sciences Center	1,916	1,965	2,110	2,272	2,409
	23,786	25,377	26,654	26,859	26,833

Admissions and Matriculation.

The University. Set forth below is information relating to undergraduate admissions and matriculation for the University for each of the last five years:

Admissions and Matriculation Information

	2001	2002	2003	2004	2005
Applications Submitted	12,008	13,101	13,755	13,323	12,583
Applications Accepted	8,461	9,039	9,257	8,939	8,927
Matriculation	3,921	4,142	4,445	3,951	3,801
% Accepted	70.50%	68.99%	67.30%	67.09%	70.94%
% Matriculated	46.34%	45.82%	48.02%	44.20%	42.58%

The Health Sciences Center. Set forth below is information relating to admissions and matriculation for the Health Sciences Center for each of the last five years:

Admissions and Matriculation Information

	2001	2002	2003	2004	2005
Applications Submitted	3,216	3,249	4,414	5,429	5,133
Applications Accepted	828	741	694	842	882
Matriculation	650	696	681	824	861
% Accepted	25.75%	22.81%	15.72%	15.51%	17.18%
% Matriculated	78.50%	93.93%	98.13%	97.86%	97.62%

FINANCIAL MANAGEMENT

Financial management of the University System is the responsibility of the Senior Vice Chancellor and Chief Financial Officer, who reports to the Chancellor. The Senior Vice Chancellor and Chief Financial Officer is responsible for financial management and operational activities of debt, cash, risk and investment management of the University System's operating and endowment funds. The Vice President of Fiscal Affairs for each respective institution is responsible for budgets, accounting and financial statements.

Financial Statements. Not later than November 20 of each year, the unaudited primary financial statements of the University System dated as of August 31, prepared from the books of the University System, must be delivered to the Governor, the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), the Legislative Reference Library, the State Auditor and the Legislative Budget Board. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University System. *No outside audit in support of this detailed review is currently required or obtained by the Board.*

As an agency of the State, the University System's financial records reflect compliance with applicable State statutes and regulations. The significant accounting policies followed by the University System in maintaining accounts and in the preparation of the primary financial statements are in accordance with the Comptroller's Annual Financial Reporting Requirements. Historically, these requirements followed, as nearly as practicable, the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, Audits of Colleges and Universities, 1996 Edition, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements cited in Codification Section Co5, "Colleges and Universities." The requirements were also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education published by the National Association of College and University Business Officers (NACUBO).

During Fiscal Year 2002, the University System adopted GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures (collectively, the "New Financial Reporting Model"). These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University System as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the University System as a whole.

The University System is not required to restate, and has not restated, prior year financials consistent with the New Financial Reporting Model. The significant changes caused by these new accounting standards and the time required to implement the changes on a consistent basis for all of the members of the University System, and in accordance with the related rules of the Comptroller, made a restatement of the prior year financials impossible. As such, historical financial data (prior to Fiscal Year 2002) will not be comparable to the data presented under the new format. Historical data for fiscal years prior to 2002 can be found in the Texas Tech University System Annual Financial Reports for those years, or in prior official statements.

The University System's primary financial report covers all financial operations of the University System Administration and all member institutions of the University System. Amounts due between member institutions, amounts held for member institutions by the University System Administration and other duplications in reporting are eliminated in combining the individual financial reports.

Attached to this Official Statement in "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT" are the most recent unaudited primary financial statements of the University System for the University System's Fiscal Year ended August 31, 2005. The University System's unaudited primary financial statements consist of the Statement of Net Assets as of August 31, 2005; the Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2005; and the Statement of Cash Flows for the Year Ended August 31, 2005. See "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT."

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The following table reflects the condensed statement of net assets of the University System as of August 31, 2002, 2003, 2004 and 2005.

Condensed Statement of Net Assets
as of August 31, 2002, 2003, 2004 and 2005
(In Thousands)

Assets:	**2002**	**2003**	**2004**	**2005**
Current Assets	$ 491,029	$ 365,535	$ 406,817	$ 424,019
Capital Assets, Net	598,521	678,400	748,360	803,676
Other Assets	482,014	610,529	701,514	766,616
Total Assets	$ 1,571,564	$ 1,654,464	$ 1,856,691	$ 1,994,311
Liabilities:				
Current Liabilities	$ 195,272	$ 216,881	$ 227,254	$ 262,517
Non Current Liabilities	354,580	335,462	401,269	379,928
Total Liabilities	$ 549,852	$ 552,343	$ 628,523	$ 642,445
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 354,928	$ 393,055	$ 438,545	$ 455,814
Restricted				
Expendable	240,701	170,179	140,750	134,868
Non-Expendable	218,466	254,415	287,794	348,791
Unrestricted	207,617	284,471	361,079	412,393
Total Net Assets	$ 1,021,712	$ 1,102,121	$ 1,228,168	$ 1,351,866
Liabilities and Net Assets	$ 1,571,564	$ 1,654,464	$ 1,856,691	$ 1,994,311

For more detailed information, see “Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT—Statement of Net Assets as of August 31, 2005.”

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The table below presents the Statement of Revenues, Expenses and Changes in Net Assets of the University System for Fiscal Year 2002, 2003, 2004 and 2005.

Texas Tech University System
Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)
For the Year Ended August 31, 2005

Operating Revenues	**2002**	**2003**	**2004**	**2005**
Tuition and Fees	$ 112,289,478	$ 38,517,554	$ 26,940,908	$ 26,445,474
Tuition and Fees: Pledged	-	104,929,316	147,973,554	177,801,932
Less Discounts and Allowances	-	(30,819,807)	(12,245,937)	(18,842,649)
Professional Fees	152,075,516	59,521,828	82,172,349	84,432,533
Sales and Services of Auxiliary Enterprises	63,558,050	62,544,032	66,592,292	69,006,228
Other Sales and Services	9,387,735	5,175,112	5,257,807	5,632,741
Other Sales and Services: Pledged	-	6,247,353	7,082,324	6,327,108
Federal Grants and Contracts	45,846,411	50,869,424	49,951,866	49,366,680
Federal Grants and Contracts: Pledged	-	2,325,720	2,275,255	2,161,935
Federal Pass-Throughs (net of administrative costs)	2,080,952	2,540,641	1,806,497	1,548,735
State Grants and Contracts	92,081,072	86,469,927	84,141,872	85,168,982
State Grants and Contracts: Pledged	-	647,382	58,786	72,899
State Pass-Throughs	14,290,203	12,189,861	9,857,902	10,502,559
Local Government Grants and Contracts	49,059,902	62,884,058	59,449,183	66,470,340
Local Government Grants and Contracts: Pledged	-	287,234	673,129	917,100
Nongovernmental Grants and Contracts	52,914,739	48,593,749	26,512,329	25,640,138
Nongovernmental Grants and Contracts: Pledged		3,090,946	3,909,063	2,562,717
Total Operating Revenues	$ 593,584,058	$ 516,014,330	$ 562,409,179	$ 595,215,452
Operating Expenses				
Instruction	$ 300,454,888	$ 310,838,106	$ 294,854,046	$ 320,663,878
Research	56,472,461	61,489,864	54,037,408	54,980,956
Public Service	151,581,415	109,935,592	107,176,007	110,083,804
Academic Support	114,463,755	97,148,341	110,102,697	113,753,882
Student Services	23,390,466	23,970,100	25,198,660	27,945,959
Institutional Support	54,490,101	49,142,355	63,077,444	58,825,634
Operations and Maintenance of Plant	39,255,719	45,265,596	48,658,959	50,195,270
Scholarships and Fellowships	21,433,157	7,909,068	25,566,751	21,273,599
Auxiliary Enterprises	69,929,017	65,354,233	70,132,064	72,669,691
Depreciation and Amortization	18,298,371	28,168,963	29,950,125	40,791,524
Total Operating Expenses	$ 849,769,350	$ 799,222,218	$ 828,754,161	$ 871,184,197
Operating Income (Loss)	$ (256,185,292)	$ (283,207,888)	$ (266,344,982)	$ (275,968,745)
Nonoperating Revenues (Expenses)				
Legislative Revenue	$ 247,289,992	$ 242,285,905	$ 257,775,453	$ 245,599,039
Federal Grants and Contracts (net of refunds to grantors)	255,861	(18,021)	516,263	769,513
Interest Income	734,604	-	-	-
Private Gifts	19,476,483	42,652,796	30,532,404	37,132,712
Investment Income	16,730,898	19,510,858	61,045,007	36,184,555
Investment Income: Pledged	-	4,786,358	3,497,167	13,979,065
Interest Expense on Capital Asset Financing	(1,450,256)	(14,163,137)	(14,839,218)	(15,964,099)
Loss on Sale and Disposal of Capital Assets	(4,871,817)	(7,647,059)	(2,875,250)	(4,130,434)
Interest Expense and Fiscal Charges	(28,473,401)	-	-	-
Net Increase in Fair Value of Investments	(13,966,961)	27,372,841	(727,129)	44,372,001
Other Nonoperating Revenues (Expenses)	13,051,435	18,579,997	13,471,945	(8,216,934)
Other Nonoperating Revenues (Expenses): Pledged	-	821,147	516,423	16,247,365
Settlement of Claims	2,186,119	-	-	-
Other Nonoperating Expenses and Losses	(4,987,926)	-	-	-
Total Nonoperating Revenues (Expenses)	**$ 245,975,031**	**$ 334,181,685**	**$ 348,913,065**	**$ 365,972,783**
Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers	**$ (10,210,261)**	**$ 50,973,797**	**$ 82,568,083**	**$ 90,004,038**
Other Revenues, Expenses, Gains, Losses and Transfers				
Capital Appropriations (HEAF)	$ 28,696,881	$ 28,696,881	$ 28,696,881	$ 28,696,881
Capital Contributions	6,016,637	879,067	1,706,470	4,651,232
Lapsed Appropriations	-	(353)	(653,379)	(741,548)
Additions to Permanent Endowments	-	-	5,883,759	12,957,377
Special Item-Sale of Easement	12,483,246	-	-	-
Legislative Transfer In (SORM)	1,507,282	1,223,218	2,000,000	-
Transfers in from Other State Agencies	4,769,654	5,733,723	-	3,650,915
Transfer Out to Other State Agencies	-	-	(304,930)	(1,131,898)
Net Other Revenues, Expenses, Gains, Losses and Transfers	**$ 53,473,700**	**$ 36,532,536**	**$ 37,328,801**	**$ 48,082,959**
Total Changes in Net Assets	**$ 43,263,439**	**$ 87,506,333**	**$ 119,896,884**	**$ 138,086,997**
Beginning Net Assets (September 1)	**$ 1,554,755,327**	**$ 1,021,711,955**	**$ 1,102,120,799**	**$ 1,228,074,976**
Restatements of Beginning Net Assets	(576,306,812)	(7,097,489)	6,057,293	(14,295,768)
Ending Net Assets (August 31)	**$ 1,021,711,954**	**$ 1,102,120,799**	**$ 1,228,074,976**	**$ 1,351,866,205**

For more detailed information, see "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT—Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2005."

SELECTED FINANCIAL INFORMATION

Funding for the University System and its Component Institutions. Funding for the University System is derived from operating and non-operating revenues. The amounts and the sources of such funding vary from year to year and there is no guarantee that the source or amounts of such funding will remain the same in future years. Following are brief discussions of certain major funding sources.

State Appropriations. The operations of the Participants are heavily dependent upon the continued support of the State through appropriations of general revenue pursuant to the biennial appropriations process initiated by the Texas legislature. In the last regular session ending on May 31, 2005, the State legislature adopted a budget for the 2006-07 biennium beginning September 1, 2005 that appropriated $247,949,105 for the University, and $215,499,059 for the Health Sciences Center. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the Participants taking into consideration the availability of financial resources and other potential uses of such resources. State appropriations for the University in the 2006-07 biennium, including funds to be received from the Higher Education Fund (HEF), are expected to comprise approximately 27.1% of the revenues of the University and 26.6% of the revenues of the Health Sciences Center.

In the 2006-07 biennium the University will also receive a Research Development Fund appropriation in the amount of $2,998,969 each year. These appropriated funds may be used for the support and maintenance of educational and general activities, including research and student services, that promote increased research capacity at the institution (Texas Education Code §62.097).

The University and the Health Sciences Center each receives a portion of an annual appropriation of funds made by the State Legislature to the HEF pursuant to the provisions of Article VII, Section 17 of the State Constitution. In 1995, the State Legislature approved a ten year annual allocation (beginning in 1996) to the University and to the Health Sciences Center. The allocation formula was revised effective September 1, 2000. The annual allocation for the 2006-2007 State biennium is $17,886,318 for the University and $11,899,627 for the Health Sciences Center. An increase in HEF appropriations for the five fiscal years, beginning with the State fiscal year ending August 31, 2008, was approved during the regular session of the 79th legislature. For the 2008-09 biennium, the University will receive an annual allocation of $26,829,477 and the Health Sciences Center will receive an annual allocation of $17,849,441. The University and the Health Sciences Center may use the appropriation for capital improvements and renovations to the campus facilities, other than auxiliary enterprises. In addition, the University and the Health Sciences Center may issue bonds against such appropriation and pledge up to 50% of the appropriation to secure the debt service payments due on such bonds. See "-Higher Education Fund Bonds" below.

In its 1999 regular session, the State Legislature passed, and the Governor signed into law, House Bill 1945, which establishes and funds certain endowment funds that will benefit the Health Sciences Center. See "-Investment and Endowment Income" below.

Tuition and Fees. Each Participant granting degrees charges tuition and fees as set by the State Legislature and the Board under Chapters 54 and 55 of the Texas Education Code. Prior to a change in law effective for the Fall 2003 semester, State law permitted undergraduate tuition applicable to state residents to be charged up to $88 per semester credit hour for the 2002-03 academic year, up to $92 per semester credit hour for the 2003-04 academic year, up to $96 per semester credit hour for the 2004-05 academic year and up to $100 per semester credit hour for the 2005-06 academic year. These total tuition charges were comprised of "State Mandated tuition" and "Board Designated tuition," as further described below.

