

**OFFICIAL STATEMENT
DATED SEPTEMBER 11, 2013**

NEW ISSUE – Book-Entry-Only

**RATINGS: Fitch: “AA-”
Moody’s: “A1”
(See “INFORMATION – Ratings” 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.

**\$22,255,000
BOARD OF REGENTS OF STEPHEN F. AUSTIN STATE UNIVERSITY
REVENUE FINANCING SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013**



**Dated Date: October 1, 2013
Interest Accrues: Date of Delivery**

Due: October 15, as shown on the inside cover page

The Board of Regents (the “Board”) of Stephen F. Austin State University (the “University”) is issuing the \$22,255,000 Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds, Series 2013 (the “Bonds”) pursuant to the authority and for the purposes hereinafter specified. The Bonds are payable from and secured by a lien on “Pledged Revenues” (as defined herein) of the University. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY OR ANY PART THEREOF, THE STATE OF TEXAS (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 OR THE UNIVERSITY. THE OWNERS OF THE BONDS WILL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See “SECURITY FOR THE BONDS” herein.

Proceeds of the Bonds, together with other available funds, will be used for (i) refunding certain outstanding obligations of the Board heretofore issued by the Texas Public Finance Authority (the “Authority”) on behalf of the University, as further identified in Schedule I hereto and (ii) paying the costs of issuance associated with the Bonds. See “PLAN OF FINANCING” herein.

Interest on the Bonds will accrue from the date of delivery, is payable at stated maturity, as well as on April 15, 2014 and each October 15 and April 15 thereafter, and is calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof. The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the initial purchasers thereof named below (the “Underwriters”). Interest on and principal of the Bonds will be payable by Regions Bank, 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.”

MATURITY SCHEDULE
(See Inside Cover Page)
CUSIP Prefix: 858620

The Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by the Attorney General of the State of Texas and the approving opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Lord LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through DTC on or about October 10, 2013.

SOUTHWEST SECURITIES

Piper Jaffray & Co.

Raymond James

BOARD OF REGENTS OF STEPHEN F. AUSTIN STATE UNIVERSITYCUSIP Prefix⁽¹⁾: 858620**\$22,255,000****REVENUE FINANCING SYSTEM REVENUE REFUNDING BONDS, SERIES 2013**

<u>Maturity</u> <u>(10/15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>Initial</u> <u>Yield (%)</u>	<u>CUSIP No.</u> <u>Suffix</u>
2014	1,980,000	1.00	0.40	W60
2015	1,915,000	4.00	0.75	W78
2016	1,990,000	4.00	1.12	W86
2017	2,075,000	4.00	1.58	W94
2018	2,165,000	4.00	2.04	X28
2019	2,250,000	4.00	2.45	X36
2020	2,350,000	5.00	2.83	X44
2021	2,470,000	5.00	3.21	X51
2022	1,605,000	5.00	3.49	X69
2023	1,690,000	5.00	3.69	X77
2024	1,765,000	3.75	3.90	X85

(Interest to accrue from the date of delivery)

Redemption of the Bonds . . . The Bonds are not subject to redemption prior to maturity. See “DESCRIPTION OF THE BONDS – No Redemption of Bonds.”

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are included solely for the convenience of the purchasers of the Bonds. Neither the Board, the Financial Advisor nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

STEPHEN F. AUSTIN STATE UNIVERSITY

BOARD OF REGENTS

<u>Name</u>	<u>Residence</u>	<u>Term Expires</u>
Mr. Steve D. McCarty, Chair	Alto	January 31, 2015
Dr. Scott H. Coleman, Vice-Chair	Houston	January 31, 2015
Ms. Brigitte Carnes Henderson, Secretary	Lufkin	January 31, 2017
Mr. David R. Alders	Nacogdoches	January 31, 2019
Mr. John R. "Bob" Garrett	Tyler	January 31, 2019
Mr. Barry E. Nelson	Dallas	January 31, 2019
Mr. Kenton E. Schaefer	Brownsville	January 31, 2017
Mr. Ralph C. Todd	Carthage	January 31, 2017
Ms. Connie M. Ware	Marshall	January 31, 2015
Mr. Matthew Logan (Student Regent) ⁽¹⁾	Mansfield	May 31, 2014

⁽¹⁾ State law does not allow a student regent to vote on matters before the Board of Regents (Section 51.355, as amended, Texas Education Code).

OFFICERS AND STAFF OF THE UNIVERSITY

<u>Name</u>	<u>Title</u>	<u>Length of Service</u>
Dr. L. Baker Pattillo	President	46 years
Mr. Danny R. Gallant	Vice President for Finance and Administration	30 years
Ms. Dora Fuselier	Controller	16 years
Mr. Damon Derrick	General Counsel	3 years

CONSULTANTS

<u>Financial Advisor</u>	<u>Bond Counsel</u>
First Southwest Company Dallas, Texas	MCall, Parkhurst & Horton L.L.P. Austin, Texas

For additional information regarding Stephen F. Austin State University, please contact:

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Nacogdoches, Texas 75962
(936) 468-2350

Ms. Mary Williams
Senior Vice President
325 North St. Paul, Suite 800
Dallas, Texas 75201
(214) 953-4021

USE OF INFORMATION

This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. 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 will, under any circumstances, create any implication that there has been no change in the affairs of the University since the date hereof.

The Board has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds and they have no control over the trading of the Bonds after their sale by the Board. Information regarding reoffering yields or prices is the responsibility of the Underwriters.

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

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 respective 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.

None of the Board, the University or the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system.

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

No registration statement relating to the Bonds has been filed with the SEC 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.

The statements contained in the Official Statement, and in other information provided by the Board or University, that are not purely historical, are forward-looking statements, including statements regarding the Board's or University's expectations, hopes, intentions, or strategies regarding the future. All forward-looking statements included in the Official Statement are based on information available to the Board or the University on the date hereof, and the Board and University assume no obligation to update any such forward-looking statements. See "LEGAL MATTERS—Forward-Looking Statements" herein.

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APPENDIX A – Definitions

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APPENDIX C – Form of Bond Counsel’s Opinion

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OFFICIAL STATEMENT

relating to

\$22,255,000

BOARD OF REGENTS OF STEPHEN F. AUSTIN STATE UNIVERSITY REVENUE FINANCING SYSTEM REVENUE REFUNDING BONDS, SERIES 2013

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Schedule, and Appendices hereto, is to provide certain information regarding the issuance by the Board of Regents of Stephen F. Austin State University (the "Board") of \$22,255,000 Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds, Series 2013 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in APPENDIX A, except as otherwise indicated herein.

Stephen F. Austin State University (the "University") was established in 1921 pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State") as an institution of higher education. The total student enrollment for the Fall 2013 Semester is 12,772. The Board is the governing body of the University and its members are officers of the State, appointed by the Governor of the State (the "Governor") with the advice and consent of the State Senate. For a general description of the University, see "STEPHEN F. AUSTIN STATE UNIVERSITY" herein.

This Official Statement contains summaries and descriptions of the Plan of Financing, the Bonds, the University, 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 the Vice President for Finance and Administration, Stephen F. Austin State University, P.O. Box 6108, SFA Station, Nacogdoches, Texas 75962, (936) 468-2350.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Board's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

Authority for Issuance of the Bonds

All prior Outstanding Previously Issued Parity Obligations were issued by the Texas Public Finance Authority (the "Authority") on behalf of the University pursuant to Chapter 1232, Texas Government Code, as amended. Effective June 17, 2011, House Bill 2251, Eighty-Second Legislature, amended Section 1232.101, Texas Government Code, to permit either the University itself or the Authority, on behalf of the University, to issue bonds secured by revenues of the University. The Bonds are the first series of bonds issued directly by the University since the passage of such legislation, but the Bonds constitute Parity Obligations of the Board equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues on a parity with the Outstanding Previously Issued Parity Obligations. See "SECURITY FOR THE BONDS."

The Bonds are being issued in accordance with the general laws of the State, including particularly Chapters 1207 and 1371, Texas Government Code, as amended, and additionally pursuant to the Resolution adopted by the Board. As permitted by such Chapters, the Board in the Resolution, delegated to the Designated Financial Officer the authority to establish and approve final terms of sale of the Bonds, which terms of sale are evidenced in an "Award Certificate" relating to the Bonds executed on September 11, 2013.

Purpose of the Bonds

The Bonds are being issued for the purpose of (i) refunding certain outstanding obligations of the Authority heretofore issued on behalf of the University, as identified in Schedule I attached hereto (the "Refunded Bonds") and (ii) paying the costs of issuing the Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and respective redemption dates of each such obligations from funds to be deposited with Regions Bank, as escrow agent (the "Escrow Agent") pursuant to an escrow agreement between the Board and the Escrow Agent (the "Escrow Agreement"). The Resolution provides that the Board will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the Board, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds and will be held in cash. By the deposit of such cash with the Escrow Agent pursuant to the Escrow Agreement, the Board will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolutions authorizing the issuance of such Refunded Bonds and in accordance with the law of the State, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement. In connection with the issuance of the Bonds, First Southwest Company, the Board's Financial Advisor, will deliver a Sufficiency Certificate verifying that the amount of cash deposited to the Escrow Fund at closing on the Bonds is sufficient to pay all principal and interest due on the Refunded Bonds through their redemption date. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Redemption of Series 2004A Bonds

The University has given an unconditional notice of redemption of the Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds, Series 2004A (the "Series 2004A Bonds") for redemption on October 15, 2013. The University intends to use lawfully available funds other than proceeds of the Bonds to pay the redemption price of the Series 2004A Bonds on their redemption date.

Sources and Uses of Funds

The proceeds of the Bonds, along with lawfully available funds of the University, will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	\$22,255,000.00
Original Issue Premium (Net)	1,874,175.15
University Contribution	557,182.82
Total	<u>\$24,686,357.97</u>
Uses of Funds	
Deposit to Escrow Fund	\$24,421,778.13
Costs of Issuance ⁽¹⁾	264,579.84
Total	<u>\$24,686,357.97</u>

⁽¹⁾ Includes Underwriters' Discount

DESCRIPTION OF THE BONDS

General

The Bonds are dated October 1, 2013. The Bonds mature on October 15 in each of the years and in the amounts shown on the inside front cover page hereof. Interest on the Bonds will accrue from their date of initial delivery, will bear interest at the per annum rates shown on the inside front cover page hereof, and will be payable on April 15 and October 15 of each year, commencing April 15, 2014, until maturity. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only as fully registered bonds, without coupons, in any integral multiple of \$5,000 principal amount.

If the specified date for any payment of principal or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions in the City of New York, New York or in the City of Dallas, Texas the designated payment office for the Paying Agent/Registrar for the Bonds (the "Designated Payment Office"), such payment may be made on the next succeeding day that is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Transfer, Exchange, and Registration

Upon surrender for transfer of any Bond at the Designated Payment Office described herein, the Board will execute, and the Paying Agent/Registrar, initially Regions Bank, Dallas, Texas, will authenticate and deliver, in the name of the designated transferee, one or more new fully registered Bonds of the same Stated Maturity, of any authorized denominations, and of a like aggregate principal amount. At the option of the Owner, Bonds may be exchanged for other Bonds of the same Stated Maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the place of payment for the Bonds.

Whenever any Bonds are so surrendered for exchange, and the Board will execute, and the Paying Agent/Registrar will authenticate and deliver the Bonds, which the Owner of Bonds making the exchange is entitled to receive. Every Bond presented or surrendered for transfer or exchange will be duly endorsed or accompanied by a written instrument of transfer in form satisfactory to the Board and the Paying Agent/Registrar duly executed, by the Owner thereof or his attorney duly authorized in writing. No service charge will be made to the Owner for any registration, transfer, or exchange of Bonds, but the Board or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.

Record Date for Interest Payment

The regular record date ("Record Date") for determining the party entitled to the receipt of the interest payable on the Bonds on any interest payment date means the last business day of the month next preceding each interest payment date.

The interest payable on, and paid or duly provided for on or within ten days after, any interest payment date will be paid to the person in whose name a Bond (or one or more predecessor Bonds evidencing the same debt) is registered at the close of business on the Record Date for such interest. Any such interest not so paid or duly provided for will cease to be payable to the person in whose name such Bonds is registered on such Record Date, and will be paid to the person in whose name this Bond (or one or more predecessor Bonds) is registered at the close of business on a special Record Date for the payment of such defaulted interest to be fixed by the Paying Agent/Registrar, notice whereof being given to the Owners of the Bonds not less than 15 days prior to the special Record Date.

No Redemption of Bonds

The Bonds are not subject to redemption prior to maturity.

Paying Agent/Registrar

In the Resolution, the Board covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under the Resolution, and that the Paying Agent/Registrar will be one entity. The Board reserves the right to, and may, at its option, change 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. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under the Resolution. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Board. Upon any change in the Paying Agent/Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to the Board and to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Board believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Board cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with 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). One fully registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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 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 transactions, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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.

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

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

Principal and interest payments on the Bonds and redemption proceeds of the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, 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 Bonds redemption proceeds and principal and interest payments relating to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered. The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

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

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Board, the Financial Advisor or the Underwriters.

Effect of Termination of Book-Entry-Only System; Notices

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the Board, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Resolution and summarized under "DESCRIPTION OF THE BONDS — Transfer, Exchange and Registration" herein.

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 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 ANY ACTION PREMISED ON ANY SUCH NOTICE. NEITHER THE BOARD NOR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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DEBT SERVICE REQUIREMENTS⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Parity Obligations Debt Service ⁽²⁾				Series 2013				Total Annual Debt Service
	Principal	Interest	Total	Less: Refunded Bonds Debt Service ⁽³⁾	Principal	Interest	Total	Less: Series 2004A Bonds Debt Service ⁽⁴⁾	
2014	\$-	\$ 3,116,061	\$ 3,116,061	\$ 511,778	\$-	\$ 466,373	\$ 466,373	\$ 76,389	\$ 2,994,267
2015	9,155,000	6,050,745	15,205,745	2,977,516	1,980,000	897,638	2,877,638	407,579	14,698,288
2016	9,520,000	5,674,191	15,194,191	2,978,088	1,915,000	849,438	2,764,438	406,979	14,573,563
2017	9,895,000	5,274,515	15,169,515	2,974,324	1,990,000	771,338	2,761,338	405,979	14,550,550
2018	9,865,000	4,857,493	14,722,493	2,975,921	2,075,000	690,038	2,765,038	404,434	14,107,175
2019	10,295,000	4,425,523	14,720,523	2,977,263	2,165,000	605,238	2,770,238	407,160	14,106,338
2020	10,740,000	3,976,788	14,716,788	2,978,731	2,250,000	516,938	2,766,938	409,031	14,095,963
2021	11,185,000	3,514,869	14,699,869	2,974,406	2,350,000	413,188	2,763,188	405,013	14,083,638
2022	11,680,000	3,022,031	14,702,031	2,972,988	2,470,000	292,688	2,762,688	405,031	14,086,700
2023	11,125,000	2,505,713	13,630,713	1,892,294	1,605,000	190,813	1,795,813	409,056	13,125,175
2024	11,635,000	1,990,544	13,625,544	1,893,875	1,690,000	108,438	1,798,438	407,056	13,123,050
2025	12,170,000	1,456,350	13,626,350	1,895,578	1,765,000	33,094	1,798,094	404,134	13,124,731
2026	10,365,000	954,988	11,319,988	-	-	-	-	-	11,319,988
2027	4,830,000	622,575	5,452,575	-	-	-	-	-	5,452,575
2028	5,055,000	405,256	5,460,256	-	-	-	-	-	5,460,256
2029	3,975,000	202,297	4,177,297	-	-	-	-	-	4,177,297
2030	2,525,000	55,234	2,580,234	-	-	-	-	-	2,580,234
Total	\$144,015,000	\$48,105,171	\$192,120,171	\$30,002,762	\$ 22,255,000	\$ 5,835,217	\$28,090,217	\$ 4,547,841	\$185,659,786

⁽¹⁾ See "SECURITY FOR THE BONDS" and "Table 4 - Outstanding Indebtedness." Also, see "SELECTED FINANCIAL INFORMATION - Financing Programs "for information concerning other indebtedness of the University secured by other sources.

⁽²⁾ As of October 15, 2013 after payment of scheduled principal and interest due on such date. A portion of the Outstanding Parity Obligations constitute Tuition Revenue Bonds that qualify the University to be reimbursed from State appropriations for debt service. The University has been appropriated payments in the amount of \$4,436,800 and \$4,439,616 during the fiscal years of 2014 and 2015, respectively, to reimburse debt service on its Tuition Revenue Bonds. The Series 2002 Bonds of the Refunded Bonds are Tuition Revenue Bonds. See "SELECTED FINANCIAL INFORMATION—Financing Program—Tuition Revenue Bonds".

⁽³⁾ See "Schedule I—Refunded Bonds".

⁽⁴⁾ See "PLAN OF FINANCING—Redemption of Series 2004A Bonds".

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SECURITY FOR THE BONDS

The Revenue Financing System

The Resolution confirms the prior creation of the Stephen F. Austin State University Revenue Financing System (the "Revenue Financing System"). The Revenue Financing System was established to provide a financing structure for revenue-supported indebtedness of the University and any research and service agencies or other components of the University that may thereunder be included, by Board action, as participants in the Revenue Financing System ("Participants"). The Revenue Financing System is intended to facilitate the assembling of all of the University's 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. Presently, only the University is a Participant, and the University currently has no plans to add additional Participants. The Resolution provides that once a university or agency becomes a Participant, its Revenue Funds become part of the Pledged Revenues; provided, however, that, if at the time an entity becomes a Participant it has outstanding obligations secured by any or all of its Revenue Funds, such obligations will constitute Prior Encumbered Obligations under the 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 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 that were outstanding on the date such entity became a Participant in the Revenue Financing System. Presently there are no Prior Encumbered Obligations outstanding as described in Table 4 herein below. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" and "APPENDIX A — DEFINITIONS."

Pledge Under Resolution

The Bonds, the currently Outstanding Previously Issued Parity Obligations, and any additional obligations previously or hereafter issued on a parity with the Bonds (referred to herein collectively as "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 Resolution presently provides that the Pledged Revenues consist of, subject to the provisions of the Prior Encumbered Obligations, the Revenue Funds, including all of the revenues, funds, and balances now or hereafter lawfully available to the Board and derived from or attributable to any Participant of the Revenue Financing System that are lawfully available to the Board for the payment of Parity Obligations. Revenue Funds include the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by the Participants, including interest or other income from those funds, derived by the Board from the operations of each of the Participants. Revenue Funds do not include, with respect to each series or issue of Parity Obligations, any tuition, rentals, fees, or other charges attributable to any student in a category which, at the time of the adoption by the Board of a resolution relating to such Parity Obligations, is exempt by law or by the Board from paying such tuition, rentals, fees, or other charges; provided, however, that the following will not be included in Pledged Revenues unless and to the extent set forth in a Resolution authorizing the issuance of Parity Obligations: (a) amounts received on behalf of any Participant under Article 7, Section 17 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto (see "SELECTED FINANCIAL INFORMATION — Higher Education Fund Bonds"); and (b) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas (the "Texas Legislature"). All legally available funds of the University, including unrestricted funds and reserve balances, are pledged to the payment of the Parity Obligations. A more detailed description of the types of revenues and expenditures of the Revenue Financing System and their availability to the Board for various purposes may be found under "Table 1— Pledged Revenues" and "SELECTED FINANCIAL INFORMATION." See also "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

The Board has covenanted in the Resolution that in each Fiscal Year it will use its reasonable efforts to collect revenues 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 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 that benefit components of the University as Parity Obligations under the Resolution.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY OR ANY PART THEREOF, THE STATE OF TEXAS, 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 OR THE UNIVERSITY. THE OWNERS OF THE BONDS WILL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "SECURITY FOR THE BONDS." Also, see "SELECTED FINANCIAL INFORMATION — Financing Programs" for information concerning other indebtedness of the University secured by other sources.

Table 1— Pledged Revenues

The following table contains a summary of the Pledged Revenues for the Fiscal Years Ending August 31, 2008 through 2012, including pledged unappropriated fund balances available at the beginning of the year. The Pledged Revenues consist of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations, gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and student service fees and private gifts in the Auxiliary Fund Group, as such terms are used in "APPENDIX B-FINANCIAL REPORT OF STEPHEN F. AUSTIN STATE UNIVERSITY FOR THE YEAR ENDED AUGUST 31, 2012."

	For Fiscal Years Ended August 31,				
	2012	2011	2010	2009	2008
Available Pledged Revenues ⁽¹⁾	\$130,655,435	\$122,135,563	\$119,876,096	\$112,048,875	\$105,264,453
Pledged Unappropriated Fund and Reserve Balance	<u>10,777,347</u>	<u>9,522,414</u>	<u>9,532,285</u>	<u>9,440,752</u>	<u>9,097,617</u>
Total Pledged Revenues	<u>\$141,432,782</u>	<u>\$131,657,977</u>	<u>\$129,408,382</u>	<u>\$121,489,626</u>	<u>\$114,362,070</u>

Note: Totals may not sum due to rounding differences.

⁽¹⁾ Includes Student Center Fees and Student Recreational Sports Fees, which may only be used for payment of debt service on bonds issued to finance (and for purposes related to) the student center and student recreational facilities and programs, respectively. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Pledged Revenues." For the fiscal years ending August 31, 2012 and 2011, Pledged Revenues includes (i) Student Center Fees in the amount of \$2,024,511 and \$2,036,360, respectively, and (ii) Student Recreational Sports Fees in the amount of \$2,714,755 and \$2,724,209, respectively. In addition to Pledged Revenues, the University will receive State appropriations in the amount of \$4,436,800 and \$4,439,616, respectively, for the 2014 and 2015 fiscal years (totaling \$8,876,416 for the 2014/2015 State biennium) to reimburse the debt service on Tuition Revenue Bonds. See "SELECTED FINANCIAL INFORMATION— Financing Programs—Tuition Revenue Bonds".

Sources: Unaudited Annual Financial Reports for the Years Ended August 31, 2008, 2009, 2010, 2011 and 2012.
Stephen F. Austin State University Controller's Office

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Additional Obligations

Future Financings

Other than the issuance of the Bonds, the University does not anticipate the issuance of any additional Parity Obligations in Fiscal Year 2014.

Parity Obligations

The Board reserves the right to issue or incur additional Parity Obligations for any purpose authorized by law pursuant to the provisions of the Resolution. The Board may incur, assume, or guarantee, or cause to be incurred, assumed or guaranteed, or otherwise become liable with respect to any Parity Obligations if (i) the Board will have determined (A) that it will have sufficient funds to meet the financial obligations of each Participant (currently the University) in 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 (B) the Participant or Participants for whom the Parity Obligations are being issued or incurred possess the financial capacity to satisfy their 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 Resolution and any resolution adopted authorizing the issuance of Parity Obligations, and is not in default in the performance and observance of any of the terms, provisions, and conditions thereof. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" and "SELECTED FINANCIAL INFORMATION."

Nonrecourse Debt and Subordinate Debt

Nonrecourse Debt and Subordinated Debt may be incurred by the Board without limitation.

STEPHEN F. AUSTIN STATE UNIVERSITY

General Description

The University was created by the 36th Texas Legislature in 1921. From its inception as primarily a college for teacher training, the University's scope has been greatly expanded to that of a regional university.

The University is located in Nacogdoches, Texas, the county seat of Nacogdoches County. Nacogdoches, one of the oldest cities in Texas, was originally established in 1716 as the site of the Guadalupe de Nacogdoches Mission. Today it is a city of approximately 30,000 people with an economy based on timber, agriculture, poultry production, fertilizer and feed producing plants, and wood processing, as well as general commerce.

The main campus includes over 400 acres, part of the original homestead of Thomas J. Rusk, an early Texas patriot and United States Senator. In addition, the University maintains a university farm of 699 acres for beef and poultry production; an experimental forest in southwestern Nacogdoches County; and a forestry field station on Lake Sam Rayburn. The main campus hosts 127 instructional, administration and support buildings, 4 garages and 17 residence halls, representing an investment of approximately \$360 million. The East Texas Research Center, located in the library, manages the University's archives and serves as a Regional Historical Resource Depository for inactive records of eight East Texas counties for the State of Texas. The University operates a Forestry Library which, in addition to a general forestry collection, contains a highly regarded repository by the Forest History Collection. Other facilities of special interest at the University include the Soils Testing Laboratory, the Forestry Research Laboratory and the Seed Testing Laboratory.

Curriculum

The University is a comprehensive institution serving students (97% Texas residents) through a variety of undergraduate and graduate programs. More than 80 undergraduate programs and 40 Master's programs are available in six colleges (Business, Education, Fine Arts, Forestry and Agriculture, Liberal and Applied Arts, and

Sciences and Mathematics). The Master's degrees include two terminal degree programs, the Master of Fine Arts in Art and Master of Social Work. Additionally, the University offers the Doctor of Philosophy in Forestry, the Doctor of Education in Educational Leadership, and the Doctor of Philosophy in School Psychology.

Table 2 – Enrollment Data

First Time Freshman Statistics

	Fall Semester Enrollment for Fiscal Year ⁽¹⁾				
	2014	2013	2012	2011	2010
Men	710	721	794	727	844
Women	1,306	1,398	1,563	1,413	1,519
Total	2,016	2,119	2,357	2,140	2,363
% Change	-4.86%	-10.10%	10.14%	-9.44%	2.29%
One Year Retention Rate ⁽²⁾	65.40%	63.00%	65.00%	64.00%	65.00%

⁽¹⁾ Represents Full-Time Enrollment Students.

⁽²⁾ One-year retention rates for the fall year are return rates for the first-time, full-time freshmen enrolled in the prior fall term.

Source: Stephen F. Austin State University Office of Institutional Research.

Residency Statistics⁽¹⁾

Type of Student	Fiscal Year 2014	Fiscal Year 2013				Fiscal Year 2012		
	Fall 2013	Summer II 2013	Summer I 2013	Maymester 2013	Spring 2013	Fall 2012	Summer 2012	Spring 2012
Texas Resident	12,327	3,597	3,875	728	11,422	12,562	5,441	11,530
Out of State	307	120	102	23	296	312	161	279
Foreign	110	31	39	12	90	98	69	106
Inter-institutional	28	10	0	0	4	27	13	2
Total	12,772	3,758	4,016	763	11,812	12,999	5,684	11,917

⁽¹⁾ Includes combined headcount number for Undergraduate and Graduate students. Scheduling and reporting of summer terms changed from 2012 to 2013. Separate terms of Maymester, Summer I and Summer II reflect the current administrative structure.

Source: Stephen F. Austin State University Office of Institutional Research
Stephen F. Austin Bursar's Office - Web Focus Reports

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Fall Enrollment Trend Data⁽¹⁾

Fiscal Year	Students	Semester Hours
2013	12,999	158,016
2012	12,903	157,783
2011	12,954	156,239
2010	12,845	157,769
2009	11,990	148,790
2008	11,607	145,669
2007	11,756	146,554
2006	11,435	142,247
2005	11,287	138,654
2004	11,408	140,221
2003	11,356	141,479
2002	11,569	146,739
2001	11,484	145,499
2000	11,919	150,767
1999	12,132	153,555
1998	12,041	152,503
1997	11,690	147,577
1996	11,758	147,842
1995	12,206	153,533
1994	12,493	159,649
1993	12,721	162,372

⁽¹⁾ Includes combined headcount number for Undergraduate and Graduate students.

Source: Stephen F. Austin State University Office of Institutional Research.

