

NEW ISSUES - BOOK-ENTRY ONLY

RATINGS: (See "RATINGS" herein)

In the opinion of Bond Counsel, under statutes, regulations, published rulings, and court decisions existing on the date thereof, interest on the Series 2013D Bonds will be excludable from gross income for federal income tax purposes and will not be included in computing the alternative minimum taxable income of individuals. See "TAX MATTERS FOR THE SERIES 2013D BONDS" herein for a discussion of certain collateral federal tax consequences, including the alternative minimum tax consequences for corporations.

Interest on the Series 2013C Bonds will not be excluded from the gross income of the holders thereof. See "TAX MATTERS FOR THE SERIES 2013C BONDS."

UNIVERSITIES

- Texas A&M University
- Texas A&M University – Central Texas
- Texas A&M University - Commerce
- Texas A&M University - Corpus Christi
- Texas A&M International University
- Texas A&M University – Kingsville
- Texas A&M University – San Antonio
- Texas A&M University – Texarkana
- Prairie View A&M University
- Tarleton State University
- West Texas A&M University



AGRICULTURAL AGENCIES

- Texas A&M AgriLife Research
- Texas A&M AgriLife Extension Service
- Texas A&M Forest Service
- Texas A&M Veterinary Medical Diagnostic Laboratory

ENGINEERING AGENCIES

- Texas A&M Engineering Experiment Station
- Texas A&M Engineering Extension Service
- Texas A&M Transportation Institute

\$352,825,000*

BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM

\$ _____ REVENUE FINANCING SYSTEM BONDS, TAXABLE SERIES 2013C

\$ _____ REVENUE FINANCING SYSTEM BONDS, SERIES 2013D

Dated: August 15, 2013

Due: May 15, as shown herein

Interest Accrual: Date of Delivery

The Board of Regents of The Texas A&M University System Revenue Financing System Bonds, Taxable Series 2013C (the "Series 2013C Bonds") and the Board of Regents of The Texas A&M University System Revenue Financing System Bonds, Series 2013D (the "Series 2013D Bonds" and, together with the Series 2013C Bonds, the "Bonds") are special obligations of the Board of Regents (the "Board") of The Texas A&M University System (the "A&M System") issued pursuant to a Master Resolution, as amended, and a Twenty-Fourth Supplemental Resolution adopted by the Board (collectively, the "Resolution"), and are payable from and secured solely by the "Pledged Revenues" (as defined herein). THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE A&M SYSTEM OR ANY PART THEREOF, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION THEREOF. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. See "SECURITY FOR THE BONDS."

The proceeds from the sale of the Bonds will be used for the purposes of (i) providing construction funds for the redesign of Kyle Field football stadium at Texas A&M University, (ii) funding capitalized interest, and (iii) paying the cost of issuing the Bonds. See "PLAN OF FINANCING" and "PROJECT."

Interest on the Bonds will accrue from their date of delivery, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds of each series is payable on November 15, 2013 and each May 15 and November 15 thereafter. The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of the Bonds will be payable by BOKF, NA dba Bank of Texas, Dallas, Texas, the initial Paying Agent/Registrar, to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to DTC Participants (as defined herein) who will make payments to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS – Book-Entry Only System."

The Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS – Redemption Provisions."

MATURITY SCHEDULES

See Schedules on inside front cover

CUSIP Prefix: 882135

The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel. See "APPENDIX E – FORMS OF BOND COUNSEL OPINIONS". Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. It is expected that the Bonds will be delivered through DTC on or about _____, 2013.

WELLS FARGO SECURITIES

RBC CAPITAL MARKETS RAYMOND JAMES

CITIGROUP SIEBERT BRANDFORD SHANK & Co., L.L.C.

* Preliminary, subject to change. Before the time of pricing, the System will determine the amount and maturities of the Bonds that will be issued as Series 2013C Bonds and the amount and maturities of the Bonds that will be issued as Series 2013D Bonds.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. The securities referenced herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULES*

CUSIP PREFIX: 882135⁽¹⁾

\$352,825,000* REVENUE FINANCING SYSTEM BONDS, TAXABLE SERIES 2013C AND SERIES 2013D

Due May 15	Maturity Amount*	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Due May 15	Maturity Amount*	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2016	\$ 7,600,000				2030	\$ 11,725,000			
2017	7,690,000				2031	12,280,000			
2018	7,810,000				2032	12,860,000			
2019	7,960,000				2033	13,470,000			
2020	8,145,000				2034	14,110,000			
2021	8,360,000				2035	14,800,000			
2022	8,615,000				2036	15,525,000			
2023	8,890,000				2037	16,280,000			
2024	9,195,000				2038	17,080,000			
2025	9,535,000				2039	17,915,000			
2026	9,900,000				2040	18,790,000			
2027	10,300,000				2041	19,710,000			
2028	10,730,000				2042	20,670,000			
2029	11,195,000				2043	21,685,000			

(Interest accrues on the Bonds from their Date of Delivery.)

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

REDEMPTION. . . The A&M System reserves the right, at its option, to redeem the Bonds having stated maturities on and after May 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Underwriters elect to aggregate one or more serial maturities as Term Bonds. (See "DESCRIPTION OF THE BONDS - Redemption Provisions").

* Preliminary, subject to change. Before the time of pricing, the System will determine the amount and maturities of the Bonds that will be issued as Series 2013C Bonds and the amount and maturities of the Bonds that will be issued as Series 2013D Bonds. Principal amortization assumes all Bonds are issued as Series 2013C Bonds. The final principal amortization of the Bonds will be based on the allocation between Series 2013C Bonds and Series 2013D Bonds, which will be determined by pricing.

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

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

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

THE BOARD MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY ONLY SYSTEM, AS SUCH INFORMATION WAS FURNISHED BY DTC.

Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER - ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

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

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

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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC rule 15c2-12.

TABLE OF CONTENTS

THE TEXAS A&M UNIVERSITY SYSTEM ADMINISTRATION	v
INTRODUCTION	1
PLAN OF FINANCING	1
Authority for Issuance of the Bonds	1
Purpose	2
SOURCES AND APPLICATIONS OF FUNDS	2
PROJECT	3
DESCRIPTION OF THE BONDS	3
General	3
Limitation on Transfer of Bonds	3
Record Date for Interest Payment	3
Redemption Provisions	3
Paying Agent/Registrar	4
Book-Entry Only System	4
Defeasance	6
SECURITY FOR THE BONDS	7
THE REVENUE FINANCING SYSTEM	8
Establishment	8
Pledged Revenues	8
Parity Obligations	9
Anticipated Financings	9
Nonrecourse Debt and Subordinate Debt	9
DEBT SERVICE REQUIREMENTS	10
ABSENCE OF LITIGATION	11
LEGAL MATTERS	11
TAX MATTERS FOR THE SERIES 2013C BONDS	11
TAX MATTERS FOR THE SERIES 2013D BONDS	13
LEGAL INVESTMENTS IN TEXAS	15
RATINGS	16
CONTINUING DISCLOSURE OF INFORMATION	16
Continuing Disclosure Undertaking of the Board	16
Annual Reports	16
Notice of Certain Events	17
Availability of Information	17
Limitations and Amendments	17
Compliance with Prior Undertakings	18
FINANCIAL ADVISOR	18
UNDERWRITING	18
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE	19
FORWARD LOOKING STATEMENTS	19
OTHER MATTERS	19
APPENDICES	
A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM	A-1
B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM	B-1
C – DEFINED TERMS	C-1
D – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION	D-1
E – FORMS OF BOND COUNSEL OPINIONS	E-1

THE TEXAS A&M UNIVERSITY SYSTEM ADMINISTRATION

Board of Regents of The Texas A&M University System

<u>Name</u>	<u>Residence</u>	<u>Term Expiration</u>
Mr. Phil Adams, Chairman	Bryan	February 1, 2015
Mr. Cliff Thomas, Vice Chairman	Victoria	February 1, 2017
Mr. Jim Schwertner	Austin	February 1, 2015
Mr. John D. White	Houston	February 1, 2015
Ms. Elaine Mendoza	San Antonio	February 1, 2017
Ms. Judy Morgan	Texarkana	February 1, 2017
Mr. Tony Buzbee	Friendswood	February 1, 2019
Mr. Morris E. Foster	Houston	February 1, 2019
Mr. Charles Schwartz	Houston	February 1, 2019

Ms. Vickie Burt Spillers, Executive Director to the Board

Officers and Staff of The Texas A&M University System

Mr. John Sharp	Chancellor
Mr. Billy C. Hamilton	Executive Vice Chancellor and Chief Financial Officer
Dr. James Hallmark	Vice Chancellor for Academic Affairs
Dr. Brett P. Giroir	Vice Chancellor for Strategic Initiatives
Mr. Guy K. Diedrich	Vice Chancellor for Federal and State Relations
Mr. Mark Stone	Chief Information Officer
Mr. Ray Bonilla	General Counsel
Mr. Steven B. Moore	Vice Chancellor of Marketing and Communications
Dr. Jon Mogford	Vice Chancellor for Research
Dr. Theresa Fossum	Vice Chancellor for Global and Corporate Partnerships
Ms. Catherine A. Smock	Chief Auditor
Ms. Maria L. Robinson	Treasurer

Chief Executive Officers of Agencies

Dr. R. Bowen Loftin, President ⁽¹⁾	Texas A&M University
Dr. Mark Hussey	Vice Chancellor of Agriculture and Life Sciences
Dr. M. Katherine Banks	Vice Chancellor for Engineering
Dr. Marc A. Nigliazzo, President	Texas A&M University - Central Texas
Dr. Dan R. Jones, President	Texas A&M University - Commerce
Dr. Flavius C. Killebrew, President	Texas A&M University - Corpus Christi
Dr. Ray M. Keck III, President	Texas A&M International University
Dr. Steven H. Tallant, President	Texas A&M University – Kingsville
Dr. Maria H. Ferrier, President	Texas A&M University – San Antonio
Dr. Emily F. Cutrer, President	Texas A&M University - Texarkana
Dr. George C. Wright, President	Prairie View A&M University
Dr. F. Dominic Dottavio, President	Tarleton State University
Dr. J. Patrick O'Brien, President	West Texas A&M University
Dr. Craig Nessler, Director	Texas A&M AgriLife Research
Dr. Douglas L. Steele, Director	Texas A&M AgriLife Extension Service
Dr. M. Katherine Banks, Director	Texas A&M Engineering Experiment Station
Mr. Gary F. Sera, Director	Texas A&M Engineering Extension Service
Mr. Thomas G. Boggus, Director	Texas A&M Forest Service
Dr. Dennis L. Christiansen, Director	Texas A&M Transportation Institute
Dr. Tammy R. Beckham, Director	Texas A&M Veterinary Medical Diagnostic Laboratory

⁽¹⁾ Dr. R. Bowen Loftin announced that he will step down as President of Texas A&M University effective January 13, 2014.

Bond Counsel
Andrews Kurth LLP
Austin, Texas

Financial Advisor
First Southwest Company
Dallas, Texas

For additional information regarding The Texas A&M University System, please contact:

Ms. Maria L. Robinson
Treasurer
The Texas A&M University System
John B. Connally Building
301 Tarrow, 5th Floor
College Station, Texas 77840-7896
(979) 458-6330

or

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

OFFICIAL STATEMENT

relating to

\$352,825,000*

BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM
\$ _____ REVENUE FINANCING SYSTEM BONDS, TAXABLE SERIES 2013C
\$ _____ REVENUE FINANCING SYSTEM BONDS, SERIES 2013D

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents of The Texas A&M University System (the “Board”) of two series of its bonds, entitled “Board of Regents of The Texas A&M University System Revenue Financing System Bonds, Taxable Series 2013C” (the “Series 2013C Bonds”) and “Board of Regents of The Texas A&M University System Revenue Financing System Bonds, Series 2013D” (the “Series 2013D Bonds” and, together with the Series 2013C Bonds, the “Bonds”). Capitalized terms used in this Official Statement and not otherwise defined have the same meanings assigned to such terms in “APPENDIX C - DEFINED TERMS” and in the Resolution described below under “PLAN OF FINANCING – Authority for Issuance of the Bonds.”

The Series 2013C Bonds and the Series 2013D Bonds are each separate and distinct securities offerings being issued and sold independently except for the use of this common Official Statement, and, while the Series 2013C Bonds and the Series 2013D Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the terms for payment, the federal income tax treatment of payments, the rights of holders, and other features.

The sale and delivery of each series of Bonds is not dependent upon the sale and delivery of the other series of Bonds.

The Texas A&M University System (the “A&M System”) was established pursuant to the provisions of the Constitution and the laws of the State of Texas (the “State” or “Texas”) as an agency of the State. The A&M System presently consists of eleven State-supported academic institutions, and seven research and service agencies. For the 2012 Fall Semester the general academic institutions had a total enrollment of approximately 125,425 students, of which approximately 50,227 attended Texas A&M University in College Station. The service and research agencies are engaged in a wide variety of research and public service activities in facilities located throughout the State. In addition, Texas A&M University’s Health Science Center combines the health components of the A&M System into a unit of Texas A&M University with two geographic centers. The Fiscal Year 2014 budget of the A&M System is approximately \$3.8 billion, and the A&M System benefits from endowments, subject to certain restrictions, with a market value of approximately \$8.2 billion as of July 31, 2013. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Investment Policy and Procedures and Endowments.” The Board is the governing body of the A&M System and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate. For a general description of the A&M System and each of its member institutions see “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM.”

This Official Statement, including the appendices, contains summaries and descriptions of the plan of financing, the Resolution, the Bonds, the Revenue Financing System, the Board, the A&M System, and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Ms. Maria L. Robinson, Treasurer, The Texas A&M University System, John B. Connally Building, 301 Tarrow, 5th Floor, College Station, Texas 77840-7896, (979) 458-6330.

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds are being issued in accordance with the general laws of the State, including particularly Chapter 55, Texas Education Code, as amended, and Chapter 1371, Texas Government Code, as amended. The Bonds are

* Preliminary, subject to change. Before the time of pricing, the System will determine the amount and maturities of the Bonds that will be issued as Series 2013C Bonds and the amount and maturities of the Bonds that will be issued as Series 2013D Bonds.

issued pursuant to a Master Resolution, adopted by the Board on November 19, 1990, as amended on September 17, 1993 and July 25, 1997 (collectively, the “Master Resolution”) and a Twenty-Fourth Supplemental Resolution to the Master Resolution, adopted by the Board on August 9, 2013 (the “Supplemental Resolution”). The Master Resolution and the Supplemental Resolution are referred to herein as the “Resolution.”

Following the delivery of the Bonds, the Board will have long-term Parity Obligations outstanding in the aggregate principal amount of \$2,007,559,999.98 (includes the Bonds; preliminary subject to change). See "Appendix A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Outstanding Indebtedness." In addition, the Board has previously authorized a commercial paper program pursuant to which short-term Parity Obligations in the form of commercial paper notes are authorized to be outstanding in the maximum principal amount of \$300 million (the “Commercial Paper Notes”). Currently, Commercial Paper Notes are outstanding in the principal amount of \$12,325,000. See “DEBT SERVICE REQUIREMENTS” and “APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Note 13: Bonded Indebtedness.”

Purpose

The proceeds from the sale of the Bonds will be used for the purposes of (i) providing construction funds for the redesign of Kyle Field football stadium at Texas A&M University, (ii) funding capitalized interest and (iii) paying the cost of issuing the Bonds. See "PROJECT."