Stated Mandated Tuition. Section 54.0512, Texas Education Code, currently permits (i) undergraduate tuition applicable to state residents to be charged up to $48 per semester credit hour for the 2004-05 academic year and up to $50 per semester credit hour for the 2005-06 academic year; and (ii) tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be increased to an amount equal to the average of the nonresident undergraduate tuition charged to a resident of the State at a public state university in each of the five most populous states other than the State (the amount of which would be computed by the Coordinating Board for each academic year). For the 2005-06 academic year, the Coordinating Board has computed $326 per semester credit hour for nonresident undergraduate tuition. The tuition rates described above are referred to in this Official Statement as “State Mandated tuition.” Section 56.033 of the Texas Education Code requires that not less than 15% of each resident student’s tuition charge and 3% of each non-resident student’s tuition charge be set aside for Texas Public Education Grants. Section 56.095 of the Texas Education Code authorizes each institution to set aside $2 for each semester hour for which a doctoral student is enrolled pursuant to the Doctoral Loan Incentive Program. State Mandated tuition for a resident student enrolled in a program leading to an M.D. or D.O. degree is $6,550 per academic year. State Mandated tuition for a nonresident student enrolled in a program leading to an M.D. or D.O. degree is an amount per year equal to three times the rate that a resident student enrolled in a program leading to an M.D. or D.O. degree would pay during the corresponding academic year.

Board Designated Tuition. During the regular session of the 78th Texas Legislature that ended June 2, 2003, the Texas Legislature approved and the Governor signed into law House Bill 3015, which provided for the deregulation of a portion of tuition that a governing board of an institution of higher education, such as the Board, has the authority to charge under Section 54.0513 of the Texas Education Code. Prior to the amendment to Section 54.0513, Texas Education Code, the amount of tuition that a board of regents could independently charge students was capped at the levels described above with respect to State Mandated tuition. Effective with the tuition that was charged for the fall 2003 semester, a governing board may charge any student an amount (referred to herein as “Board Designated tuition”) that it considers necessary for the effective operation of the institution. The new legislation also granted authority to the governing board to set a different tuition rate for each program and course level offered by the institution. This new authority offers more opportunity for the Participants to develop a tuition schedule that assists in meeting their strategic objectives in terms of access, affordability, effective use of campus resources, and improvement of graduation rates. The Board will authorize any changes in Board Designated tuition only after they have been thoroughly evaluated by the Chancellor of the System and the administration of each Participant. The Board has authorized the Board Designated tuition rate, beginning with the 2005 fall semester, at $79 per semester credit hour for all University students. No less than 20% of the Board Designated tuition charged to resident undergraduate students in excess of $46 per semester hour will be set aside to provide financial assistance to resident undergraduate students, consistent with the provisions of Texas Education Code, Section 56.011. No less than 15% of the Board Designated tuition charged to resident graduate students in excess of $46 per semester credit hour will be set aside to provide financial assistance to resident graduate students, consistent with the provisions of Texas Education Code Section 56.012. In addition, 15% of Board Designated tuition charged to non-resident students in excess of $46 per semester hour is set aside to provide financial assistance for non-resident students.

Board Authorized Tuition. Section 54.008 of the Texas Education Code permits the governing board of each institution to set tuition for graduate programs for that institution ("Board Authorization") at a rate that is at least equal to that of the State Mandated tuition, but that is not more than twice that rate. Between the maximum and minimum rates, the Board may set the differential tuition among programs offered by an institution of higher education. The Board has set graduate tuition at an additional $50 per semester hour for both resident and nonresident graduate University students.

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Set forth below is a table showing the State Mandated tuition, Board Designated tuition, Board Authorized tuition, mandatory fees, and the amount set aside for financial assistance to resident and non-resident students by each institution, excluding the Health Sciences Center, for the 2005-06 academic year based on 15 semester credit hours per semester for undergraduate students, 12 semester credit hours per semester for graduate students and 9 semester credit hours for doctoral students.

Tuition and Fees
Academic Year 2005-2006
The University System

	State Mandated Tuition	**Board Designated Tuition**	**Board Authorized Tuition**	**Mandatory Fees** [1]	**Total Tuition and Fees** [2]	**Financial Assistance Set-Aside**
Resident Undergraduate	$ 750.00	$ 1,185.00	$ -	$ 1,140.75	$ 3,075.75	$ 211.50
Non-Resident Undergraduate	4,890.00	1,185.00	-	1,140.75	7,215.75	220.95
Resident Masters	600.00	948.00	600.00	996.00	3,144.00	149.40
Non-Resident Masters	3,912.00	948.00	600.00	996.00	6,456.00	176.76
Resident Doctoral	450.00	711.00	450.00	819.75	2,430.75	130.05
Non-Resident Doctoral	2,934.00	711.00	450.00	819.75	4,914.75	132.57

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(1) A fixed international student fee of $4 is charged to all non-immigrant visa students for each term in which they enroll in the University System.

(2) Total tuition and fees includes amounts required to be set aside for financial assistance in accordance with applicable provisions of the Texas Education Code. The set-aside amounts are calculated as follows: from State Mandated tuition not less than 15% nor more than 20% of each resident student's tuition charge and 3% of each non-resident student's tuition charge is set aside for Texas Public Education Grants (Section 56.033); $2 for each semester hour for which a doctoral student is enrolled is set aside for the Doctoral Loan Incentive Program (Section 56.095); from Board Designated tuition no less than 20% charged to resident undergraduate students in excess of $46 per semester hour (Section 56.011) and no less than 15% charged to resident graduate students in excess of $46 per semester hour is set aside for financial assistance (Section 56.012). Of the set-aside from Board Designated tuition for resident undergraduate students, 5% charged to resident undergraduate students in excess of $46 per semester hour is deposited in the State Treasury into the Texas B-On-Time Loan Program (Section 56.465). In addition, 15% of Board Designated tuition charged to non-resident students in excess of $46 per semester hour is set aside to provide financial assistance for non-resident students.

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Set forth below is a table showing the State Mandated tuition, Board Designated tuition, Board Authorized Tuition, mandatory fees, and Financial Assistance Set-asides for full-time resident and non-resident students at The Health Sciences Center.

Tuition and Fees
Academic Year 2005-2006
The Health Sciences Center

	State Mandated Tuition	Board Designated Tuition	Board Authorized Tuition	Mandatory Fees	Total Tuition and Fees [1]	Financial Assistance Set-Aside
M.D. Resident						
Year 1	$ 6,550.00	$ 2,900.00	$ -	$ 1,221.50	$ 10,671.50	$ 1,187.98
Year 2	6,550.00	2,900.00	-	1,221.50	10,671.50	1,187.98
Year 3	6,550.00	2,900.00	-	1,069.50	10,519.50	1,187.98
Year 4	6,550.00	2,900.00	-	1,069.50	10,519.50	1,187.98
M.D. Non-Resident						
Year 1	19,650.00	2,900.00	-	1,221.50	23,771.50	1,056.98
Year 2	19,650.00	2,900.00	-	1,221.50	23,771.50	1,056.98
Year 3	19,650.00	2,900.00	-	1,069.50	23,619.50	1,056.98
Year 4	19,650.00	2,900.00	-	1,069.50	23,619.50	1,056.98
P.A. Resident						
Year 1 (45 SCH)	2,250.00	2,520.00	2,250.00	1,721.25	8,741.25	405.00
Year 2 (46 SCH)	2,300.00	2,576.00	2,300.00	1,731.25	8,907.25	414.00
Year 3 (48 SCH)	2,400.00	2,688.00	2,400.00	1,776.25	9,264.25	432.00
P.A. Non-Resident						
Year 1 (45 SCH)	14,670.00	2,520.00	2,250.00	1,721.25	21,161.25	507.60
Year 2 (46 SCH)	14,996.00	2,576.00	2,300.00	1,731.25	21,603.25	518.88
Year 3 (48 SCH)	15,648.00	2,688.00	2,400.00	1,776.25	22,512.25	541.44
Graduate Students						
Resident (24 SCH)	1,200.00	1,344.00	-	1,196.50	3,740.50	216.00
Non-Resident (24 SCH)	7,824.00	1,344.00	-	1,196.50	10,364.50	270.72

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(1) Total tuition and fees includes amounts required to be set aside for financial assistance in accordance with applicable provisions of the Texas Education Code. The set-aside amounts are calculated as follows: from State Mandated tuition not less than 15% nor more than 20% of each resident student's tuition charge and 3% of each non-resident student's tuition charge is set aside for Texas Public Education Grants (Section 56.033); medical school set aside of 2% of tuition charges for each student registered in a medical branch, school, or college is deposited in the State Treasury for the purpose of repaying student loans of certain physicians (Section 61.539).

Gifts, Grants, and Contracts. The Participants receive federal, state, and local grants and contracts for research which incorporate an overhead component for use in defraying operating expenses. This overhead component is treated as unrestricted current funds revenues while the balance of the grant or contract is treated as restricted currents funds revenues. Indirect cost recovery rates used in calculating the overhead component are negotiated periodically with the United States Department of Health and Human Services.

Investment and Endowment Income. Investment and endowment income is received on both a restricted and unrestricted basis. In the legislative session that ended May 31, 1999, the State Legislature passed, and the

Governor signed into law, House Bill 1945 ("HB 1945"), which creates two separate endowment funds that benefit the Health Sciences Center: a permanent health fund for higher education (the "Permanent Health Fund") that benefits 10 state health related institutions of higher education and a separate permanent endowment fund specifically for the Health Sciences Center (the "Permanent Endowment Fund"). The Permanent Health Fund is established for the benefit of 10 institutions of higher education, including the Health Sciences Center. On August 30, 1999, the effective date of HB 1945, the Comptroller transferred $350,000,000 to the Permanent Health Fund. Distributions from the Permanent Health Fund may only be appropriated for programs that benefit medical research, health education, or treatment programs. The Board of Regents of The University of Texas System will administer the Permanent Health Fund and is required to determine the amounts available for distribution from the Permanent Health Fund. Distributions will be made by the Comptroller on a quarterly basis to each of the institutions based on a formula set out in HB 1945. The Permanent Endowment Fund is established for the exclusive benefit of the Health Sciences Center. On August 30, 1999, the effective date of HB 1945, the Comptroller transferred $25,000,000 to the Permanent Endowment Fund. The Permanent Endowment Fund will be managed by the Board unless they elect to have the Comptroller administer the fund. The Permanent Endowment Fund is to be invested in a manner that preserves the purchasing power of the fund's assets and the fund's annual distributions. Annual distributions from the Permanent Endowment Fund may only be appropriated for research and other programs that are conducted by the Health Sciences Center and that benefit the public health.

Operating Revenues. Collection of non-pledged fees and sales of goods and services were collected for the first time in 2004. These revenues are included as pledgeable revenues on the table set forth on page 8 in the Official Statement.

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

Other Interest Income. Each Participant generates interest from the investment of cash pursuant to investment policies adopted by the Board in accordance with State law. See "-Investment Policies and Procedures and Endowments" below.

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

Investment Policies and Procedures and Endowments.

Management of Investments. The Board is responsible for the investment of University System funds held outside the State Treasury and has provided for centralized investment management through the Office of the Senior Vice Chancellor and Chief Financial Officer for the University System. Investments are managed both internally, by the Assistant Vice Chancellor, Investments and Assistant Chief Financial Officer pursuant to authority given by the Board, and by unaffiliated investment managers.

The Board has a standing Finance and Administration Committee (the "Finance Committee") that, among other responsibilities, oversees various investment functions of the University System. The Board additionally provides for the appointment of an advisory committee (the "Investment Advisory Committee") which currently consists of three members of the Board, a member of the Board of the Texas Tech Foundation, Inc. (the "Foundation Board"), and five persons appointed, after consultation with the Board and the Foundation Board, by the Chancellor, who have no financial interest in any organization providing investment services to the University System and serve four-year staggered terms.

Securities Lending. The Public Funds Investment Act, Chapter 2256, Texas Government Code, was amended to provide, effective September 1, 2003, that the University System and other Texas state agencies and political subdivisions are permitted, under certain circumstances, to enter into securities lending programs. The Board does not currently intend to commence such a program.

Investment Programs and Policies. To facilitate the investment of University System funds, the Board has created two separate investment pools designated as the Short/Intermediate Term Investment Fund (the "S/ITIF") and the Long-Term Investment Fund (the "LTIF"), which are governed by Regents' Rules Chapter 09 "Investments, Endowments, and Income Producing Lands" (the "Board Policy"). Additionally, the University System also has certain funds that are held in the State Treasury and invested by the Comptroller.

The Short/Intermediate Term Investment Fund. The S/ITIF is a short/intermediate term pooled investment fund created by the Board for the collective investment of institutional funds of the University System. Except for certain eligible endowment funds (and certain eligible institutional funds treated as endowments), all institutional funds of the University System are invested in the S/ITIF. The S/ITIF is operated as an internal investment pool with no use of unaffiliated investment managers.

The Long-Term Investment Fund. The LTIF is a unitized pooled investment fund created by the Board for the collective investment of certain eligible endowment funds (and certain institutional funds treated as endowments) of the University System. To qualify for investment in the LTIF, endowment funds must be under the sole control of the Board and must not have donor imposed restrictions that prevent investment in equity securities or corporate debt, or prevent the expenditure of net realized appreciation. Endowment funds not meeting these requirements are invested in the S/ITIF or, if instructed by the donor, managed and safeguarded in their original form. The LTIF is managed by unaffiliated investment managers selected by the Board upon the recommendation of the Investment Advisory Committee.

Set forth below is the market value for each of the funds managed by the Board as of the end of the most recent five Fiscal Years.

Market Value of Investment Funds
(In Thousands)

As of August 31	Short Intermediate Term Fund	Long Term Fund	Total Market Value
2005	$ 472,584	$ 468,978	$ 941,562
2004	451,641	379,357	830,998
2003	414,325	340,720	755,045
2002	442,025	262,096	704,121
2001	410,937	230,064	641,001

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

Management of Funds Held in the State Treasury. The Texas Education Code requires that the University System and its component institutions deposit into the State Treasury all funds except those derived from auxiliary enterprises and non-instructional services, agency funds, designated and restricted funds, endowment and other gift funds, and student loan funds retained under Chapter 145 of the Texas Education Code for paying research overhead expenses, and Constitutional College Building Amendment Funds. All such funds held in the State Treasury are administered by the Comptroller. The Comptroller invests money in the State Treasury in authorized investments consistent with applicable law. The Comptroller pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately among the various State agencies whose funds are so pooled. The Board utilizes the State Treasury primarily as a depository and anticipates that all funds deposited in the State Treasury will be available upon request and will earn interest equal to an allocated share of investment earnings on pooled funds in the State Treasury. As of December 31, 2005, the amount of University System funds held by the State Treasury was $23,484,079.

Insurance. The University System is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. As an agency of the State, the University System and its employees are covered by various immunities and defenses which limit some of these risks of loss. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques. For details, see "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT—Note 12: Risk Financing and Related Insurance."