Degrees Awarded by School and Percent of Total

	For Fiscal Year Ended August 31,									
	2012		2011		2010		2009		2008	
Business	316	12.79%	331	14.20%	329	14.18%	334	15.22%	306	13.46%
Education	753	30.47%	661	28.36%	644	27.75%	582	26.51%	603	26.52%
Fine Arts	138	5.58%	132	5.67%	141	6.07%	130	5.92%	147	6.46%
Forestry and Agriculture	97	3.93%	98	4.21%	100	4.31%	92	4.19%	83	3.65%
Liberal and Applied Arts	473	19.14%	448	19.23%	442	19.04%	414	18.86%	475	20.89%
Sciences & Mathematics	234	9.47%	212	9.10%	218	9.39%	192	8.75%	198	8.71%
Graduate	460	18.62%	448	19.23%	447	19.26%	451	20.55%	462	20.31%
Total	2,471	100.00%	2,330	100.00%	2,321	100.00%	2,195	100.00%	2,274	100.00%

Source: Stephen F. Austin State University Office of Institutional Research.

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Faculty Profile

During the fall semester 2012, the University employed 505 full-time instructional faculty and 162 part-time faculty (excludes teaching assistants).

Approximately 74% of the full-time faculty hold academic rank (instructor or higher) and 47% of full-time faculty are tenured. The following data apply to the full-time faculty:

<u>Academic Credentials</u>	<u>Number</u>	<u>Academic Rank</u>	<u>Number</u>	<u>% Tenured</u>
Doctorate	379	Professor	116	98.26%
Master's Degree (or equivalent)	261	Associate Professor	119	92.44
Other	27	Assistant Professor	120	16.81
		Instructor	30	3.23
		Lecturer	43	0.00
		Visiting/Spec. Professor	51	0.00
		Adjunct	188	0.00
Total	<u>667</u>	Total	<u>667</u>	<u>43.30%</u>

Source: Stephen F. Austin State University Office of Institutional Research

Deposits and Investments

In 2005, the University implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3. This statement establishes and modifies disclosure requirements related to investment risks: credit risk including custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. The statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign credit risk. See "APPENDIX B — FINANCIAL REPORT OF STEPHEN F. AUSTIN FOR THE YEAR ENDED AUGUST 31, 2012 — NOTE 3."

Deposits of Cash in Bank

The University invests its funds under authority of provisions of the Texas Education Code, the Texas Property Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. At August 31, 2012, the carrying amount of the University's deposits was \$93,126,477.13 and total bank balances equaled \$94,446,908.47. Bank balances of \$1,297,291.91 were covered by federal depository insurance, and \$93,149,616.56 was covered by collateral pledged in the University's name. The collateral was held in the safekeeping departments of unrelated banks that act as the pledging banks' agents. Cash and Temporary Investments, as reported on the Balance Sheet contained in APPENDIX B, consist of the items reported below:

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Investments and Cash

As of August 31, 2012, the fair value of cash and investments are as presented below: Business-Type Activities:

Business-Type Activities:	Fair Value
U.S. Government	
U.S. Treasury Securities	\$11,123,403.37
U.S. Government Agency Obligations	1,494,098.12
Corporate Obligations	6,498,202.15
Equity	4,162,737.89
International Obligations (Government and Corp)	2,773,034.03
International Equity	1,122,603.11
Fixed Income Money Market and Bond Mutual Fund	1,254,025.78
Other Comingled Funds (Texpool)	
Alternative Investments	1,155,644.97
Total Investments	<u>\$29,583,749.42</u>
As displayed on Statement of Net Assets:	
Current Assets:	
Cash Equivalents	\$ 0.00
Short-Term Investments	20,142,762.12
Restricted Cash Equivalents	
Restricted Short-Term Investments	
Non-Current Assets	
Restricted:	
Investments: Endowment	10,071,151.36
Unrestricted:	
Investments: Quasi-Endowments	4,901,299.19
Investments: Operating	28,465,861.15
Subtotal	63,581,073.82
Less: Certificates of Deposit	(33,997,324.40)
Total	<u>\$29,583,749.42</u>

Sources: Annual Financial Report for the Year Ended August 31, 2012: Statement of Net Assets and Note 3.

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As of May 31, 2013, the fair value of cash and investments are as presented below:

Business-Type Activities⁽¹⁾	Fair Value
U.S. Treasury Securities	\$9,979,969.72
U.S. Government Guaranteed Obligations	383,417.83
U.S. Government Agency Obligations	1,232,953.56
Municipal and County Bonds	426,251.83
Corporate Obligations	5,418,044.48
Equity	4,808,470.22
International Obligations (Government and Corp)	2,896,625.28
International Equity	1,295,749.80
Fixed Income Money Market and Bond Mutual Fund	3,251,338.05
Other Comingled Funds (Texpool)	
Alternative Investments	559,828.21
Total Investments	\$30,252,648.98

⁽¹⁾ Investments of 05/31/2013 include accrued interest

Endowments

The University spending policy provides for a target distribution rate of between 4% and 5%. The policy states that if returns permit, an amount equal to the rate of inflation will be added back to each endowment balance. Additionally if there are any returns beyond the inflation rate, then this amount will be added to a contingency reserve that may be distributed during years of poor investment performance. For the calendar year ending December 31, 2012, the rate of return for the University endowment investments was 8.9%. Approximately 3.5% of the weighted average market value was distributed to spending accounts and approximately 1.0% was added to the contingency reserve account. The target for the contingency reserve account is a balance equal to two years of normal distributions. All additional investment returns were allocated to the endowment balances.

Retirement Plans

The State of Texas has joint contributory retirement plans for all of its benefits-eligible employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries currently provided by the State and by each participant is set by legislation. Current percentages paid by the State and by each participant are 6.0% and 6.4%, respectively. The State contribution rates are scheduled to increase to 6.8% on September 1, 2013. Participant rates are scheduled to increase to 6.7% on September 1, 2014 for fiscal year 2015, 7.2% in fiscal year 2016, and 7.7% in fiscal year 2017. TRS does not separately account for each of its component government agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in TRS's annual financial report.

The State has also established an optional retirement program ("ORP") for institutions of higher education for certain administrative personnel and faculty. Participation in the ORP is in lieu of participation in TRS, and the selection to participate in ORP must be made in the first 90 days of eligibility. The ORP allows participants to select from a variety of companies for the purchase of annuity contracts or to invest in mutual funds. The contributory percentages on salaries for participants entering the program prior to September 1995 are 8.5% and 6.65% by the State and each participant, respectively. The employer's contribution of 8.5% effective as of January 1, 2010 is comprised of 6.0% (6.6% effective September 1, 2013) from the State's ORP appropriation and the balance from the University. The 6.0% contribution is mandatory with the balance being at the discretion of the Board. The contributory percentages on salaries for participants entering the program after August 31, 1995, are 6.0% and 6.65% by the State and each participant, respectively. The State's mandatory portion is scheduled to increase from 6.0% to 6.6% percent September 1, 2013. No change is scheduled for the participant's rate of contribution. Since these are individual annuity contracts or mutual fund investments, the University has no additional or unfunded liability for this program.

GASB 27, paragraph 27(d) requires that university system offices and independent universities that administer the ORP must disclose the amounts contributed by members and by the employer for that plan. The amount contributed by the University employees for the 2012 fiscal year was \$1,978,369.32 and the amount contributed by the University was \$2,057,510.18.

The retirement expense to the State for the participants was \$2,286,536.79 for the fiscal year ended August 31, 2012. This amount represents the portion of expended appropriations made by the Texas Legislature on behalf of the University.

NO LITIGATION

Neither the Board nor the University is a party to any litigation or other proceeding pending or, to the Board's knowledge, threatened, in any court, agency or other administrative body (either state or federal) that, if decided adversely to the Board or the University, would have a material adverse effect on the financial condition of the University. On the date of delivery of the Bonds to the Underwriters, the Board will execute and deliver to the Underwriters a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or that would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds.

SELECTED FINANCIAL INFORMATION

Financial Reports

The Vice President for Finance and Administration is responsible for the operational activities and financial management of Stephen F. Austin State University's debt, cash, risk, budgets, accounting, financial statements, and investment management of the operating and endowment funds.

State CAFR

The State issues an audited Comprehensive Annual Financial Report ("CAFR"), prepared in accordance with generally accepted accounting principles, for the State as a whole. The CAFR is normally available in April of each year. The CAFR is prepared by the Comptroller of Public Accounts and is audited by the State Auditor's Office. The State Auditor expresses an opinion on the CAFR but does not express an opinion on the financial reports of individual member units, including those of Stephen F. Austin State University.

The Fiscal Year of the State and Stephen F. Austin State University begins on September 1 of each year. Annually, not later than November 20th, an unaudited financial report dated as of August 31, prepared from the books of Stephen F. Austin State University, must be delivered to the Governor and the State Comptroller of Public Accounts. In certifying the financial reports included in the CAFR, the State Auditor examines the financial records of Stephen F. Austin State University. *No independent audit in support of this detailed review is required or obtained by Stephen F. Austin State University.*

Stephen F. Austin State University Financial Reports

Stephen F. Austin State University is an agency of the State and its financial records reflect compliance with applicable State statutes and regulations. The significant accounting policies followed by the University in maintaining accounts and in the preparation of the financial statements are materially in accordance with "Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements." The requirements are also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education as revised by GASB No. 34 and No. 35, published by the National Association of College and University Business Officers (NACUBO).

Attached to this Official Statement as "APPENDIX B — FINANCIAL REPORT OF STEPHEN F. AUSTIN FOR THE YEAR ENDED AUGUST 31, 2012" is the most recent unaudited annual financial report for the University. The University's unaudited financial statements consist of the Statement of Net Assets as of August 31, 2012, the

Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2012, and the Statement of Cash Flows for the Year Ended August 31, 2012.

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Table 3 - Statement of Revenues, Expenses, and Changes in Net Assets

The table on the following pages presents the Statement of Revenues, Expenses and Changes in Net Assets for Fiscal Years 2012, 2011, 2010, 2009 and 2008.

	For Fiscal Years Ended August 31,				
	2012	2011-Restated	2010-Restated	2009	2008
Operating Revenues:					
Sales of Goods and Services					
Tuition & Fees - Pledged	\$87,270,383	\$81,947,512	\$79,582,472	\$72,088,646	\$67,239,336
Tuition & Fees - Non-Pledged	3,746,882	3,720,664	3,771,120	3,562,408	3,436,716
Tuition - Discounts/Allowances	(22,372,706)	(23,101,252)	(19,364,023)	(15,364,145)	(13,392,578)
Auxiliary Enterprise - Pledged	37,657,107	35,544,872	35,171,879	33,593,431	30,791,332
Auxiliary Enterprise - Non-Pledged	1,674,228	1,558,013	1,423,933	1,460,298	1,152,567
Auxiliary Enterprise - Discounts/Allowances	(9,647,133)	(9,714,605)	(8,315,680)	(6,546,048)	(5,420,832)
Other Sales of Goods and Svcs - Pledged	4,720,708	4,377,702	3,752,698	4,442,240	4,428,406
Other Sales of Goods and Svcs - Non-Pledged	1,138,968	892,221	1,858,101	931,862	1,028,787
Interest and Investment Income (PR)	-	-	-	114,603	189,529
Federal Revenue ¹	4,905,793	5,551,982	7,178,806	19,914,109	17,431,335
Federal Pass Through Rev from Non-State Agy	147,137	477,655	351,257	141,402	-
Federal Pass Through Revenue	1,790,496	2,513,990	6,026,049	3,969,013	3,321,741
State Grant Revenue	-	-	-	-	837,983
State Grant Pass Through Revenue	9,231,391	10,669,027	8,056,443	6,883,874	4,042,864
Local Contracts and Grants	669,383	697,924	485,418	824,448	595,523
Other Contracts and Grants	388,801	616,349	386,698	486,882	302,670
Other Operating Revenues	20,121	16,053	24,226	4,460	4,108
Total Operating Revenues	<u>121,341,558</u>	<u>115,768,105</u>	<u>120,389,398</u>	<u>126,507,482</u>	<u>115,989,487</u>
Operating Expenses:					
Cost of Goods Sold	8,496,256	9,021,471	8,697,462	8,865,592	7,793,097
Salaries and Wages	85,570,357	86,557,949	86,887,290	81,874,369	75,959,933
Payroll Related Costs	23,452,254	23,543,959	22,557,158	20,911,956	19,572,226
Professional Fees and Services	2,991,987	1,840,279	2,362,479	1,694,081	1,624,462
Travel	2,401,548	1,818,166	2,436,138	2,412,501	2,278,773
Materials and Supplies	13,262,461	14,579,049	16,185,307	14,665,367	15,038,190
Communication and Utilities	10,522,874	12,124,573	13,374,745	12,624,376	11,788,438
Repairs and Maintenance	5,458,903	4,322,204	3,685,737	3,193,879	3,895,941
Rentals and Leases	1,737,543	1,671,272	1,810,095	1,910,739	2,110,336
Printing and Reproduction	561,081	586,972	681,224	560,397	698,274
Federal Pass Through Expenditure	17,984	250,387	2,233,394	1,104,068	1,056,690
Fed Pass Through Exp to Non-State Entities	560,449	839,518	160,044	-	-
State Pass Through Expenditure	45,413	-	-	27,164	-
Amortization	618,865	446,493	401,632	-	-
Depreciation	15,721,439	13,831,810	12,115,885	10,014,071	9,939,710
Bad Debt Expense	354,349	82,668	380,795	251,695	317,074
Interest Expense	364	618	108	32	476
Scholarships	19,465,898	18,012,526	16,898,886	13,563,337	13,152,371
Claims and Settlements	-	-	1,167	(21,793)	250
Other Operating Expenses	4,576,125	5,241,902	5,801,648	6,218,699	5,681,633
Total Operating Expenses	<u>195,816,150</u>	<u>194,771,813</u>	<u>196,671,194</u>	<u>179,870,528</u>	<u>170,907,876</u>
Operating Income (Loss)	<u>\$ (74,474,592)</u>	<u>\$ (79,003,708)</u>	<u>\$ (76,281,796)</u>	<u>\$ (53,363,046)</u>	<u>\$ (54,918,389)</u>

Note: Totals may not sum due to rounding differences.

¹ In 2010, 2011 and 2012, Revenue from Pell Grants was reclassified from Operating Revenue to Non-Operating Revenue

Source: Unaudited Financial Reports for the fiscal years ended August 31, 2012, 2011, 2010, 2009 and 2008.

Table 3 - Statement of Revenues, Expenses, and Changes in Net Assets - (continued)

	For Fiscal Years Ended August 31,				
	2012	2011-Restated	2010 -Restated	2009	2008
Nonoperating Revenues (Expenses):					
Legislative Revenue	\$37,349,153	\$40,703,316	\$44,114,346	\$43,685,586	\$43,677,367
Additional Appropriations	11,427,511	11,035,951	12,181,037	10,763,260	10,756,380
Federal Revenue ⁽¹⁾	22,200,726	22,517,882	19,725,232	-	-
Federal Pass Through Revenue	-	628,772	2,059,053	-	-
Gifts	2,915,278	2,621,980	2,689,355	2,884,361	2,467,782
Land Income	-	-	2,687	-	3,200
Investment Income (Pledged)	854,126	955,637	830,176	2,447,307	2,405,550
Investment Income (Non-Pledged)	172,227	952,078	244,763	(464,637)	290,619
Net Increase (Decrease) Fair Value	589,345	135,092	662,098	(856,677)	(171,139)
Investing Activities Expenses	(103,107)	(91,588)	(88,363)	(50,579)	(80,559)
Interest on Loans Receivable	150,477	141,413	201,733	103,486	(115,694)
Interest Income on Capital Investments - Pledged	9,331	67,627	281,659	(15,533)	34,097
Net Inc/(Dec) Fair Value - Capital Investment Prjts	(692)	(11,928)	(158,503)	-	-
Interest Expenses and Fiscal charges	(7,448,097)	(6,794,446)	(5,935,249)	(5,397,152)	(5,216,738)
Gain(Loss) on Sale of Capital Assets	(378,657)	(32,754)	(839,908)	71,023	(119,971)
Settlement of Claims	960	117,945	282,923	68,620	(12,219)
Other Nonoperating Revenues	117,073	81,815	53,920	10,174	2,768
Other Nonoperating Expenses	94,048	(132,747)	-	-	(1,615)
Total Nonoperating Revenues (Expenses)	<u>67,949,701</u>	<u>72,896,046</u>	<u>76,306,958</u>	<u>53,249,240</u>	<u>53,919,828</u>
Income (Loss) before Other Revenues, Expenses, Gains/Losses and Transfers					
	<u>(6,524,891)</u>	<u>(6,107,662)</u>	<u>25,162</u>	<u>(113,806)</u>	<u>(998,562)</u>
Other Revenues, Expenses, Gains/Losses and Transfers					
Capital Contributions	87,702	342,971	684,533	1,422,277	372,361
Capital Appropriations (HEF)	8,425,937	8,425,937	6,907,643	6,907,643	7,025,771
Additions to Permanent and Term Endowments	97,454	207,126	79,327	123,723	136,678
Lapsed Appropriations	-	-	-	-	(550,000)
Transfers-In/(Out) to other state agencies	(1,136,039)	(1,076,565)	(910,444)	(828,844)	(700,235)
Total Other Revenue, Expenses, Gain/Losses and Transfers	<u>7,475,054</u>	<u>7,899,469</u>	<u>6,761,059</u>	<u>7,624,800</u>	<u>6,284,575</u>
Change in Net Assets	<u>950,164</u>	<u>1,791,807</u>	<u>6,786,221</u>	<u>7,510,993</u>	<u>5,286,013</u>
Total Net Assets, September 1, 20xx	133,645,333	131,924,941	125,138,719	117,670,218	113,091,719
Restatements	(18,830)	(71,416)	-	(42,493)	(707,514)
Total Net Assets, September 1, 20xx, as Restated	<u>133,626,502</u>	<u>131,853,525</u>	<u>125,138,719</u>	<u>117,627,726</u>	<u>112,384,205</u>
Total Net Assets, August 31, 20xx	<u>\$134,576,666</u>	<u>\$133,645,332</u>	<u>\$131,924,940</u>	<u>\$125,138,719</u>	<u>\$117,670,218</u>

Note: Totals may not sum due to rounding differences.

⁽¹⁾ In 2010, 2011 and 2012, Revenue from Pell Grants was reclassified from Operating Revenue to Non-Operating Revenue

Source: Annual Financial Report for the Years ended August 31, 2012, 2011, 2010, 2009, and 2008.

Funding for the University

Funding for the University for the Fiscal Year ended August 31, 2012 consisted of government appropriations; tuition and student fees; gifts, investment and endowment income; sales and services; auxiliary enterprises; and other sources. The amounts and the sources of such funding vary from year to year; there is no guarantee that the source or amounts of such funding will remain the same in future years.

Tuition and Fees

Each Texas public university 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, the amount charged by the University for tuition and the designated tuition fee was subject to a per-semester-credit-hour cap set by the Texas Legislature, which permitted undergraduate tuition applicable to State residents to be charged up to up to \$96 per semester credit hour for the 2004-2005 academic year, up to \$100 per semester credit hour in the 2005-2006 academic year and thereafter. Tuition and fee charges for the 2013-14 academic year are comprised of "State Mandated Tuition" and "Board Designated Tuition," as further described below.

State Mandated Tuition

Section 54.051, Texas Education Code, currently permits (i) undergraduate tuition applicable to state residents to be charged up to \$50 per semester credit hour for the 2013-14 academic year; and (ii) tuition of a non-resident student at a general academic teaching institution or medical and dental unit to be increased to an amount equal to the average of the non-resident undergraduate tuition charged to a resident of the State at a public state university in each of the five most populous states other than this State (the amount of which would be computed by the Coordinating Board for each academic year). For the 2013-14 academic year, the Coordinating Board computed \$404 per semester credit hour for non-resident undergraduate tuition.

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. Effective with the tuition that was charged for the Fall 2003 semester, a governing board may charge any student an amount (referred to as "Board Designated Tuition") that it considers necessary for the effective operation of the institution. Such 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 authority offers more opportunity for the University to develop a tuition schedule that assists in meeting its strategic objectives in terms of access, affordability, effective use of campus resources, and improvement of graduation rates.

The Board has authorized the Board Designated Tuition rate, beginning with the 2013 fall semester, at \$158 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 hour will be set aside to provide financial assistance to resident graduate students, consistent with the provisions of Texas Education Code Section 56.012.

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Board Designated Tuition (General Fee) for the				<u>Per semester</u>	<u>\$ Cap:</u>
				<u>hour:</u>	
For the	Fall 2008	-	2009 Academic Year:	\$106.00	\$1,696
For the	Fall 2009	-	2010 Academic Year:	\$111.00	\$1,776
For the	Fall 2010	-	2011 Academic Year:	\$119.85	\$1,918
For the	Fall 2011	-	2012 Academic Year:	\$124.40	\$1,990
For the	Fall 2012	-	2013 Academic Year:	\$141.86	\$2,270
For the	Fall 2013	-	2014 Academic Year:	\$158.00	\$2,528

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

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 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 \$30 per semester hour for both resident and non-resident graduate University students.

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 for the 2013-14 academic year based on 15 semester credit hours per semester for undergraduate students and nine semester credit hours per semester for graduate students.

**State Mandated Tuition, Board Designated Tuition, Board Authorized Tuition,
Mandatory Fees And Financial Set-Aside
2013-2014 Academic Year
Based on 15 Undergraduate and 9 Graduate Credit Hours per Fall & Spring Semesters**

	State Mandated Tuition	Board Designated Tuition	Board Authorized Tuition	Mandatory Fees	Total Tuition and Fees	Financial Assistance Set-Aside⁽¹⁾
Resident Undergraduate	\$ 750	\$ 2,370	\$ 0	\$ 1,086	\$ 4,206	\$ 449
Non-resident Undergraduate	6,060	2,370	0	1,086	9,516	182
Resident Masters	450	1,422	270	734	2,876	219
Non-resident Masters	3,636	1,422	270	734	6,062	109
Resident Doctoral	450	1,422	270	734	2,876	237
Non-resident Doctoral	3,636	1,422	270	734	6,062	127

⁽¹⁾ Total tuition and fees includes amounts required to be set aside for financial assistance according to Texas Education Code. The set-aside amounts are calculated as follows: from State Mandated tuition not less than 15% 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% is deposited in the State Treasury into the Texas B-On-Time Loan Program (Section 56.465).

Source: Stephen F. Austin University Controller’s Office

The Board is authorized by Chapter 55 of the Texas Education Code to set the Pledged Revenues and any other necessary fees, rentals, rates, or other revenue funds of the Board at the level necessary, without limit, to enable the Board to meet its obligations with respect to the payment of debt service on the Parity Obligations. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Pledged Revenues.”

State Government Appropriations

The operations of the University are heavily dependent upon the continued support of the State through biennial appropriations of general revenues. The University receives a significant portion of its operating funds from State appropriations. The Board has no assurance that the Texas Legislature will continue to appropriate to the University the general revenue funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the Texas Legislature to make appropriations to the University taking into consideration the availability of financial resources and other potential uses of such resources.

For fiscal years 2012 and 2013, State appropriations comprised approximately 28% of the Revenue Funds (as defined in the Resolution) of the University. See "Table 3 - Statement of Revenues, Expenses and Changes in Net Assets." The State Legislature finished its last regular session on June 1, 2013 and appropriated to the University a total of \$56,791,818 and \$57,051,942 for fiscal years 2014 and 2015, respectively. State appropriations to most institutions of higher education (including the University) were substantively unchanged compared to prior years.

In addition to the appropriation of general revenues of the State, the University receives a portion of an annual appropriation of funds made by the State Legislature pursuant to the provisions of Article VII, Section 17 of the State Constitution (the "Higher Education Funds"). The allocation of Higher Education Funds is made by the State in accordance with an equitable allocation formula. In 2005, the State Legislature approved a 10-year annual allocation (beginning in 2006-2007) to the University. The annual allocation to the University will be \$8,425,937 for each of fiscal years 2014 and 2015.

The University may use the Higher Education Funds for capital improvements and renovations to the campus facilities, other than auxiliary enterprises. In addition, the University may issue bonds against such Higher Education Funds and pledge up to 50% of the appropriation to secure the debt service payments due on such bonds. See “Financing Programs—Higher Education Fund Bonds” below.

Private Financial Support

In Fiscal Years 2008-2012, the University received contributions (gifts, grants and contracts) averaging \$3.7 million annually from the private sector. Contributions for the Fiscal Year 2012 equaled approximately \$3.4 million.

Financing Programs

The Board, pursuant to constitutional and statutory provisions, is authorized to issue debt in a number of distinct forms with which to finance capital improvements. In addition to the Revenue Financing System, the Board has issued Higher Education Assistance Bonds and certain obligations of the Revenue Financing System including Tuition Revenue Bonds.

Higher Education Fund Bonds

In addition to the appropriation of general revenues of the State, the University receives a portion of an annual appropriation of funds made by the State Legislature pursuant to the provisions of Article VII, Section 17 of the State Constitution (the “Higher Education Assistance Funds” or “HEF”). The allocation of HEF is made by the State in accordance with an equitable allocation formula. The Constitution also allows the State Legislature to adjust the decennial allocations every five years. The Eighty-First Legislature exercised this authority by enacting House Bill 51 (“HB 51”), which adjusted the formula allocation for the HEF funds for fiscal years 2009 through 2015. To maintain the equitable distribution of the HEF appropriation, HB 51 also corrected the distribution of fiscal year 2009 and 2010 HEF allocations by using revised formula calculations. Using these revised formula calculations, HB 51 factored in updated data elements to generate the annual HEF allocations for the five-year period starting in fiscal year 2011. The University may use the Higher Education Assistance Funds for capital

improvements and renovations to the campus facilities, other than auxiliary enterprises. In addition, the University may issue bonds against such Higher Education Assistance Funds and pledge up to 50% of the appropriation to secure the debt service payments due on such bonds. In fiscal years 2014 and 2015, the University will receive total appropriation of Higher Education Assistance Funds of \$16,851,874. The University may use this appropriations for capital improvements and renovations to the campus facilities (other than auxiliary enterprises), library books, and materials, and equipment. In addition, the University has issued the Series 2008 Constitutional Appropriation bonds against such appropriations and pledged up to 50% of the appropriation to secure the debt service payments due on such bonds. These bonds' final maturity is October 15, 2018.

Tuition Revenue Bonds

Pursuant to Chapter 55, Texas Education Code, revenue bonds issued by an institution of higher education, such as the University, may be equally secured by and payable from a pledge of all or a portion of certain revenue funds of the University, and all of the Parity Obligations of the University, including the Bonds, are secured solely by and payable solely from a pledge of and lien on the Pledged Revenues. See "SECURITY FOR THE BONDS" including "Table 1—Pledged Revenues" thereunder.

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

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

Certain of the Parity Obligations of the University constitute Tuition Revenue Bonds. See footnote 1 under "Table 4 – Outstanding Indebtedness" below for a description of which Parity Obligations of the University constitute Tuition Revenue Bonds. Tuition Revenue Bonds issued by the University carry no additional pledge or security and constitute Parity Obligations of the University which are equally and ratably secured by and payable from a pledge of and lien on Pledged Revenues on parity with all other Parity Obligations of the University.

The State Legislature has appropriated funds to reimburse the University in prior years in an amount equal to all or a portion of the debt service on the University's Tuition Revenue Bonds including appropriations made during the 2013 legislative session of \$4,436,800 for FY 2014 and \$4,439,616 for FY 2015.