SOURCES AND APPLICATIONS OF FUNDS

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

Sources of Funds	Series 2013C	Series 2013D	Total
Par Amount of Bonds			
Net Reoffering Premium/Discount			
Total Sources of Funds			
Applications of Funds	Series 2013C	Series 2013D	Total
Deposit for Project Fund			
Deposit for Capitalized Interest Fund			
Underwriters’ Discount			
Cost of Issuance			
Total Application of Funds			

[The remainder of this page intentionally left blank.]

PROJECT

The Bonds are being issued to redesign and refurbish Kyle Field football stadium located on the Texas A&M University - College Station campus (the "Project"). The redevelopment of Kyle Field will occur in several phases over two years to allow the use of Kyle Field for home football games. The scheduled substantial completion date is August 31, 2015. The renovation will increase the official seating capacity of Kyle Field to 102,500 people making it the third largest of all stadia in the United States.

The first phase of the Project, scheduled to begin November 2013, involves demolition of the first deck of the east side of Kyle Field, re-construction of the first deck, and construction of the south end zone. The second phase, scheduled to begin November 2014, involves demolition of the entire west side of the stadium, and reconstruction of the west side of Kyle Field. The redeveloped Kyle Field will have approximately 20,000 additional seats, for a total 102,500 seats.

The Project also involves construction of a new strength and conditioning laboratory training area for student athletes; the addition of three new interior scoreboards within the stadium; redeveloped landscaping and tree-lined walkways surrounding Kyle Field; and the addition of new stadium suites, lounges and the Texas A&M Athletic Museum. A virtual tour of the Project may be viewed at <http://www.youtube.com/watch?v=u5gc0bC9Srw>, although such information is intended to be a general narrative of the Project.

DESCRIPTION OF THE BONDS

General

The Bonds of each series will be issued as fully-registered bonds, without coupons, in any integral multiple of \$5,000 principal amount within a stated maturity, will be dated August 15, 2013, will accrue interest from their date of delivery, and will bear interest at the per annum rates shown on the inside front cover page hereof.

Interest on the Bonds of each series is payable on November 15, 2013, and each May 15 and November 15 thereafter. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds of each series mature on the dates and in the principal amounts set forth on the inside front cover page hereof and in the Debt Service Requirement table herein.

In the event that the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

Limitation on Transfer of Bonds

Neither the Board nor the Paying Agent/Registrar shall be required to make any transfer or exchange during a period beginning with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Record Date for Interest Payment

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

Redemption Provisions

Optional Redemption

On May 15, 20__, or on any date thereafter, the Bonds scheduled to mature on May 15, 20__, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to par plus accrued interest to the date of redemption, without premium; provided, that during any period in which ownership of the series of Bonds to be redeemed is determined by a book-entry at a securities depository for such series of Bonds, if fewer than all of such series of Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such series and

maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See “DESCRIPTION OF THE BONDS – Book-Entry Only System.”

Notice of Redemption

Not less than 30 days prior to a redemption date, a notice of redemption will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond, not less than 30 days prior to the date fixed for redemption to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date, and to each registered securities depository and to any national information service that disseminates redemption notices. Failure to receive such notice will not affect the proceedings for redemption. In addition, in the event of a redemption caused by an advance refunding of either series of Bonds, the Paying Agent/Registrar shall send a second notice of redemption to the registered owners of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent such Bonds in for redemption 60 days after the redemption date.

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

If at the time of mailing of notice of any optional redemption in connection with a refunding of the Bonds the Board has not deposited with the Paying Agent/Registrar or an eligible financial institution moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Paying Agent/Registrar or an eligible financial institution not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA dba Bank of Texas, Dallas, Texas. In the Resolution, the Board reserves the right to replace the Paying Agent/Registrar for either series of Bonds. The Board covenants to maintain and provide a Paying Agent/Registrar for each series of Bonds at all times while such Bonds are outstanding, and any successor Paying Agent/Registrar for each series of Bonds shall be a competent and legally qualified bank, trust company, financial institution, or other qualified agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants to promptly appoint a competent and legally qualified bank, trust company, financial institution or other qualified agency to act as Paying Agent/Registrar, as applicable. Upon any change in the Paying Agent/Registrar for either series of Bonds, the Board agrees promptly to cause a written notice thereof to be sent to each registered owner of the Bonds of such series by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar, as applicable.

Book-Entry Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in the name of Cede & Co., 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 (hereinafter defined), (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 (hereinafter defined), 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

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

DTC, the world's largest securities 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by 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"). 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.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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, premium, if any, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates for the 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, Certificates for the Bonds will be printed and delivered in accordance with the Supplemental Resolution.

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC 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.

Effect of Termination of Book-Entry Only System

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

Defeasance

The Resolution provides for the defeasance of the Bonds. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Defeasance."

SECURITY FOR THE BONDS

The Bonds are Parity Obligations under the Master Resolution and constitute special obligations of the Board payable from and secured by a lien on and pledge of Pledged Revenues of the Revenue Financing System, subject only to the provisions of the Prior Encumbered Obligations. See “THE REVENUE FINANCING SYSTEM - Pledged Revenues.” The Master Resolution provides that the obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and any supplement thereto is absolute, irrevocable, complete and unconditional, and the amount, manner and time of payment shall not be modified in any way regardless of any contingency.

Any owner of any of the Bonds or other Parity Obligations, in the event of default in connection with any covenant contained in the Master Resolution or in any Supplement, or default in the payment of Parity Obligations, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State. The Resolution does not establish other remedies or specifically enumerate the events of default with respect to the Bonds of each series. The Resolution does not provide for a trustee to enforce the covenants and obligations of the Board. In no event will registered owners have the right to have the maturity of the Bonds of either series accelerated as a remedy. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Resolution would be successful.

Under current State law, the Board is prohibited from waiving sovereign immunity from suit or liability with respect to the Bonds, and the owners thereof are prevented by operation of the Board’s sovereign immunity from bringing a suit against the Board in a court of law to adjudicate a claim to enforce the Bonds or for damages for breach of the Bonds. However, State courts have held that mandamus proceedings against a governmental unit, such as the Board, as discussed in the preceding paragraph, are not prohibited by sovereign immunity.

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Board agrees to take such measures as it determines is reasonable and necessary to enable a filing of a security interest in said pledge to occur.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE A&M SYSTEM OR ANY PART THEREOF, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION OF THE STATE. THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See “APPENDIX D – SUMMARY OF THE CERTAIN PROVISIONS OF THE RESOLUTION.”

[Remainder of page intentionally left blank.]

THE REVENUE FINANCING SYSTEM

Establishment

The Master Resolution, as amended, created the Revenue Financing System (the “Revenue Financing System”) to provide a financing structure for revenue supported indebtedness of those institutions and agencies comprising the A&M System which are 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 A&M System’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, all member institutions and agencies of the A&M System, are Participants. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM.”

Pledged Revenues

Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds, and balances attributable to Participants of the Revenue Financing System and lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Obligations from time to time issued and outstanding under the Master Resolution (referred to herein collectively as “Parity Obligations”). 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. The A&M System has calculated that Pledged Revenues (including pledged unappropriated fund and reserve balances of approximately \$954.5 million) for the fiscal year ended August 31, 2012 totaled approximately \$2.6 billion.

	For Fiscal Year Ended August 31,				
	2012	2011	2010	2009	2008
Available Pledged Revenues, Not Including Pledged Unappropriated Fund and Reserve Balances*	\$1,671,633,612	\$1,595,384,877	\$1,398,297,121	\$1,219,945,969	\$1,218,729,692
Pledged Unappropriated Fund and Reserve Balances	954,518,678	991,178,309	889,438,628	1,139,104,631	859,269,721
Total Pledged Revenues	<u>\$2,626,152,290</u>	<u>\$2,586,563,186</u>	<u>\$2,287,735,749</u>	<u>\$2,359,050,600</u>	<u>\$2,077,999,413</u>

* Excludes State appropriations for the reimbursement of debt service on certain Tuition Revenue Bonds of the A&M System. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – Selected Financial Information – Funding for the A&M System - *State Government Appropriations – Tuition Revenue Bonds.*”

Pledged Revenues do not include: (a) the interest of the A&M System in the Available University Fund under Article 7, Section 18 of the State Constitution; (b) amounts appropriated to any Participant from the Higher Education Fund under Article 7, Section 17 of the State Constitution; and (c) except to the extent so appropriated, general revenue funds appropriated to the A&M System by the State. See generally “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – Selected Financial Information – Funding of the A&M System – State Government Appropriations.”

Pledged Revenues not utilized to pay debt service on Parity Obligations are available to pay other costs of operating the A&M System. Continued operation of the A&M System at current levels is dependent upon general revenue appropriations from the State. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – Selected Financial Information – Funding of the A&M System – State Government Appropriations.”

The Board has covenanted in the Master 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 Master Resolution that it will not incur any debt secured by Pledged Revenues unless such debt constitutes a Parity Obligation or is junior and subordinate to the Parity Obligations. The Board intends to issue most of its revenue-supported debt obligations which benefit members of the A&M System as Parity Obligations under the Master Resolution.

In establishing the annual budget of each Participant of the Revenue Financing System, the Board includes as the Annual Obligation of the Participant the amount necessary to provide for the satisfaction by the Participant of its proportionate share of debt service due by the Board in such budget year on outstanding Parity Obligations, plus the

amount budgeted by the Board for such fiscal year to allow the Participant to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

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 Master Resolution and a supplemental resolution. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Anticipated Issuance of Debt” and “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.”

Anticipated Financings

Following the delivery of the Bonds, the Board anticipates that it may issue up to \$150 million of additional Revenue Financing System commercial paper notes or bonds which will provide funds for additional projects during Fiscal Year 2014.

Nonrecourse Debt and Subordinate Debt

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

[Remainder of page intentionally left blank.]

DEBT SERVICE REQUIREMENTS

The following table is a summary of the total long-term debt service requirements on all outstanding Parity Obligations as of the date of this Official Statement.

Fiscal Year Ending Aug. 31	Outstanding Parity Obligations ⁽¹⁾	The Bonds ⁽³⁾		Total Annual Debt Service ⁽³⁾
		Principal	Interest ⁽²⁾	
2014	\$176,515,203		\$10,682,512	\$187,197,715
2015	173,874,869		15,140,569	189,015,438
2016	170,901,530	\$7,600,000	15,140,569	193,642,099
2017	155,638,950	7,690,000	15,053,169	178,382,119
2018	144,441,041	7,810,000	14,932,436	167,183,477
2019	143,649,532	7,960,000	14,782,484	166,392,016
2020	142,999,619	8,145,000	14,598,608	165,743,227
2021	140,107,026	8,360,000	14,381,951	162,848,977
2022	134,252,292	8,615,000	14,129,479	156,996,771
2023	116,894,925	8,890,000	13,852,076	139,637,001
2024	115,779,275	9,195,000	13,548,038	138,522,313
2025	115,549,625	9,535,000	13,210,581	138,295,206
2026	100,082,413	9,900,000	12,841,577	122,823,990
2027	99,560,413	10,300,000	12,443,597	122,304,010
2028	92,283,988	10,730,000	12,014,087	115,028,075
2029	90,942,763	11,195,000	11,550,551	113,688,314
2030	54,906,794	11,725,000	11,019,908	77,651,702
2031	41,813,075	12,280,000	10,464,143	64,557,218
2032	40,453,937	12,860,000	9,882,071	63,196,008
2033	40,492,912	13,470,000	9,272,507	63,235,419
2034	35,583,138	14,110,000	8,634,029	58,327,167
2035	35,626,925	14,800,000	7,944,050	58,370,975
2036	30,254,725	15,525,000	7,220,330	53,000,055
2037	27,324,875	16,280,000	6,461,157	50,066,032
2038	25,645,100	17,080,000	5,665,065	48,390,165
2039	19,436,550	17,915,000	4,829,853	42,181,403
2040	12,398,150	18,790,000	3,953,810	35,141,960
2041	7,381,100	19,710,000	3,034,979	30,126,079
2042	4,175,000	20,670,000	2,071,160	26,916,160
2043	4,175,600	21,685,000	1,060,397	26,920,997
	<u>\$2,493,141,345</u>	<u>\$352,825,000</u>	<u>\$309,815,735</u>	<u>\$3,155,782,078</u>

(1) Does not include debt service on the currently outstanding Commercial Paper Notes, which the Board has authorized to be issued as Parity Obligations in the maximum outstanding amount of \$300 million. As of the date hereof, Commercial Paper Notes were outstanding in the principal amount of \$12,325,000. See "APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Outstanding Indebtedness."

(2) Interest on the Bonds is projected solely for the purpose of illustration. The actual interest cost will be determined at the time the Bonds are priced.

(3) Preliminary, subject to change. Before the time of pricing, the System will determine the amount and maturities of the Bonds that will be issued as Series 2013C Bonds and the amount and maturities of the Bonds that will be issued as Series 2013D Bonds. Principal amortization assumes all Bonds are issued as Series 2013C Bonds. The final principal amortization of the Bonds will be based on the allocation between Series 2013C Bonds and Series 2013D Bonds, which will be determined by pricing.

ABSENCE OF LITIGATION

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

LEGAL MATTERS

Legal matters relating to the Bonds are subject to approval of legality by the Attorney General of the State and of certain legal matters by Andrews Kurth LLP, Austin, Texas, Bond Counsel to the Board, whose opinions will be delivered at the closing of the sale of the Bonds in substantially the forms attached hereto as APPENDIX E. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, except as hereinafter noted, and such firm has not assumed any responsibility with respect thereto or undertaken to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement under the captions “PLAN OF FINANCING,” “DESCRIPTION OF THE BONDS,” (except for information under the subheading “Book Entry Only System”), “SECURITY FOR THE BONDS,” “THE REVENUE FINANCING SYSTEM” (except for the information under the subheading “Anticipated Financings”), “LEGAL MATTERS,” “TAX MATTERS FOR THE SERIES 2013C BONDS,” “TAX MATTERS FOR THE SERIES 2013D BONDS,” “LEGAL INVESTMENTS IN TEXAS,” “CONTINUING DISCLOSURE OF INFORMATION” (except for information under the subheading “Compliance with Prior Undertakings”), “APPENDIX C - DEFINED TERMS” and “APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” (except for financial or statistical information contained under any such caption) and such firm is of the opinion that the information contained under such captions and in such appendices is a fair and accurate summary of the information purported to be shown. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the Board.

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 expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS FOR THE SERIES 2013C BONDS

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Series 2013C Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2013C Bonds in light of the investor’s particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Series 2013C Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2013C Bonds as “capital assets” within the meaning of section 1221 of the Code, and acquire such Series 2013C Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Series 2013C Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code (“United States persons”) and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have

been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2013C BONDS.

Internal Revenue Service Circular 230 Notice

You should be aware that:

(i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and

(iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

Stated Interest on the Series 2013C Bonds

The stated interest on the Series 2013C Bonds will be included in the gross income, as defined in section 61 of the Code, and in the net investment income, for purposes of the 3.8% Medicare tax imposed by Section 1411 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Disposition of the Series 2013C Bonds

A beneficial owner of the Series 2013C Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Series 2013C Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2013C Bond. Generally, the beneficial owner's adjusted tax basis in a Series 2013C Bond will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2013C Bond.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Series 2013C Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" with respect to current or accrued interest on the Series 2013C Bonds or with respect to proceeds received from a disposition of the Series 2013C Bonds. This withholding applies if such beneficial owner of the Series 2013C Bonds: (i) fails to furnish to the payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2013C Bonds. Beneficial owners of the Series 2013C Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such beneficial owners of the Series 2013C Bonds is not treated as

effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2013C Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2013C Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2013C Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2013C Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2013C Bond for U.S. federal income tax purposes.