Retirement Plans. University System employees participate in various retirement plans or programs. For details, see "Appendix C - TEXAS TECH UNIVERSITY SYSTEM CONSOLIDATED ANNUAL FINANCIAL REPORT—Note 8: Employees Retirement Plans."

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Appendix B

MANAGEMENT'S DISCUSSION AND ANALYSIS

Texas Tech University System

Unaudited

Introduction

Texas Tech University System is composed of Texas Tech University System Administration, Texas Tech University, and Texas Tech University Health Sciences Center. Texas Tech Foundation, Inc. and Texas Tech Physician Associates are also included in this financial report as blended component units because of the significance of their relationship with the System.

Texas Tech University (TTU) is a comprehensive public university organized into eleven instructional schools and colleges offering bachelors degrees in 116 fields and graduate degrees in 163 fields of study. The main campus is located in Lubbock, Texas. In addition, TTU academic centers serving residents of the Texas Hill Country and West Texas are located in Junction, Fredericksburg, Marble Falls/Highland Lakes, Amarillo, and Abilene.

Texas Tech University Health Sciences Center (TTUHSC) operates five schools: the School of Allied Health Sciences, the School of Medicine, the School of Nursing, the School of Pharmacy, and the Graduate School of Biomedical Sciences. The Graduate School of Biomedical Sciences is closely related to the School of Medicine, with biomedical science offerings that lead to PhD degrees rather than MD degrees. TTUHSC operates its main campus in Lubbock, Texas along with regional campuses located in Amarillo, El Paso, and Odessa. The Texas Tech University System serves over 30,000 students and employs more than 12,000 people.

Using the Financial Statements and Financial Analysis

Texas Tech University System presents its financial statements for the fiscal year ended August 31, 2005 in accordance with Governmental Accounting Standards Board (GASB) pronouncements, the requirements of the Texas Comptroller of Public Accounts, and the National Association of College and University Business Officers guidelines.

The discussion and analysis of the Texas Tech University System financial statements provide an overview of the financial activities for the fiscal year ended August 31, 2005.

The following discussions will focus on the changes and trends in data. Three primary financial statements are presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets

Net Assets are the difference between assets and liabilities as of the end of the fiscal year and represent the equity component of the system. This is a point in time financial presentation and is a snapshot of the financial status as of August 31. Assets and Liabilities are presented in current and non-current format allowing the reader of the financial statements to determine the assets available for use in the continuing operations of the institution, the availability for expenditures by the institution, as well as amounts owed to vendors, investors and lending institutions. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the organization's financial health when considered with non-financial factors such as enrollment, student and patient levels, and the condition of facilities.

Assets and liabilities are generally measured using current values with the one notable exception of capital assets, which are stated at historical cost less accumulated depreciation. Net Assets are presented in three major categories:

invested in capital assets, net of debt; restricted net assets; and unrestricted net assets. The invested in capital assets category identifies the equity in property, plant and equipment owned by the Texas Tech University System. Restricted net assets are presented in two subcategories: non-expendable and expendable. Non-expendable restricted net assets are available only for investment purposes. Expendable restricted net assets are available for expenditure but must be expended for the purposes designated by the external donor/provider of the assets. Unrestricted net assets are available for any lawful purpose of the institution.

The following table (Exhibit 1) summarizes the System's net assets as of August 31, 2005 and comparative information as of August 31, 2004:

Exhibit 1
Statement of Net Assets
(in thousands)

	2005	2004
Assets		
Current Assets	$ 424,019	$ 406,817
Capital Assets, Net	803,676	748,267
Other Non-Current Assets	766,617	701,607
Total Assets	$ 1,994,311	$ 1,856,691
Liabilities		
Current Liabilities	262,517	227,254
Non-Current Liabilities	379,928	401,269
Total Liabilities	642,445	628,523
Net Assets		
Invested in Capital Assets, Net of Related Debt	455,814	438,452
Restricted		
Expendable	134,868	140,750
Non-Expendable	348,791	287,794
Unrestricted	412,393	361,079
Total Net Assets	1,351,866	1,228,075
Total Liabilities and Net Assets	$ 1,994,311	$ 1,856,598

Current Assets and Current Liabilities

Current Assets consist primarily of cash and cash equivalents, balances in the state treasury, and various student, patient, and contract receivables. Current Liabilities consist primarily of trade accounts payable, payroll payable, deferred revenues, commercial paper notes payable, the current portion of compensable leave payable, claims payable, and the current portion of bonds payable.

Capital Assets

Capital assets consist of non-depreciable assets such as land and improvements and construction in progress as well as depreciable assets, net of accumulated depreciation, such as buildings and improvements, infrastructure, furniture and equipment, vehicles and other miscellaneous categories. Capital assets are $803.6 million (net of $628.7 million accumulated depreciation), as of August 31, 2005.

Other Non-Current Assets and Non-Current Liabilities

Non-current assets include long-term holdings. Non-current liabilities consist primarily of bonds and notes payable and any other liability that has a maturity exceeding one year.

Total assets increased by $136 million during the fiscal year. This increase was primarily due to increased tuition and fees revenues and increased unrealized net changes in fair market value of investments.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents significant operating activities and the results of operations for a period. The statement presents both operating and non-operating revenues, expenses, and other revenues, expenses, gains and losses for the System.

Operating Revenues and Expenses

Operating revenues are received for providing goods and services to the various customers and constituencies of the System. Operating expenses are those expenses paid to acquire goods and services provided in return for operating revenues and to carry out the mission of the System.

Student tuition and fees, a primary source of funding for academic programs, are reflected net of associated discounts and allowances. Student-related revenues increased by 14% for 2005, primarily resulting from overall increases in enrollment and tuition rates. Professional fee revenues are principally generated within the practice plans from patients or through contractual arrangements with governmental payers and private insurers. As such, professional fees revenues are subject to fluctuation due to changes in standard reimbursement rates for medical services. Sponsored program revenues are primarily from governmental and private sources and related to research programs that generally provide for the recovery of direct and indirect costs.

The functional presentation of operating expenses shown below reflects the continued commitment to promoting instruction, research, public service, and student support. Reporting of capital asset expenditures has been replaced by the recognition of depreciation expense. Total expenses generally increased in 2005, in response to growing student enrollment, research, and patient care activities. Expenditures for expansion of facilities have also been on the rise, resulting in increasing depreciation expenses. The cost of communications and utilities increased by 21%, consistent with national and state markets for utility costs.

Non-Operating Revenues and Expenses

Non-operating revenues are revenues received for which no goods or services have been provided. Numerous significant recurring revenues are considered non-operating, as required by generally accepted accounting principles. The largest element of recurring non-operating revenue is legislative appropriations from the state, which decreased by 5% for 2005. Gift contributions were received from private sources and used for public service initiatives and to support education. Realized gains and losses from the sale of investments are factored into the reported amount for investment income, whereas unrealized gains and losses are reported as the net change in the fair value of investments. The institution's endowment investment policies are designed to maximize long-term total return while income distribution policies are designed to preserve the value of the endowments and to generate a predictable stream of distributable income. Interest expense on capital asset financings increased during this fiscal year primarily due to additional short-term debt issuances.

Other Revenues, Expenses, Gains, and Losses

Other Revenues, Expenses, Gains, Losses and Transfers are made up of special-purpose gifts for facilities expansion and renovation, distributions from the Higher Education Assistance Fund (HEAF), and net transfers to other agencies.

The following table (Exhibit 2) summarizes the Systems' revenues, expenses, and changes in net assets for the year ending August 31, 2005 and comparative information as of August 31, 2004:

Exhibit 2
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended August 31
(in thousands)

	2005	2004
Operating Revenues	$ 595,215	$ 562,409
Operating Expenses	(871,184)	(828,754)
Operating Income(Loss)	(275,969)	(266,345)
Non-Operating Revenues and Expenses	365,973	348,913
Income(Loss) before Other Revenues, Expenses Gains, Losses and Transfers	90,004	82,568
Other Revenues, Expense, Gains, Losses and Transfers	48,083	37,329
Total Changes in Net Assets	138,087	119,897
Beginning Net Assets (September 1)	1,228,075	1,102,121
Restatements of Beginning Net Assets	(14,296)	6,057
Beginning Net Assets as Restated	1,213,779	1,108,178
Ending Net Assets (August 31, 2002)	$ 1,351,866	$ 1,228,075

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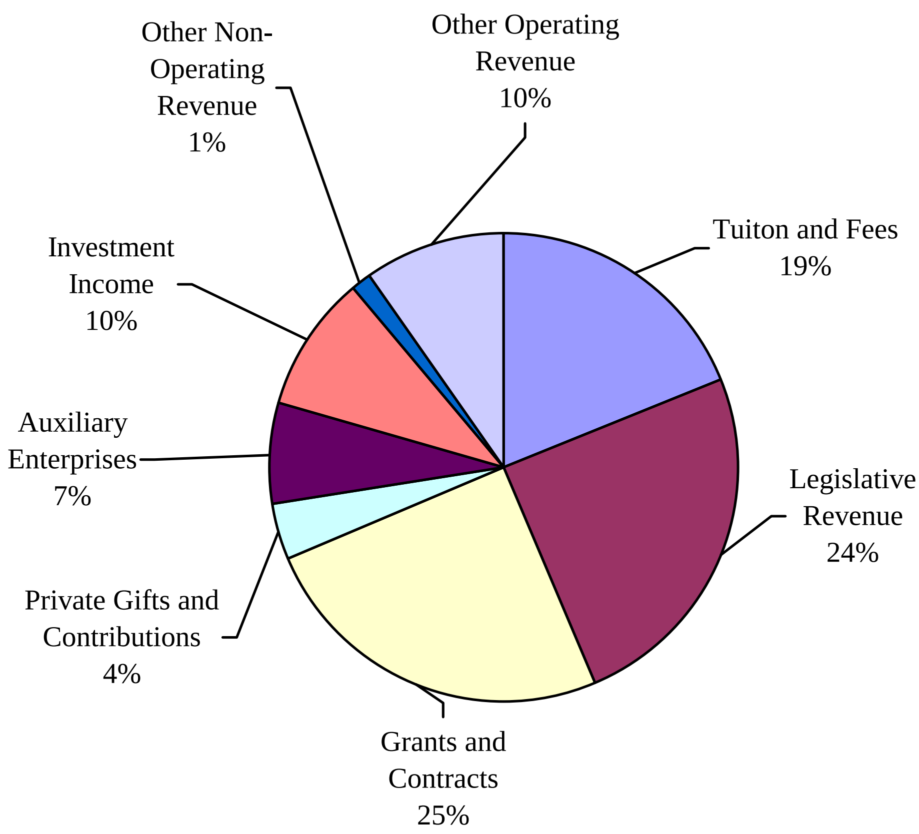
The following (Exhibit 3) is a graphic presentation of net revenues by source (both operating and non-operating) that are used to fund the System's activities.

Exhibit 3
Operating and Non-Operating Revenues



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The following tables and graphic presentations give a comparison of operating expenses in the National Association of College and University Business Officers Association (NACUBO) functional categories (Exhibit 4 and Exhibit 5) and the natural category classification of expense (Exhibit 6 and Exhibit 7).

Exhibit 4
Summary of Operating Expenses
By Functional (NACUBO) Classification
(in thousands)

	2005	2004
Instruction	$ 320,662	$ 294,854
Research	54,981	54,037
Public Service	110,084	107,176
Academic Support	113,754	110,103
Student Services	27,946	25,199
Institutional Support	58,826	63,077
Operations and Maintenance of Plant	50,195	48,659
Scholarships and Fellowships	21,274	25,567
Auxiliary Enterprises	72,670	70,132
Depreciation and Amortization	40,792	29,950
Total Operating Expenses	$ 871,184	$ 828,754

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Exhibit 5
Operating Expenses by NACUBO Function
FY 2005

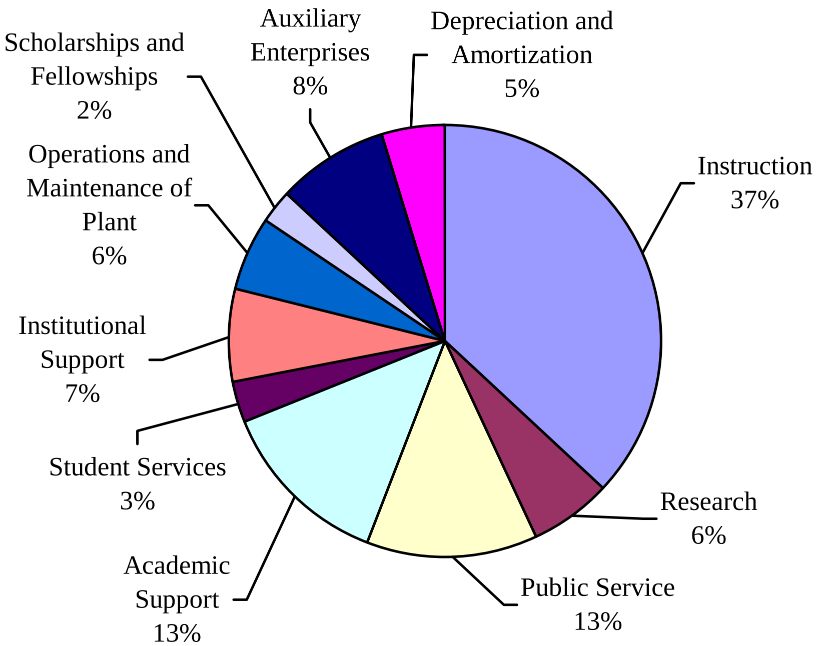
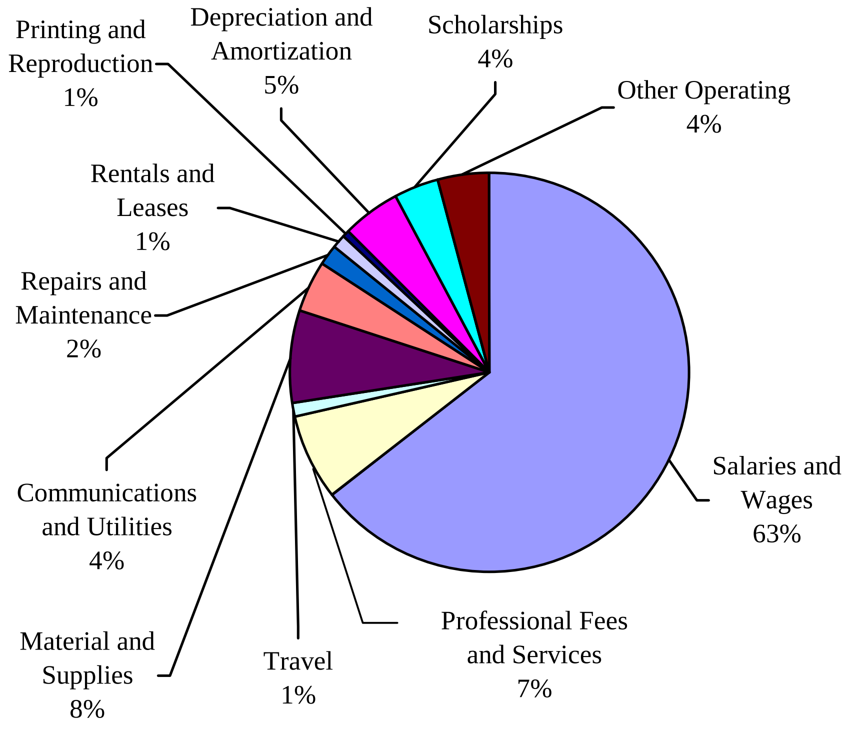


Exhibit 6
Summary of Operating Expenses
By Natural Category Classification
(in thousands)

	2005	2004
Salaries and Wages	$ 561,426	$ 534,011
Federal Sub-Contracts	584	1,084
Professional Fees and Services	59,545	53,651
Travel	9,952	9,054
Material and Supplies	65,929	64,333
Communications and Utilities	35,074	28,884
Repairs and Maintenance	16,241	14,762
Rentals and Leases	8,119	12,250
Printing and Reproduction	5,821	5,541
Depreciation and Amortization	40,792	29,950
Bad Debt	(168)	40
Scholarships	32,385	38,052
Claims and Losses	318	882
Other Operating	35,166	36,260
Total Operating Expenses	$ 871,184	$ 828,754

Exhibit 7
Operating Expenses by Natural Classification



STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about financial results by reporting the major sources and uses of cash. The statement provides an assessment of the institution's financial flexibility and liquidity to meet obligations as they come due and the need for external financing.