The University can provide no assurances with respect to any future appropriations by the State Legislature. Future levels of State appropriations are dependent upon the ability and willingness of the State Legislature to make appropriations to the University taking into consideration the availability of financial resources and other potential uses of such resources.

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Table 4 - Outstanding Indebtedness

As of October 15, 2013 (after payment of regularly scheduled debt service), the University will have outstanding the following described indebtedness:

Revenue Financing System Obligations

Revenue Financing System Revenue Bonds, Series 2002 ⁽¹⁾⁽²⁾	--
Revenue Financing System Revenue Bonds, Series 2004 ⁽²⁾	--
Revenue Financing System Revenue Bonds, Series 2004A ⁽²⁾	--
Revenue Financing System Revenue Bonds, Series 2005	\$11,880,000
Revenue Financing System Revenue Bonds, Series 2005A	42,425,000
Revenue Financing System Revenue Bonds, Series 2008 ⁽¹⁾	13,550,000
Revenue Financing System Revenue Bonds, Series 2009 ⁽¹⁾	17,660,000
Revenue Financing System Revenue Bonds, Series 2010	29,770,000
Revenue Financing System Revenue Refunding Bonds, Series 2010A	1,280,000
Revenue Financing System Revenue Refunding Bonds, Series 2013 ⁽¹⁾	22,255,000
TOTAL REVENUE FINANCING SYSTEM OBLIGATIONS	<u><u>\$138,820,000⁽²⁾</u></u>

Constitutional Appropriation Obligations

Constitutional Appropriation Bonds, Series 2008	5,545,000
TOTAL OBLIGATIONS	<u><u>\$144,365,000⁽²⁾</u></u>

(1) All or a portion of these issues include the Tuition Revenue Bonds for which the University will be reimbursed from a total State appropriation in the amount of \$8,876,416 during the 2014/2015 State biennium. Future years' debt service for all or a portion of such issues is expected to be reimbursed from additional State appropriations but is entirely subject to future appropriations by the State Legislature in such subsequent State biennium. See "Financing Programs—*Tuition Revenue Bonds*" above.

(2) Excludes the Refunded Bonds and the Series 2004A Bonds. See "Schedule I—Refunded Bonds" and "PLAN OF FINANCING—Redemption of Series 2004A Bonds".

There are no outstanding Prior Encumbered Obligations. The University does not anticipate the issuance of any Parity Obligations in Fiscal Year 2014.

Investment Policy and Procedures

Management of Investments

As provided in the Texas Education Code, each member of the Board has the legal responsibilities of a fiduciary in the management of funds under the control of the University. All investments are made in accordance with applicable State and federal regulations. The Board has provided for centralized investment management under the direction of the Vice President for Finance and Administration. Investments are managed both internally by University staff, and externally, by unaffiliated investment managers. The Board receives quarterly reports regarding asset allocation, investment returns, and comparative investment results and indices.

Authorized Investments

All available funds held by the University are authorized to be invested in accordance with the Public Funds Investment Act and with the written investment policy of the Board. Investments are to be made with the judgment and care, under the circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds, considering the probable income therefrom as well as the probable increase in value and the safety of their capital. In the management of University investments, consideration is given to the requirements of liquidity, diversification, safety of principal, yield, maturity, quality, and capability of investment management, with primary emphasis on safety of principal.

Effective September 1, 2013, Senate Bill 1019 ("SB 1019"), Eighty-Third Legislature, amended Section 51.0031 of the Texas Education Code, to permit an institution of higher education that does not have at least \$25 million in book value of endowment funds, such as the University, to contract to pool funds with another institution of higher education or university system that has at least \$25 million in book value of operating funds for the investment of its funds under prudent person standards. The Board has taken action to authorize the negotiation and execution of a contract with another institution of higher education or university system for the investment of the University's operating funds pursuant to SB 1019. To date, no such contract has been executed and the University can make no assurances as to when or if such a contract will be executed or with respect to the final terms of any such contract.

Investment Programs

The University invests public funds in its custody with primary emphasis on the preservation and safety of the principal amount. Secondly, investments must be of sufficient liquidity to meet the day-to-day cash requirements of the University. Finally, the University invests to maximize yield within the two previously indicated standards. All investments within this scope conform to applicable State statutes and local rules governing the investment of public funds. Deposits and investments in other than United States Treasury or Agency securities or money market funds invested in United States Treasury or Agency securities are secured by depository pledges of collateral with market value no less than 100% of the value of the deposits and investments. Diversification maximums and actual investment levels for eligible securities as of August 31, 2012 were:

	<u>Maximum (%)</u>	<u>Actual (%)</u>
United States Treasury or Government securities	100.00%	17.57%
United States Agency securities	50.00%	1.69%
Corporate Obligations	50.00%	13.36%
Fully insured or collateralized certificates of deposit	100.00%	59.06%
Commercial paper	50.00%	0.00%
Repurchase agreements	100.00%	0.00%
Registered money-market funds	80.00%	1.45%
Local Government Investment Pool	100.00%	0.00%
Bank Deposits (Bond Proceeds)	100.00%	4.49%
Cash held in the State Treasury	100.00%	2.37%
Totals		<u>100.00%</u>

Endowments

The University is benefited by endowments consisting of marketable securities and investments which are not pledged to the payment of debt obligations. Those endowments, including both true endowments and quasi endowments, were valued as of August 31, 2012 at \$10,089,403.80 and as of May 31, 2013 at \$10,699,874.23. Market value of the true endowments as of August 31, 2012 was \$9,745,111.58.

Debt Management

Debt management of the University is the responsibility of the Vice President for Finance and Administration. The Vice President for Finance and Administration evaluates the University's financing needs pursuant to a debt capacity analysis and annual funding requirements determined by the capital budget. Issuance of debt requires approval of the Board and the Texas Bond Review Board or an exemption from such requirement of approval by the Texas Bond Review Board under State law and the rules of the Texas Bond Review Board.

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 documents that is summarized elsewhere in this Official Statement under the captions "PLAN OF FINANCING," "DESCRIPTION OF THE BONDS," and "SECURITY FOR 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 University at P.O. Box 6108, SFA Station, Nacogdoches, Texas 75962.

Establishment of Revenue Financing System

The Revenue Financing System has been established 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 that are or will be included as part of the Revenue Financing System. The University is the only current Participant, but the Revenue Financing System may include other entities that are hereafter included as part of the University but only upon affirmative official action of the Board. Each issue or series of Parity Obligations is to be provided for under a separate resolution consistent with the provisions of the Resolution.

Security and Pledge; Membership in the Revenue Financing System

Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations, Parity Obligations are secured by and payable from a lien on the Pledged Revenues, and the Board has assigned and pledged the Pledged Revenues to the payment of the principal of, premium, if any, and interest on Parity Obligations, and the Pledged Revenues are further pledged to the establishment and maintenance of any funds that may be provided to secure the repayment of Parity Obligations in accordance with the Resolution. The Board may execute and deliver one or more Credit Agreements to additionally secure Parity Obligations. Credit Agreements may also be secured by a pledge of Pledged Revenues on a parity with or subordinate to Parity Obligations.

Certain institutions that may become Participants in the Financing System may be combined or divided and so long as such combined or divided institutions continue to be governed by the Board such action shall not be in violation of the provisions of the Resolution or require any amendments of the provisions of the Resolution. Subject to the conditions set forth below, any Participant in the Financing System or portion thereof may be closed and abandoned by law or may be removed from the Financing System (thus deleting the revenues, income, funds and balances attributable to said Participant or portion thereof from Pledged Revenues) without violating the terms of the Resolution provided: (1) the Board approves and delivers to the Board an Officers' Certificate to the effect that, to the knowledge thereof, after the release of such 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 Board, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System; and (2) the Board receives an Opinion of Counsel that shall state that such release will not affect the status for federal income tax purposes of interest on any Outstanding Parity Obligations and that all conditions precedent provided in the Resolution or any resolution hereafter adopted governing the issuance of Parity Obligations relating to such release have been complied with; and (3) (A) if the Participant or portion thereof to be released from the Financing System is to remain under the governance and control of the Board, the Board must either: (i) provide, from lawfully available funds, including Pledged Revenues attributable to said withdrawing Participant, for the payment or discharge of said Participant's Direct Obligation; or (ii) pledge to the payment of Parity Obligation, additional resources not then pledged in an amount sufficient to satisfy such withdrawing Participant's Direct Obligation; or (B) if the Participant or portion thereof to be released from the Financing System is to no longer be under the governance and control of the Board and remains 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 Obligation or to pay or discharge said Participant's Direct Obligation, 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. 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 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 Financing System with the effect set forth in the Resolution by the adoption of a resolution amending the Resolution, which resolution shall be binding upon the Board.

Annual and Direct Obligation of Participants

The Resolution provides that each Participant of the Revenue Financing System is responsible for its Direct Obligation. The Board covenants in the Resolution that in establishing the annual budget for each Participant of the Revenue Financing System, it will provide for the satisfaction by each Participant to its Annual Obligation.

Pledged Revenues

Tuition and Other Pledged Revenues

Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the resolution, the Board covenants and agrees to fix, levy, charge, and collect at each Participant student tuition charges required or authorized by law to be imposed on students enrolled at each Participant (excepting, with respect to each series or issue of Parity Obligations, any student in a category which, at the time of adoption of a resolution relating to such Parity Obligations, is exempt by law or by the Board from paying such tuition charges). Each student (excluding those exempt from payment as provided above), enrolled at each Participant, respectively, at each regular fall and spring semester and at each term of each summer session, shall pay tuition charges in such amounts, without any limitation whatsoever, as will be sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to Outstanding Parity Obligations when and as required. All changes in the tuition charged students at each Participant shall be made by resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the resolution, but merely the carrying out of the provisions and requirements of the Resolution.

Student Center Fees

Subject to the provisions of the resolution authorizing the University's Series 2004 Bonds, the Board has covenanted and agreed to fix, levy, charge, and collect student center fees required or authorized by law to be imposed on students pursuant to Section 54.520 of the Texas Education Code for the purpose of paying debt service on the Series 2004 Bonds (and any Parity Obligations issued to refund such bonds); provided, however, that such student center fees shall be used only for the purpose of acquiring, constructing, renovating, operating, maintaining, improving, equipping, and financing a university center or additions to the center.

Student Recreational Sport Fees

Subject to the provisions of the resolution authorizing the University's Series 2005A Bonds, the Board has covenanted and agreed to fix, levy, charge and collect student recreational sport fees required or authorized by law to be imposed on students pursuant to Section 54.5201 of the Texas Education Code for the purpose of paying debt service on the Series 2005A Bonds (and any Parity Obligations issued to refund such bonds); provided, however, that such student recreational sport fees shall be used only to purchase equipment for and to construct, operate, and maintain recreational sports facilities and programs.

Annual Obligation

If, in the judgment of the Board, any Participant in the Financing System has been or will be unable to satisfy its Annual Obligation, the Board shall fix, levy, charge, and collect rentals, rates, fees, and charges for goods and services furnished by such Participant and, with respect to Participants with enrolled students, tuition, effective at the next succeeding regular semester or semesters or summer term or terms, in amounts sufficient, without limit (subject to “*Student Center Fees*” and “*Student Recreational Sport Fees*” above), together with other legally available funds, including other Pledged Revenues attributable thereto, to enable it to make its Annual Obligation payments.

Anticipated Deficit

If the Board determines, for any reason whatsoever, that there are not anticipated to be legally available funds, including Pledged Revenues, sufficient to meet all financial obligations of the Board relating to the Financing System including the deposits and payments due on or with respect to Outstanding Parity Obligations as the same mature or come due, or that any Participant in the Financing System will be unable to pay its Annual Direct Obligation in full, then the Board shall fix, levy, charge, and collect such rentals, rates, fees, tuition, or other charges at each Participant in the Financing System with enrolled students, effective at the next succeeding regular semester or semesters or summer term or terms, in such amounts, without any limitation whatsoever (other than as provided

in “*Economic Effect of Adjustments*” below), as will be at least sufficient to provide, together with other legally available funds, including Pledged Revenues, the money for making when due all financial obligations of the Board relating to the Financing System including all payments and deposits due on or with respect to Outstanding Parity Obligations when and as required by the Resolution.

Economic Effect of Adjustments

Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues at any Participant in the Financing System resulting from an event described in “*Anticipated Deficit*” above will be based upon a certificate and recommendation of the Designated Financial Officer, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at each Participant in the Financing System (after taking into account the anticipated effect the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each Participant in the Financing System) that will be anticipated to result in: (i) Pledged Revenues attributable to each Participant being sufficient (to the extent possible) to satisfy the Annual Obligation of such Participant; and (ii) Pledged Revenues being sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Financing System including all deposits and payments due on or with respect to: (A) the Prior Encumbered Obligations; and (B) all Outstanding Parity Obligations, when and as required by the Resolution.

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 establish 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.

Additional Parity Obligations; Non-Recourse Debt and Subordinated Debt

In the Resolution, the Board reserves the right to issue or incur additional Parity Obligations for any purpose authorized by law. The Board may incur, assume, guarantee, or otherwise become liable in respect of additional Parity Obligations if the Board determines that it will have sufficient funds to meet the financial obligations of the University, 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.

In addition, the Board covenants not to issue or incur Parity Obligations unless (i) it determines that the Participant or Participants for whom Parity Obligations are being issued or incurred possesses the financial capacity to satisfy their 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 Resolution and any supplemental resolution authorizing Outstanding Parity Obligations, and is not in default in the performance and observance of any of the terms, provisions, and conditions thereof.

The Board has reserved the right to issue without limit debt secured by a lien other than a lien on Pledged Revenues and debt that expressly provides that all payments thereon will be subordinated to the timely payment of all Parity Obligations.

Participants

Combination or Release of Participants

The Resolution recognizes that the State may combine or divide Participant institutions and provides that so long as the combined or divided institutions continue to be governed by the Board such action must not violate the Resolution or require any amendment thereof. The Resolution also provides that 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 will thereafter be Outstanding to meet the financial obligations of the Board, 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 has received an Opinion of Bond Counsel that states that such release will not affect the status for federal income tax purposes of interest on any Outstanding 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; 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 remains in operation independent of the Board, the Board must receive a binding obligation of 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.

Disposition of Assets

In the Resolution, the Board has reserved the right to convey, sell, or otherwise dispose of any properties of the Board attributable to a Participant of the Revenue Financing System, provided that:

- (1) such disposition must occur in the ordinary course of business of the Participants of the Revenue Financing System responsible for such properties; or
- (2) the Board determines that after the disposition, the Board has sufficient funds during each Fiscal Year during which Parity Obligations are to be Outstanding to meet the financial obligations of each Participant in the Revenue Financing System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all other financial obligations of the Board relating to the Revenue Financing System.

Admission of Participants

If, after the date of the adoption of the Resolution, the Board desires for a university 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 university or agency in the Revenue Financing System with the effect set forth in the Resolution by the adoption of an amendment to the Resolution.

Certain Covenants

Rate Covenant

In each Fiscal Year, the Board must establish, charge, and use its reasonable efforts to collect from each Participant the Pledged Revenues that, if collected, would be sufficient to meet all financial obligations of the Board for such Fiscal Year relating to the Revenue Financing System including all deposits or payments due on or with respect to (i) the Prior Encumbered Obligations and (ii) all Outstanding Parity Obligations.

Tuition

The Board covenants and agrees in the Resolution to fix, levy, charge, and collect at each Participant student tuition charges required or authorized by law to be imposed on students enrolled at each Participant (excepting, with respect to each series or issue of Parity Obligations, any student in a category that, at the time of adoption of a resolution relating to such Parity Obligations, is exempt by law or by the Board from paying such tuition charges). Each student (excluding those exempt from payment as provided above), enrolled at each Participant, respectively, at each regular fall and spring semester and at each term of each summer session, must pay tuition charges in such amounts, without any limitation whatsoever, as will be sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to Outstanding Parity Obligations when and as required. All changes in the tuition charged students at each Participant must be made by resolution of the Board, but such procedure will not constitute or be regarded as an amendment of the Resolution, but merely the carrying out of the provisions and requirements thereof.

General Covenants

The Board has additionally covenanted and represented in the Resolution: (i) to faithfully perform all covenants and provisions contained in the Resolution, and in each Parity Obligation; (ii) to call for redemption all Parity Obligations, in accordance with their terms, that are subject to mandatory redemption; (iii) that it lawfully owns, has title to, or is lawfully possessed of the land, buildings, and facilities that comprise the University and to defend such title and title to any land, buildings and facilities which may hereafter become part of the Revenue Financing System 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 financed through the Revenue Financing System; (vi) to not incur any additional 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 account for the Revenue Financing System and to cause to be prepared annual financial reports of the Revenue Financing System and to furnish such report, to the 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.

Special Obligations

The Resolution provides that all Parity Obligations, the premium, if any, and the interest thereon constitute special obligations of the Board payable from the Pledged Revenues, and the owners thereof never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in the Resolution. The obligation of the Board to pay or cause to be paid the amounts payable under the Resolution out of the Pledged Revenues is absolute, irrevocable, complete, and unconditional, and the amount, manner, and time of payment of such amounts may not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever.

Waiver of Covenants

The Board may omit in any particular instance to comply with any covenant or condition set forth above as a general covenant or with its rate covenant, its covenants relating to issuance of Parity Obligations, its covenants governing disposition of Participant assets, or its covenants relating to admission and release of Participants if the Owners of at least 51% of all Outstanding Parity Obligations waive such compliance.

Remedies

Any owner of Parity Obligations in the event of default in connection with any covenant contained in the Resolution or default in the payment of said obligations, or of any interest due thereof, 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 Resolution 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 that may be levied or foreclosed against.

Amendment of Resolution

Amendment Without Consent

The Resolution and the rights and obligations of the Board, and of the owners of the Outstanding 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:

- (1) To add to the covenants and agreements of the Board contained in the Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in the Resolution;
- (2) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Resolution, upon receipt by the Board of any approving opinion of Bond Counsel that the same is needed for such purpose, and will more clearly express the intent of the Resolution;
- (3) To supplement the security for the Parity Obligations to provide for the additions of new institutions and agencies to the Revenue Financing System or to clarify the provisions regarding the University as a Participant in the Revenue Financing System; provided, however, that any amendment to the definition of Pledged Revenues that results in the pledge of additional resources 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;
- (4) 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 outstanding Parity Obligations;
- (5) To make such changes, modifications, or amendments as may be necessary or desirable, which will 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;
- (6) To make such other changes in the provisions of the Resolution as the Board may deem necessary or desirable and that does not, in the judgment of the Board, materially adversely affect the interests of the owners of Outstanding Parity Obligations; or

- (7) To make such other amendments as necessary to comply with the Rule.

Amendments With Consent

Subject to the other provisions of the Resolution, the owners of Parity Obligations aggregating 51% in Outstanding Principal Amounts have the right from time to time to approve any amendment, other than amendments described in the foregoing paragraph, to the Resolution that may be deemed necessary or desirable by the Board; provided, however, that no provision may 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:

- (i) Grant to the owners of any Outstanding Parity Obligations a priority over the owners of any other Outstanding Parity Obligations;
- (ii) Materially adversely affect the rights of the owners of less than all Parity Obligations then Outstanding;
- (iii) Change the minimum percentage of the Outstanding Principal Amount necessary for consent to such amendment;
- (iv) Make any change in the maturity of the Outstanding Bonds;
- (v) Reduce the rate of interest borne by the Outstanding Bonds;
- (vi) Reduce the amount of principal payable on the Outstanding Bonds;
- (vii) Modify the terms of payment of principal of or interest on the Outstanding Bonds, or impose any conditions with respect to such payment; or
- (viii) Adversely affect the tax exempt status of the interest on the Outstanding Bonds to the owners thereof.

Defeasance

The Resolution provides for the defeasance of the Bonds and the termination of the pledge of revenues and all other general defeasance covenants in the Resolution under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer Outstanding (a "Defeased Bond") within the meaning of the Resolution, except to the extent described below, when payment of the principal of such Bond, plus interest thereon to the due date or dates (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 (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or any other eligible bank or trust company then authorized by State law for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the Board with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the revenues pledged under the Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) described in the preceding paragraph shall be deemed a payment of a Bond as aforesaid when proper notice of redemption of such Bonds shall have been given, in accordance with the Resolution. Any money so deposited with the Paying Agent/Registrar or other eligible institution as described herein may at the written discretion of the Board also be invested in Defeasance Securities, maturing in the amounts and at the times

as specified in the Resolution, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar or other eligible institution which is not required for the payment of such Bond and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be turned over to the Board.

All money or Defeasance Securities set aside and held in trust pursuant to the applicable provisions of the Resolution for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by the Resolution.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or other eligible institution in accordance with the Resolution for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the applicable provisions of the Resolution shall be made without the consent of the registered owner of each Bond affected thereby.

To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the Board retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the Resolution. The Board may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon the satisfaction of the applicable Resolution provisions described herein with respect to such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

In the event that the Board elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

Because the Resolution provides that securities or obligations that may be authorized under future State law may also be used to defease Bonds, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

There is no assurance that the ratings for U.S. Treasury securities or any other Defeasance Securities that may be used to defease Bonds as described in this section will be maintained at any particular rating category.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the Board secured by and payable from the Pledged Revenues, such lien on and pledge of the Pledged Revenues being subordinate only to the lien on and pledge of certain of the Pledged Revenues securing any outstanding Prior Encumbered Obligations, and the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Resolution, are valid and legally binding obligations of the Board and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel's opinion is attached hereto as Appendix C. Bond Counsel was engaged by, and only represents, the Board. In its capacity as Bond Counsel, such firm has reviewed the statements and information appearing under captions "PLAN OF FINANCING" (except under the subcaption "Sources and Uses of Funds," as to which no opinion is expressed), "DESCRIPTION OF THE BONDS" (except under the subcaption "Book-Entry-Only System," as to which no opinion is expressed), "SECURITY FOR THE BONDS," "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), and "APPENDIX A — DEFINITIONS", and such firm is of the opinion that the statements and

information contained under such captions and subcaptions provides an accurate and fair description of the Bonds and the Resolution and are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Lord LLP, Dallas, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered to the Underwriters in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

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

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the University, that are not purely historical, are forward-looking statements, including statements regarding the University's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the University on the date hereof, and the University and the Board assume no obligation to update any such forward-looking statements.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the Board, 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 owners 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 to the Board 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 C—Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the Board will rely upon (a) certain information and representations of the Board, including information and representations contained in the Board's federal tax certificate, and (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 Refunded Bonds and the property financed or refinanced therewith. Failure by the Board to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the Board with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Board as the taxpayer and the Bondowners 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, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

Future And Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and

exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL INVESTMENTS IN TEXAS

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

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

RATINGS

The Bonds have been rated "AA-" and "A1", by Fitch Ratings and Moody's Investors Service, Inc., respectively, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings of the Board will continue for any given period of time or that they will not be revised downward or withdrawn entirely if in the judgment of these companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board is required to observe its agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking

Board (the "MSRB"). The information provided to the MSRB will be available to the general public, free of charge, via the Electronic Municipal Market Access (EMMA) system at www.emma.msrb.org.

Annual Reports

The Board will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the University of the general type included in this Official Statement under the headings "SECURITY FOR THE BONDS—TABLE 1—Pledged Revenues," "STEPHEN F. AUSTIN STATE UNIVERSITY," and "SELECTED FINANCIAL INFORMATION" and in APPENDIX B. The Board will update and provide this information within 180 days after the end of each Fiscal Year, beginning after the 2013 Fiscal Year. The Board will provide the updated information to the MSRB.

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"). The updated information will include annual audited financial statements for the University, if the Board commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Board will provide unaudited statements by the required time and will provide audited financial statements when and if such audited financial statements become available. Any such financial statements of the University will be prepared in accordance with the accounting principles described in Appendix B hereof or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation. It is not expected that the Board will commission an audit. Hence, unaudited financial statements, as shown in Appendix B, are expected to be provided. However, the University is audited as part of the State of Texas audit, but separate financial statements are not available.

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

Disclosure Event Notices

The Board shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults, if material within the meaning of the federal securities laws;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701BTEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds;
- G. Modifications to rights of holders of the Bonds, if material within the meaning of the federal securities laws;
- H. Bond calls, if material within the meaning of the federal securities laws;

- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds, if material within the meaning of the federal securities laws;
- K. Rating changes;
- L. Bankruptcy, insolvency, receivership or similar event of the Board;
- M. The consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material within the meaning of the federal securities laws; and
- N. Appointment of a successor or additional trustee or the change of name of a trustee, if material within the meaning of the federal securities laws.

The Board shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with its agreement described above under “Annual Reports” by the time required. All documents provided to the MSRB pursuant to this subsection shall be accompanied by identifying information as prescribed by the MSRB.

Availability of Information

All information and documentation filing required to be made by the Board in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB through the EMMA web site, accessible at www.emma.msrb.org.

Limitations and Amendments

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

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

described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Agreements

In its prior continuing disclosure filings for Fiscal Years 2008 through 2011, the University on behalf of the Board timely made annual continuing disclosure filings containing all financial information and operating data required by its continuing disclosure undertakings. However, as part of such annual filings, the University included a hyperlink to the University's website for its unaudited annual financial reports rather than including such reports in its annual filings. The University on behalf of the Board has since filed its unaudited annual financial reports for Fiscal Years 2008 through 2011 and a notice of noncompliance with EMMA and intends to include its unaudited annual financial reports in its annual continuing disclosure filings for future fiscal years.

Except as stated above, the Board has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule during the last five years.

UNDERWRITING

Southwest Securities, Inc., as the authorized representative of a group of underwriters (the "Underwriters"), has agreed, subject to certain conditions, to purchase the Bonds at a price equal to the initial offering price of the Bonds shown on the inside cover page of this Official Statement less an underwriting discount of \$103,174.82 and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of the Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper.

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.

FINANCIAL ADVISOR

First Southwest Company has contracted 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. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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, and as part of, its responsibilities to the Board and, as applicable, 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.

As of November 30, 2012, the ultimate parent of First Southwest Company ("FirstSouthwest") is Hilltop Holdings Inc. ("Hilltop"). On July 29, 2011, Hilltop extended a \$50 million term loan to SWS Group, Inc. ("SWSG"), which is the parent company of Southwest Securities, Inc. ("Southwest Securities"), an investment banking firm that provides financial advisory and underwriting services to municipal issuers and also serves as an underwriter on this

transaction. In connection with the term loan, SWSG issued a warrant to Hilltop to purchase 8,695,652 shares of SWSG common stock (the "Warrant"), which would represent approximately a 17% equity interest in SWSG in the event the Warrant is fully exercised. The Warrant, subject to anti-dilution adjustments, is exercisable for five years, but will expire to the extent that SWSG makes prepayments on the loans and Hilltop does not promptly exercise a corresponding portion of the Warrant. To the extent that the exercise of the Warrant by Hilltop would cause Hilltop to be deemed to control SWSG under applicable regulations, SWSG will issue Hilltop newly issued non-voting Series A Preferred Stock. Subject to applicable regulations, in limited circumstances, shares of Series A Preferred Stock will be convertible into shares of SWSG common stock. Additionally, Hilltop has purchased and may continue to purchase additional shares of SWSG common stock in open market and block transactions. Pursuant to an investor rights agreement, Mr. Gerald J. Ford, the Chairman of the Board of Directors of Hilltop, was appointed as a member of the Board of Directors of SWSG.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the Board's records, unaudited financial statements and other sources that 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 resolution. 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 has approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

This Official Statement has been approved by the Board for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ Dr. L. Baker Pattillo
President, Stephen F. Austin State University

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SCHEDULE I
Refunded Bonds

Texas Public Finance Authority
Stephen F. Austin State University
Revenue Financing System Revenue Bonds, Series 2002

Original Dated Date: 6/15/2002
Anticipated Call Date: 10/15/2013

<u>Original Maturity</u>	<u>Principal Amount</u>	<u>Interest Rates</u>	<u>Redemption Price</u>
10/15/2014	\$ 760,000	4.300%	100%
10/15/2015	795,000	4.450	100
10/15/2016	830,000	4.500	100
10/15/2017	870,000	4.650	100
10/15/2018	915,000	4.750	100
10/15/2019	960,000	4.750	100
10/15/2020	1,005,000	5.000	100
10/15/2021	1,055,000	5.000	100

Texas Public Finance Authority
Stephen F. Austin State University
Revenue Financing System Revenue Bonds, Series 2004

Original Dated Date: 2/15/2004
Anticipated Call Date: 10/15/2013

<u>Original Maturity</u>	<u>Principal Amount</u>	<u>Interest Rates</u>	<u>Redemption Price</u>
10/15/2014	\$ 1,235,000	4.000%	100%
10/15/2015	1,285,000	4.000	100
10/15/2016	1,335,000	4.000	100
10/15/2017	1,390,000	4.000	100
10/15/2018	1,445,000	4.000	100
10/15/2019	1,505,000	4.000	100
10/15/2020	1,565,000	4.000	100
10/15/2021	1,630,000	4.125	100
10/15/2022	1,700,000	4.200	100
10/15/2023	1,775,000	4.250	100
10/15/2024	1,855,000	4.375	100

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APPENDIX A

DEFINITIONS

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

"*Annual Debt Service Requirements*" 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) *Committed Take Out*. 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 obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

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

(3) *Consent Sinking Fund*. In the case of Balloon Debt (as defined in clause (2) above), if a 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.