TAX MATTERS FOR THE SERIES 2013D BONDS

Tax Exemption

Delivery of the Series 2013D Bonds is subject to the opinion of Andrews Kurth LLP, Austin, Texas, Bond Counsel, that interest on the Series 2013D Bonds will be (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

Interest on the Series 2013D Bonds owned by a corporation, other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT), will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Series 2013D Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the Board with certain covenants contained in the Resolution and has relied on representations by the Board with respect to matters solely within the knowledge of the Board, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Series 2013D Bonds, the investment of Series 2013D Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Series 2013D Bond proceeds and certain other amounts be paid periodically to the United States and that the Board file an information report with the Internal Revenue Service (the "Service"). If the Board should fail to comply with the covenants in the Resolution or if its representations relating to the Series 2013D Bonds that are contained in the Resolution should be determined to be inaccurate or incomplete, interest on the Series 2013D Bonds could become taxable from the date of delivery of the Series 2013D Bonds, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Series 2013D Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Board described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2013D Bonds is commenced, under current procedures the Service is likely to treat the Board as the "taxpayer," and the owners of the Series 2013D Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2013D Bonds, the Board may have different or conflicting interests from the owners of the Series 2013D Bonds. Public awareness of any future audit of the Series 2013D Bonds could adversely affect the value and liquidity of the Series 2013D Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Series 2013D Bonds, received or accrued during the year.

Prospective purchasers of the Series 2013D Bonds should be aware that the ownership of tax-exempt obligations, such as the Series 2013D Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Series 2013D Bonds.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Series 2013D Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Series 2013D Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Series 2013D Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Series 2013D Bonds. Prospective purchasers of the Series 2013D Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount Bonds

Some of the Series 2013D Bonds may be offered at an initial offering price which is less than the stated redemption price at maturity of such Series 2013D Bonds. If a substantial amount of any maturity of the Series 2013D Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Series 2013D Bonds of that maturity (the "Discount Bond") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Discount Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Series 2013D Bonds under the caption "Tax Exemption" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Discount Bond at the initial offering price in the initial public offering of the Series 2013D Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Discount Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase a Discount Bond must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Discount Bond. See “Tax Exemption” for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the Board. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Discount Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Discount Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such 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 Discount Bonds.

Tax Accounting Treatment of Original Issue Premium Bonds

Some of the Series 2013D Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Series 2013D Bonds. If a substantial amount of any maturity of the Series 2013D Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesales or underwriters) at such initial offering price, each of the Series 2013D Bonds of such maturity (the “Premium Bond”) will be considered for federal income tax purposes to have “bond premium” equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser’s original basis in such Premium Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering prices for the Premium Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

LEGAL INVESTMENTS IN TEXAS

The Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act provides that a city, county, or school district may invest in the Bonds provided that Bonds have received a rating of not less than “A” from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations,

or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

RATINGS

Ratings on the Bonds have been received from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch"). Moody's has assigned a rating of "Aaa" to the 2013C Bonds (if any Series 2013D Bonds are issued and Moody's assigns a rating, the final Official Statement will disclose such rating), S&P has assigned a rating of "AA+" to the Bonds and Fitch has assigned a rating of "AA+" to the Bonds. An explanation of the significance of each such rating, including any recalibration thereof, may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Board

In the Supplemental Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board has agreed that, so long as the Board is an "obligated person" under the Rule hereinafter defined, it will provide certain updated financial information and operating data about the A&M System annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). Such information will be available to the public at no charge using the MSRB's Electronic Municipal Market Access system via the MSRB's internet website, www.emma.msrb.org.

Annual Reports

The Board is to provide certain updated financial information and operating data to the MSRB annually. The information to be updated by the Board includes all quantitative financial information and operating data with respect to the A&M System of the general type included herein under the captions "DEBT SERVICE REQUIREMENTS", "APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – GENERAL DESCRIPTION – Enrollment," "FINANCIAL MANAGEMENT" and "SELECTED FINANCIAL INFORMATION," and in "APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM" and all such financial information and operating data incorporated herein by reference, including the audited financial statements for the Permanent University Fund. The Board is to update and provide this information within six months after the end of each of its fiscal years.

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the SEC Rule 15c2-12 (the "Rule"). The updated information will also include audited financial statements of the A&M System, if the Board commissions an audit and it is completed by the time required. If the Board has commissioned such an audit and such audited financial statements of the A&M System are not available by the required time, the Board will provide such statements when and if they become available. Any such financial statements are to be prepared in accordance with generally accepted accounting principles. No outside audit of the A&M System's financial statements is currently required or obtained by the Board.

The Board's current fiscal year end is August 31. Annually, not later than each November 20th after the close of the fiscal year, the unaudited primary financial statements of the A&M System dated as of August 31, prepared from the books of the A&M System, must be delivered to the Governor and the State Comptroller of Public Accounts. If the Board changes its fiscal year, it is required to notify the MSRB of the change. If audited financial statements of the A&M System are not prepared for any fiscal year and audited financial statements are prepared with respect to the State for such fiscal year, the Board shall provide, or cause to be provided, the audited financial statements of the State for the applicable fiscal year to the MSRB within six months after the end of said fiscal year or as soon thereafter as such audited financial statements become available from the State Auditor. Any such audited financial statements of the State so provided shall be prepared in accordance with generally accepted accounting principles for state governments; as such principles may be changed from time to time to comply with state law.

Notice of Certain Events

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

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

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

Availability of Information

The Board has agreed to provide the foregoing updated information only to the MSRB. All documents provided by the Board to the MSRB described above under the captions "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

Limitations and Amendments

The Board has agreed to update information and to provide notices of material events only as described above. The Board has not agreed to provide other information that may be relevant or material to a complete presentation of the A&M System's 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 the Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners 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 (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to such 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 beneficial owners of the Bonds. If the Board so amends its agreement, it will

provide notice of such amendment to the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. The Board may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the past five years, the Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with the Rule.

FINANCIAL ADVISOR

First Southwest Company has acted as Financial Advisor to the Board in connection with the issuance of the Bonds.

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

UNDERWRITING

The Underwriters of the Series 2013C Bonds, for which Wells Fargo Bank, National Association is acting as representative, have agreed, subject to certain customary conditions, to purchase the Series 2013C Bonds at a price equal to the principal amount thereof, plus a premium of \$ _____ and less an underwriting discount of \$ _____.

The Underwriters of the Series 2013D Bonds, for which Wells Fargo Bank, National Association is acting as representative, have agreed, subject to certain customary conditions, to purchase the Series 2013D Bonds at a price equal to the principal amount thereof, plus a premium of \$ _____ and less an underwriting discount of \$ _____.

The purchase obligations of the respective Underwriters of the Bonds are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds of the respective series if any Bonds of such series are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters of the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association ("WFBNA"), the senior underwriter of Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

[Remainder of page intentionally left blank.]

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided to the reader by the Board, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Board'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 Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements. It is important to note that the Board's actual results could differ materially from those in such forward looking statements.

The forward-looking statements included 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 many of which are beyond the control of the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board's records, financial reports, and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries 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. Copies may be obtained from the Board.

Maria L. Robinson
Treasurer
The Texas A&M University System
John B. Connally Building
301 Tarrow, 5th Floor
College Station, Texas 77840-7896
(979) 458-6330

APPENDIX A

DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM

GENERAL DESCRIPTION

The A&M System is a land, sea, and space grant university organization devoted to teaching, research, and public service, consisting of institutions and agencies located throughout the State.

System Administration

The A&M System is governed, managed, and controlled by a nine-member Board of Regents (the “Board”) each of whom is appointed by the Governor of the State subject to confirmation by the State Senate. Each regent serves a six-year term, with three new appointments every two years. The members of the Board elect one of the regents to serve as Chairman of the Board and may elect any other officers they deem necessary. The regents serve without pay except for reimbursement for actual expenses incurred in the performance of their duties, subject to the approval of the Chairman of the Board.

The Texas Education Code requires the Board to establish a central administration office of the A&M System (herein referred to as the “A&M System Administration”) to provide oversight and coordination of the activities of all of the parts of the A&M System. The Board is required to appoint a chief executive officer (the “Chancellor”) and such other executive officers of the A&M System Administration as deemed necessary and is responsible for determining the term of appointment, salaries, and duties of each executive officer. The Chancellor is responsible for the administration of the A&M System. Among other powers and duties, the A&M System Administration is responsible for recommending necessary policies and rules to the Board to ensure conformity with all laws and rules and to provide uniformity in data collection and financial reporting procedures.

The Texas Education Code further requires the Board to appoint a president for each of the member institutions and a director for each agency and health science center, who is the executive officer thereof under the direction of the Board. Each president and director is required to recommend the plan of organization of his respective institution or agency and is responsible to the Board for the general management and success thereof.

A list of the current members of the Board, the principal officers of the A&M System Administration, and the presidents and directors of each of the institutions and agencies comprising the A&M System appears on page v of this Official Statement.

The A&M System is headquartered at College Station, Texas (approximately 90 miles northwest of Houston) and provides services to all of the State’s 254 counties.

Member Institutions

Set forth below is a summary description of the A&M System’s member institutions, which include eleven general academic institutions and seven research and service agencies, each of which is a Participant of the Revenue Financing System.

Universities

Texas A&M University. Texas A&M University in College Station (“Texas A&M”), the State’s first public institution of higher education and the nation’s sixth-largest university, offers more than 120 undergraduate degree programs and 240 master’s and Ph.D. programs, as well as a professional degree in veterinary medicine. Texas A&M enrolls approximately 50,227 students in College Station and 2,014 in Galveston. It is one of the few universities in the nation to hold land, sea, and space grant status. Annual research expenditures total approximately \$705 million and place Texas A&M among the nation’s top 20 research universities. Texas A&M’s 5,200-acre campus is one of the nation’s largest. Texas A&M also has a health science center, a branch campus in Galveston, an engineering oriented branch campus in the Middle Eastern country of Qatar, and operates centers in Italy and Mexico City. Texas A&M is also home to the George Bush Presidential Library and Museum.

On July 12, 2013, the Texas A&M Health Science Center was merged into and realigned as a unit within Texas A&M. As a result of the merger and realignment, the Health Science Center will be under the administration of Texas A&M. The merger and realignment is intended to consolidate general academic and health-related educational curricula into a single institution and facilitate the strategic prioritization of the resources of Texas A&M and the Health Science Center. Complete execution of the transition is expected to occur over the next 12 months. The Board does not expect to move or close any campuses or programs as a result of the merger and realignment.

Texas A&M's Health Science Center was formed in 1999 and combines the health components of the A&M System into a unit of Texas A&M. The Health Science Center consists of seven components and two geographic centers as follows: Baylor College of Dentistry; College of Medicine; Rangel College of Pharmacy; Graduate School of Biomedical Sciences; Institute of Biosciences and Technology; School of Rural Public Health; College of Nursing; Coastal Bend Health Education Center; and South Texas Center.

On June 26, 2012, Texas A&M and Texas Wesleyan University ("TWU") signed a letter of intent "LOI" expressing their intention to enter into a long-term relationship that would include the acquisition by Texas A&M of the Texas Wesleyan University School of Law. Acquisition of the law school by Texas A&M and the terms of the relationship between Texas A&M and TWU remain subject to certain conditions and approvals, including the performance of a definitive agreement. Texas A&M and TWU executed such definitive agreement on August 2, 2013 and the formal arrangement will commence when regulatory approval is received from the State. The Board does not expect the acquisition of the Texas Wesleyan University School of Law, or any ensuing relationship between Texas A&M and TWU related to such acquisition, to have a material adverse effect on the System's financial condition.

Texas A&M University – Central Texas. Texas A&M University-Central Texas ("A&M-Central Texas") is located in Killeen and is one of the newest universities in the A&M System, achieving independent status effective September 1, 2009. It opened in 1999 as a public upper-level institution and currently offers more than 35 bachelor and more than 15 graduate degree programs at several convenient sites, including area community colleges and Fort Hood, the nation's largest active-duty military installation. A new campus is located on 662 acres of land provided under an agreement with Fort Hood. Student enrollment at A&M-Central Texas in Fall 2012 was approximately 2,253.

Texas A&M University – Commerce. Founded as East Texas Normal College, Texas A&M University-Commerce ("A&M-Commerce") offers courses on its main campus near Dallas, at a Metroplex Center in Mesquite, and at a downtown Dallas site. Student enrollment at A&M Commerce in Fall 2012 was approximately 11,187. A&M-Commerce offers more than 100 academic programs within four academic colleges including Business and Entrepreneurship; Education and Human Services; Humanities, Social Sciences & Arts; and Sciences, Engineering and Agriculture.

Texas A&M University – Corpus Christi. Texas A&M University-Corpus Christi ("A&M-Corpus Christi") is a comprehensive four-year university located on its own 240-acre island minutes from downtown Corpus Christi. With approximately 10,508 students, A&M-Corpus Christi offers over 35 bachelor and over 30 graduate degree programs within five colleges including Business, Education, Nursing and Health Sciences, Liberal Arts, and Science and Engineering.

Texas A&M International University. Located in Laredo, Texas A&M International University ("TAMIU") is a major regional university of choice for the state's fastest growing demographic area. The campus population mirrors the diverse communities it serves. Student enrollment at TAMIU in Fall 2012 was approximately 7,173. TAMIU offers 35 bachelor and over 20 graduate degree programs within four colleges including Arts and Sciences; Business Administration; Education; and Nursing and Health Sciences.

Texas A&M University – Kingsville. Texas A&M University-Kingsville ("A&M-Kingsville") is a regional university that strives to serve the educational needs of all South Texans. Student enrollment at A&M-Kingsville in Fall 2012 was approximately 7,234. A&M-Kingsville offers over 40 bachelor and over 30 graduate degree programs within seven colleges and five academic units including Agriculture, Natural Resources and Human Sciences; Arts and Sciences; Business Administration; Education and Human Performance; and Engineering.

Texas A&M University – San Antonio. Texas A&M University-San Antonio ("A&M-San Antonio") is one of the newest universities in the A&M System, achieving independent status effective September 1, 2009. The university opened in 2000 as Texas A&M University-Kingsville System Center-San Antonio, and now offers over 20 bachelor and 11 graduate degree programs within three colleges including Arts & Sciences, Business, and Education & Kinesiology. A&M-San Antonio's student enrollment in Fall 2012 was approximately 4,116.

Texas A&M University – Texarkana. Located on the Texas-Arkansas border and originally founded as East Texas State University at Texarkana, Texas A&M University-Texarkana ("TAMU-T") offers a career-oriented curriculum with over 30 bachelor and 11 graduate degree programs within three colleges including Education and Liberal Arts, Business, and Science, Technology, Engineering and Mathematics. A&M-Texarkana's student enrollment in Fall 2012 was approximately 1,903 students.

Prairie View A&M University. Prairie View A&M University ("PVAMU") is the second-oldest public institution of higher education in Texas, the first state-supported college in Texas for African Americans and the state's first coeducational institution of higher education. PVAMU's main campus is located in Waller County, 45 miles northwest of Houston. With approximately 8,336 students enrolled in Fall 2012, PVAMU offers over 40 bachelor

and over 25 graduate degree programs within eight academic units including Agriculture and Human Sciences; Architecture; Arts and Sciences; Business; Education; Nursing; Juvenile Justice and Psychology; and Engineering.

Tarleton State University. Founded in 1899 and now the largest non-land-grant agricultural university in the country, Tarleton State University (“Tarleton”) serves as the educational and cultural center of the Cross Timbers and surrounding areas. With approximately 10,279 students enrolled in Fall 2012, Tarleton provides courses at its 150-acre main campus and 700-acre university farm in Stephenville, the 1,170-acre Hunewell Ranch in Erath County, its Dora Lee Langdon Cultural and Educational Center in Granbury, McClennan Community College in Waco, the Terrell School of Clinical Laboratory Sciences in Fort Worth, and at Weatherford Community College. Tarleton offers over 65 bachelor and over 20 graduate degree programs within five academic units including Agricultural and Environmental Sciences; Business Administration; Education; Liberal and Fine Arts; and Science and Technology.