There are five sections to the statement. The first section reflects the cash flows from operating activities and net cash used by operating activities. The second section represents the cash flows from non-capital financing activities. This reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section reflects the cash flows from capital and related financing activities. This represents the cash used for the acquisition and construction of capital and related items. Section four details cash flows from investing activities. The fifth section reconciles net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Net cash used in operating activities should be viewed in conjunction with net cash provided by non-capital financing activities. State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses, but are required to be classified as non-capital financing activities under GASB statements 34 and 35.

Net cash used in capital and related financing activities reflects a continuing commitment to expand and renovate facilities and to invest in equipment. Net cash provided by investing activities reflects receipts from sales and maturities of investments compared to purchases of investments. The unrealized losses from the decrease in the fair value of investments is a non-cash transaction for valuation purposes only and does not affect cash flows from investing activities.

The following table (Exhibit 8) summarizes the Systems' cash flows for the year ending August 31, 2005 and comparative information as of August 31, 2004:

Exhibit 8
Statement of Cash Flows
For the Year Ended August 31,
(in thousands)

	2005	2004
Cash Provided/(Used) by:		
Operating Activities	$ (232,157)	$ (228,143)
Noncapital Financing Activities	304,340	323,696
Capital and Related Financing Activities	(85,883)	(11,197)
Investing Activities	13,436	69,321
Net Cash Flows	(264)	153,677
Beginning Cash and Cash Equivalents	315,046	161,369
Ending Cash and Cash Equivalents	$ 314,782	$ 315,046

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities

	2005	2004
Operating Loss	$ (275,969)	$ (266,345)
Adjustments:		
Depreciation Expense	40,792	29,950
Bad Debt Expense	(168)	40
(Increase) Decrease in Accounts Receivables	(1,298)	(2,867)
(Increase) Decrease in Loans and Notes Receivable	4,022	580
(Increase) Decrease in Inventory	(583)	474
(Increase) Decrease in Prepaid Expenses	(5,388)	1,509
(Increase) Decrease in Other Assets	(24)	(42)
Increase (Decrease) in Accounts Payables	(8,491)	5,497
Increase (Decrease) in Payroll Payables	(401)	2,053
Increase (Decrease) in Accrued Liabilities	(8)	(245)
Increase (Decrease) in Deferred Revenue	18,342	12,413
Increase (Decrease) in Compensable Leave	2,038	1,440
Increase (Decrease) in Claims Payable	(5,170)	(12,552)
Increase (Decrease) in Other Liabilities	149	(48)
Net Cash Provided/(Used) by Operating Activities	$ (232,157)	$ (228,143)

Capital Asset and Debt Administration

The System is committed to continuing to improve the quality of its academic, research, and service programs through the development and renewal of its capital assets. The System continues to implement a long-range plan to modernize its older teaching and research facilities along with new construction.

Capital additions totaled $119 million in 2005. The amount of fiscal year 2005 additions is based on capitalization thresholds of $5,000 for furniture and equipment, $100,000 for buildings, and $500,000 for infrastructure.

Economic Outlook

Management considers the institution to be well positioned to continue to provide quality service to students, patients, and the research community. Future successes are largely dependent upon the ability to recruit and retain the highest quality students, faculty, and staff, cost containment, and ongoing financial and political support from state government. Private gift contributions are a significant factor in the growth of academic, research, and patient care units and are an important supplement to the fundamental support provided by the state and through collections from students and patients. Economic pressures affecting donors may also affect the future level of support afforded to the System from corporate and individual giving. The System will continue to monitor resources to maintain its ability to respond to internal and external issues.

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Appendix C

TEXAS TECH UNIVERSITY SYSTEM
CONSOLIDATED ANNUAL FINANCIAL REPORT

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TEXAS TECH UNIVERSITY SYSTEM

CONSOLIDATED
ANNUAL FINANCIAL REPORT

FISCAL YEAR 2005

ANNUAL FINANCIAL REPORT

OF

TEXAS TECH UNIVERSITY SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2005

LUBBOCK, TEXAS

Table of Contents

TEXAS TECH UNIVERSITY SYSTEM

DAVID R. SMITH, M.D.
Chancellor

Box 42013
Lubbock, Texas 79409-2013
(806) 742-0012
FAX (806) 742-8050

November 17, 2005

Honorable Rick Perry
Governor of Texas

Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts

Mr. John O'Brien
Deputy Director, Legislative Budget Board

Mr. John Keel, CPA
State Auditor

To Agency Heads Addressed:

The Financial Report of Texas Tech University System, with which this letter is bound, is transmitted for inclusion in the State of Texas Annual Financial Report for the fiscal year ended August 31, 2005. The State Auditor has not audited the accompanying annual financial report and, therefore, has not expressed an opinion on the financial statements and related information contained in this report. This report is intended to present a complete picture of the fiscal affairs of the System for the year ended August 31, 2005.

As indicated by the following letter of transmittal, this report has been prepared by the fiscal office of the System to provide a summary of the System's financial records.

Sincerely,

David R. Smith, M.D.

DRS:nh

TEXAS TECH UNIVERSITY
Office of the Comptroller and
Assistant Vice President for Administration & Finance

Box 41102
Lubbock, Texas 79409-1102
(806) 742-3255
Fax (806) 742-0066

November 17, 2005

Chancellor David R. Smith
Texas Tech University System
Lubbock, Texas 79409

Dear Chancellor Smith:

Submitted herein is the Annual Financial Report of Texas Tech University System for the fiscal year ended August 31, 2005, 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 significant changes related to 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 of 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.

If you have any questions, please contact us at 742-3255.

Sincerely,

Sharon Williamson

Sharon Williamson, CPA
Director of Financial Reporting

Rebecca Hyde
Director of Student and University Financial Services

Approved:

Jim Brunjes
Chief Financial Officer

SSW:nh

Texas Tech University System

Board of Regents

Larry Anders .... Term Expires January 31, 2011 .... Dallas, TX

C. Robert Black .... Term Expires January 31, 2007.... Horseshoe Bay, TX

F. Scott Dueser .... Term Expires February 1, 2009 .... Abilene, TX

L. Frederick Francis .... Term Expires January 31, 2007................ El Paso, TX

Mark Griffin .... Term Expires January 31, 2011 .... Lubbock, TX

J. Frank Miller, III .... Term Expires January 31, 2009.................. Dallas, TX

Daniel T. Serna .... Term Expires January 31, 2011 ....Arlington, TX

Windy Sitton .... Term Expires February 1, 2009 .... Lubbock, TX

Bob L. Stafford .... Term Expires February 1, 2007 ....Amarillo, TX

Officers of the Board

L. Frederick Francis .... Chair

J. Frank Miller, III .... Vice Chair

Ben Lock .... Secretary

Fiscal Officers

David R. Smith, M.D. .... Chancellor

Jim Brunjes .... Senior Vice Chancellor and Chief Financial Officer

Jon Whitmore .... TTU President

M. Roy Wilson, M.D., M.S. .... TTUHSC President

FINANCIAL STATEMENTS

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2005

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 1)	$ 211,859,037
Restricted:	
Cash and Cash Equivalents (Note 1)	83,932,382
Legislative Appropriations	37,202,184
Accounts Receivable, net:	
Federal Receivables	11,911,721
Interest and Dividends	1,299,987
Patient Receivables	12,246,660
Student Receivables	794,344
Contract Receivables	8,305,153
Gift Receivables	20,870,345
Accounts Receivable	2,506,120
Other Receivables	475,212
Due From Other Agencies (Note 8)	6,923,091
Prepaid Expenses	17,482,682
Consumable Inventories	871,304
Merchandise Inventories	3,220,541
Loans and Notes Receivable, net	4,041,428
Other Current Assets	76,415
Total Current Assets	424,018,606
Non-Current Assets:	
Restricted:	
Cash and Cash Equivalents (Note 1)	18,990,834
Investments	139,554,933
Gift Receivables	42,446,895
Loans and Notes Receivable, net	3,159,280
Investments	562,464,773
Capital Assets (Note 2)	
Non-Depreciable	209,834,533
Depreciable	1,222,602,134
Accumulated Depreciation	(628,761,095)
Total Non-Current Assets	1,570,292,287
Total Assets	$ 1,994,310,893
LIABILITIES	
Current Liabilities:	
Accounts Payable	$ 28,674,999
Payroll Payable	39,271,377
Liabilities Payable from Restricted Assets	26,324,586
Unclaimed Property Due to State Treasury (Note 5)	14,182
Deferred Revenues	94,626,550
Due to Other Agencies (Note 8)	161,753
Employees' Compensable Leave (Note 5)	5,786,334
Claims Payable	2,420,242
Notes and Loans Payable (Note 5)	35,858,000
Bonds Payable (Note 5)	17,960,000
Funds Held for Others	10,632,490
Other Current Liabilities	786,664
Total Current Liabilities	262,517,177

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2005

Non-Current Liabilities:	
Unclaimed Property Due to State Treasury (Note 5)	73,489
Interfund Payable (Note 8)	1,533,303
Employees' Compensable Leave (Note 5)	20,964,156
Claims Payable (Note 5)	21,782,182
Bonds Payable (Note 5)	335,570,001
Other Non-Current Liabilities	4,380
Total Non-Current Liabilities	379,927,511
Total Liabilities	$ 642,444,688
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	455,814,357
Restricted:	
Nonexpendable:	
Endowments	348,790,676
Expendable:	
Capital Projects	19,108,802
Higher Education Assistance Fund	15,483,660
Debt Service	7,698,129
Other	92,577,235
Unrestricted (Note 1)	412,393,346
Total Net Assets	1,351,866,205
Total Liabilities and Net Assets	$ 1,994,310,893

See Accompanying Notes To Financial Statements

Texas Tech University System
Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)
For the Year Ended August 31, 2005

Operating Revenues	
Tuition and Fees	$ 26,445,474
Tuition and Fees - Pledged	177,801,932
Less Discounts and Allowances	(18,842,649)
Professional Fees	84,432,533
Sales and Services of Auxiliary Enterprises - Pledged	69,006,228
Other Sales and Services	5,632,741
Other Sales and Services - Pledged	6,327,108
Federal Grants and Contracts (Schedule 1A)	49,366,680
Federal Grants and Contracts - Pledged (Schedule 1A)	2,161,935
Federal Grant Pass-Throughs (Schedule 1A)	1,548,735
State Grants and Contracts	85,168,982
State Grants and Contracts - Pledged	72,899
State Grant Pass-Throughs (Schedule 1B)	10,502,559
Local Governmental Grants and Contracts	66,470,340
Local Governmental Grants and Contracts - Pledged	917,100
Nongovernmental Grants and Contracts	25,640,138
Nongovernmental Grants and Contracts - Pledged	2,562,717
Total Operating Revenues	595,215,452
Operating Expenses	
Instruction	320,663,878
Research	54,980,956
Public Service	110,083,804
Academic Support	113,753,882
Student Services	27,945,959
Institutional Support	58,825,634
Operations and Maintenance of Plant	50,195,270
Scholarships and Fellowships	21,273,599
Auxiliary Enterprises	72,669,691
Depreciation and Amortization	40,791,524
Total Operating Expenses	871,184,197
Operating Income (Loss)	(275,968,745)
Nonoperating Revenues (Expenses)	
Legislative Revenue	245,599,039
Federal Grants and Contracts (Schedule 1A)	769,513
Private Gifts	37,132,712
Investment Income	36,184,555
Investment Income - Pledged	13,979,065
Interest Expense on Capital Asset Financing	(15,964,099)
Loss on Sale and Disposal of Capital Assets	(4,130,434)
Net Increase in Fair Value of Investments	44,372,001
Other Nonoperating Revenues (Expenses)	(8,216,934)
Other Nonoperating Revenues (Expenses) - Pledged	16,247,365
Total Nonoperating Revenues (Expenses)	365,972,783
Income (Loss) before Other Revenues, Expenses, Gains, Losses, and Transfers	90,004,038
Other Revenues, Expenses, Gains, Losses, and Transfers	
Capital Appropriations (HEAF)	28,696,881
Capital Contributions	4,651,232
Lapsed Appropriations	(741,548)
Additions to Permanent Endowments	12,957,377
Transfers In from Other State Agencies (Note 8)	3,650,915
Transfers Out to Other State Agencies (Note 8)	(1,131,898)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	48,082,959
TOTAL CHANGES IN NET ASSETS	$ 138,086,997
Beginning Net Assets (September 1, 2004)	1,228,074,976
Restatements of Beginning Net Assets (Note 18)	(14,295,768)
Ending Net Assets (August 31, 2005)	$ 1,351,866,205