"*Award Certificate*" means the certificate executed by the Designated Financial Officer in connection with the Bonds that establishes the terms of the Bonds pursuant to the Resolution.

"*Board*" means the Board of Regents of Stephen F. Austin State University, acting as the governing body of the University, or any successor thereto.

"*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.

"*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.

"*Bonds*" means the Board of Regents of Stephen F. Austin State University Revenue Financing System Revenue Refunding Bonds, Series 2013, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to the Resolution; and the term "*Bond*" means any of the Bonds.

"*Business Day*" means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in The City of New York, New York or in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

"*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.

"*DTC*" means The Depository Trust Company, New York, New York, or any successor securities depository.

"*DTC Participant*" means the securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC participants.

"*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.

"Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable state law in existence at the time of such defeasance that may be used to defease obligations such as the Bonds.

"Designated Financial Officer" means the Vice President for Finance and Administration of the University, or such other official of the University appointed by the Board to carry out the functions of the Vice President for Finance and Administration specified herein.

"Designated Trust Office" means initially, Dallas, Texas, as the corporate trust office of the Paying Agent/Registrar.

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

"Federal Securities" as used herein means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

"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.

"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.

"MSRB" means the Municipal Securities Rulemaking Board.

"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 the 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 the Resolution and any resolution hereafter adopted authorizing the issuance of Parity Obligations, 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 the Resolution providing for the defeasance of the Bonds or any comparable section of any resolution hereafter adopted authorizing the issuance of Parity Obligations;
- (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
- (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 Resolution.

"*Parity Obligations*" means all Debt of the Board which may be issued or assumed in accordance with the terms of the Resolution and any resolution authorizing the issuance of Debt on a parity with the Bonds, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations. For purposes of this definition, the Previously Issued Parity Obligations and the Bonds constitute Parity Obligations.

"*Participant in the Financing System*" and "*Participant*" means each of the agencies, institutions and branches of the University and such agencies, institutions and branches hereafter designated by the Board to be a participant in the Financing System. Currently, the University is the only Participant in the Financing System.

"*Paying Agent/Registrar*", "*Paying Agent*" or "*Registrar*" means initially, Regions Bank, Dallas, Texas, appointed pursuant to the Resolution, or any successor to any such agent.

"*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 resolution authorizing the issuance of Parity Obligations: (a) amounts received by the University under Article VII, Section 17 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto; and (b) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas.

"*Potential Refunded Bonds*" means the outstanding Previously Issued Parity Obligations previously issued by or on behalf of the Board.

"*Previously Issued Parity Obligations*" means the Parity Obligations previously issued by or on behalf of the Board payable from the same source as the Bonds that remain Outstanding.

"*Prior Encumbered Obligations*" means those outstanding 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 Revenues 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 (i) the revenues pledged to the payment of Prior Encumbered Obligations of the University and (ii) 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 or agency becomes a Participant of the Financing System.

"*Prior Resolutions*" means the resolutions adopted by the Board authorizing the issuance of the Previously Issued Parity Obligations.

"*Record Date*" means the last business day of the month next preceding each interest payment date.

"*Refunded Bonds*" means the Potential Refunded Bonds refunded by the Bonds.

"*Registration Books*" means the books or records relating to the registration, payment, and transfer or exchange of the Bonds maintained by the Paying Agent/Registrar pursuant to the Resolution.

"*Resolution*" means the Resolution authorizing the sale of the Bonds.

"*Revenue Financing System*" or "*Financing System*" means the "Stephen F. Austin State University Revenue Financing System", currently for the benefit of the University, 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. The term "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 by the Board of a resolution relating to such Parity Obligations, is exempt by law or by the Board from paying such tuition, rentals, rates, fees, or other charges.

"*Rule*" means SEC Rule 15c2-12, as amended from time to time.

"*SEC*" means the United States Securities and Exchange Commission.

"*Series 2004 Bonds*" means the Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds, Series 2004, issued in the original aggregate principal amount of \$26,030,000.

"*Series 2005A Bonds*" means the Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds, Series 2005, issued in the aggregate principal amount of \$55,365,000.

"*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.

"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.

"University" means Stephen F. Austin State 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 Stephen F. Austin State University pursuant to law.

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APPENDIX B

**FINANCIAL REPORT OF STEPHEN F. AUSTIN STATE UNIVERSITY
FOR THE YEAR ENDED AUGUST 31, 2012**

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STEPHEN F. AUSTIN STATE UNIVERSITY



Unaudited Financial Report
For the Year Ended
August 31, 2012

BAKER PATTILLO, PRESIDENT
DANNY GALLANT, VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

NACOGDOCHES, TEXAS

Stephen F. Austin State University

Unaudited Financial Report
For the Year Ended
August 31, 2012

STEPHEN F. AUSTIN STATE UNIVERSITY

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STEPHEN F. AUSTIN STATE UNIVERSITY

Office of the President

P.O. Box 6078, SFA Station • Nacogdoches, Texas 75962-6078
Phone (936) 468-2201 • Fax (936) 468-2202

November 20, 2012

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

Dear Lady and Gentlemen:

We are pleased to submit the annual financial report of Stephen F. Austin State University for the year ended August 31, 2012, in compliance with Texas Government Code Annotated, Section 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions, please contact Ms. Dora Fuselier at (936) 468-2112. Ms. Letitia Hamilton may be contacted at (936) 468-2250 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Baker Pattillo
President



STEPHEN F. AUSTIN STATE UNIVERSITY

Office of the Controller

P.O. Box 13035, SFA Station • Nacogdoches, Texas 75962-3035
Phone (936) 468-2303 • Fax (936) 468-2207

November 20, 2012

Dr. Baker Pattillo
President
Stephen F. Austin State University
P. O. Box 6078, SFA Station
Nacogdoches, Texas 75962

Dear Dr. Pattillo:

Submitted herein is the Annual Financial Report of Stephen F. Austin State University for the fiscal year ended August 31, 2012.

The financial statements in this report have been prepared in conformity with the General Provisions of the Appropriations Act, Article IX, and in accordance with the requirements established by the Comptroller of Public Accounts.

The accompanying Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR). Therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact me.

Sincerely,

Dora Fuselier, C.P.A.
Controller

Approved:

Danny Gallant
Vice President for Finance and Administration

**STEPHEN F. AUSTIN STATE UNIVERSITY
ORGANIZATIONAL DATA
August 31, 2012**

Board of Regents

Officers

John R. Garrett, Chairman
Steve D. McCarty, Vice Chairman
James H. Dickerson, Secretary

Members

Name	Town	Term Expires
Carlos Z. Amaral	Plano, Texas	January 31, 2013
James H. Dickerson	New Braunfels, Texas	January 31, 2013
John R. Garrett	Tyler, Texas	January 31, 2013
Scott H. Coleman	Houston, Texas	January 31, 2015
Steve D. McCarty	Alto, Texas	January 31, 2015
Constance M. Ware	Marshall, Texas	January 31, 2015
Brigittee C. Henderson	Lufkin, Texas	January 31, 2017
Kenton E. Schaefer	Brownsville, Texas	January 31, 2017
Ralph C. Todd	Carthage, Texas	January 31, 2017
Jourdan Dukes (student)	Dallas, Texas	May 31, 2013

President

Baker Pattillo, Ph.D.

Finance and Administration

Vice President - Danny Gallant
Controller - Dora Fuselier, C.P.A.
Assistant Controller - Dannette Sales, C.P.A.

STEPHEN F. AUSTIN STATE UNIVERSITY

Management's Discussion and Analysis

Unaudited

For the Year Ended August 31, 2012

INTRODUCTION

Stephen F. Austin State University (the University) is a comprehensive regional public institution of higher education and an agency of the State of Texas. Named for the "Father of Texas," the University was founded in 1923. It is located in Nacogdoches in the Pineywoods area of East Texas. The main campus includes more than 400 acres, including part of the original homestead of Thomas J. Rusk, early Texas patriot and United States Senator. In fall 2011, the University enrolled nearly 13,000 students in 34 academic units and 6 colleges. Degrees are awarded at the bachelor's, master's, and doctoral levels.

The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges. Specific academic programs hold numerous other accreditations.

The University does not include any blended components in the Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Stephen F. Austin State University presents in this discussion and analysis the Financial Statements for fiscal year 2012 with comparative information for 2011. This discussion, prepared by management, will focus on the University's current year data, trends in data, and overview of the financial activities for the year. It should be read in conjunction with the accompanying Financial Statements and Notes, which offer various financial definitions and accounting information.

Three primary statements are presented: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The Financial Statements are prepared in accordance with requirements established by the Texas Comptroller of Public Accounts.

FINANCIAL HIGHLIGHTS

- Enrollment for the 2011 fall semester of 12,903 was one of the highest in the University's history.
- Capitalized expenditures totaled approximately \$11.8 million. Expenditures for projects funded with bond proceeds accounted for approximately \$3.5 million. These included final payments to contractors on a parking garage and freshman residence hall which opened in the spring of 2011 and fall of 2011 respectively. Other major capital expenditures included payments for the comprehensive energy management performance contract of \$4.5 million and the purchase of computer hardware and software of \$2 million.
- The University completed a project related to a comprehensive energy management program. This \$17.2 million project utilized capital from a revolving loan fund from the State Energy Conservation Office (SECO) funded with American Recovery and Reinvestment Act (ARRA) funds and institutional Higher Education Fund appropriations (HEF). Work on the project began in August 2010 and was completed in April 2012. Expenditures of \$12.7 million were made during fiscal year 2011 in conjunction with this project, and \$4.5 million was spent in fiscal year 2012. The total portion attributed to SECO was \$13.3 million, and the HEF portion was \$3.9 million. The savings in utility costs will be used to repay the debt.
- The University converted its current database to the Oracle Exadata platform. This move was made after the software conversion to Banner to provide more memory and faster transaction times. The total project cost was \$2.5 million.

CONDENSED FINANCIAL INFORMATION AND FINANCIAL HIGHLIGHTS

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at a specific point in time, in this case August 31, 2012. Net assets are the difference between total assets and total liabilities and represent the residual interest in the University's assets after liabilities are deducted. "Net Assets" are presented in three major categories: Invested in Capital Assets, Net of Related Debt; Restricted Net Assets; and Unrestricted Net Assets. The Invested in Capital Assets, Net of Related Debt category identifies the equity in property, plant, and equipment owned by the University. Restricted Net Assets are either expendable or non-expendable. Expendable restricted net assets may be expended only for the purposes designated by the external donor or provider of the assets. Non-expendable net assets are comprised entirely of funds held as permanent endowments. Unrestricted Net assets are available for any lawful purpose of the University. Although Unrestricted Net Assets are not subject to externally imposed stipulations, these assets may have other commitments for various future uses in support of the University's mission. These include commitments for encumbrances outstanding at year-end. Also, recognized in Unrestricted Net Assets are unspent HEF appropriations, which have restrictions imposed by the State of Texas. Assets and liabilities are generally measured using current values, except capital assets, which are stated at historical cost less an allowance for depreciation.

The Statement of Net Assets presents a snapshot view of assets available for use in the University's continuing operations and enables readers to determine the amounts owed to others. Over time, increases or decreases in net assets are indicators of the improvement or decline of the financial health of the University.

A summarized comparison of the University's Statement of Net Assets at August 31, 2012, and 2011 follows:

Statement of Net Assets

	August 31, 2012	August 31, 2011 (Restated)
Assets		
Current Assets	\$ 133,607,393.64	\$ 139,300,730.71
Noncurrent Assets		
Other Noncurrent Assets	49,832,153.30	48,628,559.12
Capital Assets, Net of Depreciation	234,904,814.82	239,797,378.65
Total Assets	418,344,361.76	427,726,668.48
Liabilities		
Current Liabilities	108,811,334.55	109,063,684.64
Noncurrent Liabilities	174,956,361.19	185,036,481.36
Total Liabilities	283,767,695.74	294,100,166.00
Net Assets		
Invested in Capital Assets, Net of Related Debt	54,154,929.36	56,048,575.84
Restricted Net Assets		
Expendable	17,018,328.90	16,843,484.77
Non-expendable	6,965,104.29	6,867,650.39
Unrestricted Net Assets	56,438,303.47	53,866,791.48
Total Net Assets	\$ 134,576,666.02	\$ 133,626,502.48

In fiscal year 2012, total assets of the University decreased approximately \$9.4 million from the previous fiscal year. This change was attributed to both a reduction in current assets of \$5.7 million and a reduction in noncurrent assets of \$3.7 million. Cash and cash equivalents and short term investments decreased \$1.3 million, which is offset by an increase in noncurrent investments.

Legislative appropriations decreased by \$2.7 million. These are funds held at the State Comptroller's Office on the University's behalf and are drawn down either as direct payments to vendors or for reimbursements to the University of expenditures paid with local bank funds. In fiscal year 2012, the University used \$3.9 million of balances in HEF legislative appropriations to fund the comprehensive energy management program instead of borrowing the balance from SECO. The current unspent balance of \$2.2 million is attributed primarily to the timing of HEF expenditures and reimbursements. The University has authority to carry these balances forward to a subsequent year.

Receivables recognized in current assets decreased approximately \$3 million. This decrease includes a reduction in the loan proceeds set up as a receivable from SECO of \$1.6 million. The intergovernmental receivables category includes amounts due from the federal government for reimbursements for the Direct Loan program of \$11.8 million. In fiscal year 2012, these receivables were \$12.4 million, accounting for an additional \$.6 million of the change. Due from other state agencies did not change significantly. This balance includes \$2.9 million related to payments due the University for costs associated with the Columbia Regional Geospatial Service Center. The University has not received reimbursements for expenditures related to this federally funded earmark since 2010.

Prepaid items (primarily scholarships awarded for the subsequent fiscal year) increased \$1 million. This is related to the timing of the distribution of scholarships awarded for the subsequent fall semester, which is reported as prepaid scholarships instead of fiscal year 2012 expenses.

Increases in noncurrent assets other than capital assets were approximately \$1.2 million. This was attributed primarily to an increase of \$1.1 million in noncurrent investments. Changes in the noncurrent portion of student loan receivables and student account receivables are minimized by the offsetting increase in the allowance for doubtful accounts, resulting in a minimal net increase in long term receivables.

Capital assets, net of depreciation, decreased approximately \$4.9 million. This is mainly attributed to capital expenditures of \$11.8 million offset by depreciation and amortization expenditures of \$16.3 million. As projects funded with bond proceeds are completed, they are reclassified from construction in progress to their related capital asset account (buildings, infrastructure, facilities, equipment, etc.). In fiscal year 2012, projects of \$11.1 million were reclassified from the non-depreciable construction in progress to depreciable categories, accounting for the increase in depreciation expense this year.

Total liabilities decreased by approximately \$10.3 million. Of this amount, current liabilities increased by approximately \$.3 million. This is attributed to a number of factors. Of this total, \$2.9 million is due to the increase in fall 2012 deferred revenues related to tuition, fees, room and board rate increases and from increased enrollment. These deferred revenues relate to amounts billed to students for the subsequent fall semester. Notes and loans payable increased by \$2.3 million, related to the current portion of the SECO loan payable and the note payable for the Oracle Exadata platform conversion. These increases were offset by decreases in accounts payable of \$1.8 million and restricted funds payable of \$2.6 million. These amounts decreased because of reduced construction activity on campus and the payables related to those activities. Funds held for others are fiduciary funds held by the University on behalf of others. At year-end, undisbursed student refunds of nearly \$15.4 million were accounted for in this category. These refunds were held on the students' behalf until disbursed after the twelfth class day of each semester. This amount decreased from the previous year by nearly \$1.2 million.

Of the \$10.1 million decrease in noncurrent liabilities, \$10.3 million is attributed to the decrease in long term debt recognized in the categories of capital lease obligations, notes and loans payable and bonds payable. The employees' compensable leave category increased by approximately \$.2 million which reflects the liability of the University for unpaid compensable leave at year end.

Fiscal year 2011 Net Assets have been restated for amounts related to unspent bond proceeds. These adjustments are explained in Note 14. Based on the restated numbers, Invested in Capital Assets, Net of Related Debt decreased

by \$1.9 million. This category represents all the University's capitalized assets, net of accumulated depreciation and debt used to finance those assets. The decrease reflects the increased depreciation expense which offset the capital additions. Other restricted net assets increased by \$.3 million. This is attributed primarily to the increased value of endowments.

Unrestricted Net Assets increased by \$2.6 million. This is attributed primarily to savings from different budget initiatives including the comprehensive energy management program and limited salary increases for employees.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets are based on the activity shown on the Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents operating revenues and expenses, non-operating revenues and expenses, and other gains and losses.

Operating revenues are received for providing goods and services to the various constituencies of the University. Operating expenses include salaries, wages, goods and services needed to carry out the mission of the University. Non-operating revenues are those for which no goods or services have been provided. This category includes State appropriations, Pell grants, and other federal revenues.

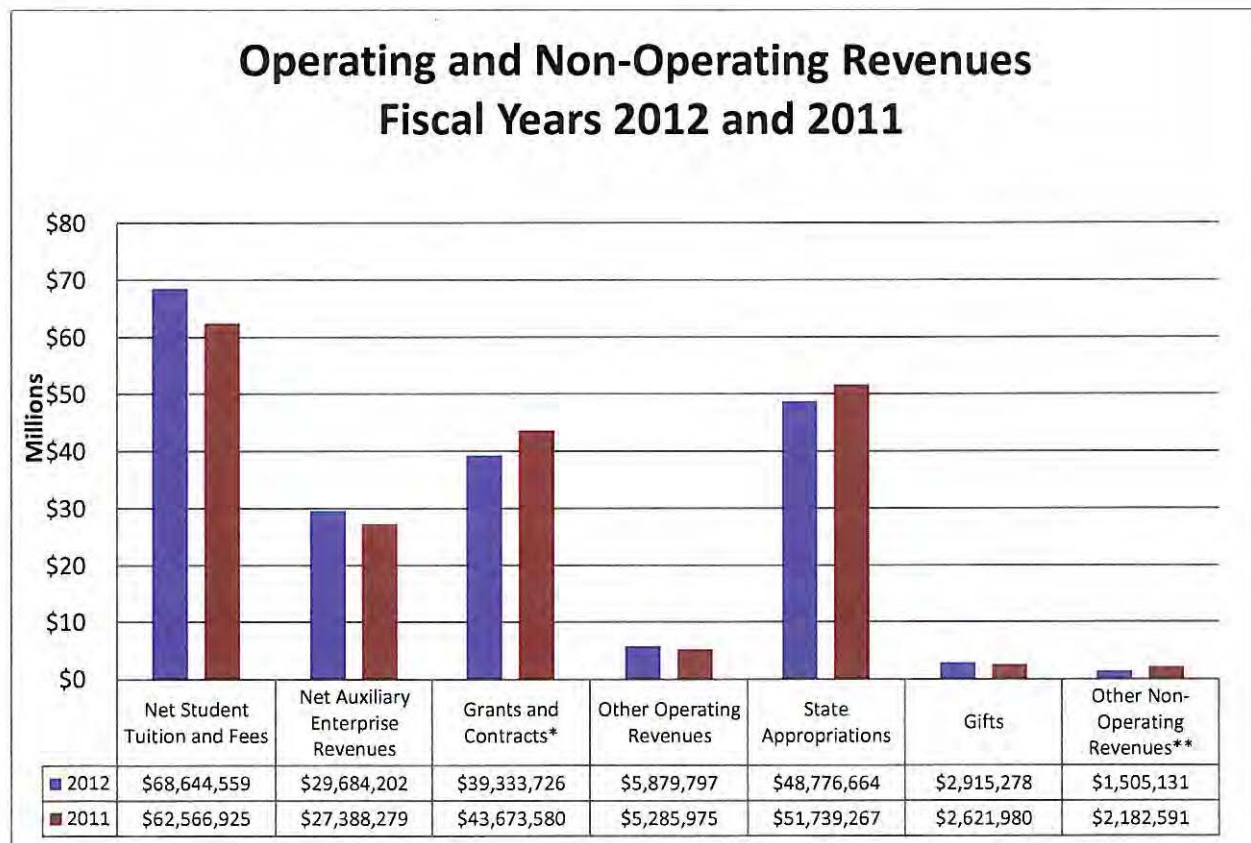
A summarized comparison of the University's Statement of Revenues, Expenses, and Changes in Net Assets for the years ended August 31, 2012, and 2011 follows:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Net Student Tuition and Fees	\$68,644,559.02	\$62,566,924.73
Net Auxiliary Enterprise Revenues	29,684,202.03	27,388,279.34
Grants and Contracts	17,132,999.96	20,526,925.81
Other Operating Revenues	5,879,796.83	5,285,975.28
Total Operating Revenues	<u>121,341,557.84</u>	<u>115,768,105.16</u>
Total Operating Expenses	<u>195,816,149.68</u>	<u>194,771,813.21</u>
Operating Income (Loss)	<u>(74,474,591.84)</u>	<u>(79,003,708.05)</u>
Non-Operating Revenues (Expenses):		
Legislative Revenue (State)	37,349,153.00	40,703,316.00
Additional Appropriations	11,427,511.29	11,035,951.04
Federal Revenues - Non-Operating	22,200,726.00	23,146,654.43
Gifts	2,915,277.55	2,621,979.50
Net Investment Income (Loss)	1,083,054.15	2,025,167.15
Net Increase in Fair Value of Investments	588,653.08	123,164.25
Interest Expenses and Fiscal Charges	(7,448,097.23)	(6,794,445.77)
Net Other Non-Operating Revenues (Expenses)	(166,576.52)	34,259.74
Total Non-Operating Revenues (Expenses)	<u>67,949,701.32</u>	<u>72,896,046.34</u>

Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(6,524,890.52)	(6,107,661.71)
Other Revenues, Expenses, Gains (Losses) and Transfers	7,475,054.06	7,899,469.41
Change in Net Assets	950,163.54	1,791,807.70
Net Assets, Beginning of Year	133,645,332.79	131,924,940.60
Restatements	(18,830.31)	(71,415.51)
Restated Net Assets, Beginning of Year	133,626,502.48	131,853,525.09
Net Assets, End of Year	\$134,576,666.02	\$133,645,332.79

The following graph represents operating and non-operating revenues by major source:



* *Grants and Contracts includes both Operating and Non-Operating Grants and Contracts.*

***Other Non-Operating Revenues includes Net Investment Income, Net Increase (Decrease) in Fair Value of Investments, and Other Non-Operating Revenues.*

Some of the fiscal year 2012 highlights presented in the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- There was a \$6.1 million increase in net tuition and fees. Gross tuition increased by \$5.3 million, which was attributed to both increased enrollment and higher tuition and fee rates. The University uses a formula provided by the National Association of College and University Business Officers (NACUBO) to calculate

tuition discounts, which takes into account student charges, payments both to and from students, loan proceeds, contractual payments made on a student's behalf, and scholarships. (See chart below.)

- Net auxiliary enterprise revenues increased approximately \$2.3 million. This is primarily attributed to the increased housing rates and the opening of the freshman residence hall in fall 2011. Gross auxiliary enterprise revenues – pledged increased approximately \$2.1 million. (See chart below.)

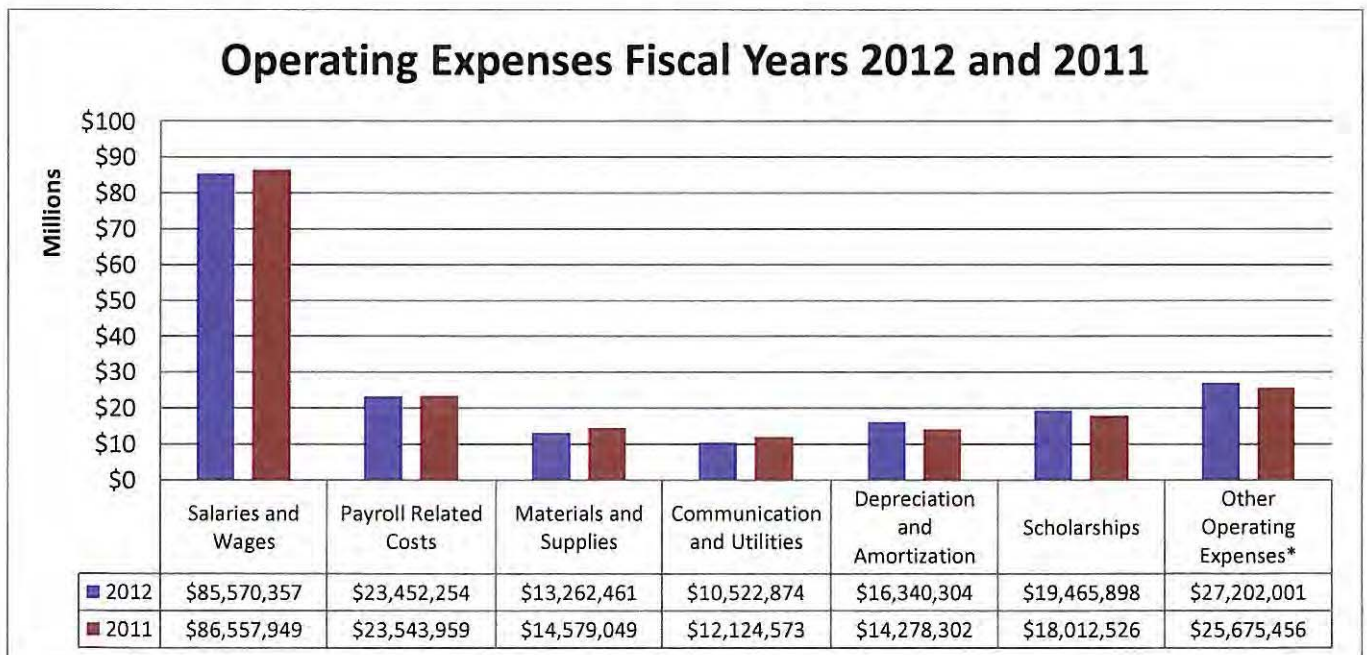
Gross Student Revenues, Exemptions, Discounts and Allowances			
	2012	2011	Net Change
Tuition and Fees - Pledged	\$87,270,382.96	\$81,947,512.20	\$5,322,870.76
Tuition and Fees - Non-Pledged	3,746,882.38	3,720,664.27	26,218.11
Discounts	(21,764,584.55)	(22,928,225.79)	1,163,641.24
Allowances for Doubtful Accounts	(608,121.77)	(173,025.95)	(435,095.82)
Net Student Tuition and Fees	<u>\$68,644,559.02</u>	<u>\$62,566,924.73</u>	<u>\$6,077,634.29</u>
Auxiliary Enterprises - Pledged	\$37,657,107.00	\$35,544,871.90	\$2,112,235.10
Discounts	(9,004,789.22)	(9,513,227.46)	508,438.24
Allowances for Doubtful Accounts	(642,343.75)	(201,377.97)	(440,965.78)
Auxiliary Enterprises - Non-Pledged	1,674,228.00	1,558,012.87	116,215.13
Net Auxiliary Enterprise Revenues	<u>\$29,684,202.03</u>	<u>\$27,388,279.34</u>	<u>\$2,295,922.69</u>

- Grants and contracts income recognized in both operating and non-operating income decreased by \$3.4 million. This is attributed to decreased federal funding for research and scholarships of \$1.6 million. Operating grants funded by the State for scholarships decreased \$1.3 million. Non-operating grants and contracts revenue decreased \$.9 million. These decreases were attributed to decreases in Pell grants of \$.3 million and discontinuance of funding related to the stimulus package of \$.6 million.
- There was a \$3.4 million decrease in State appropriations. This decrease follows the decreases of \$4.5 million in 2011 and \$3.4 million in 2010. This trend has caused the University to rely more on tuition and fees.