West Texas A&M University. Located in Canyon, West Texas A&M University (“WTAMU”) is the northernmost senior institution of higher education in Texas and the most accessible and affordable university for many residents in the five-state region. With approximately 7,909 students enrolled in Fall 2012, WTAMU offers 62 bachelor and 41 graduate degree programs within five academic units including Agriculture, Science and Engineering; Nursing and Health Sciences; Business; Education and Social Sciences; and Fine Arts and Humanities.

Agricultural Agencies

Texas A&M AgriLife Research. Texas A&M AgriLife Research is the state’s premier research agency in agriculture, natural resources and the life sciences. While maintaining their traditional connection to farming and ranching, the agency’s researchers are also developing fruits and vegetables with enhanced nutrition and disease-fighting compounds, leading innovative research for renewable energy sources, working with the U.S. military to sustain training lands, and implementing new methods to improve air and water quality. By collaborating with more than 30 countries, Texas A&M AgriLife Research is helping not only to strengthen the state’s position in the world market by developing strong customers for Texas products, but also to help other countries meet their own agricultural needs. Prior to January 2008, this agency was known as the Texas Agriculture Experiment Station.

Texas A&M AgriLife Extension Service. With a mission to provide relevant outreach and continuing education programs and services, Texas A&M AgriLife Extension Service employs more than 900 professional educators across the state to serve families, youth, communities, and businesses in all 254 of the state’s counties. County Cooperative Extension agents serve as local educators and are supported by extension specialists. Their expertise encompasses the broad areas of food and fiber production; marketing and policy; environmental and natural resource conservation and management; family and consumer sciences; human nutrition and health; 4-H and youth development; and community economic development. Cooperative extension education is made possible in each state by a partnership among the U.S. Department of Agriculture, county governments, and the state land-grant university system. Prior to January 2008, this agency was known as the Texas Cooperative Extension.

Texas A&M Forest Service. The Texas A&M Forest Service (“TFS”) is known for its continuous efforts to develop, protect, and preserve the state’s forest resources. While TFS’ primary program focus is in the 52 forested counties of East Texas, the agency serves the entire state in efforts including rural fire protection and training, urban forestry, tree improvement, professional forest management assistance to landowners, wood use technology, reforestation, and forest insect and disease control. In addition, TFS is the incident management agency for state disasters and has led the management of such incidents as the Space Shuttle Columbia recovery in East Texas and the exotic Newcastle disease outbreak in West Texas. TFS also provided logistical support in the aftermath of Hurricanes Katrina, Rita and Ike.

Texas A&M Veterinary Medical Diagnostic Laboratory. The Texas A&M Veterinary Medical Diagnostic Laboratory (“TVMDL”) is one of the largest and busiest veterinary diagnostic labs in the world, receiving more than 200,000 requests per year from Texas animal industries for assistance in diagnosing animal diseases. TVMDL is accredited by the American Association of Veterinary Laboratory Diagnosticians. TVMDL’s full-service facilities are located in College Station and Amarillo, with poultry diagnostic labs located in Center and Gonzales. The College Station facility is equipped with a Biosafety Level 3 (BSL-3) veterinary diagnostic laboratory that is capable of safely working with and containing high-consequence animal disease agents. TVMDL also constructed a BSL-3 laboratory at the Amarillo location in 2011.

Engineering Agencies

Texas A&M Engineering Experiment Station. The Texas A&M Engineering Experiment Station (“TEES”) is the state’s agency for engineering and technology research. Its mission is to perform engineering and technology-oriented research and development for the enhancement of the educational systems and the economic development of the state of Texas and the nation. TEES is structured to maximize research and educational partnership

opportunities through both its 28 interdisciplinary research centers and its regional partnerships with 16 public colleges and universities. TEES is leading Texas research efforts in areas that include energy conservation, nanotechnology, clean water, and improving math and science education for middle and high school students to ensure a strong Texas economy well into the future.

Texas A&M Engineering Extension Service. Internationally recognized for its hands-on, customized training, the Texas A&M Engineering Extension Service (“TEEX”) offers a wide range of technical training programs to enhance the skills of employed workers and to prepare workers entering the labor force. Major TEEX programs include fire services, homeland security, public safety and security, public works, safety and health, search and rescue, and economic solutions. During its fiscal year 2012, TEEX trained more than 183,750 workers from all 50 states, five U.S. territories, the District of Columbia and 79 countries. TEEX is the sponsoring entity for Texas Task Force 1, which serves state and national urban search and rescue teams, as well as Texas’ swift water rescue strike team.

Texas A&M Transportation Institute. For more than 50 years, the Texas A&M Transportation Institute (“TTI”) has been serving the people of Texas and the nation by advancing transportation safety, efficiency, and economy. TTI is the largest university-affiliated transportation research agency in the nation and is recognized around the world for its significant contributions to all modes of transportation. Established during the early years of the ambitious interstate highway program, TTI has played a major role in the successful development of the Texas federal and state road systems. Through regional divisions at ten other universities across the state, TTI assists in developing a diverse transportation workforce and addresses regional transportation issues.

Accreditation

The institutions and agencies comprising the A&M System are members of the following professional associations and fully accredited by those which apply accreditation standards: Commission on Colleges of the Southern Association of Colleges and Schools; National Commission on Accrediting; Association of Texas Colleges and Universities; American Council on Education; Association of American Colleges; Association of Urban Universities; and National Association of State Agencies and Land-Grant Colleges.

Enrollment

The historic undergraduate and graduate headcount enrollment at each of the general academic institutions of the A&M System during the past five Fall semesters follows:

Total Headcount Enrollment Information

<u>Institutions</u>	<u>Fall Semester⁽¹⁾</u>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Texas A&M University	50,227	49,861	49,129	48,702	48,039
Texas A&M University – Central Texas	2,253	2,096	2,317	2,188	-
Texas A&M University – Commerce	11,187	10,726	10,280	9,075	8,787
Texas A&M University – Corpus Christi	10,508	10,162	10,033	9,468	9,007
Texas A&M University at Galveston ⁽²⁾	2,014	2,035	1,867	1,774	1,612
Texas A&M International University	7,173	7,037	6,853	6,419	5,856
Texas A&M University – Kingsville ⁽³⁾	7,234	6,731	6,586	5,892	7,134
Texas A&M University – San Antonio	4,116	3,554	3,120	2,343	-
Texas A&M University – Texarkana	1,903	1,907	1,803	1,597	1,625
Prairie View A&M University	8,336	8,425	8,781	8,608	8,203
Tarleton State University ⁽⁴⁾	10,279	9,893	9,340	8,598	9,634
West Texas A&M University	7,909	7,886	7,839	7,769	7,535
Texas A&M Health Science Center ⁽⁵⁾	<u>2,286</u>	<u>2,122</u>	<u>1,958</u>	<u>1,844</u>	<u>1,695</u>
	<u>125,425</u>	<u>122,435</u>	<u>119,906</u>	<u>114,277</u>	<u>109,127</u>

(1) The enrollment data has been certified by the Texas Higher Education Coordinating Board for 2008-2012.

(2) A branch campus of Texas A&M University.

(3) The enrollment data for Texas A&M University – Kingsville includes the system center in San Antonio prior to Fall 2009. This system center became a separate general academic institution named Texas A&M University – San Antonio on September 1, 2009.

(4) The enrollment data for Tarleton State University includes the system center in Killeen prior to Fall 2009. This system center became a separate general academic institution named Texas A&M University – Central Texas on September 1, 2009.

(5) Effective July 12, 2013, the Health Science Center was merged into Texas A&M University as a unit of Texas A&M University. See “Member Institutions - Texas A&M University”.

The historic graduate enrollment (included in the above headcount enrollment statistics) at each of the general academic institutions of the A&M System during the past five Fall semesters follows:

Graduate Enrollment Information

Institutions	Fall Semester – Graduate Enrollment⁽¹⁾				
	2012	2011	2010	2009	2008
Texas A&M University	9,778	9,616	9,575	9,517	9,214
Texas A&M University – Central Texas	693	683	697	656	-
Texas A&M University – Commerce	4,188	3,751	3,475	3,167	3,127
Texas A&M University – Corpus Christi	1,768	1,887	1,979	1,877	1,758
Texas A&M University at Galveston ⁽²⁾	109	83	62	54	46
Texas A&M International University	790	938	1,030	1,104	1,062
Texas A&M University – Kingsville ⁽³⁾	1,268	1,174	1,317	1,359	1,595
Texas A&M University – San Antonio	1,133	950	796	586	-
Texas A&M University – Texarkana	283	255	204	275	301
Prairie View A&M University	1,512	1,567	1,808	1,883	1,925
Tarleton State University ⁽⁴⁾	1,362	1,417	1,438	1,315	1,748
West Texas A&M University	1,163	1,128	1,001	1,065	1,074
Texas A&M Health Science Center ⁽⁵⁾	<u>2,080</u>	<u>1,962</u>	<u>1,778</u>	<u>1,694</u>	<u>1,590</u>
	<u>26,127</u>	<u>25,411</u>	<u>25,160</u>	<u>24,552</u>	<u>23,440</u>

(1) The enrollment data has been certified by the Texas Higher Education Coordinating Board for 2008-2012.

(2) A branch campus of Texas A&M University.

(3) The enrollment data for Texas A&M University – Kingsville includes the system center in San Antonio prior to Fall 2009. This system center became a separate general academic institution named Texas A&M University – San Antonio on September 1, 2009.

(4) The enrollment data for Tarleton State University includes the system center in Killeen prior to Fall 2009. This system center became a separate general academic institution named Texas A&M University – Central Texas on September 1, 2009.

(5) Effective July 12, 2013, the Health Science Center was merged into Texas A&M University as a unit of Texas A&M University. See “Member Institutions - Texas A&M University”.

Admissions Information

The historic admission figures for the general academic institutions for the previous five Fall semesters follow:

	2012	%	2011	%	2010	%	2009	%	2008	%
Freshmen:										
Applicants	69,210	100.0	63,312	100.0	55,631	100.0	52,335	100.0	46,759	100.0
Acceptances	45,557	65.8	40,506	64.0	37,535	67.5	34,241	65.4	30,932	66.2
Matriculants*	18,084	39.7	17,686	43.7	17,585	46.9	16,734	48.9	15,890	51.4
Transfers:										
Applications	29,060	100.0	28,466	100.0	27,656	100.0	23,796	100.0	22,717	100.0
Acceptances	16,807	57.8	16,331	57.4	16,125	58.3	14,650	61.6	13,575	59.8
Matriculants*	11,839	70.4	11,423	69.9	11,434	70.9	10,065	68.7	9,281	68.4

* Calculated as a percentage of acceptances.

FINANCIAL MANAGEMENT

The Board of Regents has approved Billy C. Hamilton to serve as Executive Vice Chancellor and Chief Financial Officer of the A&M System. Mr. Hamilton will have direct responsibility for all departments, including the Vice Chancellors, Chief Business Development Officer and Chief Financial Officers within the A&M System. The Treasurer is responsible for the operational activities of debt, cash and investment management of the A&M System’s operating and endowment funds, and the Executive Director of Budgets and Accounting is responsible for budgets, accounting, and financial statements. Previously these duties were the responsibility of the Chief Financial Officer and Treasurer, Gregory R. Anderson, whose retirement was effective February 2, 2013. Maria L. Robinson was promoted from Director of Treasury Services to Treasurer upon his retirement.

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 the A&M System.

The Fiscal Year of the State and the A&M System 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 the A&M System,

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 at each of the A&M System's member institutions. *No independent audit in support of this detailed review is required or obtained by the A&M System.*

A&M System Financial Reports

The A&M System 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 A&M System in maintaining accounts and in the preparation of the combined primary 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).

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

Attached to this Official Statement as "APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM," are the most recent primary statements of the unaudited combined annual financial reports of the A&M System (with the relevant portion of the Notes to the unaudited combined primary financial reports), for the A&M System's Fiscal Year ended August 31, 2012, excerpted from the 2012 Combined Annual Financial Report of the A&M System. The A&M System's unaudited combined primary financial statements consist of the Combined Balance Sheet as of August 31, 2012, the Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2012 and the Combined Statement of Cash Flows for the Year Ended August 31, 2012. See "APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM."

The following table reflects the unaudited condensed statement of net assets of the A&M System as of August 31, 2012, 2011, 2010, 2009 and 2008.

**Condensed Statement of Net Assets
as of August 31, 2012, 2011, 2010, 2009 and 2008
(In Thousands)**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Assets:					
Current Assets	\$1,808,837	\$1,524,123	\$1,723,768	\$1,491,890	\$1,424,014
Capital Assets, Net	3,618,485	3,476,561	3,084,204	2,584,189	2,224,295
Other Assets	<u>3,325,587</u>	<u>3,004,869</u>	<u>2,731,385</u>	<u>2,542,279</u>	<u>2,496,804</u>
Total Assets	<u>8,752,909</u>	<u>8,005,553</u>	<u>7,539,357</u>	<u>6,618,358</u>	<u>6,145,113</u>
Liabilities:					
Current Liabilities	1,298,591	1,216,199	1,092,677	975,948	1,090,468
Non-Current Liabilities	<u>3,221,331</u>	<u>2,811,425</u>	<u>2,671,414</u>	<u>2,037,453</u>	<u>1,575,019</u>
Total Liabilities	4,519,923	4,027,624	3,764,091	3,013,401	2,665,487
Net Assets:					
Invested in Capital Assets, Net of Related Debt Restricted	1,284,223	1,287,276	1,164,257	1,085,269	928,495
Expendable	481,352	475,531	387,377	397,111	296,642
Non-Expendable	404,634	394,216	359,138	340,451	464,722
Unrestricted	<u>2,062,777</u>	<u>1,820,906</u>	<u>1,864,494</u>	<u>1,782,126</u>	<u>1,789,767</u>
Net Assets	4,232,986	3,977,929	3,775,266	3,604,957	3,479,626
Liabilities and Net Assets	<u>\$8,752,909</u>	<u>\$8,005,553</u>	<u>\$7,539,357</u>	<u>\$6,618,358</u>	<u>\$6,145,113</u>

For more detailed information, see "APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM—Combined Statement of Net Assets as of August 31, 2012."

The table below presents the Combined Statement of Revenues, Expenses and Changes in Net Assets of the A&M System (Unaudited) for Fiscal Years 2012, 2011, 2010, 2009 and 2008.