See Accompanying Notes to Financial Statements

Texas Tech University System
Matrix of Operating Expenses by Natural Classification
For the Year Ended August 31, 2005

Function	Salaries and Wages	Payroll Related Costs	Federal Sub-Contracts	Professional Fees and Services	Travel
Instruction	$ 228,169,599	$ 52,961,556	$ 143,060	$ 8,141,288	$ 2,442,396
Research	30,867,170	5,985,192	(401,398)	1,074,937	1,807,401
Public Service	44,006,469	10,424,652	842,632	35,882,316	667,048
Academic Support	64,866,789	15,510,504		5,344,052	2,318,080
Student Services	12,229,260	2,913,685		2,579,641	954,626
Institutional Support	37,456,381	10,575,006		2,366,854	918,966
Operation and Maintenance of Plant	11,809,692	2,817,270		819,769	60,359
Scholarships and Fellowships	92,378	6,456			
Auxiliary Enterprises	24,995,693	5,738,098		3,336,126	783,139
Depreciation and Amortization					
Total Operating Expenses	$ 454,493,431	$ 106,932,419	$ 584,294	$ 59,544,983	$ 9,952,015

Function	Materials and Supplies	Communications and Utilities	Repairs and Maintenance	Rentals and Leases	Printing and Reproduction
Instruction	$ 19,721,366	$ 2,561,736	$ 1,048,812	$ 1,794,727	$ 1,207,973
Research	8,879,717	277,187	756,912	302,036	337,580
Public Service	12,941,464	1,001,979	342,133	1,058,351	349,808
Academic Support	11,604,083	2,541,755	1,890,973	1,848,193	1,242,314
Student Services	3,837,688	488,353	433,348	334,292	1,422,846
Institutional Support	3,429,730	790,401	906,397	1,180,682	657,553
Operation and Maintenance of Plant	5,340,869	18,912,136	8,329,003	592,611	36,786
Scholarships and Fellowships					
Auxiliary Enterprises	174,282	8,500,899	2,533,618	1,008,337	565,702
Depreciation and Amortization					
Total Operating Expenses	$ 65,929,199	$ 35,074,446	$ 16,241,196	$ 8,119,229	$ 5,820,562

Function	Depreciation and Amortization	Scholarships	Bad Debt	Claims and Losses	Other Operating
Instruction	$	$ 3,243,444	$	$ 146,533	$ (918,612)
Research		1,306,868			3,787,354
Public Service		249,755			2,317,197
Academic Support		2,077,879		62,500	4,446,760
Student Services		230,326			2,521,894
Institutional Support		316,761	(168,141)	108,954	286,090
Operation and Maintenance of Plant		3,779			1,472,996
Scholarships and Fellowships		21,167,960			6,805
Auxiliary Enterprises		3,787,924			21,245,873
Depreciation and Amortization	40,791,524				
Total Operating Expenses	$ 40,791,524	$ 32,384,696	$ (168,141)	$ 317,987	$ 35,166,357

Function	Other Grand Total
Instruction	$ 320,663,878
Research	54,980,956
Public Service	110,083,804
Academic Support	113,753,882
Student Services	27,945,959
Institutional Support	58,825,634
Operation and Maintenance of Plant	50,195,270
Scholarships and Fellowships	21,273,599
Auxiliary Enterprises	72,669,691
Depreciation and Amortization	40,791,524
Total Operating Expenses	$ 871,184,197

Texas Tech University System
Statement of Cash Flows (Unaudited)
For the Year Ended August 31, 2005

Cash Flows from Operating Activities	
Tuition and Fees	$ 201,450,949
Grants and Contracts	238,686,104
Sales and Services of Auxiliary Enterprises	70,538,232
Collections from Patients and Insurers	91,254,982
Collections of Loans to Students	1,170,731
Other Sales and Services	10,672,607
Other Operating Activities	6,510,847
Payments to Suppliers	(210,804,151)
Payments to Employees	(446,781,685)
Payments for Loans Issued to Students	(1,027,096)
Payments for Auxiliary Enterprises	(351,416)
Payments for Other Operating Activities	(193,477,171)
Net Cash Used By Operating Activities	(232,157,067)
Cash Flows from Noncapital Financing Activities	
State Appropriations	248,309,784
Noncapital Gifts and Grants	49,147,945
Payments for Direct Lending	(42,388)
Transfers In from Other State Agencies	3,650,915
Transfers Out to Other State Agencies	(1,131,898)
Proceeds from Agency Transactions	1,107,766
Other Noncapital Financing Activities	3,297,519
Net Cash Provided by Noncapital Financing Activities	304,339,643
Cash Flows from Capital and Related Financing Activities	
Proceeds from Capital Debt Issuances	22,500,000
Capital Appropriations	28,696,881
Proceeds from Capital Gifts and Grants	4,651,232
Purchases of Capital Assets	(106,632,393)
Principal and Interest Paid on Capital Debt	(35,036,322)
Payments for Other Capital Related Activities	(62,321)
Net Cash Used by Capital and Related Financing Activities	(85,882,923)
Cash Flows from Investing Activities	
Proceeds from Investment Sales and Maturities	121,728,806
Interest and Dividends Received	54,988,635
Purchases of Investments	(163,280,889)
Net Cash Provided by Investing Activities	13,436,552
TOTAL NET CASH FLOWS	$ (263,795)
Beginning Cash & Cash Equivalents - September 1, 2004	315,046,048
Ending Cash & Cash Equivalents - August 31, 2005	$ 314,782,253

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities	
Operating Loss	(275,968,745)
Adjustments:	
Depreciation Expense	40,791,524
Bad Debt Expense	(168,141)
(Increase) Decrease in Accounts Receivables	(1,297,804)
(Increase) Decrease in Loans and Notes Receivable	4,022,264
(Increase) Decrease in Inventory	(582,702)
(Increase) Decrease in Prepaid Expenses	(5,388,491)
(Increase) Decrease in Other Assets	(23,907)
Increase (Decrease) in Accounts Payables	(8,491,299)
Increase (Decrease) in Payroll Payables	(401,177)
Increase (Decrease) in Accrued Liabilities	(8,137)
Increase (Decrease) in Deferred Revenue	18,341,599
Increase (Decrease) in Compensable Leave	2,037,506
Increase (Decrease) in Claims Payable	(5,170,018)
Increase (Decrease) in Other Liabilities	150,461
Net Cash Used for Operating Activities	(232,157,067)

POLICIES AND NOTES

TEXAS TECH UNIVERSITY SYSTEM

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Texas Tech University System is an agency 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' Annual Financial Reporting Requirements for State Agencies.

Components of the Texas Tech University System include Texas Tech University, Texas Tech University Health Sciences Center and Texas Tech University System Administration. The Texas Tech University System includes within this report all components as determined by an analysis of their relationship to the Texas Tech University System as described below for blended component units.

Blended Component Units
The Texas Tech University Foundation and the Texas Tech University Research Foundation are not-for-profit 501(c)(3) organizations, exempt from income taxes. The Texas Tech University Foundation was founded to financially support the Texas Tech University System. The Texas Tech University Research Foundation was founded to support the research activities of the University. Based on the application of the GASB Standard No. 14 criteria, The Texas Tech Foundation and the Texas Tech Research Foundation have been blended into these financial statements because of the significance of their financial relationship with the System.

Texas Tech Physician Associates is a certified non-profit health corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the State of Texas (the State). TTPA was created by TTUHSC for the purpose of entering into prepaid capitation agreements for physician and other medical services. TTPA is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of eight directors appointed by TTUHSC.

Due to the significant changes related to 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 statements to be in compliance with generally accepted accounting principles (GAAP). 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.

Basis of Accounting

The accounting records of the Texas Tech University System are maintained using a modified accrual basis of accounting. Accounting data for most external reports, including this Annual Financial Report, are converted to full accrual basis of accounting in compliance with GASB Statements 34 and 35. For financial reporting purposes, the Texas Tech University System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents

For the purpose of financial statement reporting, cash equivalents are short-term highly liquid investments with an original maturity of three months or less. Included in this category are demand deposits in banks, local funds held by the state, state reimbursements in transit, repurchase agreements, Texpool and TexSTAR investments.

The System records and reports its deposits in the general deposit account at cost. It records and reports its special deposit accounts at fair value. Investment pool cash equivalents are recorded at fair value.

Cash and Cash Equivalents as reported on the Statement of Net Assets

	Current Unrestricted	Current Restricted	Non-Current Restricted	Total
Cash on Hand	$94,876	$2,569	$0	$97,445
Cash in Bank	(17,594,426)	(4,787,216)	(760,135)	(23,141,777)
Cash in Transit/Reimburse from Treasury	14,933,637	119,789		15,053,426
Cash in State Treasury	23,473,238			23,473,238
Repurchase Agreements	57,445,670	15,808,337	2,464,991	75,718,998
Texpool & TexSTAR Investments	133,506,042	72,788,903	17,285,978	223,580,923
Total Cash and Cash Equivalents	$211,859,037	$83,932,382	$18,990,834	$314,782,253

Investments

Texas Tech University System accounts for its investments at fair market value, as determined by quoted market prices, in accordance with GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of revenue bonds and revenues set aside for statutory or contractual requirements.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories such as maintenance supplies, housing supplies, janitorial supplies, office supplies, and telecommunications supplies. Inventories are valued at cost, generally utilizing the last-in, first-out method.

Receivables

Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

Federal receivable includes amounts due from the federal, state, and local governments or private sources, in connection with reimbursement of allowable expenditures disbursed by the System's grants and contracts department.

Gift receivables are accounted for at their estimated net realizable value. The estimated net realizable value consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified System programs and initiatives.

Interest and income receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items.

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

Prepaid Expenses

Disbursements for insurances, subscriptions, prepaid postage, prepaid travel costs and similar services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Loans and Notes Receivable

These receivables are student loans receivable that consist of amounts due from the Federal Perkins Loan Program, and from other loans administered by the System.

Capital Assets

Furniture, equipment, and vehicles with a cost of more than $5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities and other improvements are $100,000. The capitalization threshold for infrastructure is $500,000. These assets are capitalized at cost. Donated assets are reported at fair market value as of the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charges to operating expenses in the year in which the expense was incurred. Depreciation is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting System (SPA). Assets are depreciated over the estimated useful life of the asset using the straight-line method.

Accounts Payable and Accrued Liabilities

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Deferred Revenues

Deferred Revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Employees' Compensable Leave Balances

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

Notes and Loans Payable

Notes payable represents amounts owed for commercial paper that was issued during the current accounting period. Notes and loans payable are further explained in Note 5.

Bonds Payable

Texas Tech University System has a number of bond issues outstanding, most of which are supported either directly or indirectly by tuition revenue. Bonds payable are addressed in more detail in Note 13.

Funds Held for Others

Current balances in funds held for others result from the System acting as an agent or fiduciary for students and student organizations.

Texas Tech University System – Notes to the Financial Statements (continued)

Interfund Payable

Interfund payables are resources payable to other state agencies for Lone Star that assisted the System with utility costs. This payable is further explained in Note 8.

Net Assets

Net Assets are the difference between fund assets and liabilities. They are presented in three separate classes: Invested in Capital Assets - Net of Related Debt, Restricted and Unrestricted.

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable 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 a party external to the System such as 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 restricted net assets. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be moved or modified.

Unrestricted Net Assets as reported on the Statement of Net Assets

Reserved for:	
Encumbrances	$ 19,547,230
Accounts Receivable	16,571,886
Inventory	4,002,039
Prepaid Expenses	7,821,559
Imprest Funds	216,563
Working Capital	52,673
Self-Insured Plans	43,266,118
External Investment Pool	173,198
Fair Market Value Adjustment	2,638,621
Future Operating Budgets	108,898,708
Service Department Operating Funds	19,902,513
Student Service Fees	2,276,078
Funds Functioning as Endowments	69,285,291
Unreserved	117,740,869
Total Unrestricted Net Assets	$412,393,346

Interfund Activity and Transactions

Texas Tech University System is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, including blended component units. Interfund transactions are defined as financial transactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

Texas Tech University System - Notes to the Financial Statements (continued)

Note 2: Capital Assets

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system.

Accumulated depreciation is classified by capital asset category, providing for an estimation of the net book value of each asset category.

Capital assets are categorized as either (1) Land and Land Improvements, (2) Buildings and Building Improvements, (3) Infrastructure, (4) Furniture and Equipment, (5) Vehicles, Boats and Aircraft, (6) Construction in Progress, (7) Other Capital Assets, or (8) Facilities and Other Improvements. The changes to fixed asset balances are summarized below.

Business-type Activities:	Balance 09/01/04	Adjustments	Completed CIP	Increase Int'agy Transfers	Decrease Int'agy Transfers	Additions	Deletions	Balance 08/31/05
Non-depreciable Assets:								
Land and Land Improvements	$ 8,233,679					1,798,200		$10,031,879
Construction in Progress	111,666,864		(17,614,301)			61,653,176		155,705,739
Other Capital Assets	134,823,604	(103,152,303)				12,425,614		44,096,915
Total Non-depreciable Assets	254,724,147	(103,152,303)	(17,614,301)			75,876,990		209,834,533
Depreciable Assets:								
Buildings and Building Improvements	759,150,434	2,897	15,599,412			19,596,800		794,349,543
Infrastructure	27,351,783	(734)	1,514,889			1,052,978		29,918,916
Facilities and Other Improvements	128,173,677	(55,000)	500,000			6,365,702		134,984,379
Furniture and Equipment	144,119,822	162,154		690,973	(672,574)	13,668,563	(5,203,976)	152,764,962
Vehicles, Boats and Aircraft	9,975,569					1,160,109	(588,798)	10,546,880
Other Capital Assets	388,474	92,974,719				6,736,692	(62,431)	100,037,454
Total depreciable assets at historical costs	1,069,159,759	93,084,036	17,614,301	690,973	(672,574)	48,580,844	(5,855,205)	1,222,602,134
Less Accumulated Depreciation for:								
Buildings and Improvements	(456,375,215)					(16,394,208)		(472,769,423)
Infrastructure	(2,854,823)					(1,063,220)		(3,918,043)
Facilities and Other Improvements	(14,810,027)					(5,511,055)		(20,321,082)
Furniture and Equipment	(94,296,532)	(249,976)		(79,390)	63,083	(13,041,248)	4,509,597	(103,094,466)
Vehicles, Boats and Aircraft	(6,979,350)					(771,980)	555,025	(7,196,305)
Other Capital Assets	(301,218)	(2,180,636)				(6,864,790)		(9,346,644)
Total Accumulated Depreciation	(575,617,165)	(2,430,612)		(79,390)	63,083	(43,646,501)	5,064,622	(616,645,963)
Depreciable Assets, Net	493,542,594	90,653,424	17,614,301	611,583	(609,491)	4,934,343	(790,583)	605,956,171
Business-type Activities Capital Assets, net:	$748,266,741	$(12,498,879)	$0	$611,583	$(609,491)	$80,811,333	$(790,583)	$815,790,704

Note 3: Deposits, Investments, and Repurchase Agreements

Texas Tech University System's investment portfolio is invested pursuant to the parameters of applicable Texas law and the governing board's Investment Policies. Under Texas law, Texas Tech University System investments may be "any kind of investment that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Under Texas law, Texas Tech University System is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest Texas Tech University System funds without express written authority from the governing board.