The following data summarizes the operating expenses in the natural classification expense categories for the fiscal years ended August 31, 2012, and 2011:

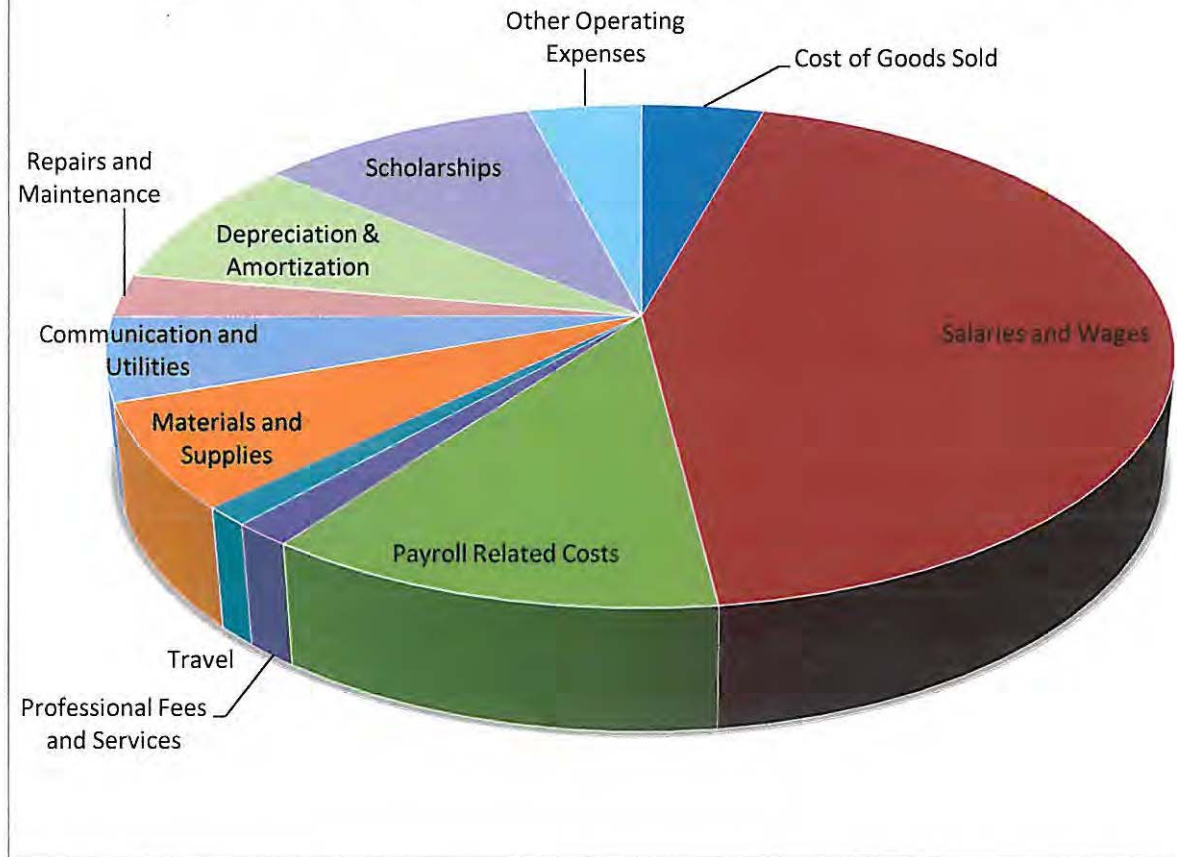
	<u>2012</u>	<u>2011</u>
Cost of Goods Sold	\$ 8,496,255.55	\$ 9,021,470.61
Salaries and Wages	85,570,357.18	86,557,949.01
Payroll Related Costs	23,452,253.88	23,543,958.72
Professional Fees and Services	2,991,987.00	1,840,279.45
Travel	2,401,547.81	1,818,166.42
Materials and Supplies	13,262,460.98	14,579,048.60
Communication and Utilities	10,522,873.94	12,124,573.22
Repairs and Maintenance	5,458,902.90	4,322,203.73
Rentals and Leases	1,737,543.19	1,671,271.76
Printing and Reproduction	561,080.71	586,971.98
Federal Pass-Through Expenditure	17,983.55	250,386.64
Federal Pass-Through Expenditure to Non-State Entities	560,449.30	839,517.65
State Pass-Through Expenditure	45,412.54	0.00
Amortization	618,865.29	446,492.78
Depreciation	15,721,439.19	13,831,809.65
Bad Debt Expense	354,349.43	82,668.21
Scholarships	19,465,898.38	18,012,525.58
Other Operating Expenses	4,576,488.86	5,242,519.20
	<u>\$ 195,816,149.68</u>	<u>\$ 194,771,813.21</u>

Following is a graphic presentation of the major operating expense categories for the fiscal years ended August 31, 2012, and 2011:



*Other Operating Expenses includes Cost of Goods Sold, Professional Fees and Services, Travel, Repairs and Maintenance, Rentals and Leases, Printing and Reproduction, Federal and State Pass-Through Expenses, Bad Debt Expense, and Other Operating Expenses.

Operating Expenses by Category Fiscal Year 2012



Some of the fiscal year 2012 significant changes from the prior year for operating expenses are:

- Salaries and wages and payroll related costs decreased by approximately \$1 million. This decrease is attributed to a hiring freeze and a restructured pay scale for summer teaching assignments. Salaries and wages and payroll related costs account for more than half of the University's operating budget.
- Professional fees and services increased by \$1.2 million. This increase is partially attributed to a partnership the university has with a vendor to market specific online degree programs. The increase is also attributed to architect and engineering fees expensed this year. In the previous fiscal year, most of these costs were capitalized in connection with projects funded with bond proceeds.
- Repairs and maintenance increased by \$1.1 million. This is primarily attributed to maintenance projects that did not meet capitalization thresholds. These projects included renovation of three residence halls and the soccer field.
- Depreciation increased by \$1.9 million. This is attributed to the completion of several projects. Costs previously captured as construction in progress were reclassified into depreciable categories. \$11.1 million was reclassified from construction in progress.
- Communication and utilities decreased by \$1.6 million. This is partially attributed to savings achieved from the comprehensive energy management program. Additionally, the moderate weather conditions in this fiscal year helped reduce utility costs.
- Reported scholarships increased by \$1.5 million. However, scholarships actually awarded to students decreased \$1.4 million. A portion of scholarships has been reclassified as either tuition discounts or auxiliary discounts using the NACUBO discount formula. The discount calculation takes into account all aid to the student. The gross amounts and related reclassifications are shown below:

Gross Scholarships and Related Discounts Applied to Revenues

	2012	2011	Net Change
Student Loans (includes Perkins, Direct Loans, PLUS loans distributed to student accounts)	\$ 88,611,272.16	\$ 91,037,853.39	\$ (2,426,581.23)
Gross Scholarships	46,893,961.83	48,252,103.47	(1,358,141.64)
Scholarships- Reclassed to Tuition Discounts	(18,423,274.23)	(20,726,350.43)	2,303,076.20
Scholarships- Reclassed to Auxiliary Enterprises	(9,004,789.22)	(9,513,227.46)	508,438.24
Scholarships (as reported)	<u>\$ 19,465,898.38</u>	<u>\$ 18,012,525.58</u>	<u>\$ 1,453,372.80</u>

Statement of Cash Flows

The Statement of Cash Flows provides details about the University's major sources and uses of cash during the year. It presents detailed information about the cash activity and an indication of the University's liquidity and ability to meet cash obligations. There are four categories of cash flow activity:

1. Cash Flows from Operating Activities – the net cash used by operating activities
2. Cash Flows from Non-Capital Financing Activities – the net cash received and spent for non-operating, non-capital financing, and non-investing purposes
3. Cash Flows from Capital and Related Financing Activities – the net cash from capital and related financing activities that is used to acquire, construct, or improve capital assets
4. Cash Flows from Investing Activities – the net cash from the acquisition and disposition of debt or equity instruments

The sum of the Net Cash Provided (Used) by these four activity types is the Increase (Decrease) in Cash and Cash Equivalents.

The final section of the Statement of Cash Flows reconciles the Net Cash Provided (Used) by Operating Activities to the Operating Income (Loss) reflected on the Statement of Revenues, Expenses, and Changes in Net Assets. A summarized comparison of the Statement of Cash Flows at August 31, 2012, and 2011 follows:

Statement of Cash Flows

	2012	2011
Net Cash Provided (Used) by:		
Operating Activities	\$(58,910,125.18)	\$(71,158,009.88)
Non-Capital Financing Activities	75,383,553.05	75,138,231.60
Capital and Related Financing Activities	(18,514,792.61)	(29,063,275.75)
Investing Activities	(4,343,739.10)	127,523.98
Increase (Decrease) in Cash and Cash Equivalents	<u>(6,385,103.84)</u>	<u>(24,955,530.05)</u>
Cash and Cash Equivalents, Beginning of Year	<u>67,563,592.68</u>	<u>92,519,122.73</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 61,178,488.84</u></u>	<u><u>\$ 67,563,592.68</u></u>

Net Cash Provided (Used) by Operating Activities should be viewed together with Net Cash Provided (Used) by Non-Capital Financing Activities. State appropriations are significant sources of recurring revenue in support of operating expenses, but under GASB Statement No. 35 they must be classified as Non-Capital Financing Activities instead of Operating Activities. Additionally, Pell grants revenue is classified as a non-operating activity since this is considered a non-exchange activity.

Cash used for Operating Activities decreased \$12.2 million. This is attributed to several factors. The University had increased cash flows of approximately \$7.3 million from student payments for tuition and fees and auxiliary services. Additionally, proceeds received from grants and contracts increased by \$8.6 million. This was due primarily to the timing of the drawdowns from the federal government for reimbursements on the student Direct Loan program. Payments to vendors for goods and services were reduced by \$1.5 million. Payments to students for scholarships in excess of tuition and fees increased \$6 million and payments to employees for salaries and benefits decreased by \$1.4 million.

There were no significant changes related to cash flows from Non-Capital Financing Activities in fiscal year 2012 from the prior year amounts.

Net cash used for Capital and Related Financing Activities decreased by \$10.5 million. This is attributed to the decrease in the proceeds of debt of \$9.9 million offsetting the decrease of capital expenditures of \$23.1 million. Other factors included an increase in the use of funds for principal and interest payments on debt of \$2.3 million.

The change in net cash used for Investing Activities was approximately \$4.5 million. Invested bond proceeds have been drawn down and attributed to a net decrease in cash provided from investment activities of \$14.1 million. This was offset by a reduction in the proceeds from operating investments of \$10 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University continues to improve its campus through development and renewal of its facilities and other capital assets. Capital additions totaled approximately \$11.8 million in fiscal year 2012, \$34.7 million in fiscal year 2011, and \$31.5 million in fiscal year 2010. Unspent bond proceeds of approximately \$2 million related to the nursing building and deferred maintenance projects have been committed to new projects. Unspent bond proceeds from the freshman residence hall of approximately \$6 million may be used to pay down the debt.

As part of the comprehensive energy management program, initiatives to reduce energy costs were funded with two loans from SECO. Of the total project cost of \$17.2 million, \$12.7 million was spent in 2011 and \$4.5 was spent in 2012. Instead of borrowing money from SECO to finance the balance of the project, the University used available HEF funds of \$3.9 million and only borrowed an additional \$.5 million this year from SECO. Additionally, the debt was structured to reduce interest payments over the next ten years. These initiatives have already resulted in utility cost savings to the University.

The University also borrowed \$2.5 million to finance the conversion of the database to the Oracle Exadata platform. This change was made in order for customer support to be provided for the Banner enterprise software system. Payments on this three-year note began in fiscal year 2012.

ECONOMIC OUTLOOK

Management is not aware of any facts, decisions, or conditions that are expected to have a material effect on the financial position or results of operations during the fiscal year 2013. Enrollment trends continue to remain positive. Fall 2012 enrollment of 12,999 was the highest in the University's history. Housing for the student body for fall 2012 was at 96 percent capacity. Campus improvements and increased marketing efforts are expected to have a continued positive impact on enrollment.

In fiscal year 2013, the 83rd Legislature of Texas will meet. Funding levels for education are expected to be a topic for consideration. After experiencing two years of declining appropriations for higher education, University administration is hopeful that higher education will be funded at constant or increased levels in the next biennium.

SIGNIFICANT EVENTS

Management is not aware of any significant events that impacted the financial statements this year.

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UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Statement of Net Assets
 For the Fiscal Year Ended August 31, 2012

ASSETS	2012	2011 as restated
Current Assets		
Cash and Cash Equivalents:		
Cash on Hand	\$ 159,676.40	\$ 384,729.55
Cash in Bank	46,318,847.62	43,107,678.00
Cash in Transit/Reimburse from Treasury	523,826.81	448,952.33
Cash in State Treasury	1,365,832.90	2,092,404.21
Cash Equivalents	0.00	13,146.31
Short Term Investments	20,142,762.12	15,050,015.15
Restricted:		
Cash and Cash Equivalents		
Cash in Bank	12,810,305.11	17,342,430.78
Cash Equivalents	0.00	4,174,251.50
Legislative Appropriations	2,216,431.50	4,954,019.89
Receivables:		
Intergovernmental Receivables:		
Federal	12,422,142.25	13,163,719.82
Other Intergovernmental	200,423.56	346,113.31
Interest and Dividends	145,884.17	155,511.15
Student Receivable	7,540,380.28	8,052,996.73
Accounts Receivable	2,168,509.45	3,762,968.12
Due From Other Agencies:		
Federal	3,546,790.61	3,569,434.78
State	163,853.20	76,364.66
Consumable Inventories	664,958.82	521,147.99
Prepaid Items	20,896,770.37	19,885,973.49
Student Loans Receivables	2,319,998.47	2,198,872.94
Total Current Assets	133,607,393.64	139,300,730.71

See accompanying Notes to the Financial Statements

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Statement of Net Assets
 For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>2011</u> <u>as restated</u>
Noncurrent Assets		
Restricted:		
Investments		
Endowments	10,071,151.36	9,768,026.03
Student Loans Receivables	6,363,176.11	5,805,563.90
Allowance for Doubtful Accounts	(1,497,535.51)	(1,143,186.08)
Unrestricted:		
Investments:		
Operating	28,465,861.15	27,850,384.56
Quasi-Endowments	4,901,299.19	4,743,564.62
Student Accounts Receivables	8,229,683.16	7,055,222.73
Allowance for Doubtful Accounts	(6,701,482.16)	(5,451,016.64)
Capital Assets, Non-depreciable:		
Land and Land Improvements	7,551,432.05	7,454,729.87
Construction in Progress	244,040.52	8,365,739.35
Other Capital Assets	697,419.27	697,419.27
Capital Assets, Depreciable:		
Buildings and Building Improvements	360,494,860.36	356,822,875.02
Less Accumulated Depreciation	(176,689,598.49)	(165,291,219.08)
Infrastructure	11,506,504.57	11,506,504.57
Less Accumulated Depreciation	(7,084,009.91)	(6,397,777.96)
Facilities and Other Improvements	33,141,312.02	20,521,023.28
Less Accumulated Depreciation	(6,450,155.49)	(4,844,969.33)
Furniture and Equipment	19,205,010.32	17,588,009.31
Less Accumulated Depreciation	(12,649,352.11)	(11,480,779.56)
Vehicles, Boats, and Aircraft	4,877,619.27	4,908,404.99
Less Accumulated Depreciation	(3,898,296.65)	(3,742,650.70)
Other Capital Assets	15,857,605.95	15,844,193.08
Less Accumulated Depreciation	(13,934,125.99)	(13,727,978.52)
Intangible Assets	6,503,245.09	5,434,641.49
Less Accumulated Depreciation	(4,468,695.96)	(3,860,786.43)
Total Noncurrent Assets	<u>284,736,968.12</u>	<u>288,425,937.77</u>
Total Assets	<u>418,344,361.76</u>	<u>427,726,668.48</u>

See accompanying Notes to the Financial Statements

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Statement of Net Assets
 For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>2011</u> as restated
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts Payable	3,198,236.01	5,027,858.48
Payroll Payable	6,246,555.70	6,241,824.00
Deposits	2,610,282.62	2,219,972.22
Benefits Payable	1,788,863.38	2,043,975.52
Other Intergovernmental Payables	0.00	359,756.26
Due to Other Agencies	1,291,849.00	802,817.08
Deferred Revenues:		
Tuition and Fees	42,747,490.70	39,898,860.93
Sales and Services	19,078,313.69	19,022,439.28
Grants and Contracts	644,094.18	783,586.81
Employees' Compensable Leave	427,056.61	412,217.76
Capital Lease Obligations	83,512.94	76,480.37
Notes and Loans Payable	2,277,545.52	0.00
Revenue Bonds Payable	5,815,000.00	5,610,000.00
Tuition Revenue Bonds Payable	2,670,000.00	2,580,000.00
General Obligation Bonds Payable	960,000.00	930,000.00
Accrued Bond Interest Payable	2,708,947.52	2,927,654.96
Funds Held for Others	15,244,277.44	16,525,762.72
Payable From Restricted Assets	1,019,309.24	3,600,478.25
Total Current Liabilities	<u>108,811,334.55</u>	<u>109,063,684.64</u>
Noncurrent Liabilities:		
Capital Lease Obligations	169,607.23	222,510.26
Employees' Compensable Leave	3,440,096.38	3,249,697.38
Notes and Loans Payable	12,001,657.58	12,774,273.72
Revenue Bonds Payable	110,380,000.00	116,195,000.00
Tuition Revenue Bonds Payable	42,425,000.00	45,095,000.00
General Obligation Bonds Payable	6,540,000.00	7,500,000.00
Total Noncurrent Liabilities	<u>174,956,361.19</u>	<u>185,036,481.36</u>
Total Liabilities	<u>283,767,695.74</u>	<u>294,100,166.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	54,154,929.36	56,048,575.84
Restricted for:		
Capital Projects	102,271.09	146,578.07
Funds Held as Permanent Investments:		
Non-Expendable	6,965,104.29	6,867,650.39
Expendable	2,780,007.29	2,623,017.96
Other	14,136,050.52	14,073,888.74
Unrestricted	56,438,303.47	53,866,791.48
Total Net Assets	<u>\$ 134,576,666.02</u>	<u>\$ 133,626,502.48</u>

See accompanying Notes to the Financial Statements

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>Revised 2011</u>
Operating Revenues:		
Sales of Goods and Services		
Tuition & Fees - Pledged	\$ 87,270,382.96	\$ 81,947,512.20
Tuition & Fees - Non-Pledged	3,746,882.38	3,720,664.27
Discounts and Allowances	(22,372,706.32)	(23,101,251.74)
Auxiliary Enterprise - Pledged	37,657,107.00	35,544,871.90
Auxiliary Enterprise - Non-Pledged	1,674,228.00	1,558,012.87
Discounts and Allowances	(9,647,132.97)	(9,714,605.43)
Other Sales of Goods and Svcs - Pledged	4,720,708.35	4,377,701.63
Other Sales of Goods and Svcs - Non-Pledged	1,138,967.78	892,220.97
Federal Revenue	4,905,792.84	5,551,982.01
Federal Pass-Through Rev from Non-State Agency	147,136.55	477,654.55
Federal Pass-Through Revenue	1,790,496.19	2,513,990.43
State Grant Revenue	0.00	0.00
State Grant Pass-Through Revenue	9,231,391.07	10,669,026.66
Local Contracts and Grants	669,382.76	697,923.56
Other Contracts and Grants	388,800.55	616,348.60
Other Operating Revenues - Pledged	20,120.70	16,052.68
Total Operating Revenues	<u>121,341,557.84</u>	<u>115,768,105.16</u>
Operating Expenses:		
Cost of Goods Sold	8,496,255.55	9,021,470.61
Salaries and Wages	85,570,357.18	86,557,949.01
Payroll Related Costs	23,452,253.88	23,543,958.72
Professional Fees and Services	2,991,987.00	1,840,279.45
Travel	2,401,547.81	1,818,166.42
Materials and Supplies	13,262,460.98	14,579,048.60
Communication and Utilities	10,522,873.94	12,124,573.22
Repairs and Maintenance	5,458,902.90	4,322,203.73
Rentals and Leases	1,737,543.19	1,671,271.76
Printing and Reproduction	561,080.71	586,971.98
Federal Pass-Through Expenditure	17,983.55	250,386.64
Federal Pass-Through Expenditure to Non-State Entities	560,449.30	839,517.65
State Pass-Through Expenditure	45,412.54	0.00
Amortization	618,865.29	446,492.78
Depreciation	15,721,439.19	13,831,809.65
Bad Debt Expense	354,349.43	82,668.21
Interest Expense	363.75	617.60
Scholarships	19,465,898.38	18,012,525.58
Claims and Settlements	0.00	0.00
Other Operating Expenses	4,576,125.11	5,241,901.60
Total Operating Expenses	<u>195,816,149.68</u>	<u>194,771,813.21</u>
Operating Income (Loss)	<u>(74,474,591.84)</u>	<u>(79,003,708.05)</u>
Non-Operating Revenues (Expenses):		
Legislative Revenue	37,349,153.00	40,703,316.00
Additional Appropriations	11,427,511.29	11,035,951.04
Federal Revenue	22,200,726.00	22,517,882.43

See accompanying Notes to the Financial Statements

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Statement of Revenues, Expenses, and Changes in Net Assets
 For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>Revised 2011</u>
Federal Pass Through Revenue	0.00	628,772.00
Gifts - Nonpledged	2,905,360.90	2,540,830.37
Gifts - Pledged	9,916.65	81,149.13
Land Income	0.00	0.00
Other Rental Income	117,072.66	81,815.22
Investment Income - Pledged	854,126.18	955,636.63
Investment Income - Non-Pledged	172,227.13	952,078.49
Net Increase (Decrease) Fair Value - Pledged	113,742.06	72,097.20
Net Increase (Decrease) Fair Value - Nonpledged	475,603.29	62,995.02
Investing Activities Expenses	(103,106.61)	(91,587.55)
Income on Loans Receivable	150,476.78	141,412.80
Interest Income on Capital Investments-Pledged	9,330.67	67,626.78
Net Increase (Decrease) Fair Value-Capital Investments-Pledged	(692.27)	(11,927.97)
Interest Expenses and Fiscal Charges	(7,448,097.23)	(6,794,445.77)
Gain (Loss) on Sale of Capital Assets	(378,656.54)	(32,753.62)
Settlement of Claims	959.58	117,944.89
Other Non-Operating Revenues (Expenses)	94,047.78	(132,746.75)
Total Non-Operating Revenues (Expenses)	<u>67,949,701.32</u>	<u>72,896,046.34</u>
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>(6,524,890.52)</u>	<u>(6,107,661.71)</u>
Other Revenues, Expenses, Gains/Losses and Transfers		
Capital Contributions	87,702.27	342,971.00
Capital Appropriations (Higher Education Fund)	8,425,937.00	8,425,937.00
Additions to Permanent and Term Endowments	97,453.90	207,126.38
Transfers Out	(1,136,039.11)	(1,076,564.97)
Total Other Revenue, Expenses, Gain/Losses and Transfers	<u>7,475,054.06</u>	<u>7,899,469.41</u>
Change in Net Assets	<u>950,163.54</u>	<u>1,791,807.70</u>
Net Assets, Beginning of Year	133,645,332.79	131,924,940.60
Restatements	(18,830.31)	(71,415.51)
Net Assets, Beginning of Year, as Restated	<u>133,626,502.48</u>	<u>131,853,525.09</u>
Net Assets, August 31, 2012	<u>\$ 134,576,666.02</u>	<u>\$ 133,645,332.79</u>

See accompanying Notes to the Financial Statements

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Matrix of Operating Expenses by Function
 For the Fiscal Year Ended August 31, 2012

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<u>Operating Expenses</u>	<u>Instruction</u>	<u>Research</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>
Cost of Goods Sold	\$ 0.00	\$ 0.00	\$ 17,926.08	\$ 112,369.64	\$ 34,411.91	\$ (79.65)
Salaries and Wages	42,885,057.11	3,197,636.33	1,147,658.58	7,366,118.15	9,108,237.43	8,739,063.47
Payroll Related Costs	9,805,561.77	611,367.22	198,027.56	1,636,587.34	2,102,210.07	4,964,975.97
Professional Fees and Services	494,545.08	437,509.72	371,502.82	684,281.42	106,064.98	53,909.91
Travel	354,721.37	170,176.20	37,052.84	832,983.35	1,041,547.05	58,499.69
Materials and Supplies	2,989,794.98	457,471.05	516,286.41	1,341,283.67	2,143,075.96	1,239,105.44
Communications and Utilities	294,179.34	31,322.84	9,079.18	1,217,395.39	204,701.99	(36,968.68)
Repairs and Maintenance	318,804.76	32,263.50	17,325.28	256,011.63	405,771.83	1,618,839.13
Rentals and Leases	324,536.23	23,234.91	170,558.36	82,068.80	730,960.38	76,861.85
Printing and Reproduction	127,896.74	18,517.04	134,488.76	84,949.81	288,357.37	(220,779.34)
Federal Pass-Through Expenses	0.00	66,200.76	501,148.20	11,083.89	0.00	0.00
State Pass-Through Expense	0.00	0.00	45,412.54	0.00	0.00	0.00
Depreciation and Amortization	0.00	0.00	0.00	0.00	0.00	0.00
Bad Debt Expense	0.00	0.00	0.00	0.00	354,349.43	0.00
Interest	3.86	0.07	4.67	0.00	0.00	153.60
Scholarships	0.00	0.00	0.00	0.00	0.00	0.00
Other Operating Expenses	346,783.58	74,143.47	102,344.28	345,213.98	1,487,047.51	1,385,709.80
Total Operating Expenses	\$ 57,941,884.82	\$ 5,119,843.11	\$ 3,268,815.56	\$ 13,970,347.07	\$ 18,006,735.91	\$ 17,879,291.19