**Combined Statement of Revenues, Expenses and Changes in Net Assets
for the Years Ended August 31, 2012, 2011, 2010, 2009 and 2008
(In Thousands)**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Operating Revenues:					
Net Student Tuition and Fees	\$ 769,982	\$ 689,892	\$ 632,077	\$ 591,828	\$557,089
Net Professional Fees	1,376	8,548	8,705	10,232	9,245
Net Auxiliary Enterprises	271,551	264,606	239,762	220,681	217,652
Net Other Sales of Goods and Services	209,303	212,485	151,138	145,608	134,964
Interest and Investment Income	1,881	1,832	1,637	1,580	1,394
Federal Revenue – Operating	413,849	446,800	444,416	412,468	387,908
Federal Pass Through Revenue	33,979	37,563	38,355	42,271	34,655
State Grant Revenue	1,166	961	1,066	1,392	70,562
State Pass Through Revenue	75,288	83,755	81,609	81,322	45,104
Other Grants and Contracts – Operating	225,913	218,176	228,629	237,483	158,477
Other Operating Revenue	58,164	63,188	59,380	55,138	59,838
Total Operating Revenue	2,062,452	2,027,806	1,886,774	1,800,003	1,676,888
Operating Expenses:					
Instruction	947,502	1,003,525	1,070,804	1,037,898	985,550
Research	656,363	629,223	643,550	615,834	591,515
Public Services	276,868	361,786	175,854	203,621	178,561
Hospitals and Clinics	9,829	0	0	0	0
Academic Support	237,061	211,297	222,583	199,136	194,490
Student Services	133,572	127,352	123,784	117,577	109,071
Institutional Support	334,512	361,567	212,372	225,889	197,851
Operations and Maintenance of Plant	219,465	237,670	240,848	214,409	227,339
Major Repair and Rehabilitation of Plant	0	0	4,606	6,685	4,687
Scholarships and Fellowships	161,335	160,314	165,966	115,091	99,882
Auxiliary Expenses	311,493	300,149	296,669	283,834	282,395
Depreciation	235,012	206,547	179,987	152,503	136,959
Total Operating Expenses	3,523,012	3,599,430	3,337,023	3,172,477	3,008,300
Operating Loss	(1,460,560)	(1,571,624)	(1,450,249)	(1,372,474)	(1,331,412)
Nonoperating Revenues (Expenses):					
Legislative Revenue	1,024,337	966,047	976,126	997,101	979,654
Federal Revenue Non-Operating	199,778	209,924	191,288	141,926	112,801
Federal Pass Through Non-Operating	88	22,915	37,391	0	0
State Pass Through Non-Operating	0	0	0	42,500	0
Gifts	119,698	155,348	110,652	135,323	95,330
Land Income	6,398	8,396	6,881	4,461	5,469
Investment Income	51,664	56,619	45,040	54,858	77,266
Investing Activities Expense	(3,925)	(5,532)	(3,796)	(5,333)	(9,777)
Interest Expense and Fiscal Charges	(106,368)	(89,154)	(81,888)	(51,673)	(56,631)
Borrower Rebates and Agent Fees	(2,185)	(1,020)	(3,969)	(2,593)	(703)
Gain/(Loss) on Sale of Capital Assets	543	(475)	(27)	(311)	261
Net Increase (Decrease) in Fair Value	95,034	182,161	95,339	(195,648)	(124,556)
Settlement of Claims	(167)	(73)	(597)	(679)	(2,177)
Other Non-Operating Revenues	15,013	40,859	11,219	(35,335)	22,931
Other Non-Operating Expenses	(52,617)	(34,662)	(23,581)	(12,691)	(12,892)
Total Non-Operating Revenues (Expenses)	1,347,291	1,511,353	1,360,078	1,071,906	1,086,976
Income/(Loss) Before Other Revenues and Expenses	(113,269)	(60,271)	(90,171)	(300,568)	(244,436)
Capital Contributions	2,109	11,873	15,523	6,771	37,653
HEF Appropriation	27,137	27,137	29,096	29,096	28,230
Additions to Permanent and True Endowments	5,400	5,998	4,825	5,997	9,071
Extraordinary Items	0	0	0	0	0
Transfers to/from Other State Agencies	331,324	217,081	224,295	386,376	141,462
Change in Net Assets	252,701	201,818	183,568	127,672	(28,020)
Beginning Net Assets – As Previously Reported	3,977,929	3,775,266	3,604,957	3,479,626	3,511,915
Restatement	2,357	845	(13,259)	(2,341)	(4,269)
Beginning Net Assets – As Restated	3,980,286	3,776,111	3,591,698	3,477,285	3,507,646
Net Assets – August 31, 2012-2008	<u>\$4,232,987</u>	<u>\$3,977,929</u>	<u>\$3,775,266</u>	<u>\$3,604,957</u>	<u>\$3,479,626</u>

For more detailed information, see “EXHIBIT B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Combined Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended August 31, 2012.”

SELECTED FINANCIAL INFORMATION

Funding for the A&M System

Funding for the A&M System is derived from operating and non-operating revenues. For a discussion of the funding sources for the Fiscal Year ended August 31, 2012 see “APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Management’s Discussion and Analysis – Statement of Revenues, Expenses and Charges in Net Assets.” The amounts and the sources of such funding vary from year to year and there is no guarantee that the source or amounts of such funding will remain the same in future years.

Following are brief discussions of certain funding sources.

Tuition and Fees

Each component institution granting degrees charges tuition and fees as authorized by the State Legislature and the Board pursuant to Chapter 54 and 55 of the Education Code. Tuition charges are composed of “State Mandated Tuition” and “Board Designated Tuition” as further described below. Unless otherwise stated, all references to statutes shall be to the Texas Education Code.

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

Board Designated Tuition. In 2003, the Texas Legislature approved and the Governor signed into law House Bill 3015, which provided for the deregulation of a portion of tuition that a governing board of an institution of higher education, such as the Board, has the authority to charge under Section 54.0513 of the Texas Education Code. Prior to the amendment to Section 54.0513, Texas Education Code, the amount of tuition that a board of regents could independently charge students was capped at the levels described above with respect to State Mandated Tuition. Effective with the tuition that was charged for the Fall 2003 semester, a governing board could charge any student the amount of 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 Board to develop a tuition schedule that assists in meeting the strategic objectives of each Participant in terms of access, affordability, effective use of campus resources, and improvement of graduation rates. The Board must authorize any changes in Board Designated Tuition only after they have been thoroughly evaluated by the Chancellor of the A&M System and the administration of each Participant. No less than 20% of the Board Designated Tuition charged in excess of \$46 per semester credit hour shall be set aside to provide financial assistance to resident undergraduate students, consistent with the provisions of Subchapter B, Chapter 56, Texas Education Code, which were contained in House Bill 3015. (see table below) In connection with the authorization of Board Designated Tuition, building use fees, historically included in Pledged General Fees under the Master Resolution, were rededicated as Board Designated Tuition. This rededication does not impact the pledge of Revenue Funds for the payment and security of Parity Obligations. Both the State Mandated Tuition and the Board Designated Tuition are included in Revenue Funds and are pledged for the benefit of Parity Obligations.

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

[The remainder of this page intentionally left blank.]

Set forth below is a table showing the State Mandated Tuition, Board Designated Tuition, mandatory fees, average course fees, and the amount set aside for financial assistance to resident undergraduate students by each institution, for a full-time resident student for the Fall 2012 semester based on 15 semester credit hours.

Fall 2012

	State Mandated Tuition	Board Designated Tuition	Mandatory Fees	Average Course Fees	Total Tuition and Fees	Financial Assistance Set Aside
Prairie View A&M University	\$ 750	\$ 1,947	\$ 1,353	\$ 289	\$ 4,338	\$ 251
Tarleton State University	750	1,560	1,098	100	3,507	174
Texas A&M International University	750	1,440	1,306	60	3,556	150
Texas A&M University	750	1,898	1,605	289	4,542	242
Texas A&M University at Galveston	750	2,073	1,123	185	4,131	277
Texas A&M University – Central Texas	750	1,626	834	30	3,240	187
Texas A&M University – Commerce	750	1,645	897	68	3,360	191
Texas A&M University – Corpus Christi	750	1,647	1,317	125	3,839	191
Texas A&M University – Kingsville	750	1,433	1,287	87	3,557	149
Texas A&M University – San Antonio	750	1,303	1,323	194	3,570	123
Texas A&M University – Texarkana	750	1,522	915	137	3,324	166
West Texas A&M University	750	1,585	1,150	37	3,522	179

The Board may set rates for graduate tuition at different levels for different institutions. State Mandated Tuition for a resident student enrolled in a program leading to an M.D. or D.O. degree is \$6,550 per academic year. State Mandated Tuition for a nonresident student enrolled in a program leading to an M.D. or D.O. degree is an amount per year equal to three times the rate that a resident student enrolled in a program leading to an M.D. or D.O. degree would pay during the corresponding academic year. In addition, various other programs, including programs leading to a D.V.M. degree, have specific annual rates for resident students and maximum rates that may be charged to nonresident students.

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

State Government Appropriations

General Revenue Appropriations. The A&M System receives support annually from the State through general revenue fund appropriations made by the State Legislature. Levels of continued State support to the A&M System are dependent on results of biennial legislative sessions. The State Legislature adopted a budget for the State for the 2014-15 biennium beginning September 1, 2013, which appropriated approximately \$1.05 billion for the A&M System from the general revenue fund for Fiscal Year 2014 and budgeted approximately \$1.05 billion for Fiscal Year 2015. Based on the original operating budget for the A&M System for the fiscal year ending August 31, 2014, State appropriations comprise approximately 27% of A&M System revenues. These amounts include legislative revenues and net transfers from other state agencies.

The A&M System has no assurance that the State Legislature will continue to appropriate to it the General Revenue Funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the A&M System taking into consideration the availability of financial resources and other potential uses of such resources. For financial information concerning the State of Texas, reference is made to the bond disclosure appendix (referred to as Appendix A) prepared by the Texas Comptroller of Public Accounts and published quarterly, which may be obtained (i) using the MSRB's internet website, www.emma.msrb.org, by using the muni search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: <http://www.window.state.tx.us/treasops/bondapp.html>.

Tuition Revenue Bonds. Pursuant to Chapter 55, Texas Education Code, revenue bonds issued by a university system, such as the A&M System, may be equally secured by and payable from a pledge of all or a portion of certain revenue funds of the university system, and all of the Parity Obligations of the A&M System, including the

Bonds, are secured solely by and payable solely from a pledge of and lien on the Pledged Revenues. See "SECURITY FOR THE BONDS" and "THE REVENUE FINANCING SYSTEM - Pledged Revenues."

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 A&M System constitute Tuition Revenue Bonds. See footnotes 1 and 2 under "Outstanding Indebtedness" below for a description of which Parity Obligations of the System constitute Tuition Revenue Bonds. Tuition Revenue Bonds issued by the A&M System carry no additional pledge or security and constitute Parity Obligations of the A&M System which are equally and ratably secured by and payable from a pledge of and lien on Pledged Revenues on parity with all other Parity Obligations of the A&M System.

The State Legislature has appropriated funds to reimburse the A&M System in prior years in an amount equal to all or a portion of the debt service on the A&M System's Tuition Revenue Bonds, including appropriations made during the 2013 legislative session totaling \$55,885,445 for Fiscal Year 2014 and \$55,273,950 for the Fiscal Year 2015 to reimburse the payment of debt service on the A&M System's Tuition Revenue Bonds.

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

Available University Fund Income Appropriations. The Available University Fund is defined by Article VII, Section 18 of the State Constitution (the "PUF Constitutional Provision") to consist of distributions from the "total return" on all investment assets of the Permanent University Fund ("PUF"), including the net income attributable to the surface of PUF land, in the amounts determined by the Board of Regents (the "UT Board") of The University of Texas System (the "UT System"). See "Investment Policy and Procedure and Endowments – Endowments – Permanent University Fund" below. One-third of the total amounts comprising the Available University Fund are constitutionally appropriated to the A&M System first, for the payment of annual debt service on PUF bonds and notes issued by the Board, and second, for the support and maintenance of the A&M System Administration, Texas A&M University, and Prairie View A&M University.

Private Financial Support

In Fiscal Year 2012, the A&M System received contributions (gifts, grants and contracts) exceeding \$353.1 million from the private sector, and during the five complete Fiscal Years preceding 2012, the A&M System received contributions averaging in excess of \$382.6 million annually from the private sector, making it one of the leading public educational systems in the nation receiving charitable contributions.

Texas A&M University has concluded its "One Spirit One Vision Campaign" to raise private gifts in support of "Vision 2020" goals with over \$1.5 billion in commitments. In all, Vision 2020 calls for two major campaigns to increase the endowments benefiting Texas A&M University to \$3 billion by 2020. No assurance can be given, however, that the Vision 2020 goals will be achieved or that the timing and scope of such goals will not be altered. On October 11, 2008, Texas A&M University launched "Operation Spirit and Mind," a multiyear \$300 million initiative to raise private funds for endowed scholarships and graduate fellowships for Texas A&M students in all fields. As of August 31, 2011, the campaign successfully met its goal as former students and friends to the university committed more than \$308.2 million to the campaign.

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. The A&M System has two financing programs in addition to the Revenue Financing System.

Permanent University Fund Bonds

The PUF Constitutional Provision authorizes the Board to issue bonds and notes, payable from all or part of its interest in the Available University Fund in an aggregate amount not exceeding, at the time of issuance 10% of the cost value of PUF assets, excluding real estate. Proceeds may be used for the purpose of (i) acquiring land with or without permanent improvements; (ii) constructing and equipping buildings or other permanent improvements; (iii) making major repairs and rehabilitation and other permanent improvements; (iv) acquiring capital equipment, library books, and library materials; and (v) refunding bonds or notes issued under said section or prior law, at or for the A&M System Administration and the member institutions of the A&M System (except Texas A&M University – Commerce, Texas A&M University – Corpus Christi, Texas A&M International University, Texas A&M University – Kingsville, Texas A&M University – Texarkana, West Texas A&M University, and Texas A&M Veterinary Medical Diagnostic Laboratory). Proceeds may not be used to finance permanent improvements of auxiliary enterprises or athletic facilities.

As of July 31, 2013, the Board’s constitutionally authorized PUF bond capacity was approximately \$1,243,676,830, and the aggregate amount of the Board’s PUF bonds and notes issued and outstanding under this limit was \$707,905,000.

Higher Education Fund Bonds

The following member institutions are not eligible to receive proceeds from PUF bonds and notes under the PUF Constitutional Provision: Texas A&M University – Commerce; Texas A&M University - Corpus Christi; Texas A&M International University; Texas A&M University – Kingsville; Texas A&M University – Texarkana; West Texas A&M University; and Texas A&M Veterinary Medical Diagnostic Laboratory. Pursuant to the Higher Education Fund (“HEF”) program established by Article 7, Section 17 of the State Constitution (the “HEF Constitutional Provision”), such institutions, except Texas A&M Veterinary Medical Diagnostic Laboratory, are qualified to receive an annual allocation from amounts constitutionally appropriated to fund permanent improvements (except those for auxiliary enterprises). Under the HEF Constitutional Provision, the Board is authorized to issue bonds and notes to finance permanent improvements at such institutions and to pledge up to 50% of its allocation to secure the payment of principal and interest on the bonds and notes. The A&M System has no bonds or notes issued or outstanding under this program.

Debt Management

Debt management for the A&M System is the responsibility of the Treasurer. Debt is issued pursuant to A&M System debt capacity calculations and annual funding requirements in accordance with the cash flow analyses. Issuance of debt requires approval of the Board and (except for PUF bonds and notes) approval by the Texas Bond Review Board or an exemption from such approval requirement in accordance with State law and the rules of the Texas Bond Review Board. As a general rule, the A&M System issues debt in large increments to finance system-wide capital improvement cash flow requirements in the aggregate as opposed to financing on a project-by-project basis. To minimize debt service costs during construction periods, the A&M System intends to initially finance capital improvements and required equipment with short-term debt. Such short-term debt is refinanced with long-term fixed rate debt when short-term facilities are fully utilized or during periods of low interest rates.

Current Board Policy on Issuance of Debt

Under current policy, the Board must approve the issuance of debt for a Participant in order to ensure that each Participant is self-sufficient and the operation of each Participant is efficient. Prior to the issuance of debt, a Participant must furnish the Board, for its review and approval, information describing the proposed project including a complete description of the new facilities, and the need therefor, estimated costs of construction, financial analysis and feasibility, if expected to generate sources of revenues for operation and maintenance, and status of student-approved fee increases if required to pay debt service or operation and maintenance expenses.