Texas Tech University System – Notes to the Financial Statements (continued)

The governing investment policy is Regents' Rules Chapter 09, "Investment, Endowments, and Income Producing Lands." The majority of Texas Tech University System assets are invested in two investment pools; the Long Term Investment Fund (LTIF) and the Short/Intermediate Term Investment Fund (STIF). Endowment funds and certain eligible long-term institutional funds are invested in the LTIF, which invests in equity and fixed income securities and is operated using total return philosophy. Other institutional funds not in the LTIF are invested in the STIF, which is a fixed income fund. Other assets include securities gifted to Texas Tech University System with written donor instructions to maintain in their original form, and bond proceeds invested in external investment pools.

Deposits of Cash in Bank

As of August 31, 2005, the carrying amount of deposits was $(23,141,777) as presented below.

Enterprise Funds	
Cash in Bank – Carrying Value	$(23,141,777)
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	0
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	0
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	0
Cash in Bank per AFR	$(23,141,777)

Enterprise Funds Current Assets Cash in Bank	$(17,594,426)
Enterprise Funds Current Assets Restricted Cash in Bank	(4,787,216)
Enterprise Funds Non-Current Assets Restricted Cash in Bank	(760,135)
Cash in Bank per AFR	$(23,141,777)

These amounts consist of all cash in local banks and are included on the Statement of Net Assets as part of current unrestricted and restricted "Cash and Cash Equivalents" and non-current restricted "Cash and Cash Equivalents".

As of August 31, 2005, the total bank balance for Enterprise Funds was $1,661,014.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits of will not be able to recover collateral securities that are in the possession of an outside party. The System's policy is to require collateralization of bank balances in excess of FDIC protection. The balance below was transferred to the University's primary depository, which has sufficient collateral, after fiscal year-end.

Fund Type	GAAP Fund	Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name
01	0001	$70,852		

Texas Tech University System – Notes to the Financial Statements (continued)

Investments

As of August 31, 2005, the carrying value and fair value of investments are as presented below.

Type of Security	Carrying Value	Fair Value
Enterprise Funds		
U.S. Government		
U.S. Treasury Securities	$ 101,124,538	$ 101,124,538
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	84,263,823	84,263,823
Equity	137,484,820	137,484,820
International Equity	87,092,499	87,092,499
Repurchase Agreement	75,718,998	75,718,998
Fixed Income Money Market and Bond Mutual Fund	115,473,198	115,473,198
Other Commingled Funds	97,838,905	97,838,905
Other Commingled Funds (Texpool)	179,902,936	179,902,936
Real Estate	1,140,856	1,140,856
Misc (alternative investments, limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	121,279,054	121,279,054
Total	$ 1,001,319,627	$ 1,001,319,627

Non-current Investments	$ 702,019,706
<u>Items in Cash and Cash Equivalents:</u>	
Repurchase Agreements	75,718,998
Texpool & TexSTAR investments	223,580,923
Total	$1,001,319,627

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy is to require third party custody for the two investment pools, the LTIF and the STIF. The balances listed below relate to securities outside of those pools.

Fund Type	GAAP Fund	Type	Uninsured and unregistered with securities held by the counterparty	Uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the state's name
01	0001	Equity	$1,928,955	

Texas Tech University System – Notes to the Financial Statements (continued)

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The System's policy is limit international equity investments to between 10-20% of the LTIF portfolio. The exposure to foreign currency risk as of August 31, 2005, is as follows.

Fund Type	GAAP Fund	Foreign Currency	International Obligation	International Equity
01	0001	Argentine peso		$ 5,769
01	0001	Australian dollar		2,050,677
01	0001	Bermudan dollar		33,084
01	0001	Brazilian real		3,350,894
01	0001	Bulgarian lev		7,316
01	0001	Canadian dollar		1,194,425
01	0001	Chilean Peso		29,878
01	0001	Chinese yuan		912,851
01	0001	Cyprus pound		6,047
01	0001	Czech koruna		259,937
01	0001	Danish krone		616,904
01	0001	Egyptian pound		119,940
01	0001	Euro		19,581,457
01	0001	Hong Kong dollar		2,228,881
01	0001	Hungarian forint		677,765
01	0001	Indian rupee		1,719,030
01	0001	Indonesian rupiah		643,509
01	0001	Israeli shekel		189,648
01	0001	Japanese yen		12,148,838
01	0001	Jersey pound		19,067
01	0001	Lithuanian litas		4,735
01	0001	Malaysian ringgit		1,368,864
01	0001	Mexican peso		1,737,493
01	0001	New Zealand dollar		258,655
01	0001	Norwegian krone		1,568,859
01	0001	Phillippino peso		271,542
01	0001	Polish zloty		1,117,892
01	0001	Pound sterling		10,281,098
01	0001	Romanian leu		111,120
01	0001	Russian ruble		939,804
01	0001	Singapore dollar		711,635
01	0001	South African rand		3,025,119
01	0001	Korean won		7,802,107
01	0001	Swedish krona		1,342,373
01	0001	Swiss franc		2,908,365
01	0001	Taiwan dollar		5,852,012
01	0001	Thai baht		705,652
01	0001	Turkish lira		1,259,379
01	0001	Venezuelan bolivar		29,878
		Total		$87,092,499

Texas Tech University System – Notes to the Financial Statements (continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy limits fixed income securities held by the STIF to those issued by the U.S. or its agencies and instrumentalities. Fixed income mutual funds in the STIF must hold securities that are at least rated investment grade. The fixed income portfolio of the LTIF must have an overall weighted average credit rating of "A" or better by Moody's and/or Standard and Poor's.

Moody's

Fund Type	GAAP Fund	Investment Type	Aaa	Aa	A	Baa	Unrated
01	0001	U.S. Government Agency Obligations	$84,263,823				
01	0001	Repurchase Agreement	$75,718,998				
01	0001	Fixed Income Money Market and Bond Mutual Fund					$115,473,198
		Misc					

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB	Unrated
01	0001	U.S. Government Agency Obligations	$84,263,823				
		International Obligation					
01	0001	Repurchase Agreement	$75,718,998				
		Misc					
			AAAf	AAf		Af	Unrated
01	0001	Fixed Income Money Market and Bond Mutual Fund					$115,473,198

Fitch

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	Unrated
01	0001	U.S. Government Agency Obligations	$84,263,823				
01	0001	Repurchase Agreement	$75,718,998				
		Misc					
			F1	F2		F3	Unrated
01	0001	Fixed Income Money Market and Bond Mutual Fund					$115,473,198

Derivative Investing

The System holds collateralized mortgage obligations. These securities were purchased to provide an incremental yield above that available on corporate securities with similar terms. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. It is estimated these securities, along with other securities held by the System, will provide future cash inflows on a time schedule that approximately matches the outflows associated with the System's liabilities. These securities are rated AAA by the major rating agencies.

Note 4: Short-Term Debt

Texas Tech University System has no outstanding short-term debt as of August 31, 2005.

Note 5: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

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

Long-Term Liability Category	Balance 09/01/04	Increases	Decreases	Balance 08/31/05	Current Portion
Claims Payable	$29,372,442	$0	$5,170,018	$24,202,424	$2,420,242
Notes and Loans	14,911,000	22,500,000	1,553,000	35,858,000	35,858,000
Revenue Bonds	367,660,000		14,129,999	353,530,001	17,960,000
Compensable Leave	24,712,984	5,157,739	3,120,233	26,750,490	5,786,334
Other Liabilities	78,097	77,613	62,239	93,471	15,602
Total	$436,734,523	$27,735,352	$24,035,489	$440,434,386	$62,040,178

Claims Payable

Claims payable includes estimates for both known medical malpractice claims and those that have not yet been made against the participants insured. The liability is actuarially estimated to reflect the anticipated future claims for past medical services. Some of these claims are in process, while others are expected to be filed in the future. The liability estimate does not consider the probability of payment on a claim-by-claim basis, and instead considers overall probability of payment for medical malpractice claims. Claims payable reports a combined liability of the Health Sciences Center and Texas Tech Physician Associates, a blended component unit.

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Under state law, the hours accumulated are capped depending on the employees' length of service. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Bonds Payable

See Note 13 for detailed information on bond liability balances and transactions.

Notes and Loans Payable

Commercial paper was issued during the fiscal year to finance various construction projects. Debt service for the obligation is provided in general appropriation for tuition revenue bonds and revenue from various projects. All commercial paper outstanding at 8/31/05 will be retired in fiscal year 2006.

Commercial paper has short maturities up to 270 days with interest rates ranging from 2.45% to 2.60%.

Texas Tech University System– Notes to the Financial Statements (continued)

Summary of Debt Service Requirements for Notes Payable

Fiscal Year	Principal	Interest	Total
2006	$35,858,000	$101,057	$35,959,057
2007			
2008			
2009			
2010			
All Other Years			
Total Requirements	$35,858,000	$101,057	$35,959,057

Note 6: Capital Leases

As of August 31, 2005, Texas Tech University System had no outstanding capital leases.

Note 7: Operating Leases

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

Fiscal Year	
2006	$3,523,449
2007	3,109,836
2008	3,050,778
2009	3,053,530
2010	3,145,136
Total Minimum Future Lease Rental Payments	$15,882,729

Note 8: Interfund Balances/Activities

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

Interfund Receivables or Interfund Payables
Due from Other Agencies or Due to Other Agencies
Transfers In or Transfers Out
Legislative Transfers In or Legislative Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2005, follows:

Interfund Payable	**Non-Current Interfund Payable**	**Purpose**
Agency 907, D23 Fund 0515	$1,533,303	Lone Star
Total Interfund Payable	$1,533,303	

Due from Other Agencies	Current Due from Other Agencies
Texas Education Agency (Agency 701)	$ 72,864
Texas School for the Blind (Agency 771)	83,533
Texas Water Development Board (Agency 580)	276,260
Texas Higher Education Coordinating Board (Agency 781)	161,062
Texas Commission on Environmental Quality (Agency 582)	10,229
Texas Department of Transportation (Agency 601)	77,768
Texas Technology Workforce Development Grant (Agency 781)	387,731
Texas Comptroller's Office (Agency 902)	1,771,484
University of Texas System (Agency 720)	4,082,160
Total Due from Other Agencies	$6,923,091

Due to Other Agencies	Amount
West Texas A&M University (Agency 757)	$62,775
Employees Retirement System (Agency 327)	98,529
Texas Higher Education Coordinating Board (Agency 781)	449
Total Due to Other Agencies	$161,753

Transfers Out to Other State Agencies	Amount
Texas Higher Education Coordinating Board (Agency 781)	$1,131,898
Total Transfers Out to Other State Agencies	$1,131,898

Transfer In from Other State Agencies	Amount
Texas Comptroller's Office (Agency 902)	$3,650,915
Total Transfer In from Other State Agencies	$3,650,915

The detailed State Grant Pass-Through information is listed on Schedule 1B – Schedule of State Grant Pass-Throughs from/to State Agencies.

Note 9: Contingent Liabilities

At August 31, 2005, lawsuits and claims involving Texas Tech University System were pending. While the ultimate liability with respect to litigation and other claims asserted against the System cannot be precisely estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is in legal counsel's opinion, not likely to have a material effect on the System.

Note 10: Continuance Subject to Review

Texas Tech University System is not subject to the Texas Sunset Act.

Note 11: Risk Financing and Related Insurance

Texas Tech University System by state law is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). The University is assessed fees by SORM based upon claims experience, claim incidences, payroll size and FTE. SORM also determines the methodology for allocation to the major fund groups. The State Office of Risk Management pays all WCI claims. The Worker's Compensation plan for the fiscal year was funded by a 1.0 percent charge on gross payroll for non-educational and general funds.

Texas Tech University System – Notes to the Financial Statements (continued)

The System has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas pays 50% of claims for employees paid from state funds. The System pays the remainder for employees paid from state funds and 100% of the claims paid from non-educational and general funds. The Texas Tech University System Unemployment Compensation Fund which is currently funded by interest earnings on the fund pays the UCI claims for employees paid from institutional funds.

Note 12: Segment Information

Texas Tech University System has no reportable segments.

Note 13: Bonded Indebtedness

Bonds Payable

Several bond issues were outstanding as of August 31, 2005 which are summarized in the paragraphs that follow.