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Matrix of Operating Expenses by Function
 For the Fiscal Year Ended August 31, 2012

UNAUDITED

<u>Operating Expenses</u>	<u>Operation and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
Cost of Goods Sold	\$ 0.00	\$ 0.00	\$ 8,331,627.57	\$ 0.00	\$ 8,496,255.55
Salaries and Wages	4,278,896.45	0.00	8,847,689.66	0.00	85,570,357.18
Payroll Related Costs	1,304,675.28	0.00	2,828,848.67	0.00	23,452,253.88
Professional Fees and Services	501,391.31	0.00	342,781.76	0.00	2,991,987.00
Travel	(293,211.21)	0.00	199,778.52	0.00	2,401,547.81
Materials and Supplies	2,420,617.44	0.00	2,154,826.03	0.00	13,262,460.98
Communications and Utilities	4,085,843.05	0.00	4,717,320.83	0.00	10,522,873.94
Repairs and Maintenance	1,706,021.45	0.00	1,103,865.32	0.00	5,458,902.90
Rentals and Leases	45,122.42	0.00	284,200.24	0.00	1,737,543.19
Printing and Reproduction	8,133.06	0.00	119,517.27	0.00	561,080.71
Federal Pass-Through Expenses	0.00	0.00	0.00	0.00	578,432.85
State Pass-Through Expense	0.00	0.00	0.00	0.00	45,412.54
Depreciation and Amortization	0.00	0.00	0.00	16,340,304.48	16,340,304.48
Bad Debt Expense	0.00	0.00	0.00	0.00	354,349.43
Interest	199.03	0.00	2.52	0.00	363.75
Scholarships	0.00	19,465,898.38	0.00	0.00	19,465,898.38
Other Operating Expenses	459,119.75	0.00	375,762.74	0.00	4,576,125.11
Total Operating Expenses	\$ 14,516,808.03	\$ 19,465,898.38	\$ 29,306,221.13	\$ 16,340,304.48	\$ 195,816,149.68

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>2011 as restated</u>
Cash Flows from Operating Activities		
Proceeds Received from Tuition and Fees	\$ 72,081,810.33	\$ 65,453,435.80
Proceeds Received from Auxiliary Services	29,740,076.44	29,000,422.13
Proceeds Received from Other Sales and Services	5,715,865.30	5,325,400.37
Proceeds from Grants and Contracts	14,740,191.54	6,165,402.45
Proceeds from Other Revenues	20,120.70	16,052.68
Payments to Suppliers for Goods and Services	(50,243,940.99)	(51,700,863.63)
Payments to Employees for Salaries	(85,360,387.63)	(87,267,462.41)
Payments to Employees for Benefits	(23,707,366.02)	(23,235,688.61)
Proceeds (Payments) of Loans Issued to Students and Employees	(528,260.96)	438,713.99
Proceeds (Payments) from Other Activities	-	(1,339.19)
Payments to Students for Scholarships	(21,367,870.14)	(15,351,465.86)
Payments for Interest Expense	(363.75)	(617.60)
Net Cash Provided (Used) by Operating Activities	<u>(58,910,125.18)</u>	<u>(71,158,009.88)</u>
Cash Flows from Noncapital Financing Activities		
Proceeds from State Appropriations	51,514,252.68	51,045,340.87
Proceeds from Non-Operating Grants and Contracts	22,200,726.00	23,146,654.43
Proceeds from Gifts	2,915,277.55	2,621,979.50
Payments of Transfers to Other Agencies	(1,136,039.11)	(1,076,564.97)
Proceeds from Claims and Settlements	959.58	117,944.89
Proceeds (Payments) from Other Revenues	94,047.78	(132,746.75)
Proceeds (Payments) from Endowment Investments	(205,671.43)	(584,376.37)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>75,383,553.05</u>	<u>75,138,231.60</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Capital Assets	3,104.19	17,188.41
Proceeds from Debt Issuance	3,202,222.52	13,135,349.75
Proceeds from State Appropriations-Higher Education Funds (HEF)	8,425,937.00	8,425,937.00
Proceeds from Contributions	87,702.27	342,971.00
Proceeds from Other Financing Activities	-	-
Proceeds from Other Rental Income	117,072.66	81,815.22
Proceeds from Interest on Capital Investments	8,638.40	55,698.81
Payments for Additions to Capital Assets	(11,829,501.38)	(34,918,907.63)
Payments of Principal on Capital Debt	(10,863,163.60)	(9,428,310.99)
Payments of Interest on Capital Debt	(7,666,804.67)	(6,775,017.32)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(18,514,792.61)</u>	<u>(29,063,275.75)</u>
Cash Flows from Investing Activities		
Proceeds (Payments) from Investments	(5,865,958.13)	(15,927,024.87)
Proceeds from Interest Income from Investments	932,873.68	1,816,549.61
Net Increase (Decrease) in Fair Value	589,345.35	135,092.22
Proceeds (Payments) from Redemption of Bond Investments	-	14,102,907.02
Net Cash Provided (Used) by Investing Activities	<u>(4,343,739.10)</u>	<u>127,523.98</u>
Increase (Decrease) in Cash and Cash Equivalents	\$ <u>(6,385,103.84)</u>	\$ <u>(24,955,530.05)</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Statement of Cash Flows
 For the Fiscal Year Ended August 31, 2012

	<u>2012</u>	<u>2011 as restated</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (74,474,591.84)	\$ (79,003,708.05)
Amortization and Depreciation	16,340,304.48	14,278,302.43
Bad Debt Expense	354,349.43	82,668.21
Operating Income and Cash Flow Categories		
Changes in Current Assets and Liabilities		
(Increase) Decrease in Legislative Appropriations	2,737,588.39	(693,926.17)
(Increase) Decrease in Receivables	3,003,969.42	(11,977,697.16)
(Increase) Decrease in Inventories	(143,810.83)	55,477.77
(Increase) Decrease in Loans to Students	29,351.25	313,359.96
(Increase) Decrease in Prepaid Expenses	(1,010,796.88)	(321,774.68)
(Increase) Decrease in Due from Other Agencies	(64,844.37)	(86,723.38)
Increase (Decrease) in Payables	(4,270,861.52)	(1,843,505.70)
Increase (Decrease) in Due to Other Agencies	129,275.66	327,939.20
Increase (Decrease) in Deferred Income	2,765,011.55	3,564,800.99
Increase (Decrease) in Compensated Absences	14,838.85	(169,176.02)
Increase (Decrease) in Current Portion of Bonds & Int. Payable	106,292.56	(204,280.90)
Increase (Decrease) in Assets Held for Others	(1,281,485.28)	2,472,059.31
Increase (Decrease) in Other Current Liabilities	-	(1,339.19)
Changes in Non-Current Assets and Liabilities		
Increase (Decrease) in Notes Payable for Non-capitalized Exp	-	245,999.68
Increase (Decrease) in Compensated Absences	190,399.00	(36,745.13)
Increase (Decrease) in Deposits Payable	-	-
(Increase) Decrease in Student Receivables	76,005.09	817,119.89
(Increase) Decrease in Loans to Students	(557,612.21)	125,354.03
Cash Reported in Other Categories		
Increase (Decrease) in Legislative Appropriations	(2,737,588.39)	693,926.17
Increase (Decrease) in Investment Activity	(9,626.98)	(422.04)
Increase (Decrease) of Gifts Receivable	-	-
(Increase) Decrease in Current Portion of Bonds Payable	(106,292.56)	204,280.90
Net Cash Provided (Used) by Operating Activities	<u>\$ (58,910,125.18)</u>	<u>\$ (71,158,009.88)</u>
Cash and Cash Equivalents, August 31, 2011	\$ 67,563,592.68	\$ 92,519,122.73
Increase (Decrease) in Cash and Cash Equivalents	<u>(6,385,103.84)</u>	<u>(24,955,530.05)</u>
Cash and Cash Equivalents, August 31, 2012	<u>\$ 61,178,488.84</u>	<u>\$ 67,563,592.68</u>
Displayed as:		
Cash on Hand	\$ 159,676.40	\$ 384,729.55
Cash in Bank	46,318,847.62	43,107,678.00
Cash in Transit/Reimb. Due from Treasury	523,826.81	448,952.33
Cash in State Treasury	1,365,832.90	2,092,404.21
Cash Equivalents	-	13,146.31
Cash in Bank, Restricted	12,810,305.11	17,342,430.78
Cash Equivalents, Restricted	-	4,174,251.50
Non-Current Cash Equivalents, Restricted	-	-
	<u>\$ 61,178,488.84</u>	<u>\$ 67,563,592.68</u>

See accompanying Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Entity

Stephen F. Austin State University (the University) is an agency of the State of Texas (the State). The University's financial records comply with State statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

The University serves the State as a public institution of higher education.

The University has six related entities. The University has determined no related entity is a reportable component unit of Stephen F. Austin State University. These related entities are listed in Note 19.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in these Statements. 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.

The University follows the "business-type activities" reporting requirement of GASB Statement No. 34 that provides a comprehensive one-line look at the University's financial activities.

Blended Component Units

No component unit has been identified which should be reported as a blended unit.

Discretely Presented Component Units

No component unit has been identified which should be discretely presented.

Fund Structure

Basis of Accounting – Proprietary Fund Accounting

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial positions, and cash flows. The financial statements of the University have been prepared on the accrual basis. Accrual accounting attempts to record a transaction's financial effects in the period in which the transaction occurred, rather than when funds are received or paid. Revenues are recorded when they are earned or when the University has a right to receive the revenues. Expenses are recognized at the time liabilities are incurred.

There are four essential elements of accrual accounting. They are:

- Deferral of expenditures and the subsequent amortization of the deferred costs.
- Deferral of revenues until they are earned.
- Capitalization of certain expenses and the subsequent depreciation of the capitalized costs.
- The accruals of revenues that have been earned and expenses that have been incurred.

Proprietary funds use the flow of economic resources measurement focus, which is similar to the focus used by commercial entities. Proprietary funds focus on whether the enterprise is economically better off as a result of the events and transactions that occurred during the fiscal period reported. Transactions and events that improved an enterprise's financial position are reported as revenues or gains. Transactions and events that diminished the economic position of the enterprise are reported as expenses or losses. Both current and long-term assets and liabilities are shown on the Statement of Net Assets.

The Statement of Revenues, Expenses, and Changes in Net Assets is segregated into operating and non-operating sections.

Generally, operating activities are those that directly result from the provision of goods and services to

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Notes to the Financial Statements
August 31, 2012

customers or are directly related to the principal and usual activity of an enterprise. GASB Statement No. 34 indicates that a consideration for defining a proprietary fund's operating revenues and expenditures is how individual transactions would be classified for purposes of preparing a Statement of Cash Flows according to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Since certain grants are actually contracts for services, they are classified as operating activities. State appropriations and certain grants, such as the Pell grants, are reported as non-operating activities even though they are directly related to the principal and usual activity of the University. These are considered non-exchange transactions, and are therefore considered non-operating revenues.

Budget and Budgetary Accounting

The University prepares an annual budget which represents anticipated sources of revenue and authorized uses. This budget is approved by the University's Board of Regents. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated. Budget information is not included in the Annual Financial Report.

Assets, Liabilities, and Net Assets

Assets

Assets are reported separately as either current or noncurrent in the Statement of Net Assets.

Cash and Cash Equivalents

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

Restricted Assets

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

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued using the average cost method. The consumption method of accounting is used to account for inventories and prepaid items. The cost of these items is expensed when the items are sold or consumed.

Prepaid Items

Prepaid items include prepaid expenses attributable to a subsequent fiscal year, including scholarships attributed to the 2012 fall semester.

Capital Assets

Equipment with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year is capitalized. Buildings, infrastructure, facilities, and other assets are capitalized when they meet thresholds set by the State. These assets are capitalized and reported at cost or, if not purchased, at appraised fair value on the date of acquisition. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets, such as works of art and historical treasures, are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method of depreciation.

Other Receivables - Current and Noncurrent

Current receivables are specified in the Statement of Net Assets. They include amounts that are reasonably expected to be received in fiscal year 2013. Noncurrent receivables are those receivables that are not expected to be collected within one year. Included in this category are student accounts receivables and loan receivables that are not expected to be received during fiscal year 2013. The disaggregation of other receivables as reported in the financial statements is shown in Note 24, "Disaggregation of Receivable and Payable Balances."

Liabilities

Liabilities are reported separately as either current or noncurrent in the Statement of Net Assets.

Accounts Payable

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

Other Payables – Current and Noncurrent

The disaggregation of other payables as reported in the financial statements is shown in Note 24, “Disaggregation of Receivable and Payable Balances.”

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which the covered employee's salary or wage compensation was paid.

Capital Lease Obligations

Capital Lease Obligations represent the liability for future lease payments under capital lease contracts. Liabilities are reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or noncurrent, for the amounts due thereafter.

Bonds Payable - Revenue Bonds

The principal of revenue bonds is reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or noncurrent, for the amounts due thereafter. Bonds payable are recorded at par value. Interest expense is reported on the accrual basis.

Bonds Payable - Tuition Revenue Bonds

The principal of tuition revenue bonds is reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or noncurrent, for the amounts due thereafter. Bonds payable are recorded at par value. Interest expense is reported on the accrual basis.

Bonds Payable - General Obligation Bonds

The principal of general obligation bonds is reported separately in the Statement of Net Assets as either current, for the amounts due within one year, or noncurrent, for the amounts due thereafter. Bonds payable are recorded at par. Interest expense is reported on the accrual basis.

Net Assets

The difference between assets and liabilities is “Net Assets” on the Statement of Net Assets.

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

Unrestricted Net Assets

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

Interfund Activities and Transactions

The University has the following types of transactions among State appropriated funds and other State agencies:

- Transfers – Legally required transfers that are reported when incurred as “Transfers In” by the recipient fund or State agency and as “Transfers Out” by the disbursing fund or State agency.
- Reimbursements – Reimbursements of expenditures made by one State agency for another are recorded as expenditures by the reimbursing State agency and as a reduction of expenditures by the reimbursed State agency. Reimbursements are not displayed in the financial statements.
- Interfund Receivables and Payables – Interfund receivables and payables are recorded as “Due from Other Agencies” or “Due to Other Agencies” on the Statement of Net Assets. Repayments due during the current year are classified as "Current"; repayments due thereafter are classified as "Noncurrent."
- Interfund Sales and Purchases – Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of the University's interfund activities and balances are presented in Note 12.

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NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below:

	Balance		Reclassifications			Balance
	09/01/2011	Adjustments	Completed CIP	Additions	Deletions	8/31/2012
BUSINESS-TYPE ACTIVITIES						
Non-depreciable or Non-amortizable Assets						
Land and Land Improvements	\$7,454,729.87	-	-	\$96,702.18	-	\$7,551,432.05
Infrastructure	-	-	-	-	-	-
Construction in Progress	8,365,739.35	-	(11,108,730.76)	2,987,031.93	-	244,040.52
Other Tangible Capital Assets	697,419.27	-	-	-	-	697,419.27
Total Non-depreciable or Non-amortizable Assets	16,517,888.49	-	(11,108,730.76)	3,083,734.11	-	8,492,891.84
Depreciable Assets						
Buildings and Building Improvements	356,822,875.02	-	2,962,208.38	979,362.57	(269,585.61)	360,494,860.36
Infrastructure	11,506,504.57	-	-	-	-	11,506,504.57
Facilities and Other Improvements	20,521,023.28	-	10,474,602.11	2,145,686.63	-	33,141,312.02
Furniture and Equipment	17,588,009.31	-	-	1,999,802.36	(382,801.35)	19,205,010.32
Vehicle, Boats and Aircraft	4,908,404.99	-	-	90,450.28	(121,236.00)	4,877,619.27
Other Capital Assets	15,844,193.08	-	(2,328,079.73)	2,469,461.07	(127,968.47)	15,857,605.95
Total Depreciable Assets	427,191,010.25	-	11,108,730.76	7,684,762.91	(901,591.43)	445,082,912.49
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(165,291,219.08)	-	-	(11,403,295.64)	4,916.23	(176,689,598.49)
Infrastructure	(6,397,777.96)	-	-	(686,231.95)	-	(7,084,009.91)
Facilities and Other Improvements	(4,844,969.33)	-	-	(1,605,186.16)	-	(6,450,155.49)
Furniture and Equipment	(11,480,779.56)	-	-	(1,535,839.38)	367,266.83	(12,649,352.11)
Vehicles, Boats and Aircraft	(3,742,650.70)	-	-	(276,881.95)	121,236.00	(3,898,296.65)
Other Capital Assets	(13,727,978.52)	-	-	(214,004.11)	7,856.64	(13,934,125.99)
Total Accumulated Depreciation	(205,485,375.15)	-	-	(15,721,439.19)	501,275.70	(220,705,538.64)
Depreciable Assets, Net	221,705,635.10	-	11,108,730.76	(8,036,676.28)	(400,315.73)	224,377,373.85
Amortizable Assets - Intangible						
Computer Software	5,477,241.49	(42,600.00)	-	1,079,559.36	(10,955.76)	6,503,245.09
Total Amortizable Assets - Intangible	5,477,241.49	(42,600.00)	-	1,079,559.36	(10,955.76)	6,503,245.09
Less Accumulated Amortization for:						
Computer Software	(3,884,556.12)	23,769.69	-	(618,865.29)	10,955.76	(4,468,695.96)
Total Accumulated Amortization	(3,884,556.12)	23,769.69	-	(618,865.29)	10,955.76	(4,468,695.96)
Amortizable Assets - Intangible, Net	1,592,685.37	(18,830.31)	-	460,694.07	-	2,034,549.13
Business-Type Activities Capital Assets, Net	\$239,816,208.96	\$(18,830.31)	-	\$(4,492,248.10)	\$(400,315.73)	\$234,904,814.82

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NOTE 3: Deposits, Investments and Repurchase Agreements

The University is authorized by statute to make investments following the "prudent person rule." There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2012, the carrying amount of deposits was \$93,126,477.13 as presented below:

CASH IN BANK – CARRYING AMOUNT	\$93,126,477.13
Less: Certificates of Deposit included in carrying amount and reported as Current or Noncurrent Assets, as appropriate	(33,997,324.40)
Less: Uninvested Securities Lending Cash Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Total Cash in Bank per AFR	\$59,129,152.73

Proprietary Funds Current Assets Cash in Bank	\$46,318,847.62
Proprietary Funds Current Assets Restricted Cash in Bank	12,810,305.11
Proprietary Funds Noncurrent Assets Restricted Cash in Bank	0.00
Cash in Bank per AFR	\$59,129,152.73

These amounts consist of all cash in banks. These amounts are included on the Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts, except for the certificates of deposit, which are recorded as Investments.

As of August 31, 2012, the total bank balance was as follows:

Business-Type Activities	\$ 94,446,908.47	Fiduciary Funds	\$0.00
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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Stephen F. Austin State University Board Policy C-41, *Investments*, states that all deposits shall be secured by a pledge of collateral with a market value equal to no less than 100% of the deposits less any amount insured by the FDIC or FSLIC and pursuant to Chapter 2257, the Public Funds Collateral Act.

At August 31, 2012, amounts insured by the FDIC were \$1,297,291.91. The bank balances at August 31, 2012, that were exposed to custodial credit risks were as follows:

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 University's name
7999	9999	\$0.00	\$93,149,616.56	\$0.00

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Investments

The fair value of the University's investments as of August 31, 2012, is presented below:

Business-Type Activities	Fair Value
U.S. Government	
U.S. Treasury Securities	\$11,123,403.37
U.S. Government Agency Obligations Fannie Mae	296,533.95
U.S. Government Agency Obligations Freddie Mac	1,197,564.17
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust)	0.00
Corporate Obligations	6,498,202.15
Corporate Asset and Mortgage Backed Securities	0.00
Equity	4,162,737.89
International Obligations (Government and Corporate)	2,773,034.03
International Equity	1,122,603.11
Fixed Income Money Market and Bond Mutual Fund	1,254,025.78
Other Commingled Funds (Texpool)	0.00
Alternative Investments	1,155,644.97
Total Investments	\$29,583,749.42

Displayed on Statement of Net Assets as:	
Current Assets:	
Cash Equivalents	\$0.00
Short-Term Investments: Certificates of Deposit	20,142,762.12
Restricted Cash Equivalents	0.00
Restricted Short-Term Investments	0.00
Noncurrent Assets:	
Restricted:	
Investments: Endowments	10,071,151.36
Unrestricted:	
Investments: Quasi-Endowments	4,901,299.19
Investments: Operating	28,465,861.15
Subtotal	63,581,073.82
Less: Certificates of Deposit	(33,997,324.40)
Total	\$29,583,749.42

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Stephen F. Austin State University Board Policy C-41, *Investments*, addresses credit risks by authorizing investments only in certain types of securities.

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As of August 31, 2012, the Standard & Poor's credit quality ratings of the University's investments by type of securities with credit risk exposure were as follows:

Investment Type	AAA	AA	A	NR
U.S. Government Agency Obligations (Excludes obligations explicitly guaranteed by the U.S. Government)	\$0.00	\$1,494,098.12	\$0.00	\$0.00
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	0.00	0.00	0.00	0.00
Corporate Obligations	479,255.70	4,009,208.81	2,009,737.64	0.00
Corporate Asset and Mortgage Backed Securities	0.00	0.00	0.00	0.00
International Obligations	0.00	2,673,760.35	99,273.68	0.00
Repurchase Agreements	0.00	0.00	0.00	0.00
Alternative Investments	0.00	0.00	0.00	1,155,644.97
	AAAf	AAf	Unrated	
Fixed Income Money Market and Bond Mutual Fund	\$0.00	\$0.00	\$1,254,025.78	
	A-1	A-2	A-3	
Commercial Paper	\$0.00	\$0.00	\$0.00	

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2012, the University's concentration of credit risk is immaterial to any single issuer.

Reverse Repurchase Agreements

The University, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the University and the University transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the University arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement.

As of August 31, 2012, the University was not participating in reverse repurchase agreements.

Securities Lending

In securities lending transactions, the University would transfer its securities to broker-dealers and other entities for collateral – which may be cash or securities – and simultaneously agrees to return the collateral for cash or the same securities in the future. The University did not participate in securities lending transactions during fiscal year 2012.

NOTE 4: Short-Term Debt

The University had no short-term debt as of August 31, 2012.

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NOTE 5: Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2012, the following changes occurred in long-term liabilities:

Business-Type Activities	Balance 09/01/11	Additions	Reductions	Balance 08/31/12	Amounts Due Within One Year	Amounts Due Thereafter
Revenue Bonds Payable	\$121,805,000.00	\$0.00	\$5,610,000.00	\$116,195,000.00	\$5,815,000.00	\$110,380,000.00
Tuition Revenue Bonds Payable	47,675,000.00	0.00	2,580,000.00	45,095,000.00	2,670,000.00	42,425,000.00
General Obligation Bonds Payable	8,430,000.00	0.00	930,000.00	7,500,000.00	960,000.00	6,540,000.00
Capital Lease Obligations	298,990.63	36,523.00	82,393.46	253,120.17	83,512.94	169,607.23
Employees' Compensable Leave	3,661,915.14	523,544.47	318,306.62	3,867,152.99	427,056.61	3,440,096.38
Notes & Loans Payable	12,774,273.72	3,165,699.52	1,660,770.14	14,279,203.10	2,277,545.52	12,001,657.58
Total Business-Type Activities	\$194,645,179.49	\$3,725,766.99	\$11,181,470.22	\$187,189,476.26	\$12,233,115.07	\$174,956,361.19

Notes and Loans Payable

Notes payable consists of amounts used to finance the acquisition of mainframe computer equipment. Loans payable consists of amounts used to finance a comprehensive energy management program. The debt service requirements for notes and loans payable are as follows:

Note and Loan Payments by year

Payment date	Principal	Interest	Total
FY 2013	\$2,277,545.52	\$62,151.54	\$2,339,697.06
FY 2014	2,089,528.96	250,168.10	2,339,697.06
FY 2015	1,308,193.43	198,242.57	1,506,436.00
FY 2016	1,334,357.30	172,078.70	1,506,436.00
FY 2017	1,360,646.11	145,789.89	1,506,436.00
FY 2018-2022	5,908,931.78	307,725.71	6,216,657.49
Total Payments	\$14,279,203.10	\$1,136,156.51	\$15,415,359.61

Claims and Judgments

The University had no unpaid settlements or judgments as of August 31, 2012.

Employees' Compensable Leave

A State employee is entitled to be paid for all unused vacation time (annual leave) 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 at least six months. The University reports the liability for the unpaid annual leave in the Statement of Net Assets. No liability is recorded for sick pay benefits.

NOTE 6: Bonded Indebtedness

Bonds Payable

Detailed supplemental bond information is disclosed in:
Schedule 2A – Miscellaneous Bond Information
Schedule 2B – Changes in Bonded Indebtedness
Schedule 2C – Debt Service Requirements
Schedule 2D – Analysis of Funds Available for Debt Service
Schedule 2E – Defeased Bonds Outstanding
Schedule 2F – Early Extinguishment and Refunding

General information related to bonds is summarized below:

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2002

- To provide funds for construction of a facility to replace the Birdwell Building, construction of a new Telecommunications and Networking building, renovations to Power Plant, and renovations to existing structures at the University.
- Issued 7-9-02.
- \$14,070,000.00; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$665,000.00; Outstanding at year end \$8,610,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2004

- To provide funds for renovation and expansion, and equipment for the Student Center.
- Issued 2-18-04.
- \$26,030,000.00; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Pledged Student Center Fees
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$1,095,000.00; Outstanding at year end \$19,045,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2004(A)

- To provide funds to construct a 400-space parking garage adjacent to the Student Center.
- Issued 8-17-04.
- \$5,460,000.00; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Student Tuition
 - Pledged Student Center Fees
 - Other Pledged Revenues
- Changes in Debt: Principal paid during fiscal year \$230,000.00; Outstanding at year end \$4,030,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2005

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- To provide funds to construct a new student residence hall and associated parking garage; and to pay the costs related to the issuance of the bonds.
- Issued 6-23-05.
- \$17,215,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged Revenues consisting of Unrestricted Current Funds Revenues excluding: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$700,000.00; Outstanding at year end \$13,360,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2005(A)

- To provide funds to construct a new student residence hall and associated parking garage; to construct a new student recreational center and to pay the costs related to the issuance of the bonds.
- Issued 11-02-05.
- \$55,365,000.00; All authorized bonds have been issued.
- Source of revenue for debt service:
 - Pledged Recreational Sports Fee
 - Other Pledged Revenues consisting of Unrestricted Current Funds Revenues excluding: remissions, governmental appropriations and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$2,290,000.00; Outstanding at year end \$47,330,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2008

- To provide funds to construct a new Early Childhood Research Center which will provide an early childhood laboratory for the College of Education and a charter school campus.
- Issued 03-04-08.
- \$20,175,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Unrestricted Current Fund Revenues excluding: remissions, governmental appropriations and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$685,000.00; Outstanding at year end \$14,990,000.00.

State of Texas Constitutional Appropriation Bonds Stephen F. Austin State University - Series 2008

- To provide a portion of the funds to complete construction and equip the Early Childhood Research Center and pay certain costs related to the issuance of the bonds.
- Issued 12-18-08.
- \$10,200,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Higher Education Funds.
- Changes in Debt: Principal paid during fiscal year \$930,000.00; Outstanding at year end \$7,500,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2009

- To provide funds to construct a new nursing facility expansion and provide campus-wide deferred maintenance to multiple buildings.
- Issued 02-04-09.
- \$23,615,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged revenues consisting of Unrestricted Current Fund Revenues excluding: remissions, governmental appropriations and gifts, grants, and contracts within the Educational and General Fund Group; Higher Education Funds; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$840,000.00; Outstanding at year end \$19,410,000.00.
- Revenue Financing System Bonds issued include a Serial Bond of \$1,715,000.00, a Capital Appreciation Bond (CAB) of \$209,575.00, and Current Interest Serial Bonds of \$21,070,000.00.