Participants are required to make reports to the Chancellor during each Fiscal Year regarding revenue receipts, expenditures, status of construction projects, compliance with Board policies related to issuance of debt, and compliance with bond covenants and requirements. Such policies are subject to change by the Board without notice. The application of such policies may be waived at the discretion of the Board.

Outstanding Indebtedness

Following the delivery of the Bonds, the A&M System will have the following described indebtedness:

Revenue Financing System

Revenue Financing System Bonds, Series 2005A ⁽²⁾	\$ 94,175,000.00	
Revenue Financing System Bonds, Series 2005B	177,805,000.00	
Revenue Financing System Bonds, Series 2008 ⁽¹⁾	125,375,000.00	
Revenue Financing System Bonds, Series 2009A ⁽²⁾	206,205,000.00	
Revenue Financing System Bonds, Series 2009B	68,700,000.00	
Revenue Financing System Bonds, Series 2009C ⁽²⁾	38,635,000.00	
Revenue Financing System Bonds, Series 2009D	291,160,000.00	
Revenue Financing System Bonds, Series 2010A ⁽²⁾	84,550,000.00	
Revenue Financing System Bonds, Series 2010B	140,540,000.00	
Revenue Financing System Bonds, Series 2011A ⁽¹⁾	16,685,000.00	
Revenue Financing System Bonds, Series 2011B	101,545,000.00	
Revenue Financing System Bonds, Series 2013A ⁽²⁾	40,955,000.00	
Revenue Financing System Bonds, Series 2013B	265,405,000.00	
Revenue Financing System Bonds, Series 2013C and Series 2013D	352,825,000.00	⁽⁵⁾
Revenue Financing System Note (2007 TIPS Project)	2,999,999.98	
Revenue Financing System Commercial Paper Notes	12,325,000.00	⁽³⁾
	<u>\$2,019,884,999.98</u>	⁽⁵⁾

Permanent University Fund

Permanent University Fund Bonds, Series 1998	\$28,795,000.00	
Permanent University Fund Refunding Bonds, Series 2003	76,965,000.00	
Permanent University Fund Bonds, Series 2006	115,920,000.00	
Permanent University Fund Bonds, Series 2009AB	212,860,000.00	
Permanent University Fund Bonds, Series 2011	82,375,000.00	
Permanent University Fund Bonds, Series 2012A	70,680,000.00	
Permanent University Funds Bonds, Taxable Series 2012B	120,310,000.00	
Permanent University Fund Commercial Paper Notes	-	
	<u>\$707,905,000.00</u>	

TOTAL \$2,727,789,999.98 ⁽⁵⁾

⁽¹⁾ A portion of these bonds constitute Tuition Revenue Bonds. See footnote (2).

⁽²⁾ Constitute bonds that qualify for reimbursement from State appropriations for debt service payments on the Board's outstanding Tuition Revenue Bonds. See "EXHIBIT A — DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM — Selected Financial Information — Funding for the A&M System - State Government Appropriations — Tuition Revenue Bonds". Future reimbursement by the State for debt service payments is entirely subject to future appropriations by the State Legislature in each subsequent State biennium.

⁽³⁾ Under current Board authorization, Revenue Financing System Commercial Paper Notes may be issued up to a total of \$300 million. As of the date hereof, RFS Commercial Paper Notes were outstanding in the principal amount of \$12,325,000.

⁽⁴⁾ Under current Board authorization, Permanent University Fund Commercial Paper Notes or Flexible Rate Notes may be issued up to a total of \$125 million. As of the date hereof, no PUF Commercial Paper Notes or PUF Flexible Rate Notes were outstanding.

⁽⁵⁾ The Bonds; preliminary, subject to change. Before the time of pricing, the System will determine the amount and maturities of the Bonds that will be issued as Series 2013C Bonds and the amount and maturities of the Bonds that will be issued as Series 2013D Bonds.

Anticipated Issuance of Debt

Responsibility for the management of the A&M System's obligations is centralized in the Office of Treasury Services. The A&M System maintains a \$300 million Revenue Financing System commercial paper program to facilitate interim financing of capital improvement projects. The liquidity support for the full authorization of \$300 million of such program is provided by the available assets of the Revenue Financing System. The Revenue Financing System commercial paper program will continue to be used to provide interim financing of the capital improvement needs of the A&M System.

Following the delivery of the Bonds, the Board anticipates that it may issue up to \$150 million of additional Revenue Financing System commercial paper notes or bonds which will provide funds for additional projects during Fiscal Year 2014.

Investment Policy and Procedures and Endowments

Endowments

General. Although not pledged to the payment of debt obligations, the A&M System controls or is benefited by endowments with a market value at July 31, 2013, of approximately \$8.2 billion (including the A&M System's foundations and one-third share of the PUF). As of July 31, 2013, endowment funds under the direct control of the A&M System had a value of \$812.1 million and consisted of marketable securities and investments, land, and other real estate holdings and mineral rights. Such land, real estate, and mineral rights are valued at their book value as of the date of acquisition of such property. Distributions are calculated at 5% of the 20-quarter rolling average market value of the endowment. Since distributions are based on 20 quarters, market fluctuations are smoothed and distributions should remain fairly consistent from year to year.

The A&M System is also a beneficiary of the PUF. As of July 31, 2013, the market value of the PUF was approximately \$14.7 billion (excluding land), one-third of which is designated for the A&M System. The audited annual financial statements for the PUF for Fiscal Years ended August 31, 2012 and 2011 have been filed by the UT Board with the Municipal Securities Rulemaking Board and are incorporated by reference into this Official Statement. Copies of each of such documents are available from the A&M System's Office of Treasury Services.

Each endowment is subject to various restrictions as to application and use.

Permanent University Fund. The PUF is a state endowment contributing to the support of eligible institutions of the A&M System and the UT System. The State Constitution of 1876 established the PUF through the appropriation of land grants previously given to The University of Texas plus one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Currently, the PUF contains 2.1 million acres located in 24 counties primarily in West Texas.

The PUF Constitutional Provision provides for distributions to the Available University Fund from the "total return" on all investment assets of the PUF, including the net income attributable to the surface of PUF land, in the amounts determined by the UT Board. Distributions to the Available University Fund are then allocated one-third to the A&M System and two-thirds to the UT System. The PUF Constitutional Provision requires an appropriation from the first money distributed to each system of an annual sum sufficient to pay debt service due on bonds and notes issued by each board and payable from each system's interest in the Available University Fund. The remainder of each system's annual distributions is to be appropriated to each board for prescribed university purposes.

Management of Investments

The Board is responsible for investment of A&M System funds held outside the State Treasury. 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 A&M System. The Board has provided for centralized investment management within the Office of Treasury Services under the direction of the Treasurer. Investments are managed externally, by unaffiliated investment managers. The Board receives quarterly reports regarding asset allocation, investment returns, and market indices.

Authorized Investments

All available funds held by the A&M System and its Participants are authorized to be invested in accordance with State law 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 A&M System 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.

Investment Programs

The A&M System operates two investment funds, the System Endowment Fund (the “Endowment Fund”) and the Cash Concentration Pool (the “Pool”). The purpose of the Endowment Fund is to provide for the collective investment of all endowment and trust funds held by the A&M System. The purpose of the Pool is to provide for the collective investment of all operating funds. In the management of A&M System investments, consideration is given to the requirements for liquidity, diversification, safety of principal, yield, maturity, quality and capability of investment management, with primary emphasis on safety. All securities which use long-term credit ratings must be rated the equivalent of “B” or better. The fixed income portfolio must have an overall credit rating of “A” or better, and securities using short-term credit ratings must be rated at least “A-2,” “P-2,” “F-2” or the equivalent.

The Board’s investment policy provides for a target asset allocation for the Endowment Fund of approximately 40% of the total fund’s market value in equities, approximately 15% of the total fund’s market value in fixed income securities, and approximately 45% of the total fund’s market value in alternative assets.

The market value of the Pool as of July 31, 2013 was \$2.3 billion, which does not include the proceeds of any Revenue Financing System or Permanent University Fund debt. The Pool is invested with 41% in fixed income securities, 39% in equities and 20% in alternative assets. The Revenue Financing System debt proceeds are invested solely in the short-term portfolio.

The Board’s current target asset allocations are revised as follows:

Short-Term Portfolio	8%
Liquidity Portfolio	10%
Fixed Income Portfolio	25%
Domestic Equity	20%
International Equity	17%
Absolute Return	20%

During the last 18 months, the A&M System’s investments for endowments and the cash concentration pool continued to experience market value volatility. The A&M System is reporting net returns of 12.7% and 9.3% for the twelve months ended July 31, 2013 for the Endowment Fund and the Pool, respectively. The Board cannot make any representation as to the future performance of the A&M System’s endowment or other invested funds.

Set forth below is the market value for the Pool, the Endowment Fund, and the A&M System’s one-third interest in the PUF as of the end of the most recent five fiscal years.

**Market Value of Investment Funds
(In Thousands)**

<u>August 31</u>	<u>Pool</u>	<u>Endowment Fund</u>	<u>A&M System’s Interest in PUF</u>
2012	\$ 2,244,849	\$ 750,066	\$ 5,641,393
2011	1,961,216	731,995	4,794,797
2010	1,605,874	661,361	4,082,554
2009	1,464,062	637,612	3,641,326
2008	1,543,955	734,801	4,323,873

For a discussion of investments for fiscal year 2012, see “APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Note 3: Deposits, Investments & Repurchase Agreements.”

In addition to the Endowment Fund and the Permanent University Fund, the A&M System is benefited by the Permanent Health Fund and the endowments of nine separate foundations. The Permanent Health Fund is managed by the UT Board acting through The University of Texas Investment Management Company (“UTIMCO”) and the foundations are governed by boards separate from the Board. Investment decisions and asset allocations are managed by UTIMCO and the respective foundation boards. Asset allocations are revised from time to time and are not necessarily the same as those used by the A&M System. The market value of the foundations endowments is reported annually to the A&M System as of June 30th with the most recent market value as of June 30, 2012 at \$1.37 billion, 83% of which benefits Texas A&M University in College Station.

Management of Funds Held in the State Treasury

The Texas Education Code requires that the A&M System deposit into the State Treasury all funds except those derived from auxiliary enterprises and non-instructional services, agency, designated, restricted funds, endowment and other gift funds, student loan funds, and funds for the payment of overhead expenses of conducting research. All such funds held in the State Treasury, including Higher Education Funds, the Available University Fund and certain cash balances of the PUF, are administered by the State Comptroller of Public Accounts. The State Comptroller of Public Accounts invests money in the State Treasury in authorized investments consistent with applicable law. The State Comptroller of Public Accounts pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately among the various State agencies whose funds are so pooled. The Board utilizes the State Treasury primarily as a depository and anticipates that all funds deposited in the State Treasury will be available upon request and will earn interest equal to an allocated share of investment earnings on pooled funds in the State Treasury. As of July 31, 2013, the amount of A&M System funds held by the State Treasury was \$425.2 million.

Insurance

The A&M System is exposed to various risks of loss related to property – fire, windstorm, or other loss of capital assets; general and employer liability – resulting from alleged wrongdoings by employees and others; net income – due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel – unexpected expense associated with employee health, termination, or death. As an agency of the State, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques. For details, see “APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Note 17: Risk Management.”

Retirement Plans

A&M System employees participate in various retirement plans or programs. For details, see “APPENDIX B – UNAUDITED FINANCIAL REPORTS OF THE TEXAS A&M UNIVERSITY SYSTEM – Note 9: Employee Retirement Plans.”

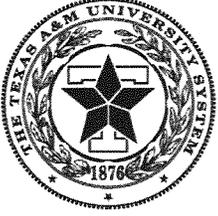
The A&M System faces the challenge of funding its healthcare benefits costs for its 29,564 employees and retirees, which costs continue to escalate. These costs include providing postemployment health benefits to eligible employees. In August 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective for the A&M System beginning in fiscal year 2008. GASB Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical costs, over the employees’ years of service, along with the related liability, net of any plan assets. Other Postemployment Benefits are benefits provided to the A&M System’s retirees under the A&M System group insurance programs. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, Texas Insurance Code.

For the year ended August 31, 2012, the A&M System has an unfunded present value liability of \$1,996,798,639. The A&M System has elected to amortize the liability over a 30-year period, which results in an Annual Required Contribution (ARC) of \$180,939,570 for the reporting period. Plan contributions by the A&M System in fiscal year 2012 were \$63,131,287, resulting in a net liability of \$603,878,029.

The information presented herein was determined as part of an actuarial valuation process using actuarial methods and assumptions. The calculation is based on an entry-age normal actuarial method, 7.3% investment rate of return, 3.0% inflation rate, and 9.5% health care trend rate in 2012 (decreasing to 5.0% in 2021). A change in any of these assumptions could have a significant effect on the results of the actuarial calculation presented above.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

APPENDIX B
UNAUDITED FINANCIAL REPORTS OF
THE TEXAS A&M UNIVERSITY SYSTEM



THE TEXAS A&M UNIVERSITY SYSTEM

Office of Budgets and Accounting

November 20, 2012

John Sharp
Chancellor
The Texas A&M University System
200 Technology Way
College Station, Texas 77845

Dear Mr. Sharp:

We are submitting herewith the Annual Financial Report of The Texas A&M University System for the fiscal year ended August 31, 2012.

This report has been prepared in conformity with the TEX. GOV'T CODE ANN §2101.011 and in accordance with the Annual Financial Reporting Requirements of the Texas 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; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

Respectfully submitted,

Teresa Bass, CPA
Comptroller

Joseph Duron, CPA
Executive Director, Budgets & Accounting

THE TEXAS A&M UNIVERSITY SYSTEM

BOARD OF REGENTS

Richard A. Box	Term Expires February 1, 2013
Morris E. Foster	Term Expires February 1, 2013
James P. Wilson	Term Expires February 1, 2013
Phil Adams	Term Expires February 1, 2015
Jim Schwertner	Term Expires February 1, 2015
John D. White	Term Expires February 1, 2015
Elaine Mendoza	Term Expires February 1, 2017
Judy Morgan	Term Expires February 1, 2017
Cliff Thomas	Term Expires February 1, 2017
John “Quinten” Womack (Student Regent)	Term Expires May 31, 2013

OFFICERS OF THE BOARD

Richard A. Box	Chairman
Phil Adams	Vice Chairman

ADMINISTRATIVE OFFICERS

John Sharp	Chancellor
Gregory R. Anderson	Chief Financial Officer and Treasurer
Joseph Duron	Executive Director, Budgets & Accounting
Teresa L. Bass	Comptroller

THE TEXAS A&M UNIVERSITY SYSTEM

CHIEF EXECUTIVE OFFICERS

System Offices	John Sharp, Chancellor
Prairie View A&M University	George C. Wright, President
Tarleton State University	F. Dominic Dottavio, President
Texas A&M University - Central Texas	Marc Nigliazzo, President
Texas A&M International University	Ray M. Keck III, President
Texas A&M University	R. Bowen Loftin, President
Texas A&M University at Galveston	Robert Smith III, President and CEO
Texas A&M University - Commerce	Dan R. Jones, President
Texas A&M University - Corpus Christi	Flavius Killebrew, President
Texas A&M University - Kingsville	Steven H. Tallant, President
Texas A&M University - San Antonio	Maria Hernandez Ferrier, President
Texas A&M University - Texarkana	Keith McFarland, Interim President
West Texas A&M University	J. Patrick O'Brien, President and CEO
Texas A&M AgriLife Research	Craig Nessler, Director
Texas A&M AgriLife Extension	Douglas L. Steele, Director
Texas A&M Engineering Experiment Station	M. Katherine Banks, Director, Vice Chancellor and Dean of Engineering
Texas A&M Engineering Extension Service	Gary Sera, Director
Texas A&M Forest Service	Tom G. Boggus, Director
Texas A&M Transportation Institute	Dennis L. Christiansen, Director
Texas A&M Veterinary Medical Diagnostic Laboratory	Tammy Beckham, Director
Texas A&M University System Health Science Center	E. J. Pederson, Acting President and Vice Chancellor for Health Affairs

THE TEXAS A&M UNIVERSITY SYSTEM

TABLE OF CONTENTS

<u>REFERENCE</u>		<u>PAGE</u>
MD&A	Management's Discussion and Analysis	798-i
III	Combined Balance Sheet	798-1-1
IV	Combined Statement of Revenues, Expenses, and Changes in Net Assets	798-2-1
IV - 1	Combined Schedule of NACUBO Function to Natural Classification Matrix	798-3-1
V	Combined Statement of Cash Flows	798-4-1
NOTES	Notes to the Combined Financial Statements	798-5
VI	Combining Balance Sheet - Discretely Presented Component Units	798-a
VII	Combining Statement of Revenues, Expenses, and Changes in Net Assets Discretely Presented Component Units	798-b
2 - A	Combined Schedule of Miscellaneous Bond Information	798-10-1
2 - B	Combined Schedule of Changes in Bonded Indebtedness	798-11-1
2 - C	Combined Schedule of Debt Service Requirements	798-12-1
2 - D	Combined Schedule of Analysis of Funds Available for Debt Service	798-13-1
2 - E	Combined Schedule of Defeased Bonds Outstanding	798-14-1
2 - F	Combined Schedule of Early Extinguishment and Refunding	798-15-1
THREE	Combined Schedule of Cash & Cash Equivalents	798-16-1

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

The Texas A&M University System presents its financial statements for fiscal year 2012, with comparative data to fiscal year 2011. The emphasis of discussion will be on the current year. There are three financial statements presented: the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The statements as presented are for the combined Texas A&M University System (A&M System). The A&M System is composed of twelve institutions of higher education, seven agencies, a health science center, and the System administrative offices. The report also includes a blended component unit, the Texas A&M Research Foundation, and four discretely presented component units.