Revenue Financing System Bonds, Series 1995

Purpose:	Financing of Southwest Collection Library for Texas Tech University, the library/conference center project for Texas Tech Health Sciences Center and other capital improvements and the cost of issuing the bonds.
Original Issue Amount:	$25,000,000
Issue Date:	March 17, 1995
Interest Rates:	4.30% to 6.00%
Maturity Date Range:	1996 through 2015
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $1,130,000 retired

Revenue Financing System Refunding and Improvement Bonds, Series 1996

Purpose:	Financing of arena complex, housing complex, and other capital projects and the advance refunding of Housing Revenue Bonds, Series 1962,1963, 1966
Original Issue Amount:	$71,285,000
Issue Date:	December 5, 1996
Interest Rates:	4.00% to 6.00%
Maturity Date Range:	1998 through 2017
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $3,995,000 retired

Texas Tech University System – Notes to the Financial Statements (continued)

Revenue Financing System Bonds, Second Series 1996 (Taxable)

Purpose:	Financing of arena complex, other capital projects, and costs of issuance
Original Issue Amount:	$7,380,000
Issue Date:	December 5, 1996
Interest Rates:	5.75% to 6.75%
Maturity Date Range:	1998 through 2007
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $820,000 retired

Revenue Financing System Refunding and Improvement Bonds, Series 1999

Purpose:	Current refunding of a portion of Series A Notes, advance refunding of Revenue Bonds, Series 1995, 1996 and financing of a new English building and other projects. Also, financing for projects in Amarillo, Midland, and Lubbock.
Original Issue Amount:	$115,100,000
Issue Date:	May 4, 1999
Interest Rates:	4.00% to 5.25%
Maturity Date Range:	1999 through 2029
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $1,480,000 retired

Revenue Financing System Bonds, Seventh Series 2001

Purpose:	Financing of renovation of Jones Stadium, Student Union and Student Recreational Center, and other projects, current refunding of a portion of Series A Notes, and costs of issuance. Also, financing for projects in El Paso and Lubbock.
Original Issue Amount:	$126,865,000
Issue Date:	January 23, 2002
Interest Rates:	3.00% to 5.50%
Maturity Date Range:	2002 through 2031
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $3,510,000 retired

Texas Tech University System – Notes to the Financial Statements (continued)

Revenue Financing System Bonds, Eighth Series 2001 (Taxable)

Purpose:	Financing of renovation of Jones Stadium and costs of issuance
Original Issue Amount:	$42,810,000
Issue Date:	January 23, 2002
Interest Rates:	3.46% to 6.75%
Maturity Date Range:	2003 through 2031
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $1,735,000 retired

Revenue Financing System Refunding and Improvement Bonds, Ninth Series 2003

Purpose:	Refunding of Series A Notes and Series 1993 bonds, construction of the Experimental Sciences Building and renovation of Horn/Knapp dormitory and other System construction of capital improvement projects and costs of issuance
Original Issue Amount:	$97,265,000
Issue Date:	September 23, 2003
Interest Rates:	2.00% to 5.50%
Maturity Date Range:	2003 through 2023
Type of Bond:	Revenue
Unissued Amounts:	$0
Changes in Debt:	$0 issued; $1,460,000 retired

Sources of Debt-Service Revenue

On October 21, 1993, the governing board of the Texas Tech University System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University System components. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University components. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

Note 14: Subsequent Events

The Texas Tech University System intends to issue revenue financing system bonds during fiscal year 2006 in the amount of approximately $100 million of which $30 million of this amount has already been issued as commercial paper as of August 31, 2005. In addition, another $100 million of existing bonds may be re-financed in this issuance.

Note 15: Related Parties – Relationship with Texas Tech University System

The Texas Tech Foundation Inc. (TTFI) and Texas Tech Physician Associates (TTPA) are reported as blended component units. TTFI is governed by a 30-member board appointed by the Texas Tech University System governing board.

Texas Tech University System – Notes to the Financial Statements (continued)

TTPA is a certified non-profit health corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the State of Texas (the State). TTPA was created by the Health Sciences Center for the purpose of entering into prepaid capitation agreements for physician and other medical services. TTPA is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of eight directors appointed by the Health Sciences Center.

Although both entities are legally separate from the Texas Tech University System, TTPA and TTFI are reported as if they were part of the System because their sole purpose is to financially support Texas Tech University System.

The Texas Tech Alumni Association provided services on behalf of Texas Tech University for which the University paid $222,230 during the 2005 fiscal year. These services include public relations and general support of the University through various scholarships and awards.

Note 16: Stewardship, Compliance and Accountability

Effective September 1, 2001, the Texas Tech University System changed the basis of financial reporting from modified accrual to full accrual. This change was in response to the implementation of Governmental Accounting Standards Board statements 34 and 35. The Texas Tech University System has no other material stewardship, compliance, or accountability issues.

Note 17: The Financial Reporting Entity and Joint Ventures

The Financial Reporting Entity

The Texas Tech University System is an agency of the State of Texas. As required by generally accepted accounting principles, these financial statements present the Texas Tech University System. The component units discussed below this note are included in the System's reporting entity because of the significance of their operational or financial relationships with the System.

Individual Component Unit Disclosures

The Texas Tech University Foundation, the Texas Tech University Research Foundation and the Texas Tech Physician Associates are blended component units of the Texas Tech University System. Although each is legally separate from the System, the Texas Tech Foundation, the Texas Tech Research Foundation and the Texas Tech Physician Associates are reported as if they were part of the primary government.

The Texas Tech University Foundation is governed by a 30-member board whose appointment is approved by the Texas Tech Board of Regents.

The Texas Tech University Research Foundation is governed by a six-member board whose appointment is approved by the Texas Tech University Board of Regents. The Texas Tech University Research Foundation is currently inactive. However, the entity has not been deactivated.

The Texas Tech Physician Associates is governed by an eight-member board appointed by Texas Tech University Health Sciences Center.

Texas Tech University System – Notes to the Financial Statements (continued)

Note 18: Restatement of Fund Balances/Net Assets

Prior-period adjustments for the Texas Tech University System that required the restatement of beginning net assets relate to accumulated depreciation for library books which were reclassified in the current fiscal year from non-depreciable other capital assets to depreciable other capital assets as required by the Comptroller's office.

Net Assets as Reported at 8/31/04	$1,228,074,976
Restatements	
TTU Accumulated Depreciation for depreciable library books	(2,180,636)
Restated Net Assets at 8/31/04	$1,225,894,340

Note 19: Employee Retirement Plans (administering agencies only)

Not applicable

Note 20: Deferred Compensation (administering agencies only)

Not applicable

Note 21: Donor-Restricted Endowments

Expenditure of endowed funds is not allowed without the express consent of the donor. Most of Texas Tech University System endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF). The LTIF has experienced varying performance since its inception. The cumulative effect of valuation changes assignable to endowment fund assets are summarized in the following table:

Donor-Restricted Endowment	Amount of Net Appreciation	Reported in Net Assets
True Endowments	$32,080,257	Restricted Nonexpendable
True Endowments	11,105,636	Restricted Expendable
Term Endowments	45,301	Restricted Nonexpendable
Total	$43,231,194	

Note 22: Management Discussion and Analysis

Financial Highlights

- Net assets increased by $136 million for the year ended August 31, 2005, primarily due to increased tuition and fees revenues and increased unrealized net changes in fair value of investments.
- Capital asset additions totaled $119 million for the year ended August 31, 2005.

Note 23: Post Employment Health Care and Life Insurance Benefits (UT and A&M only)

Not applicable

Texas Tech University System – Notes to the Financial Statements (continued)

Note 24: Special or Extraordinary Items

The Texas Tech University System has no special or extraordinary items to report for the fiscal year ended August 31, 2005.

Note 25: Disaggregation of Receivable and Payable Balances

Receivables

Components of receivables as of August 31, 2005 are summarized below.

Type	Net Amount
Federal Receivables	$11,911,721
Interest and Dividends Receivable	1,299,987
Patient Receivables	12,246,660
Student Receivables	794,344
Contract Receivables	8,305,153
Gift Receivables Current & Noncurrent	63,317,240
Accounts Receivables	2,506,120
Loans & Notes Receivable Current & Noncurrent	7,200,708
Other Receivables	475,212
Total Receivables	$108,057,145

Contractual Arrangements and Concentrations of Credit Risk

The TTU Health Sciences Center provides care to patients covered by various third party payers such as Medicare, Medicaid, and private insurance companies and health maintenance organizations (HMOs).

The TTU Health Sciences Center provides primary, secondary and tertiary health care services to counties in west Texas, eastern New Mexico, and the Oklahoma panhandle region, as well as border regions in southwest Texas. Patient care centers are located in the Texas cities of Amarillo, El Paso, Lubbock and Odessa.

Concentrations of gross patient accounts receivables are depicted in the table below. Management does not believe there are significant credit risks associated with the listed payors, other than the self pay and medically indigent category. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivables are reported in this Annual Financial Report net of allowances for bad debts, contractual adjustments, and charity care.

Type	Gross Amount
Medicare	$4,653,464
Medicaid	7,414,890
Managed Care, including Blue Cross	5,363,822
Commercial	4,210,188
Self Pay and Medically Indigent	15,921,089
Other	129,667
Total Gross Patient Accounts Receivable	$37,693,120

Payables

Components of payables as of August 31, 2005 are summarized below.

Type	Net Amount
Accounts Payable	$28,674,999
Payroll Payable	39,271,377
Liabilities Payable from Restricted Assets	26,324,586
Total Payables	$94,270,962

SCHEDULES

Texas Tech University System
Schedule 1A - Schedule of Expenditures of Federal Awards
For The Year Ended August 31, 2005

Note 1: Non-Monetary Assistance:

The "Donation Of Federal Surplus Personal Property" is presented at 23.3 percent of the original federal acquisition cost of $13,366. The surplus property is passed through from the Texas Building and Procurement Commission. The federal grantor is the General Services Administration (GSA) and the Federal CFDA number is 39.003. The estimated fair value for fiscal year 2005 is $3,114.

Note 2: Reconciliation:

Federal Grants and Contracts - Unpledged (SRECNA)	$	49,366,680
Federal Grants and Contracts - Pledged (SRECNA)		2,161,935
Federal Grants and Contracts Pass Throughs (SRECNA)		1,548,735
Non-Operating Federal Grant and Contracts (SRECNA)		769,513
Total Federal Revenues		53,846,863
Reconciling Items:		
Non-Monetary Assistance:		
Donation of Federal Surplus Property		3,114
New Loans Processed		124,554,686
less Nurse Faculty Loan Program Revenue		(38,674)
Federal Grant and Contract Due to Other State Agencies		48,495
Total Pass-Through and Expenditures Per Federal Schedule	$	178,414,484

Note 3: Student Loans Processed and Administrative Costs Recovered:

Federal Grantor/CFDA Number/ Program Name	New Loans Processed	Administrative Costs Recovered	Total Loans Processed and Admin Costs Recovered	Ending Balance Previous Years' Loans
U.S. Department of Health and Human Services				
93.342 Health Professions Student Loans	$	$	$	$ 90,014.00
93.364 Nursing Student Loans				56,923.00
Total U.S. Department of Health and Human Services	$	$	$	$ 146,937.00
Department of Education				
84.032 Federal Family Education Loans	$ 123,405,624.02	$	$ 123,405,624.02	$
84.038 Federal Perkins Loan Program	1,149,062.00	66,213.45	1,215,275.45	2,658,661.36
Total Department of Education	$ 124,554,686.02	$ 66,213.45	$ 124,620,899.47	$ 2,658,661.36
Total Student Loans	$ 124,554,686.02	$ 66,213.45	$ 124,620,899.47	$ 2,805,598.36

Note 4: (Comptroller's Office only)

Note 5: Depository Libraries for Government Publications

The University participates as a depository library in the government printing office's depository libraries for government publications program, CFDA #40.001. The University is the legal custodian of government publications, which remain the property of the federal government. The publications are not assigned a value by the government printing office.

Note 6: Unemployment Insurance Funds

Does not apply to Texas Tech University System

Note 7: (Agency 501 Only)

Note 8: Federal Deferred Revenue

Federal Deferred Revenue 9/01/04	$	384,011.57
Increase/ (Decrease)		5,411,035.27
Federal Deferred Revenue 8/31/05	$	5,795,046.84

UNAUDITED

Texas Tech University System
Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies
For the Year Ended August 31, 2005

Pass-Throughs From:

Governor's Office (Agency 300)	
TIGRE - Texas Internet Grid for Research and Education	$ 16,655.75
Texas Department of Agriculture (Agency 551)	
Fire Ant Survey 2005	25,146.23
Development of Selected Ornamentals Tolerant to Recycled and Saline Irrigation	335.40
Texas Commission on Environmental Quality (Agency 582)	
Design and Operation of Land Application Systems	18,359.87
Texas Water Development Board (Agency 580)	
An Integrated Approach to Water Conservation	330,289.64
Texas State Energy Conservation Office (Agency 907)	
Biomass Production from Recycled Waste and Water	1,471.41
Texas Agriculture Experiment Station (Agency 556)	
New Cropping System	25,000.00
Texas Cotton	118,000.00
Fire Ant	78,755.00
Texas Equine Research	7,300.00
Texas Higher Education Coordinating Board (Agency 781)	
Family Practice Residency	1,135,872.00
Family Practice Rural and Public Health Rotation	36,315.00
Financial Aid Professional Nursing	8,843.00
Graduate Medical Education	234,121.00
Primary Care Residency Program	359,679.00
Nursing and Allied Health	3,491.00
Minority Health Research/Education	136,634.00
Texas Grant Program	7,495,537.00
Advanced Technology Program	(32,302.54)
Advanced Research Program	(5,646.38)
College Work Study Program	156,581.00
5th Year Accounting Scholarship	20,158.00
Texas Technology Workforce Development Grants Program	331,964.47
Total Pass-Throughs from Other Agencies	$ 10,502,559.85

Texas Tech University System
Schedule 3 - Reconciliation of Cash in State Treasury
As of August 31, 2005

Cash in State Treasury	Unrestricted	Restricted	Total
Local Revenue (Fund 0239)	$ 3,869,617	$	$ 3,869,617
Local Revenue (Fund 0255)	17,750,589		17,750,589
Permanent Health Fund - El Paso Campus (Fund 0820)	1,560,055		1,560,055
Permanent Health Fund - Other Campuses (Fund 0821)	292,977		292,977
Total Cash in State Treasury (Note 1)	$ 23,473,238	$	$ 23,473,238

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<u>Appendix D</u>

**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

The information contained in this section is a summary of certain provisions of the Resolution and is in addition to other information in such document which is summarized elsewhere in this Official Statement under the captions "PLAN OF FINANCE," "DESCRIPTION OF THE BONDS," and "SECURITY FOR THE BONDS." This information is intended as a summary only and is qualified in its entirety by reference to the complete Resolution, copies of which may be obtained from the offices of the Assistant Vice Chancellor, Investments and Assistant Chief Financial Officer of the University System.