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Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2010

- To provide funds to construct a new freshman residence hall and adjacent parking garage.
- Issued 04-01-10.
- \$35,035,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged unappropriated fund balances available at the beginning of the year. Pledged revenues consist of Unrestricted Current Fund Revenues excluding: remissions, governmental appropriations and gifts, grants, and contracts within the Educational and General Fund Group; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$1,295,000.00; Outstanding at year end \$32,430,000.00.

Texas Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds - Series 2010A

- To refund outstanding Board of Regents of Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds - Series 1998.
- Issued 04-01-10.
- \$3,415,000.00; All authorized bonds have been issued.
- Source of revenue for debt service: Pledged unappropriated fund balances available at the beginning of the year. Pledged revenues consist of Unrestricted Current Fund Revenues excluding: remissions, governmental appropriations and gifts, grants, and contracts within the Educational and General Fund Group; and student service fees and private gifts in the Auxiliary Fund Group.
- Changes in Debt: Principal paid during fiscal year \$390,000.00; Outstanding at year end \$2,085,000.00.

NOTE 7: Derivative Instruments

The University did not participate in derivative activity during fiscal year 2012.

NOTE 8: Leases

Operating Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

<u>Fund Type</u>	<u>Amount</u>
Proprietary Fund	\$310,994.71

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

Future Minimum Operating Lease Payments Year Ending August 31	
2013	\$264,664.52
2014	178,386.77
2015	87,959.81
2016	37,069.48
2017	6,836.07
2018-2022	0.00
Total Future Minimum Lease Rental Payments	\$574,916.65

Capital Leases

The University has entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and, therefore, are recorded at the present value of the future

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minimum lease payments at the inception of the lease. Following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31, 2012:

Assets Under Capital Leases Year Ended Aug. 31, 2012	Business-Type Activities
Furniture and Equipment	\$451,939.44
Less: Accumulated Depreciation	139,817.21
Vehicles	0.00
Less: Accumulated Depreciation	0.00
Total	\$312,122.23

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at fiscal year-end, are as follows:

Future Minimum Capital Lease Payments Year Ending August 31	Business-Type Activities		
	Principal	Interest	Total
2013	\$83,512.94	\$3,624.73	\$87,137.67
2014	80,630.49	2,495.58	83,126.07
2015	80,114.94	1,457.28	81,572.22
2016	8,861.80	504.32	9,366.12
2017	0.00	0.00	0.00
2018-2022	0.00	0.00	0.00
Total Future Minimum Lease Payments	\$253,120.17	\$8,081.91	\$261,202.08
Less: Amount Representing Interest at Various Rates			8,081.91
Present Value of Net Minimum Lease Payments			\$253,120.17

NOTE 9: Pension Plans

The State of Texas has joint contributory retirement plans for all of its benefits-eligible employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries currently provided by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation. TRS does not separately account for each of its component government agencies since TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, are included in TRS' annual financial report.

The State has also established an Optional Retirement Program (ORP) for institutions of higher education for certain administrative personnel and faculty. Participation in ORP is in lieu of participation in TRS, and the selection to participate in ORP must be made in the first 90 days of eligibility. The ORP allows participants to select from a variety of companies for the purchase of annuity contracts or to invest in mutual funds. The contributory percentages on salaries for participants entering the program prior to September 1, 1995, are 8.5% and 6.65% by the State and each participant, respectively. The State's contribution is comprised of 6.0% from the ORP appropriation and 2.5% from other funding sources. The 6.0% contribution is mandatory with the other 2.5% being at the discretion of the University's Board of Regents. The Board has approved the additional contributions for these employees. The contributory percentages on salaries for participants entering the program after August 31, 1995, are 6.0% and 6.65% by the State and each participant, respectively. Since these are individual annuity contracts or mutual fund investments, the University has no additional or unfunded liability for this program.

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, paragraph 27(d) requires universities that administer the ORP to disclose the amounts contributed by members and by the employer for that plan. Following are the ORP contributions made for the 2012 fiscal year:

	Year Ended Aug. 31, 2012
Member Contributions	\$1,978,369.32

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Employer Contributions	\$2,057,510.86
Total	\$4,035,880.18

NOTE 10: Deferred Compensation

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Chapter 609. Two plans are available for employees: the 403(b) Tax Sheltered Annuity (TSA) plan and the Texasaver 457(b) plan. The TSA is administered by Stephen F. Austin State University. The 457(b) plan is administered by the Employees Retirement System of Texas. The assets of these plans do not belong to the University or to the State, and thus they have no liability related to the plans.

NOTE 11: Post-employment Health Care and Life Insurance Benefits - (Not Applicable)

NOTE 12: Interfund Activity and Transactions

The University experienced routine transfers with other State agencies that 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.

Following are individual balances and activity as of August 31, 2012:

	Due From Other Agencies	Due To Other Agencies	Source
ENTERPRISE FUND (05)			
Appd Fund 5015, D23 Fund 5015			
Agency 608, D23 Fund 5015	\$4,286.25		State Pass Through
Appd Fund 5140, D23 Fund 5140			
Agency 608, D23 Fund 5140	3,430.34		State Pass Through
Appd Fund 9999, D23 Fund 7999			
Agency 724, D23 Fund 7999		\$299,395.11	Federal Pass Through
Agency 733, D23 Fund 7999		415,441.02	Federal Pass Through
Agency 781, D23 Fund 0001		236,501.09	State Pass Through
Agency 735, D23 Fund 7999		2,428.80	Federal Pass Through
Agency 787, D23 Fund 7999		12,385.69	State Pass Through
Agency 781, D23 Fund 0824		129,368.67	State Pass Through
Agency 734, D23 Fund 7999		196,328.62	Federal Pass Through
Agency 401, D23 Fund 0449	2,948,191.90		Federal Pass Through
Agency 530, D23 Fund 0001	32,495.57		Federal Pass Through
Agency 556, D23 Fund 7999	13,386.26		Federal Pass Through
Agency 580, D23 Fund 4831	10,822.80		State Pass Through
Agency 582, D23 Fund 4153	0.00		Federal Pass Through
Agency 701, D23 Fund 0148	234,550.28		Federal Pass Through
Agency 701, D23 Fund 0369	1,437.57		Federal Pass Through
Agency 723, D23 Fund 7999	9,697.84		Federal Pass Through
Agency 701, D23 Fund 0001	0.00		State Pass Through
Agency 771, D23 Fund 0001	124,691.17		Federal Pass Through
Agency 781, D23 Fund 0001	112,701.97		State Pass Through
Agency 781, D23 Fund 0001	92,821.59		Federal Pass Through
Agency 802, D23 Fund 0920	4,211.00		State Pass Through
Agency 802, D23 Fund 0931	85,337.31		Federal Pass Through
Agency 802, D23 Fund 0951	4,181.12		Federal Pass Through
Agency 802, D23 Fund 5043	12,651.30		State Pass Through
Agency 802, D23 Fund 5153	15,749.54		State Pass Through
Total Due From/To Other Agencies	\$3,710,643.81	\$1,291,849.00	

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The detailed State Grant Pass-Through information is listed on Schedule I-B - Schedule of State Grant Pass-Through From/To State Agencies.

NOTE 13: Continuance Subject to Review - (Not Applicable)

NOTE 14: Adjustments to Fund Balances and Net Assets

In fiscal year 2012, the University converted from the statewide property accounting system (SPA) to an internal fixed asset reporting system. During this conversion, two pieces of software were discovered to have been added into the property system in error in 2008. The value of the two assets and their related accumulated amortization were removed from the asset categories for "Computer Software" and "Accumulated Amortization for Computer Software," with a related decrease to the Net Asset account "Invested in Capital Assets, Net of Related Debt." The adjustments were for \$42,600.00, \$23,769.69, and \$18,830.31, respectively, and are reported in Note 2. Also, in fiscal year 2011, "Net Assets, Restricted for Capital Projects" incorrectly included amounts related to unspent bond proceeds. To correct this, "Investment in Plant, Net of Related Debt" was reduced by \$1,713,689.12, "Net Assets Restricted for Capital Projects" was reduced by \$7,234,461.54, and "Unrestricted Net Assets" was increased by \$8,948,150.66.

NOTE 15: Contingencies and Commitments

Unpaid Claims and Lawsuits

As of August 31, 2012, two lawsuits with the University or its officers named as a defendant and some miscellaneous claims were pending. While the ultimate liability with respect to pending claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University.

Federal Assistance

The University receives federal financial assistance for specific purposes that are subject to review or audit by the federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowance, if any, will be immaterial.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government.

The University monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limits any arbitrage liability. The University estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial conditions.

NOTE 16: Subsequent Events - (Not Applicable)

NOTE 17: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; losses resulting from providing health and other medical benefits to employees; and natural disasters. It is the University's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The methods the University uses to handle each of these risks are summarized below.

Injuries to Employees: Employees of the University are covered by a workers' compensation insurance policy provided by the State Office of Risk Management (SORM). SORM assesses the University an amount for the insurance coverage in accordance with 28 T.A.C. 251.507. An Interagency Contract in the amount of \$171,040.78 was executed on behalf of the University for Worker's Compensation Insurance during the year ended August 31, 2012. A mid-year assessment adjustment in the amount of \$28,138.54 for 2012 was paid in May 2012 and recorded as a increase in current year expenditures.

Provision for Health and Other Medical Benefits: Employees of the University are eligible for health insurance and optional coverage(s) if they are employed at least 50% time. The coverage is provided through the State, under the Texas Employees Group Benefits Program (GBP), which was administered by Blue Cross Blue Shield of Texas. As of September 1, 2012 the plan will be administered by Health Select. Eligible employees may select health, dental, life, accidental death and dismemberment, dependent life, and long and short-term disability coverage. All risks associated with these benefits are passed to the GBP. The costs of health insurance coverage are jointly paid by the State and the University as follows: 100% for full-time employees and 50% for their dependents; 50% for part-time employees and 25% for their dependents. Employees hired on or after September 1, 2003, have a 90-day waiting period to participate in health insurance coverage. Contributions made by the State on behalf of the University for health and other medical benefits were \$6,265,593.00 for the year ended August 31, 2012.

Damage to Property: The University is required by certain bond covenants to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds. The insurance protects the bondholders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. In fiscal year 2012, there were no damage claims.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a State highway be insured for minimum limits of liability in the amount of \$30,000 per injured person, up to a total of \$60,000 for everyone injured in an accident (bodily injury) and \$25,000 for property damage. However, the University has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000/\$500,000/\$100,000. The University also carries physical damage for vehicles six years and newer. One vehicle, a 56-passenger bus, carries a \$1,000,000 limit per contractual requirements. The annual premium was \$58,344.00 with a deductible paid of \$2,428.00.

Torts and Other Risks: The University is exposed to a variety of civil claims resulting from the performance of its duties. The University has purchased commercial insurance to address this risk.

NOTE 18: Management's Discussion and Analysis (MD&A)

See *Management's Discussion and Analysis* at the beginning of this financial report.

NOTE 19: The Financial Reporting Entity

The University is an agency of the State of Texas. The ten members of its Board of Regents are appointed by the Governor, and include one non-voting student Regent. The University has no component units or joint ventures.

Six entities exist to benefit the University: Stephen F. Austin State University Foundation, Inc.; SFA Real Estate Foundation, Inc.; Stephen F. Austin State University Alumni Association, Inc.; Stephen F. Austin State University Alumni Foundation, Inc.; Stephen F. Austin State University Tip-In Club; and, Stephen F. Austin State University Quarterjack Club. Since the University's Board of Regents is not financially accountable for these entities and does

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August 31, 2012

not appoint their board members, they are not considered Related Parties per GASB Statement No.14, *The Financial Reporting Entity*, and GASB Statement 39, *Determining Whether Certain Organizations Are Component Units —an amendment of GASB Statement No. 14*. Accordingly, their financial data are not included in this financial report.

The Stephen F. Austin State University Foundation, Inc. is a non-profit organization operating exclusively to solicit, receive, hold, invest, and expend private funds for the sole benefit of the University. The University's Vice President for University Advancement serves as the Executive Director of the Foundation and the University's President may serve as an ex officio, non-voting member of the Foundation's Board of Trustees. This Board of Trustees is a separate governing body from the University's Board of Regents, acting autonomously and with no overlapping members. The University provides certain personnel, office space, utilities, equipment and supplies to assist the Foundation in carrying out its mission and activities.

The SFA Real Estate Foundation, Inc. is a non-profit organization with the sole purpose of supporting the mission of the University. It receives, holds, manages, and controls real property gifts or acquisitions which benefit the University. The University's Vice President for University Advancement serves as the Executive Director of the Foundation and the University's President may serve as an ex officio, non-voting member of the Foundation's Board of Trustees. The University furnishes certain services, such as office space, utilities, and some staff assistance, to the Foundation.

The Stephen F. Austin State University Alumni Association, Inc. is a non-profit organization dedicated to serving the alumni, friends, and current students of the University through programs, scholarships, and activities that create an attitude of continued loyalty and support. The University's Executive Director for Alumni Affairs serves as the Executive Director of the Alumni Association. The Alumni Association compensates the University for a portion of their employee support costs. The University provides certain services, such as office space, utilities, some staff assistance, and custodial services, to the Association.

The Stephen F. Austin State University Alumni Foundation, Inc. is a non-profit organization which exists to award scholarships to students at the University. The Alumni Foundation is housed within the Alumni Association. Therefore, the University provides the same office space, utilities, staff assistance, and custodial services for the Alumni Foundation as it does for the Alumni Association.

The Stephen F. Austin State University Tip-In Club is a non-profit organization which exists for the sole purpose of supporting the Lumberjack Basketball program. It solicits donations and manages and holds gifts for the sole benefit of the intercollegiate men's basketball program. The University's Athletic Director serves as an ex officio, non-voting member of the Club's Board of Directors and reviews and approves activities to ensure compliance with National Collegiate Athletic Association (NCAA) requirements.

The Stephen F. Austin State University Quarterjack Club is a non-profit organization which exists for the sole purpose of supporting the Lumberjack Football program. This organization has been dormant for several years. The University's Athletic Director serves as an ex officio, non-voting member of the Club's Board of Directors and reviews and approves activities to ensure compliance with NCAA requirements.

NOTE 20: Stewardship, Compliance and Accountability
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The University administration is unaware of any non-compliance items.

NOTE 21: (Not Applicable)

Stephen F. Austin State University-755
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 Notes to the Financial Statements
 August 31, 2012

NOTE 22: Donor Restricted Endowments

Donor Restricted Endowment	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	\$155,213.98	Funds Held as Permanent Endowments, Expendable
Term Endowments	1,775.35	Funds Held as Permanent Endowments, Expendable
Total	\$156,989.33	Change in Net Assets, Expendable

The University spending policy provides for a target distribution rate of between 4% and 5% annually. If returns permit, an amount equal to the rate of inflation will be added back to each endowment principal balance. Additionally, if there are any returns beyond the inflation rate, then this amount may be added to a contingency reserve for distribution during years of poor investment performance. In 2012, account managers were given the option to replenish principal balances in order to offset prior year losses rather than make distributions, subject to the endowment agreements. Accordingly, 3.83% of total earnings was distributed to spending accounts and 1.65% was added back to the balance of endowment accounts. In fiscal year 2012, no amount was added to the contingency reserve account.

NOTE 23: Extraordinary and Special Items - (Not Applicable)

NOTE 24: Disaggregation of Receivable and Payable Balances

Accounts Receivables

The components of Current Accounts Receivable, as reported in the Statement of Net Assets, are as follows:

Accounts Receivable Category	Current Amount
3 rd Party Contracts for Student Payments	\$1,888,151.36
Miscellaneous Receivables	280,358.10
Total	\$2,168,509.45

Of these amounts, there are no significant receivable balances that the University does not expect to collect within the next fiscal year.

Accounts Payables

The components of Current Accounts Payable, as reported in the Statement of Net Assets, are as follows:

Accounts Payable Category	Current Amount
Payables on Construction Activity	\$245,769.44
Utility Payables	600,259.83
Procurement Card Payables	539,415.27
Food Service Payable	813,602.94
Student Activities Payable	93,849.00
Miscellaneous	905,339.53
Total	\$3,198,236.01

NOTE 25: Termination Benefits – (Not Applicable)

NOTE 26: Segment Information - (Not Applicable)

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 1-A-Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	NSE Name/ Identifying Number	Pass-Through From		
			Agy/ Univ. #	Agencies Or Univ. Amount	Non-State Entities Amount
U.S. Department of Agriculture					
Direct Programs:					
Grants for Agriculture Research, Special Research Grants	10.200			\$ 0.00	\$ 0.00
Forestry Research	10.652				
Urban and Community Forestry Program	10.675				
Totals - U. S. Department of Agriculture				<u>0.00</u>	<u>0.00</u>
U.S. Department of Defense					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				
Totals - U.S. Department of Defense				<u>0.00</u>	<u>0.00</u>
U.S. Department of the Interior					
National Historic Landmark	15.912	City of Nacogdoches/ 202151			6,540.68
Direct Programs:					
National Historic Landmark	15.912				
Totals - U.S. Department of the Interior				<u>0.00</u>	<u>6,540.68</u>
National Endowment For The Humanities					
Promotion of the Humanities Federal/State Partnership	45.129	Humanities Texas/ 203811			1,050.00
Direct Programs:					
Promotion of the Humanities Division of Preservation & Access	45.149				
Totals - National Endowment For The Humanities				<u>0.00</u>	<u>1,050.00</u>
National Science Foundation					
Education and Human Resources	47.076				
Pass Through To: University of Texas at Austin					
ARRA - Trans-NSF Recovery Act Research Support	47.082				
Totals - National Science Foundation				<u>0.00</u>	<u>0.00</u>
U.S. Department of Education					
Rehabilitation Long-Term Training	84.129				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				
Transition to Teaching	84.350				
Pass-Through From:					
Career and Technical Education -- Basic Grants to States	84.048				
Pass-Through From:					
Texas Education Agency			701	716,914.52	
Improving Teacher Quality State Grants	84.367				
Pass-Through From:					
Texas Higher Education Coordinating Board			781	87,886.72	
College Access Challenge Grant Program	84.378				
Pass-Through From:					
Texas Higher Education Coordinating Board			781	59,032.56	
ARRA-Education Jobs Fund	84.410				
Pass-Through From:					
Texas Education Agency			701	44,934.00	
Totals - U.S. Department of Education				<u>908,767.80</u>	<u>0.00</u>
U.S. Department of Health and Human Services					
Direct Programs:					
Rural Health Care Services Outreach and Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912				
Pass-Through From:					
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107				

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Direct Program Amount	Total PT From & Direct Program	Pass-Through To		Expenditures Amount	Total PT To & Expenditures
		Agy #/ Univ. #	State Agy. Or Univ. Amount		
\$ 14,627.99	\$ 14,627.99		\$ 0.00	\$ 14,627.99	\$ 14,627.99
5,551.94	5,551.94			5,551.94	5,551.94
13,072.71	13,072.71			13,072.71	13,072.71
<u>33,252.64</u>	<u>33,252.64</u>		<u>0.00</u>	<u>33,252.64</u>	<u>33,252.64</u>
287,160.40	287,160.40			287,160.40	287,160.40
<u>287,160.40</u>	<u>287,160.40</u>		<u>0.00</u>	<u>287,160.40</u>	<u>287,160.40</u>
	6,540.68			6,540.68	6,540.68
24,537.91	24,537.91			24,537.91	24,537.91
<u>24,537.91</u>	<u>31,078.59</u>		<u>0.00</u>	<u>31,078.59</u>	<u>31,078.59</u>
	1,050.00			1,050.00	1,050.00
6,000.00	6,000.00			6,000.00	6,000.00
<u>6,000.00</u>	<u>7,050.00</u>		<u>0.00</u>	<u>7,050.00</u>	<u>7,050.00</u>
142,220.51	142,220.51			131,136.62	142,220.51
		721	11,083.89		
240,332.54	240,332.54			240,332.54	240,332.54
<u>382,553.05</u>	<u>382,553.05</u>		<u>11,083.89</u>	<u>371,469.16</u>	<u>382,553.05</u>
191,180.26	191,180.26			191,180.26	191,180.26
835,253.28	835,253.28			339,222.53	835,253.28
184,047.30	184,047.30			184,047.30	184,047.30
	716,914.52			161,925.67	716,914.52
	87,886.72			87,886.72	87,886.72
	59,032.56			59,032.56	59,032.56
	44,934.00			44,934.00	44,934.00
<u>1,210,480.84</u>	<u>2,119,248.64</u>		<u>0.00</u>	<u>1,618,100.44</u>	<u>2,119,248.64</u>
(669.31)	(669.31)			(669.31)	(669.31)
	85,355.03			85,355.03	85,355.03

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 1-A-Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	NSE Name/ Identifying Number	Pass-Through From		Non-State Entities Amount
			Agy/ Univ. #	Agencies Or Univ. Amount	
Pass-Through From: University of Texas Medical Branch Galveston			723	85,355.03	
Foster Care--Title IV-E	93.658				
Pass-Through From: Department of Family and Protective Services			530	110,517.99	
Geriatric Education Centers	93.969				
Pass-Through From: University of Texas Medial Branch at Galveston			723	20,860.61	
Totals - U.S. Department of Health & Human Services				<u>216,733.63</u>	<u>0.00</u>
Corporation for National and Community Service Program Development and Innovation Grants	94.007	Missouri Campus Compact/203771			500.80
Totals - Corporation for National and Community Service				<u>0.00</u>	<u>500.80</u>
RESEARCH & DEVELOPMENT CLUSTER					
U.S. Department of Agriculture					
Direct Programs:					
Grants for Agricultural Research, Special Research Grants	10.200				
Cooperative Forestry Research	10.202				
Higher Education Challenge Grants	10.217				
Forestry Research	10.652				
Totals - U. S. Department of Agriculture				<u>0.00</u>	<u>0.00</u>
U.S. Department of Defense					
Aquatic Plant Control	12.100				
Collaborative Research and Development	12.114				
Military Medical Research and Development	12.420				
Mathematical Sciences Grants Program	12.901				
Totals - U.S. Department of Defense				<u>0.00</u>	<u>0.00</u>
U.S. Department of the Interior					
National Land Remote Sensing Education Outreach and Research	15.815	America View/ AV04-TX01 202091			1,574.79
		America View/ AV04-TX01 202092			13,449.63
		America View/ AV04-TX01 202093			2,732.28
Direct Programs:					
Migratory Bird Monitoring, Assessment and Conservation	15.655				
National Historic Landmark	15.912				
Rivers, Trails and Conservation Assistance	15.921				
Cooperative Research and Training Programs-Resources of the National Park System	15.945				
Pass-Through From: Wildlife Restoration and Basic Hunter Education	15.611				
Pass-Through From: Parks and Wildlife Department			802	85,878.51	
State Wildlife Grants	15.634				
Pass-Through From: Parks and Wildlife Department			802	699.49	
National Land Remote Sensing Education Outreach and Research	15.815				4,470.86
Pass-Through To: University of Texas at Austin		America View/ AV04-TX01			
National Land Remote Sensing Education Outreach and Research	15.815				2,428.80
Pass-Through To: Midwestern State University		America View/ AV04-TX01			

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Direct Program Amount	Total PT From & Direct Program	Pass-Through To		Expenditures Amount	Total PT To & Expenditures
		Agy #/ Univ. #	State Agy. Or Univ. Amount		
	110,517.99			110,517.99	110,517.99
	20,860.61			20,860.61	20,860.61
<u>(669.31)</u>	<u>216,064.32</u>		<u>0.00</u>	<u>216,064.32</u>	<u>216,064.32</u>
	500.80			500.80	500.80
<u>0.00</u>	<u>500.80</u>		<u>0.00</u>	<u>500.80</u>	<u>500.80</u>
191,175.02	191,175.02			191,175.02	191,175.02
357,942.07	357,942.07			357,942.07	357,942.07
92,430.13	92,430.13			59,279.61	92,430.13
3,802.55	3,802.55			3,802.55	3,802.55
<u>645,349.77</u>	<u>645,349.77</u>		<u>0.00</u>	<u>612,199.25</u>	<u>645,349.77</u>
(1.79)	(1.79)			(1.79)	(1.79)
5,890.62	5,890.62			5,890.62	5,890.62
(59.42)	(59.42)			(59.42)	(59.42)
3,359.66	3,359.66			3,359.66	3,359.66
<u>9,189.07</u>	<u>9,189.07</u>		<u>0.00</u>	<u>9,189.07</u>	<u>9,189.07</u>
	1,574.79			1,574.79	1,574.79
	13,449.63			13,449.63	13,449.63
	2,732.28			2,732.28	2,732.28
122,363.95	122,363.95			122,363.95	122,363.95
6,058.15	6,058.15			6,058.15	6,058.15
6,755.32	6,755.32			6,755.32	6,755.32
19,978.60	19,978.60			15,048.53	19,978.60
	85,878.51			85,878.51	85,878.51
	699.49			699.49	699.49
	4,470.86				4,470.86
		721	4,470.86		
	2,428.80				2,428.80
		735	2,428.80		

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STEPHEN F. AUSTIN STATE UNIVERSITY
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 Schedule 1-A-Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended August 31, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	NSE Name/ Identifying Number	Pass-Through From		Non-State Entities Amount
			Agy/ Univ. #	Agencies Or Univ. Amount	
Totals - U.S. Department of the Interior				<u>86,578.00</u>	<u>24,656.36</u>
National Aeronautics & Space Administration					
Science	43.001	Oregon State University/ 200813			6,083.71
	43.001	Sigma Space Corp/ 202591			34,934.24
Totals - National Aeronautics & Space Administration				<u>0.00</u>	<u>41,017.95</u>
National Science Foundation					
Direct Programs:					
Social, Behavioral, and Economic Sciences	47.075				
Education and Human Resources	47.076				
Totals - National Science Foundation				<u>0.00</u>	<u>0.00</u>
Environmental Protection Agency					
Pass-Through From:					
Nonpoint Source Implementation Grants	66.460				
Pass-Through From:					
Texas AgriLife Research			556	50,725.63	
Totals - Environmental Protection Agency				<u>50,725.63</u>	<u>0.00</u>
U.S. Department of Education					
Direct Programs:					
English Language Acquisition Grants	84.365				
Totals - U.S. Department of Education				<u>0.00</u>	<u>0.00</u>
U.S. Department of Health and Human Services					
Occupational Safety and Health Program	93.262	University of Iowa/ 203851			10,363.27
Special Projects of National Significance	93.928	Special Health Resources of TX, Inc/ 200801			42,618.89
		Special Health			20,388.60
Totals - U.S. Department of Health and Human Services				<u>0.00</u>	<u>73,370.76</u>
SPECIAL EDUCATION (IDEA) CLUSTER					
U.S. Department of Education					
Special Education--Grants to States	84.027				
Pass-Through From:					
Texas Education Agency			701	27,334.80	
Special Education--Grants to States	84.027				
Pass-Through From:					
Texas School for the Blind & Visually Impaired			771	500,356.33	
Totals - U.S. Department of Education				<u>527,691.13</u>	<u>0.00</u>
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education					
Direct Programs:					
Federal Supplemental Educational Opportunity Grants	84.007				
Federal Work-Study Program	84.033				
Federal Perkins Loan Program	84.038	Federal Capital Contributions			
Federal Pell Grant Program	84.063				
Federal Direct Student Loans	84.268				
Academic Competitiveness Grants	84.375				
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379				
Totals - U.S. Department of Education				<u>0.00</u>	<u>0.00</u>
Total Expenditures of Federal Awards				<u>\$ 1,790,496.19</u>	<u>\$ 147,136.55</u>