The member institutions of higher education offer a broad range of undergraduate and graduate degrees. With locations in Canyon, Stephenville, Commerce, Texarkana, College Station, Prairie View, Galveston, Corpus Christi, Kingsville, Killeen, San Antonio, and Laredo, the A&M System strives to meet the education needs of Texas.

The agencies of the A&M System include both engineering and agricultural research and extension agencies. The agencies provide educational, research, service, and instruction to benefit the state.

The A&M Health Science Center continues to grow and expand. It includes a college of medicine, a college of dentistry, a school of rural public health, a school of nursing, a pharmacy school and research divisions.

The A&M System educates approximately 126,000 students and reaches another 24.2 million people through service each year. With nearly 27,000 faculty and staff, the A&M System has a physical presence in 250 of the state's 254 counties and a programmatic presence in every Texas county.

Overview of the Financial Statements and Financial Analysis

The A&M System presents its financial statements for fiscal year 2012. The statements are prepared in accordance with Governmental Accounting Standards Board pronouncements, the requirements of the Texas Comptroller of Public Accounts, and the guidelines from the National Association of College and University Business Officers.

Balance Sheet

The Balance Sheet presents a snapshot of current and non-current assets and liabilities and net assets (assets minus liabilities) for the A&M System as of the end of the fiscal year. Current and non-current presentation is discussed in the notes to the financial statements.

Readers of the Balance Sheet are able to determine the assets available to continue the operations of the system. They are also able to determine the amount the system owes to vendors, investors, and lending institutions. The statement also provides a picture of net assets (assets minus liabilities) and their availability by the A&M System.

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Net assets are divided into three major categories. The first category, Invested in Capital Assets, Net of Debt, provides the system's equity in property, plant and equipment owned by the system less the related debt. The second category is restricted net assets which are divided into two categories, expendable and non-expendable. Expendable restricted net assets are available for use by the A&M System, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The corpus of the non-expendable restricted resources is available for investment purposes and the earnings are used to support the institutions or agencies. The non-expendable restricted net assets consist of the system's endowment funds. The third category is unrestricted net assets. Unrestricted net assets are available for any lawful purpose. Although unrestricted net assets are not subject to externally imposed stipulations, the unrestricted net assets have been internally designated for various academic and research programs and initiatives.

**Balance Sheet
(in millions of dollars)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current Assets	\$ 1,809	\$ 1,524	\$ 1,724
Capital Assets, Net	3,618	3,476	3,084
Other Assets	<u>3,326</u>	<u>3,005</u>	<u>2,731</u>
Total Assets	<u>\$ 8,753</u>	<u>\$ 8,005</u>	<u>\$ 7,539</u>
Liabilities			
Current Liabilities	\$ 1,299	\$ 1,216	\$ 1,093
Non-Current Liabilities	<u>3,221</u>	<u>2,811</u>	<u>2,671</u>
Total Liabilities	<u>\$ 4,520</u>	<u>\$ 4,027</u>	<u>\$ 3,764</u>
Net Assets			
Invested in Capital Assets, Net of Debt Restricted	\$ 1,284	\$ 1,287	\$ 1,164
Expendable	481	476	388
Non-Expendable	405	394	359
Unrestricted	<u>2,063</u>	<u>1,821</u>	<u>1,864</u>
Total Net Assets	<u>\$ 4,233</u>	<u>\$ 3,978</u>	<u>\$ 3,775</u>
Total Liabilities & Net Assets	<u>\$ 8,753</u>	<u>\$ 8,005</u>	<u>\$ 7,539</u>

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

The Balance Sheet indicates an increase in total assets of 9.3%. The most significant increase in assets is the \$231.6 million in Cash & Cash Equivalents (Unrestricted & Restricted) and \$96 million increase in non-current Investments. The net capital assets in 2012 are \$3.618 billion, an increase of \$142 million from the 2011 balance of \$3.476 billion.

Liabilities increased 12% from the 2011 amount of \$4.0 billion to \$4.5 billion in 2012. The largest factor was an increase in Note Payables of \$92 million and Bond Payables of \$125 million. The second largest factor was a \$127.0 million increase in Other Postemployment Benefits recognized by the A&M System, which increased the total recognized liability to \$603.8 million. This accrued liability is being amortized over 30 years.

The final section of the statement presents the net assets of the system. Net assets increased 6% from the 2011 amount of \$3.9 billion to \$4.2 billion in 2012. Restricted for Capital Projects increase 34% from the 2011 amount of \$62.9 million to \$84.3 million in 2012 provided the largest increase. Unrestricted Net Assets increased by 13% from \$1.8 billion to \$2.1 billion. Even though these balances are defined as unrestricted they do contain internal restrictions, as defined in the table below.

**Unrestricted Net Assets
as of August 31, 2012
(in millions of dollars)**

Reserved For:	
Accounts Receivable	\$ 906
Encumbrances	102
Capital Projects	148
Retirement of Indebtedness	148
Inventories	25
Higher Education Fund	24
Available University Fund	19
Self-Insured Plans	60
Prepaid Expenses and Other Reserves	41
Other State Funds	118
Unreserved	
Allocated	325
Funds Functioning as Endowments	147
Total Unrestricted Net Assets	<u><u>\$ 2,063</u></u>

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or non-operating. The Governmental Accounting Standards Board requires that state appropriations and federal Pell Grants be reported as non-operating revenue. This will generally result in an operating deficit for most public institutions. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation or amortization, which amortizes the cost of an asset over its expected useful life.

The purpose of this statement is to present the revenues received by the A&M System, and the expenses paid by the A&M System, both operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the system. The change in total net assets as presented on the Balance Sheet is a result of these activities.

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the A&M System. Operating expenses are those expenses paid to acquire goods and services provided in return for the operating revenues. Non-operating revenues are derived from sources that are not considered primary operations for an institution of higher education or state agency. State capital appropriations and capital grants and gifts are considered neither operating nor non-operating revenues and are reported after "Income before other revenues, expenses, gains or losses."

The condensed Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in Net Assets of \$255 million. The \$255 million increase is primarily due to an increase in transfers from other state agencies of \$112 million as well as tuition and fee revenue of \$74.2 million due to enrollment growth and rate increases and an overall decrease in operating expenses of \$76.6 million. There was also a decrease in federal revenue of \$32 million which is attributable to a reduction in ARRA Stimulus funding.

During the 2012 fiscal year, operating expenses decreased \$76 million. The most significant changes are listed below.

- Depreciation and Amortization increased by \$28.5 million or 13.8%, totaling \$235 million.
- Other Operating expenses decreased by \$81 million mostly attributable to reduction in the Texas Forest Service wildfire related costs.
- Salaries, wages and benefits decreased by \$29 million or 4.9%.

Non-operating Revenues and Expenses for 2012 is \$1.4 billion, a decrease of 11%, or \$164 million, from the 2011 amount of \$1.5 billion. Legislative revenue totaled \$1 billion for 2012, an increase of 6% or \$58 million, from the 2011 amount of \$966 million. This increase was primarily attributable to Texas Forest Service receiving a \$121 million supplemental appropriation to cover fire bills for the 2011 wildfires. The decrease in markets and unrealized gains/losses on investments resulted in an \$87 million decrease in investment income due to a decrease in unrealized gains from the 2011 amount of \$182 million to \$95 million.

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Other Revenues, and Transfers increased 39% to \$366 million. The transfers from other state agencies increased by \$112 million which is primarily due to \$78.5 million Available University Fund distribution and the issuance of \$283.6 million Permanent University (PUF) Bonds. When PUF bonds are issued an offsetting interfund receivable and transfer in are recorded to accrue the funds from the University of Texas.

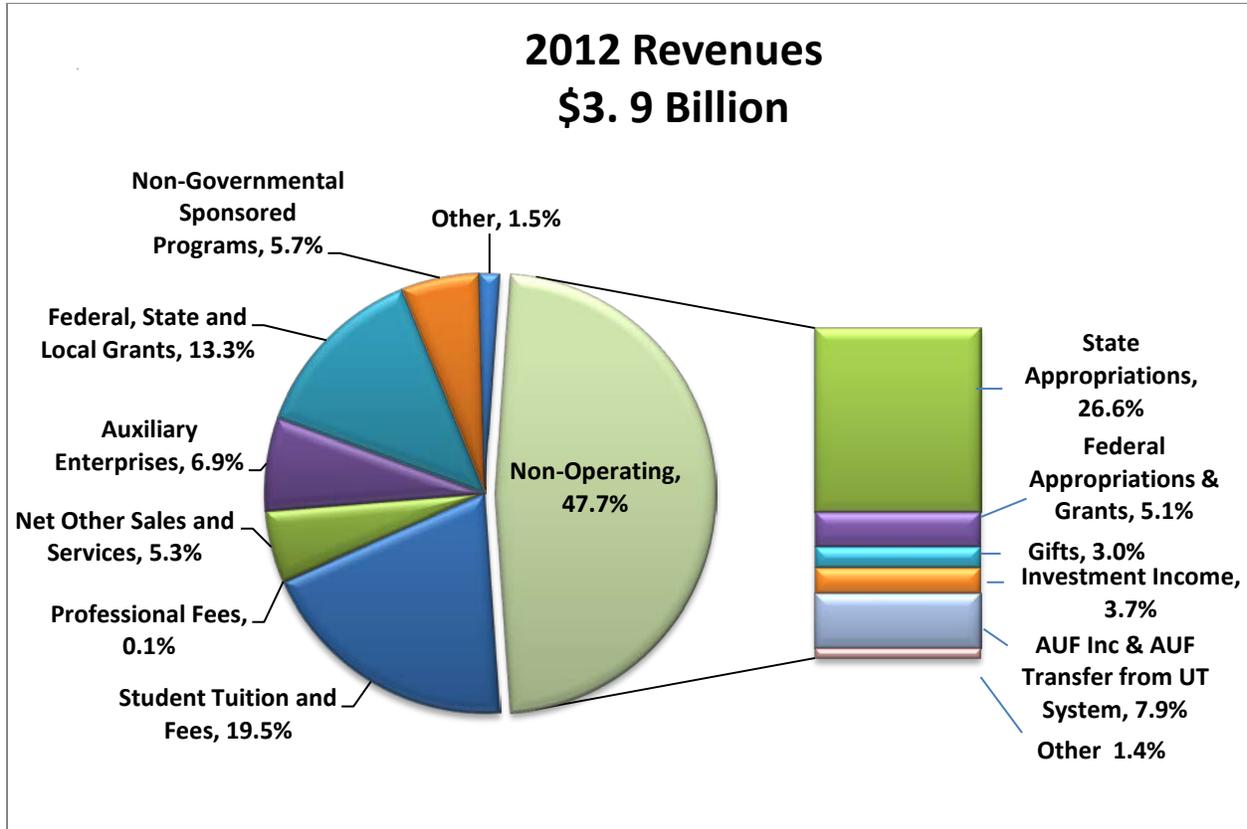
**Statement of Revenues, Expenses and Changes in Net Assets
(in millions of dollars)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues	\$ 2,062	\$ 2,028	\$ 1,918
Operating Expenses	<u>(3,523)</u>	<u>(3,599)</u>	<u>(3,368)</u>
Operating Income (Loss)	(1,461)	(1,571)	(1,450)
NonOperating Revenues and Expenses	<u>1,348</u>	<u>1,511</u>	<u>1,360</u>
Income (Loss) Before Other Revenues, and Transfers	(113)	(60)	(90)
Other Revenues, and Transfers	<u>366</u>	<u>262</u>	<u>273</u>
Change in Net Assets	<u>253</u>	<u>202</u>	<u>183</u>
Net Assets at Beginning of Year	\$ 3,978	\$ 3,775	\$ 3,605
Restatement of Prior Year Balance	<u>2</u>	<u>1</u>	<u>(13)</u>
Net Assets at Beginning of Year-As Restated	<u>\$ 3,980</u>	<u>\$ 3,776</u>	<u>\$ 3,592</u>
Net Assets at End of Year	<u>\$ 4,233</u>	<u>\$ 3,978</u>	<u>\$ 3,775</u>

Certain internal activities embedded in the Statement of Revenues, Expenses and Changes in Net Assets provide goods and services to internal customers and to other A&M System members. These activities include self-insured programs (health, dental, etc.), repairs & maintenance, utilities, computer services, and other interdepartmental activities. The net operating revenues for these internal activities were eliminated to the extent of operating expenses which was approximately \$445.4 million. The majority of this activity relates to the self-insured programs which reported operating expenses of approximately \$194.4 million. Of the remaining \$251 million in operating expenses eliminated, \$64.4 million represented salaries and wages and \$16 million represented other payroll related costs.