<u>Definitions</u>. As used in the Resolution the following terms and expressions have the meanings set forth below, unless the text of the Resolution specifically indicates otherwise:

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

(1) <u>Committed Take Out</u>. If the Board has entered into a Credit Agreement constituting a binding commitment within normal commercial practice to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the Board's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) <u>Balloon Debt</u>. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the Board) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

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

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

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

(6) Guarantee. In the case of any guarantee, as described in clause (2) of the definition of Debt, no obligation will be counted if the Board does not anticipate in its annual budget that it will make any payments on the guarantee. If, however, the Board is making payments on a guarantee or anticipates doing so in its annual budget, such obligation shall be treated as Parity Obligations and calculations of annual debt service requirements with respect to such guarantee shall be made assuming that the Board will make all additional payments due under the guaranteed obligation. If the entity whose obligation is guaranteed cures all defaults and the Board no longer anticipates making payments under the guarantee, the guaranteed obligations shall not be included in the calculation of Annual Debt Service Requirements;

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

(8) Credit Agreement Payments. If the Board has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments for fees and expenses), for either the Board or the Credit Provider, shall be included in such calculation, except to the extent that the payments are already taken into account under (1) through (7) above and any payments otherwise included above under (1) through (7) which are to be replaced by payments under a Credit Agreement, from either the Board or the Credit Provider, shall be excluded from such calculation.

With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

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

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

"*Board*" and "*Issuer*" mean the Board of Regents of Texas Tech University System, acting separately and independently for and on behalf of TTU and separately and independently for and on behalf of the Health Sciences

Center, or any successor thereto, and pursuant to authority granted in Section 55.02, Texas Education Code, to act as a board of a university system.

"*Bond Counsel*" means McCall, Parkhurst & Horton L.L.P., or such other firm of attorneys of nationally recognized standing in the field of law relating to municipal revenue bonds selected by the Board.

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

"*Credit Provider*" means any bank, financial institution, insurance company, surety bond provider, or other entity which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"*Debt*" means all:

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

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

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

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

"*Designated Financial Officer*" shall mean the Senior Vice Chancellor and Chief Financial Officer of the University System, the Vice President for Fiscal Affairs of TTU, the Executive Vice President for Fiscal Affairs of the Health Sciences Center, or such other financial or accounting official of TTU or the Health Sciences Center designated by the Board.

"*Direct Obligation*" means the proportionate share of Outstanding Parity Obligations attributable to and the responsibility of each respective participant in the Financing System.

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

"*Funded Debt*" means all Parity Obligations that mature by their terms (in the absence of the exercise of any earlier right of demand), or are renewable at the option of the Board to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Board.

"*Health Sciences Center*" means the Texas Tech University Health Sciences Center, together with every other agency or health related institution or branch now or hereafter operated by or under the jurisdiction of the Board acting for and on behalf of the Health Sciences Center pursuant to law.

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

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

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

"*Officer's Certificate*" means a certificate executed by a Designated Financial Officer.

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

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

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

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

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

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

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

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

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

"*Participant in the Financing System*" and "*Participant*" means each of the agencies, institutions and branches of TTU and the Health Sciences Center and such agencies, institutions and branches designated by the Board to be a participant in the Financing System.

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

"*Pledged General Fee*" means the gross collections of a student use fee to be fixed, charged, and collected pursuant to Section 55.16, Texas Education Code, as it existed prior to the effective date of S.B. 1907, from the students (excepting, with respect to each series or issue of Parity Obligations issued prior to such date, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Obligations, was exempt by law from paying fees) regularly enrolled at the institutions and branches thereof now or hereafter constituting a Participant of the Financing System, respectively, for the general use and availability of the such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in this Resolution, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered General Fee.

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

"*Pledged Practice Plan Funds*" means that portion of the Practice Plan Funds of the Health Sciences Center described in a Supplement which may be pledged to the payment of Parity Obligations; provided, however, that any such pledge may be limited in amount and in any manner, extent or duration as provided in such Supplement.

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

"*Pledged Tuition Fee*" means, as authorized by Section 55.17, Texas Education Code as it existed prior to the effective date of S.B. 1907, the following specified amounts out of the tuition charges now or hereafter required or permitted by law to be imposed on each tuition paying student enrolled at each and every institution or branch thereof now or hereafter constituting a Participant, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered Tuition Fee, respectively:

$5.00 from each enrolled student for each regular semester, and

$2.50 from each enrolled student for each summer term of each summer session.

"*Practice Plan*" means any agreement entered into by and between the Health Sciences Center and faculty appointees of the Health Sciences Center that: (a) assigns to the Health Sciences Center patient fees collected for professional services rendered by the appointee and (b) regulates the collection and expenditure of such patient fees.

Practice Plan also includes such agreements existing between an institution which becomes a part of the Health Sciences Center after the date of the adoption of the Resolution and such institution's faculty.

"*Practice Plan Funds*" means the Practice Plan receipts, income and fund balances of the Health Sciences Center.

"*Prior Encumbered General Fee*" means the Pledged General Fee securing Prior Encumbered Obligations and that portion of the student use fee charged and collected at an institution which becomes a participant after the date of adoption of the Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a participant.

"*Prior Encumbered General Tuition*" means the Pledged General Tuition securing Prior Encumbered Obligations and the aggregate amount of student tuition charges now required or authorized by law in the definition of Pledged General Tuition charged and collected at an institution which becomes a participant of the Financing System after the date of adoption of the Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a participant of the Financing System.

"*Prior Encumbered Obligations*" means those bonds or other obligations of an institution which becomes a participant of the Financing System after the date of adoption of the Resolution, which are secured by a lien on and pledge of the Prior Encumbered General Fee, the Prior Encumbered General Tuition, the Prior Encumbered Revenues and/or the Prior Encumbered Tuition Fee charged and collected at such institution or agency, and any other bonds or other obligations secured by revenues which are hereafter designated by the Board as a Pledged Revenue.

"*Prior Encumbered Revenues*" means the revenues pledged to the payment of Prior Encumbered Obligations and the revenues of any revenue producing system or facility of an institution or agency which hereafter becomes a participant of the Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a participant of the Financing System.

"*Prior Encumbered Tuition Fee*" means the Pledged Tuition Fee securing Prior Encumbered Obligations and that portion of the tuition charges in the maximum amount permitted in the definition of Pledged Tuition Fee charged and collected at an institution which becomes a participant after the date of adoption of the Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a participant.

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

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

"*Revenue Financing System*" or "*Financing System*" means the "Texas Tech University System Revenue Financing System" composed of TTU and the Health Sciences Center, and such other institutions and agencies now or hereafter under the control or governance of the Board, and made a participant of the Revenue Financing System by specific action of the Board.

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

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

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

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

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

"*Term of Issue*" means with respect to any Balloon Debt, including, without limitation, commercial paper, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the maximum maturity date in the case of commercial paper or (ii) twenty-five years.

"*TTU*" means Texas Tech University, together with every other agency or general academic institution or branch thereof now or hereafter operated by or under the jurisdiction of the Board acting for and on behalf of TTU pursuant to law.

Establishment of Revenue Financing System. Pursuant to the Master Resolution, the Board has established the Revenue Financing System to provide a consolidated financing structure for revenue-supported debt obligations of the Board, including the Bonds, which are to be issued for the benefit of Participants which are or will be included as part of the Revenue Financing System. The current Participants include the University and the Health Sciences Center, and the Revenue Financing System may include other entities that are hereafter included under the control of the Board, but only upon affirmative official action of the Board.

Payment and Funds. The Board has covenanted in the Resolution to make available to the Paying Agent/Registrar for Parity Obligations, on or before each payment date, money sufficient to pay any and all amounts due on such Parity Obligations on such payment date.

The Resolution allows the Board to supplement the security for Parity Obligations. This could take the form of establishing one or more reserve funds or accounts to further secure any Parity Obligations. Currently, the Board has not established a reserve fund to secure the payment of the Parity Obligations. Additionally, the Board may secure Parity Obligations with one or more Credit Agreements that are secured by Pledged Revenues.

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

(1) the Board specifically finds that (based upon a certificate of a Designated Financial Official to such effect) after the release of the Participant or portion thereof, the Board will have sufficient funds during each Fiscal Year in which Parity Obligations shall thereafter be outstanding to meet the financial obligations of the Revenue Financing System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; and

(2) the Board shall have received an opinion of counsel which shall state that such release will not affect the status for federal income tax purposes of interest on any Parity Obligations and that all conditions precedent provided in the Resolution or any supplement relating to such release have been complied with; and

(3) (A) if the Participant or portion thereof to be released from the Revenue Financing System is to remain under the governance and control of the Board, the Board must either (i) provide, from lawfully available funds, including Pledged Revenues attributable to said withdrawing Participant, for the payment or discharge of said Participant's Direct Obligations; or (ii) pledge to the payment of Parity

Obligations, additional resources not then pledged in an amount sufficient to satisfy such withdrawing Participant's Direct Obligations as they come due; or

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

Admission of Participants. If, after the date of the adoption of the Resolution, the Board desires for an institution or agency governed by the Board to become a Participant of the Revenue Financing System or if the Board is required by law to assume the governance of an institution or agency, it may include said institution or agency in the Revenue Financing System with the effect set forth in the Resolution by the adoption of a Supplement to the Master Resolution.

Certain Covenants. *Rate Covenant*. The Resolution requires the Board to establish, charge, and use its reasonable efforts to collect at each Participant the Pledged Revenues which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System, including all deposits or payments due on or with respect to Parity Obligations. The Board has covenanted in the Resolution to fix, levy, charge, and collect at each Participant which has students the Pledged General Fee and the Pledged General Tuition from each student (unless exempted therefrom by law) enrolled at each Participant, at each regular fall and spring semester and at each term of each summer session, in such amounts, without legal limitation, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to make payments with respect to Parity Obligations when due. See "SECURITY FOR THE BONDS—Pledge Under Master Resolution."

Other Covenants. The Board has additionally covenanted in the Resolution (i) to faithfully perform all covenants and provisions contained in the Resolution, any supplement thereto, and in each Parity Obligation; (ii) to call for redemption all Parity Obligations, in accordance with their terms, which are subject to mandatory redemption; (iii) that it lawfully owns, has title to, or is lawfully possessed of the land, buildings, and facilities which comprise the Revenue Financing System and to defend such title for the benefit of the owners of the Parity Obligations; (iv) that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Parity Obligations; (v) to maintain and preserve the property of the Revenue Financing System; (vi) not to incur any debt secured by the Pledged Revenues except as permitted in the Resolution; (vii) to invest and secure money held in funds and accounts established under the Resolution in accordance with law and written policies of the Board; (viii) to keep proper books and records and accounts for the Revenue Financing System and to cause to be prepared annual financial reports of the Revenue Financing System and to furnish such reports, to appropriate municipal bond rating agencies and, upon request, owners of Parity Obligations; and (ix) to permit any owner or owners of 25% or more of outstanding principal amount of Parity Obligations at all reasonable times to inspect all records, accounts, and data of the Board relating to the Revenue Financing System.

Remedies. Any owner of Parity Obligations in the event of default in connection with any covenant contained in the Master Resolution or in any Supplement, or default in the payment of any Parity Obligation, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or in any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State. The principal of the Bonds cannot be accelerated in the event of default, and the Board has not granted a lien on any physical property which may be levied or foreclosed against.

Amendment of Resolution. *Amendment Without Consent*. The Master Resolution and any Supplement and the rights and obligations of the Board and of the owners of the Parity Obligations may be modified or amended at any time without notice to or the consent of any owner of the Parity Obligations, solely for any one or more of the following purposes:

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

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

(iii) To supplement the security for the Parity Obligations, including, but not by way of limitation, to provide for the addition of new institutions and agencies to the Financing System or to clarify the provisions regarding the University and the Health Sciences Center as participants in the Financing System; provided, however, if the definition of Pledged Revenues is amended in any manner which results in the pledge of additional resources, the terms of such amendment may limit the amount of such additional pledge and the manner, extent, and duration of such additional pledge all as set forth in such amendment;

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

(v) To make such changes, modifications, or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Outstanding Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of Credit Agreements with respect to the Parity Obligations; or

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

Amendments With Consent. Subject to the other provisions of the Resolution, the owners of Outstanding Parity Obligations aggregating a majority in Outstanding Principal Amounts shall have the right from time to time to approve any amendment, other than amendments described in the foregoing paragraph, to the Master Resolution, or with respect to an amendment affecting a particular supplemental resolution only, a majority in aggregate principal amount of the Parity Obligations issued under such supplemental resolution, which may be deemed necessary or desirable by the Board; provided, however, that no provision shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Parity Obligations, the amendment of the terms and conditions in the Resolution so as to:

(1) Grant to the owners of any Parity Obligations a priority over the owners of any other Parity Obligations;

(2) Materially adversely affect the rights of the owners of less than all Parity Obligations then outstanding; or

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

In addition to the foregoing limitations, the Resolution provides that no provisions shall be construed to permit, without the approval of the owners of all of the Bonds outstanding, the amendment of the Resolution or the Bonds so as to:

(1) Make any change in the maturity of the Bonds;

(2) Reduce the rate of interest borne by the Bonds;

(3) Reduce the amount of principal payable on the Outstanding Bonds;

(4) Modify the terms of payment of principal of or interest on the Bonds, or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all Bonds then Outstanding; or

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

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

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<u>Appendix E</u>

FORM OF BOND COUNSEL OPINION

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Proposed Form of Opinion of Bond Counsel

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

**BOARD OF REGENTS OF TEXAS TECH UNIVERSITY SYSTEM
REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS,
TENTH SERIES (2006), DATED FEBRUARY 1, 2006,
IN THE PRINCIPAL AMOUNT OF $220,915,000**

AS BOND COUNSEL for the Board of Regents (the "Board") of Texas Tech University System (the "University System"), we have examined into the legality and validity of the issue of bonds described above (the "Bonds"), which bear interest from the date and mature on the dates specified on the face of the Bonds, all in accordance with the resolutions of the Board and its duly designated Pricing Committee authorizing the issuance of the Bonds (collectively, the "Bond Resolution"). Terms used herein and not otherwise defined shall have the meaning given in the Bond Resolution.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Board relating to the authorization, issuance, sale, and delivery of the Bonds, including the Bond Resolution, certificates and opinions of officials of the Board and the University System, and other pertinent instruments relating to the issuance of the Bonds. We have also examined one of the executed Bonds which we found to be in due form and properly executed. We express no opinion with respect to any statement of insurance that may appear on the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued, and delivered in accordance with law; that, except as may be limited by laws applicable to the Board relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, the covenants and provisions in the Bond Resolution constitute valid and legally binding special obligations of the Board; and that the Bonds constitute valid and legally binding special obligations of the Board secured by and payable from, a lien on and pledge of the Pledged Revenues.

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

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

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

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

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Board, and, in that capacity, we have been engaged by the Board for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of the Board or the University System, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds, and we have relied solely on representations by officials of the Board or the University System as to the availability and sufficiency of the Pledged Revenues. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

Respectfully,

Appendix F

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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Financial Advisory Services
Provided By

First Southwest Company
Investment Bankers Since 1946