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Direct Program Amount	Total PT From & Direct Program	Pass-Through To		Expenditures Amount	Total PT To & Expenditures	
		Agy #/ Univ. #	State Agy. Or Univ. Amount			Non-State Entities Amount
<u>155,156.02</u>	<u>266,390.38</u>		<u>6,899.66</u>	<u>4,930.07</u>	<u>254,560.65</u>	<u>266,390.38</u>
	6,083.71			6,083.71		6,083.71
	34,934.24			21,220.51	13,713.73	34,934.24
<u>0.00</u>	<u>41,017.95</u>		<u>0.00</u>	<u>21,220.51</u>	<u>19,797.44</u>	<u>41,017.95</u>
3,694.60	3,694.60			3,694.60		3,694.60
110,122.23	110,122.23			110,122.23		110,122.23
<u>113,816.83</u>	<u>113,816.83</u>		<u>0.00</u>	<u>0.00</u>	<u>113,816.83</u>	<u>113,816.83</u>
	50,725.63			50,725.63		50,725.63
<u>0.00</u>	<u>50,725.63</u>		<u>0.00</u>	<u>0.00</u>	<u>50,725.63</u>	<u>50,725.63</u>
620,496.34	620,496.34			620,496.34		620,496.34
<u>620,496.34</u>	<u>620,496.34</u>		<u>0.00</u>	<u>0.00</u>	<u>620,496.34</u>	<u>620,496.34</u>
	10,363.27			10,363.27		10,363.27
	42,618.89			42,618.89		42,618.89
	20,388.60			20,388.60		20,388.60
<u>0.00</u>	<u>73,370.76</u>		<u>0.00</u>	<u>0.00</u>	<u>73,370.76</u>	<u>73,370.76</u>
	27,334.80			27,334.80		27,334.80
	500,356.33			500,356.33		500,356.33
<u>0.00</u>	<u>527,691.13</u>		<u>0.00</u>	<u>0.00</u>	<u>527,691.13</u>	<u>527,691.13</u>
318,536.00	318,536.00			318,536.00		318,536.00
613,666.28	613,666.28			613,666.28		613,666.28
787,815.00	787,815.00			787,815.00		787,815.00
22,200,726.00	22,200,726.00			22,200,726.00		22,200,726.00
82,446,156.00	82,446,156.00			82,446,156.00		82,446,156.00
(375.00)	(375.00)			(375.00)		(375.00)
486,642.00	486,642.00			486,642.00		486,642.00
<u>106,853,166.28</u>	<u>106,853,166.28</u>		<u>0.00</u>	<u>0.00</u>	<u>106,853,166.28</u>	<u>106,853,166.28</u>
\$ <u>110,340,489.84</u>	\$ <u>112,278,122.58</u>		\$ <u>17,983.55</u>	\$ <u>560,449.30</u>	\$ <u>111,699,689.73</u>	\$ <u>112,278,122.58</u>

STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 1-A-Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2012

Note 1 - Nonmonetary Assistance - N/A

Note 2 - Reconciliation

Below is a reconciliation of the total of federal pass through and federal expenditures as reported on the Schedule of Federal Financial Assistance to the total of federal revenues and federal grant pass-through revenues as reported in the general-purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

Per Combined Statement of Changes in Revenues, Expenses and Net Assets

Federal Revenue Operating	\$ 4,905,792.84
Federal Pass-Through Revenue	1,790,496.19
Federal Pass-Through from Non-State Agency	147,136.55
Federal Non-Operating	<u>22,200,726.00</u>
Subtotal	29,044,151.58

Reconciling Items:

Non-monetary:	0.00
New Loans Processed:	
GSL/SLS/PLUS Loans	0.00
Federal Direct Student Loans (Direct Loans)	82,446,156.00
Federal Perkins Loans	<u>787,815.00</u>
Total Pass-Through and Expenditures per Federal Schedule	<u>\$ 112,278,122.58</u>

Note 3 - Student Loans Processed and Administrative Costs Recovered

Federal Grantor/CFDA Number/ Program Name	New Loans Processed	Admin Costs Recovered	Total Loans Processed & Admin Costs Recovered	End Balances of Previous Year's Loans
Department of Education 84.038 Federal Perkins Loans	\$ 787,815.00	\$ -	\$ 787,815.00	\$ 5,070,456.31
Department of Education 84.268 Federal Direct Student Loans (Direct Loans)	82,446,156.00	-	82,446,156.00	-
Total Department of Education	\$ 83,233,971.00	\$ -	\$ 83,233,971.00	\$ 5,070,456.31

Note 4 - Depository Libraries for Government Publications - N/A

Note 5 - Unemployment Insurance - N/A

Note 6 - Rebates from the Special Supplemental Food Program for Women, Infant and Children (WIC) - N/A

Note 7 - Federal Deferred Revenue

Federal Deferred Revenue 9-1-11	\$ 229,981.68
Increase (Decrease)	8,898.73
Federal Deferred Revenue 8-31-12	<u>\$ 238,880.41</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY

Agency No. 755

Schedule 1-B - Schedule of State Grant Pass-Through From/To State Agencies
For The Fiscal Year Ended August 31, 2012

Pass Through From:

Operating:

Texas State Board of Public Accountancy (Agy #487) Fifth Year Accounting Student Scholarship Program	\$ 10,500.00	\$ 10,500.00
Texas Water Development Board (Agy #580) WSC - Research	<u>13,177.34</u>	13,177.34
Texas Education Agency (Agy #701) Foundation School Program (FSP)-Formula	<u>1,685,384.00</u>	1,685,384.00
UT-System (Agy #720) Joint Admission Medical Program (JAMP)	<u>31,923.59</u>	31,923.59
Texas Higher Ed. Coord. Board (Agy #781) Nursing & Allied Health	\$115,814.59	
TEXAS Grant Program	5,585,000.00	
Professional Nursing Shortage Reduction Program	129,009.91	
Promote Participation & Success	12,618.68	
College Work Study Program	75,097.22	
College Readiness Initiative	600,396.94	
Top 10% Scholarships	893,547.00	
Combat Exemption Prog SB297	(1,358.70)	
Early High School Program HB1479	47,163.40	
Certified Edu Aide Program	(298.00)	
Outreach and Success	<u>(718.68)</u>	7,456,272.36
Texas Parks & Wildlife (Agy #802) Nacogdoches Naturally CO-OP	<u>\$ 34,133.78</u>	<u>34,133.78</u>
Total Operating Pass-Through From Other Agencies		<u><u>\$ 9,231,391.07</u></u>

Pass Through To:

Operating:

SETX P-16 Advisors (Agy #787)	\$ 45,412.54	<u>45,412.54</u>
Total Operating Pass-Through To Other Agencies		<u><u>\$ 45,412.54</u></u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2A - Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2012

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Scheduled Maturities		First Call Date
				First Year	Last Year	
Business-Type Activities						
Revenue Bonds - Self Supporting						
Rev Fin Sys Bds Ser '04	\$ 26,030,000.00	2.000	4.375	2005	2024	10/15/2013
Rev Fin Sys Bds Ser '04 (A)	5,460,000.00	4.000	4.625	2005	2024	10/15/2013
Rev Fin Sys Bds Ser '05	17,215,000.00	4.000	5.250	2006	2025	10/15/2015
Rev Fin Sys Bds Ser '05 (A)	55,365,000.00	3.500	5.000	2006	2025	10/15/2015
Rev Fin Sys Bds Ser '10	35,035,000.00	2.000	5.000	2010	2029	10/15/2020
	<u>139,105,000.00</u>					
Tuition Revenue Bonds - Self-Supporting						
Rev Fin Sys Bds Ser '02	14,070,000.00	4.000	5.000	2002	2021	10/15/2012
Rev Fin Sys Bds Ser '08	20,175,000.00	3.500	5.000	2008	2027	10/15/2017
Rev Fin Sys Bds Ser '09	23,615,000.00	3.750	5.000	2009	2029	10/15/2017
Rev Fin Sys Bds Ser '10 (A)	3,415,000.00	2.000	3.000	2010	2016	10/15/2020
	<u>61,275,000.00</u>					
Total Revenue Bonds	<u>200,380,000.00</u>					
General Obligation Bonds - Not Self-Supporting						
Constitutional Apprn Bds Ser '08	10,200,000.00	4.000	5.000	2009	2018	n/a
Total General Obligation Bonds	<u>10,200,000.00</u>					
Grand Total	<u>\$ 210,580,000.00</u>					

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2B-Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2012

Description of Issue	Bonds Outstanding 9/1/11	Bonds Issued	Bonds Matured or Retired
Business-Type Activities			
Revenue Bonds - Self Supporting			
Rev Fin Sys Bds Ser '04	\$ 20,140,000.00	\$ -	\$ 1,095,000.00
Rev Fin Sys Bds Ser '04 (A)	4,260,000.00	-	230,000.00
Rev Fin Sys Bds Ser '05	14,060,000.00	-	700,000.00
Rev Fin Sys Bds Ser '05 (A)	49,620,000.00	-	2,290,000.00
Rev Fin Sys Bds Ser '10	33,725,000.00	-	1,295,000.00
	<u>121,805,000.00</u>	-	<u>5,610,000.00</u>
Tuition Revenue Bonds - Self-Supporting			
Rev Fin Sys Bds Ser '02	9,275,000.00	-	665,000.00
Rev Fin Sys Bds Ser '08	15,675,000.00	-	685,000.00
Rev Fin Sys Bds Ser '09	20,250,000.00	-	840,000.00
Rev Fin Sys Bds Ser '10 (A)	2,475,000.00	-	390,000.00
	<u>47,675,000.00</u>	-	<u>2,580,000.00</u>
Total Revenue Bonds	<u>169,480,000.00</u>	-	<u>8,190,000.00</u>
General Obligation Bonds - Not Self-Supporting			
Constitutional Apprn Bds Ser '08	8,430,000.00	-	930,000.00
	<u>\$ 177,910,000.00</u>	<u>\$ -</u>	<u>\$ 9,120,000.00</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2B-Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2012

Description of Issue	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/12
Business-Type Activities		
Revenue Bonds - Self Supporting		
Rev Fin Sys Bds Ser '04	\$ -	\$ 19,045,000.00
Rev Fin Sys Bds Ser '04 (A)	-	4,030,000.00
Rev Fin Sys Bds Ser '05	-	13,360,000.00
Rev Fin Sys Bds Ser '05 (A)	-	47,330,000.00
Rev Fin Sys Bds Ser '10	-	32,430,000.00
	-	116,195,000.00
Tuition Revenue Bonds - Self-Supporting		
Rev Fin Sys Bds Ser '02	-	8,610,000.00
Rev Fin Sys Bds Ser '08	-	14,990,000.00
Rev Fin Sys Bds Ser '09	-	19,410,000.00
Rev Fin Sys Bds Ser '10 (A)	-	2,085,000.00
	-	45,095,000.00
Total Revenue Bonds	-	161,290,000.00
General Obligation Bonds - Not Self-Supporting		
Constitutional Apprn Bds Ser '08	-	7,500,000.00
	\$ -	\$ 168,790,000.00

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2B-Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2012

Description of Issue	Unamortized Premium	Unamortized Discount	Gain/(Loss) on Refunding	Net Bonds Outstanding 8/31/12
Business-Type Activities				
Revenue Bonds - Self Supporting				
Rev Fin Sys Bds Ser '04	\$ -	\$ -	\$ -	\$ 19,045,000.00
Rev Fin Sys Bds Ser '04 (A)	-	-	-	4,030,000.00
Rev Fin Sys Bds Ser '05	-	-	-	13,360,000.00
Rev Fin Sys Bds Ser '05 (A)	-	-	-	47,330,000.00
Rev Fin Sys Bds Ser '10	-	-	-	32,430,000.00
	-	-	-	116,195,000.00
Tuition Revenue Bonds - Self-Supporting				
Rev Fin Sys Bds Ser '02	-	-	-	8,610,000.00
Rev Fin Sys Bds Ser '08	-	-	-	14,990,000.00
Rev Fin Sys Bds Ser '09	-	-	-	19,410,000.00
Rev Fin Sys Bds Ser '10 (A)	-	-	-	2,085,000.00
	-	-	-	45,095,000.00
Total Revenue Bonds	-	-	-	161,290,000.00
General Obligation Bonds - Not Self-Supporting				
Constitutional Apprn Bds Ser '08	-	-	-	7,500,000.00
	\$ -	\$ -	\$ -	\$ 168,790,000.00

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2B-Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2012

Description of Issue	Amounts Due Within One Year
Business-Type Activities	
Revenue Bonds - Self Supporting	
Rev Fin Sys Bds Ser '04	\$ 1,140,000.00
Rev Fin Sys Bds Ser '04 (A)	240,000.00
Rev Fin Sys Bds Ser '05	725,000.00
Rev Fin Sys Bds Ser '05 (A)	2,395,000.00
Rev Fin Sys Bds Ser '10	1,315,000.00
	<u>5,815,000.00</u>
Tuition Revenue Bonds - Self-Supporting	
Rev Fin Sys Bds Ser '02	695,000.00
Rev Fin Sys Bds Ser '08	710,000.00
Rev Fin Sys Bds Ser '09	865,000.00
Rev Fin Sys Bds Ser '10 (A)	400,000.00
	<u>2,670,000.00</u>
Total Revenue Bonds	<u>8,485,000.00</u>
General Obligation Bonds - Not Self-Supporting	
Constitutional Apprn Bds Ser '08	960,000.00
	<u>\$ 9,445,000.00</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 2C - Debt Service Requirements
 For the Fiscal Year Ended August 31, 2012

Description of Issue	FY	Principal	Interest	Total
Business-Type Activities				
Revenue Bonds - Self Supporting				
Rev Fin Sys Bds Ser '04	2013	\$ 1,140,000.00	\$ 755,831.26	\$ 1,895,831.26
Rev Fin Sys Bds Ser '04	2014	1,185,000.00	709,331.26	1,894,331.26
Rev Fin Sys Bds Ser '04	2015	1,235,000.00	660,931.26	1,895,931.26
Rev Fin Sys Bds Ser '04	2016	1,285,000.00	610,531.26	1,895,531.26
Rev Fin Sys Bds Ser '04	2017	1,335,000.00	558,131.26	1,893,131.26
Rev Fin Sys Bds Ser '04	2018-2022	7,535,000.00	1,926,637.55	9,461,637.55
Rev Fin Sys Bds Ser '04	2023-2025	5,330,000.00	351,746.90	5,681,746.90
		<u>19,045,000.00</u>	<u>5,573,140.75</u>	<u>24,618,140.75</u>
Rev Fin Sys Bds Ser '04 (A)	2013	240,000.00	167,578.76	407,578.76
Rev Fin Sys Bds Ser '04 (A)	2014	250,000.00	157,778.76	407,778.76
Rev Fin Sys Bds Ser '04 (A)	2015	260,000.00	147,578.76	407,578.76
Rev Fin Sys Bds Ser '04 (A)	2016	270,000.00	136,978.76	406,978.76
Rev Fin Sys Bds Ser '04 (A)	2017	280,000.00	125,978.76	405,978.76
Rev Fin Sys Bds Ser '04 (A)	2018-2022	1,590,000.00	440,668.80	2,030,668.80
Rev Fin Sys Bds Ser '04 (A)	2023-2025	1,140,000.00	80,246.90	1,220,246.90
		<u>4,030,000.00</u>	<u>1,256,809.50</u>	<u>5,286,809.50</u>
Rev Fin Sys Bds Ser '05	2013	725,000.00	568,156.25	1,293,156.25
Rev Fin Sys Bds Ser '05	2014	755,000.00	529,306.25	1,284,306.25
Rev Fin Sys Bds Ser '05	2015	785,000.00	488,881.25	1,273,881.25
Rev Fin Sys Bds Ser '05	2016	815,000.00	446,881.25	1,261,881.25
Rev Fin Sys Bds Ser '05	2017	845,000.00	408,587.50	1,253,587.50
Rev Fin Sys Bds Ser '05	2018-2022	4,750,000.00	1,497,550.00	6,247,550.00
Rev Fin Sys Bds Ser '05	2023-2026	4,685,000.00	410,656.25	5,095,656.25
		<u>13,360,000.00</u>	<u>4,350,018.75</u>	<u>17,710,018.75</u>
Rev Fin Sys Bds Ser '05 (A)	2013	2,395,000.00	2,188,825.00	4,583,825.00
Rev Fin Sys Bds Ser '05 (A)	2014	2,510,000.00	2,078,175.00	4,588,175.00
Rev Fin Sys Bds Ser '05 (A)	2015	2,655,000.00	1,949,050.00	4,604,050.00
Rev Fin Sys Bds Ser '05 (A)	2016	2,800,000.00	1,812,675.00	4,612,675.00
Rev Fin Sys Bds Ser '05 (A)	2017	2,950,000.00	1,668,925.00	4,618,925.00
Rev Fin Sys Bds Ser '05 (A)	2018-2022	17,180,000.00	5,953,537.50	23,133,537.50
Rev Fin Sys Bds Ser '05 (A)	2023-2026	16,840,000.00	1,566,175.00	18,406,175.00
		<u>47,330,000.00</u>	<u>17,217,362.50</u>	<u>64,547,362.50</u>
Rev Fin Sys Bds Ser '10	2013	1,315,000.00	1,261,987.50	2,576,987.50
Rev Fin Sys Bds Ser '10	2014	1,345,000.00	1,235,387.50	2,580,387.50
Rev Fin Sys Bds Ser '10	2015	1,380,000.00	1,204,687.50	2,584,687.50
Rev Fin Sys Bds Ser '10	2016	1,415,000.00	1,166,212.50	2,581,212.50
Rev Fin Sys Bds Ser '10	2017	1,455,000.00	1,123,162.50	2,578,162.50
Rev Fin Sys Bds Ser '10	2018-2022	8,105,000.00	4,799,268.75	12,904,268.75
Rev Fin Sys Bds Ser '10	2023-2027	10,160,000.00	2,750,156.25	12,910,156.25
Rev Fin Sys Bds Ser '10	2028-2030	7,255,000.00	483,850.01	7,738,850.01
		<u>32,430,000.00</u>	<u>14,024,712.51</u>	<u>46,454,712.51</u>
Total Revenue Bonds - Self Supporting		<u>116,195,000.00</u>	<u>42,422,044.01</u>	<u>158,617,044.01</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 2C - Debt Service Requirements
 For the Fiscal Year Ended August 31, 2012

Description of Issue	FY	Principal	Interest	Total
Tuition Revenue Bonds - Self-Supporting				
Rev Fin Sys Bds Ser '02	2013	695,000.00	384,012.50	1,079,012.50
Rev Fin Sys Bds Ser '02	2014	725,000.00	353,150.00	1,078,150.00
Rev Fin Sys Bds Ser '02	2015	760,000.00	321,585.00	1,081,585.00
Rev Fin Sys Bds Ser '02	2016	795,000.00	287,556.25	1,082,556.25
Rev Fin Sys Bds Ser '02	2017	830,000.00	251,192.50	1,081,192.50
Rev Fin Sys Bds Ser '02	2018-2022	4,805,000.00	612,671.25	5,417,671.25
		<u>8,610,000.00</u>	<u>2,210,167.50</u>	<u>10,820,167.50</u>
Rev Fin Sys Bds Ser '08	2013	710,000.00	609,700.00	1,319,700.00
Rev Fin Sys Bds Ser '08	2014	730,000.00	580,900.00	1,310,900.00
Rev Fin Sys Bds Ser '08	2015	755,000.00	553,087.50	1,308,087.50
Rev Fin Sys Bds Ser '08	2016	780,000.00	524,275.00	1,304,275.00
Rev Fin Sys Bds Ser '08	2017	805,000.00	488,550.00	1,293,550.00
Rev Fin Sys Bds Ser '08	2018-2022	4,490,000.00	1,868,550.00	6,358,550.00
Rev Fin Sys Bds Ser '08	2023-2027	5,465,000.00	861,718.75	6,326,718.75
Rev Fin Sys Bds Ser '08	2028	1,255,000.00	26,668.75	1,281,668.75
		<u>14,990,000.00</u>	<u>5,513,450.00</u>	<u>20,503,450.00</u>
Rev Fin Sys Bds Ser '09	2013	865,000.00	740,318.75	1,605,318.75
Rev Fin Sys Bds Ser '09	2014	885,000.00	719,525.00	1,604,525.00
Rev Fin Sys Bds Ser '09	2015	905,000.00	696,018.75	1,601,018.75
Rev Fin Sys Bds Ser '09	2016	935,000.00	670,718.75	1,605,718.75
Rev Fin Sys Bds Ser '09	2017	960,000.00	643,462.50	1,603,462.50
Rev Fin Sys Bds Ser '09	2018-2022	5,310,000.00	2,697,818.75	8,007,818.75
Rev Fin Sys Bds Ser '09	2023-2027	6,505,000.00	1,509,468.75	8,014,468.75
Rev Fin Sys Bds Ser '09	2028-2029	3,045,000.00	152,268.75	3,197,268.75
		<u>19,410,000.00</u>	<u>7,829,600.00</u>	<u>27,239,600.00</u>
Rev Fin Sys Bds Ser '10 (A)	2013	400,000.00	46,275.00	446,275.00
Rev Fin Sys Bds Ser '10 (A)	2014	405,000.00	38,225.00	443,225.00
Rev Fin Sys Bds Ser '10 (A)	2015	420,000.00	28,925.00	448,925.00
Rev Fin Sys Bds Ser '10 (A)	2016	425,000.00	18,362.50	443,362.50
Rev Fin Sys Bds Ser '10 (A)	2017	435,000.00	6,525.00	441,525.00
		<u>2,085,000.00</u>	<u>138,312.50</u>	<u>2,223,312.50</u>
Total Tuition Revenue Bonds - Self-Supporting		<u>45,095,000.00</u>	<u>15,691,530.00</u>	<u>60,786,530.00</u>
Total Revenue Bonds		<u>161,290,000.00</u>	<u>58,113,574.01</u>	<u>219,403,574.01</u>
Constitutional Apprn Bds Ser '08	2013	960,000.00	325,925.00	1,285,925.00
Constitutional Apprn Bds Ser '08	2014	995,000.00	277,050.00	1,272,050.00
Constitutional Apprn Bds Ser '08	2015	1,030,000.00	226,425.00	1,256,425.00
Constitutional Apprn Bds Ser '08	2016	1,065,000.00	174,050.00	1,239,050.00
Constitutional Apprn Bds Ser '08	2017	1,105,000.00	125,325.00	1,230,325.00
Constitutional Apprn Bds Ser '08	2018-2019	2,345,000.00	105,387.50	2,450,387.50
Total General Obligation Bonds		<u>7,500,000.00</u>	<u>1,234,162.50</u>	<u>8,734,162.50</u>
Total Debt Service		<u>\$ 168,790,000.00</u>	<u>59,347,736.51</u>	<u>\$ 228,137,736.51</u>

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY

Agency No. 755

Schedule 2D - Analysis of Funds Available for Debt Service - General Obligation Bonds

For the Fiscal Year Ended August 31, 2012

Description of Issue	Application of Funds		Accrual Basis
	2012 Principal	2012 Interest	Int Exp
General Obligation Bonds - Not Self-Supporting			
Constitutional Apprn Bds Series 2008	\$ 930,000.00	\$ 368,525.00	\$354,575.00

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY

Agency No. 755

Schedule 2D - Analysis of Funds Available for Debt Service - Revenue Bonds

For the Fiscal Year Ended August 31, 2012

Description of Issue	Net Available for Debt Service		Debt Service		Accrual Basis
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	2012 Principal	2012 Interest	Interest Expense
Business-Type Activities					
Revenue Bonds - Self Supporting					
Rev Fin Sys Bds Ser '04	*	-	\$ 1,095,000.00	\$ 800,531.26	\$ 784,106.26
Rev Fin Sys Bds Ser '04 (A)	*	-	230,000.00	176,978.76	173,528.76
Rev Fin Sys Bds Ser '05	*	-	700,000.00	605,562.50	591,781.25
Rev Fin Sys Bds Ser '05 (A)	*	-	2,290,000.00	2,279,662.50	2,247,459.37
Rev Fin Sys Bds Ser '10	*	-	1,295,000.00	1,288,087.50	1,278,375.00
Tuition Revenue Bonds - Self-Supporting					
Rev Fin Sys Bds Ser '02	*	-	665,000.00	414,612.50	403,390.62
Rev Fin Sys Bds Ser '08	*	-	685,000.00	637,600.00	627,325.00
Rev Fin Sys Bds Ser '09	*	-	840,000.00	759,500.00	752,412.50
Rev Fin Sys Bds Ser '10 (A)	*	-	390,000.00	54,175.00	51,250.00
			\$ 8,190,000.00	\$ 7,016,710.02	\$ 6,909,628.76

Note: Expenditures associated with operations which generated the pledged revenues are \$ 77,358,872.92 for fiscal year 2012.

Analysis of Pledged and Other Sources:

Pledged Sources	
Tuition and Fees	\$ 87,270,382.96
Sales and Services	42,377,815.35
Other Sources	1,007,236.23
Total Revenues	130,655,434.54
Pledged Auxiliary	
Unappropriated Balance	10,777,347.39
Total Pledged Revenues	\$ 141,432,781.93

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 2E - Defeased Bonds Outstanding
 For the Fiscal Year Ended August 31, 2012

<u>Description of Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds		
Building Revenue Bonds, Series 1965-B	1991	\$ 590,000.00
Housing System Revenue Bonds, Series 1962-D	1991	177,000.00
Housing System Revenue Bonds, Series 1963-A	1991	89,000.00
Housing System Revenue Bonds, Series 1964	1991	160,000.00
		<u>\$ 1,016,000.00</u>

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STEPHEN F. AUSTIN STATE UNIVERSITY
Agency No. 755
Schedule 2F - Current Year Early Extinguishment and Refunding
For the Fiscal Year Ended August 31, 2012

Description of Issue	Category	Amount Extinguished or Refunded	Refunding Issue Par Value	For Refunding Only	
				Cash Flow Increase (Decrease)	Economic Gain/Loss

UNAUDITED

STEPHEN F. AUSTIN STATE UNIVERSITY
 Agency No. 755
 Schedule 3 - Reconciliation of Cash in State Treasury
 August 31, 2012

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	Current Year <u>Total</u>
Special Mineral Fund 0241	\$ 0.00	\$ 0.00	\$ 0.00
Local Revenue Fund 0261	<u>1,365,832.90</u>	<u>0.00</u>	<u>1,365,832.90</u>
 Total Cash in State Treasury (Stmt of Net Assets)	 <u>\$ 1,365,832.90</u>	 <u>\$ 0.00</u>	 <u>\$ 1,365,832.90</u>

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

[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
STEPHEN F. AUSTIN STATE UNIVERSITY
REVENUE FINANCING SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013
IN THE PRINCIPAL AMOUNT OF \$22,255,000**

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

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

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

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

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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that

we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

THE ISSUER has reserved the right, subject to the restrictions stated in the Bond Resolution to amend the Bond Resolution. The Issuer also has reserved the right, subject to the restrictions stated in the Bond Resolution, to issue additional Parity 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.

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

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

Respectfully,

Financial Advisory Services
Provided By