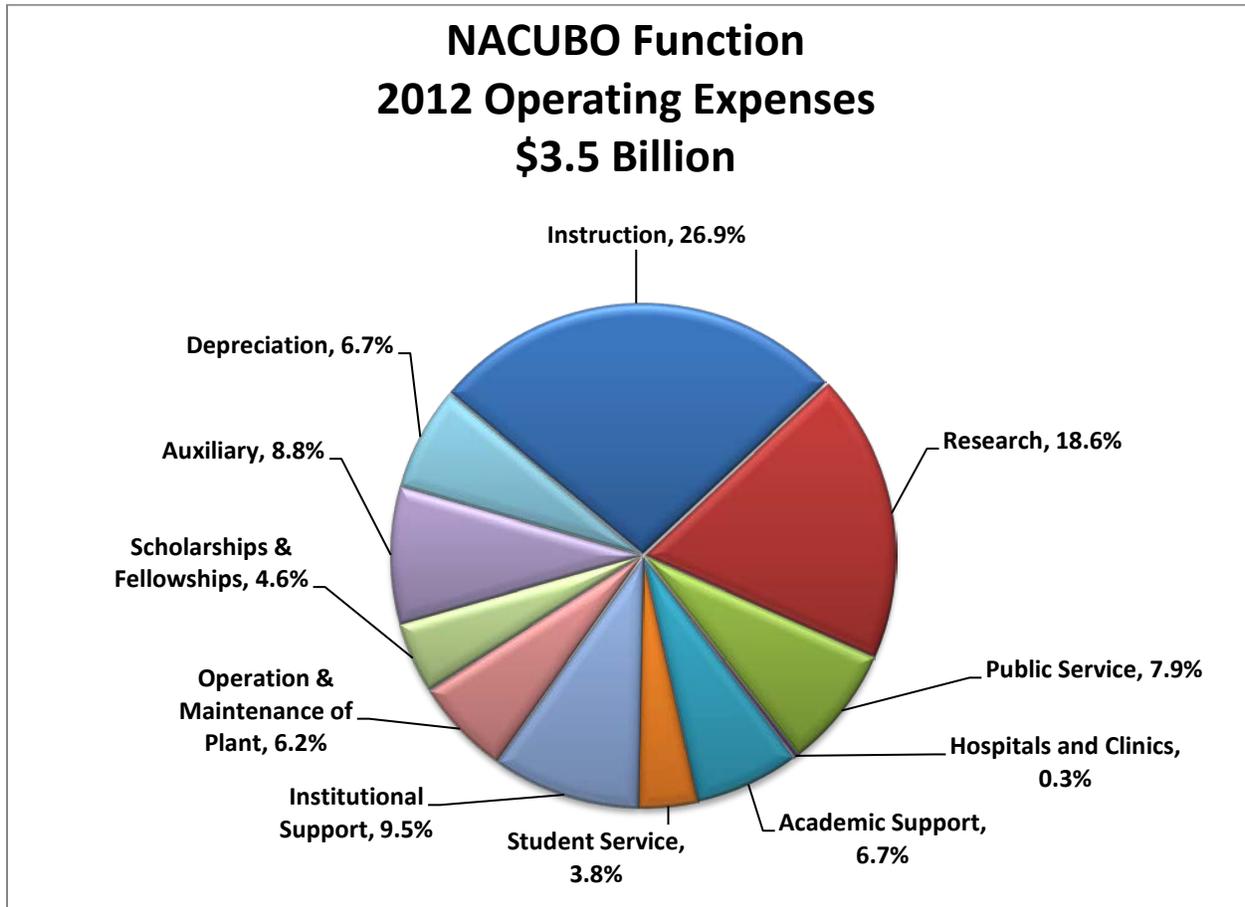
**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

The following graph presents total revenues for 2012. Revenues are presented as operating and non-operating in the Statement of Revenues, Expenses and Changes in Net Assets. Operating revenues totaled \$2 billion and non-operating revenues plus transfers in totaled \$1.9 billion for a total of \$3.9 billion.

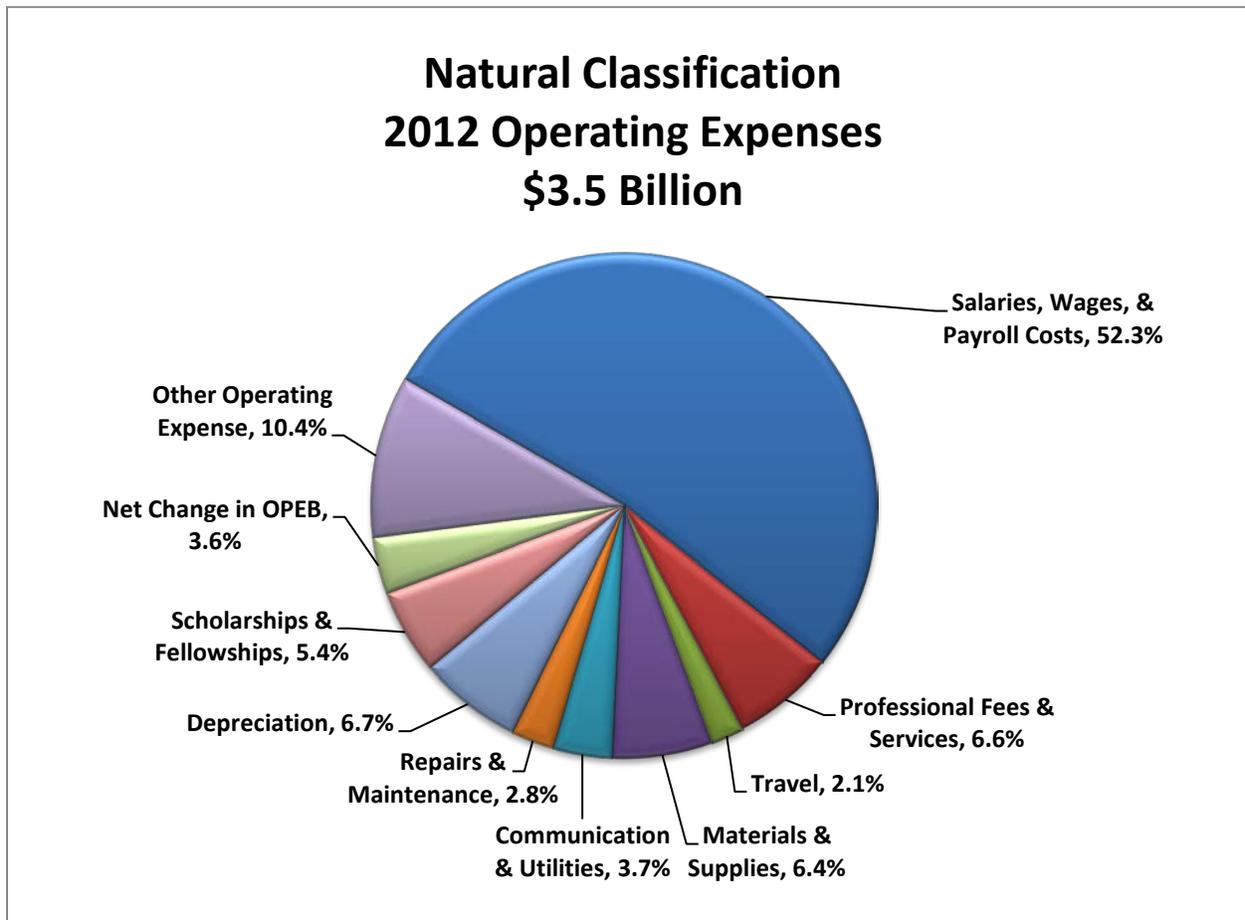


**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

The following two graphs present operating expenses of \$3.5 billion. The first graph presents the operating expenses in the National Association of College and University Business Officer (NACUBO) functional classification and the second graph presents operating expenses in the natural classification.



**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**



Operating expenses totaled \$3.5 billion, as depicted in the graph, and non-operating expenses plus transfers equaled an additional \$174 million. The depreciation and amortization expenses increased by \$28.5 million, or 14% which is attributable to the completion of new facilities.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This statement presents detailed information on the cash activity during the year. The first section presents operating cash flows and the net cash used by operating activities. The next section presents the results of non-capital financing activities. This section includes the cash flows from state appropriations and other non-operating activities. The capital and related financing activities section includes cash used for acquisition and construction of capital assets. The investing activities section reports purchases, proceeds, and earnings from investments. The final section is a reconciliation of net cash from operations to operating income.

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

**Statement of Cash Flows
(in millions of dollars)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows From			
Operating Activities	\$ (1,002)	\$ (1,009)	\$ (1,163)
Non-Capital Financing Activities	1,605	1,560	1,541
Capital and Related Financing Activities	(302)	(616)	(220)
Investing Activities	<u>(70)</u>	<u>605</u>	<u>(128)</u>
Increase in Cash & Cash Equivalents	231	540	30
Cash & Cash Equivalents, Beginning of Year	<u>862</u>	<u>322</u>	<u>292</u>
Cash & Cash Equivalents, End of Year	<u>\$ 1,093</u>	<u>\$ 862</u>	<u>\$ 322</u>

Capital Asset and Debt Administration

The A&M System is committed to continuous improvements in the quality of its academic, research, and service programs through the development and renewal of its capital assets. The System continues to implement its long-range plan to modernize its older teaching and research facilities along with plans for new construction.

Capitalized expenses for construction in progress during 2012 totaled \$477 million as compared to \$331 million in 2011. This represents projects that have been substantially completed and moved to the appropriate capital asset categories.

The A&M System had significant capital asset additions for facilities in 2012. There are many construction projects in various stages of completion including major projects managed by the System Offices and minor projects managed by the members. These projects represent \$343 million in payments for construction in progress during 2012.

The major construction projects listed below are in progress or scheduled to be completed over the next two years.

<i>Campus/Project Name \$10 Million and Greater</i>	<i>Projected Fiscal Year Completion</i>	<i>Projected Budget</i>
Texas A&M University		
Liberal Arts and Arts & Humanities Building	2013	\$ 46,000,000
Corps Dorm Renovation	2013	13,750,000

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Life Sciences/ETED-Finish Shell Space	2013	10,000,000
Energy Consumption Reduction Project	2013	10,000,000
Northside Residence Hall	2014	68,000,000
Welborn Road Grade Separations	2014	34,000,000
Physical Education Activity Program Facility	2014	23,079,665
Kyle Field District Plan Phase 2	2014	16,000,000
Corps Dorm Renovation-Leonard/LLC	2014	15,200,000
CVM & BioMed Science New Education Building	2015	120,000,000
NCTM Core Retrofit Project	2015	30,542,496
Sub-total		386,572,161
Prairie View A&M University		
Capital Renewal	2013	11,067,000
Agriculture & Business Multipurpose Classroom Building	2015	37,800,000
Student Recreation Center	2015	31,290,000
Sub-total		80,157,000
Tarleton State University		
OA Grant Humanities Building Rehab & Expansion	2014	12,000,000
West Texas A&M University		
Jack B. Kelly Student Center Expansion	2013	10,900,000
Underclassmen Residence Hall-Phase II	2014	35,000,000
Sub-total		45,900,000
Texas A&M University-Commerce		
New Student Housing-Phase II	2014	26,900,000
Sam Rayburn Student Center Expansion	2015	10,300,000
Sub-total		37,200,000
Texas A&M University-Texarkana		
Bringle Lake Village Housing Phase II & Dining Facility	2015	15,750,000
Texas A&M University-Central Texas		
Multipurpose & Library Building	2016	50,000,000

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Texas A&M University-San Antonio		
Central Academic Building & Patriot's Casa	2015	75,000,000
TOTAL	\$	<u>702,579,161</u>

The A&M System understands its role of financial stewardship and works to manage its resources effectively, including the prudent use of debt to finance capital projects.

During fiscal year 2012, the A&M System issued taxable and tax-exempt bonds under the Permanent University Fund debt program to refund a portion of previously outstanding bonds and commercial paper notes. The Permanent University Fund Bonds, Series 2011 had a par amount of \$87,145,000 with a true interest cost of 3.53%. Refundings associated with this bond issue resulted in approximately \$51,000 of total savings or approximately \$50,000 of net present value savings equating to a net present value benefit of 4.96%. The Permanent University Fund Bonds, Series 2012A had a par amount of \$70,680,000 with a true interest cost of 2.25%. Refundings associated with this bond issue resulted in approximately \$13,640,000 of total savings or approximately \$10,974,000 of net present value savings equating to a net present value benefit of 13.77%. The Permanent University Fund Bonds, Taxable Series 2012B had a par amount of \$125,750,000 with a true interest cost of 2.98%. Revenue Financing System Commercial Paper in the amount of \$204.7 million and Permanent University Fund Commercial Paper in the amount of \$155 million were issued to fund eligible projects. The A&M System has sufficient debt capacity to finance planned facilities and other capital improvements. In addition, the State appropriated amounts are sufficient for the reimbursement of debt service on all outstanding and planned Tuition Revenue Bond debt for the FY2012-13 biennium. For additional information concerning Capital Assets and Debt Administration, see the Notes to the Financial Statements.

Economic Outlook

Markets continue to be volatile on uncertainties for the U.S. economy and the potential risks associated with the “fiscal cliff” as well as the outcome of the European sovereign debt crisis. Confidence and optimism continue to fluctuate and unemployment remains elevated. Continued volatility is expected for the foreseeable future.

The A&M System’s investment portfolios are well diversified across asset classes and have participated in the increases and decreases in the market. Uncertainties in the market will affect the performance of the investment pools as the volatility in the markets continues. Market dislocations may see declines in the portfolios, but will also provide opportunities to acquire assets at substantial discounts that will benefit performance over longer-term investment periods.

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

Significant Events

Several leadership changes occurred in the A&M System during fiscal year 2012. Those appointments included the following:

- Mr. John Sharp appointed Chancellor of the Texas A&M University System by the Board of Regents on September 6, 2011
- Dr. Keith McFarland appointed acting President for Texas A&M University – Texarkana
- Dr. Margaret Banks appointed Vice Chancellor and Dean of Engineering, Texas A&M Engineering
- Dr. Frank B. Ashley II named Vice Chancellor of Recruitment and Diversity, Texas A&M University System
- Dr. James Hallmark appointed Vice Chancellor for Academic Affairs of the Texas A&M University System
- Mr. Guy K. Diedrich confirmed by the Board of Regents as Vice Chancellor for Federal and State Relations, Texas A&M University System
- Dr. Douglas Steele named Director of Texas A&M AgriLife Extension
- Mr. Gregory R. Anderson's role expanded to Chief Financial Officer and Treasurer, Texas A&M University System
- Mr. Tye Minkler named Vice President for Finance & Administration for Tarleton
- Dr. Terisa Riley named Interim Senior VP for Fiscal and Student Affairs for Texas A&M University – Kingsville
- Mrs. Debra Cummings named Assistant Director for Fiscal Affairs, the Texas A&M AgriLife Research
- Mr. Daniel Gray named Chief Financial Officer and Associate Agency Director, the Texas A&M Engineering Extension Service

In addition to the changes during the year, the following leadership changes occurred after the reporting period ended August 31, 2012:

- Dr. Jon Mogford appointed Chief Research Officer for the Texas A&M University System
- Mr. E.J. "Jere" Pederson was appointed as acting President of the Texas A&M University System Health Science Center on October 9, 2012

The Texas A&M University System has been awarded a contract to develop one of three U.S. department of Health and Human Services National centers for Innovation. The \$285.6 million contract includes an initial investment of \$176.6 million from the U.S. government, with the remainder cost-shared by commercial and academic proposal partners.

The Texas A&M University System established The Office of Sponsored Research Services to consolidate the sponsored research administration activities for the Texas A&M University System members to create efficiencies and consistency in the area of research administration. This new administration unit functions as a new agency beginning September 1, 2012.

**The Texas A&M University System
Management's Discussion and Analysis
For the year ended August 31, 2012
Unaudited**

On August 25, 2011, Texas A&M University notified the Big 12 Conference of its intention to explore other conference affiliation possibilities. On September 25, 2011, The Southeastern Conference Presidents and Chancellors accepted Texas A&M University's application for membership effective July 1, 2012, with competition to begin in all sports for the 2012-13 academic years.

On August 15, 2012 Texas A&M University System Chancellor John Sharp and Texas A&M University President R. Bowen Loftin formalized a contract with Compass Group USA to manage and operate dining services, building maintenance, landscaping services and custodial services located in the Brazos County. The personnel transition involved approximately 1,600 employees.

In June 2012, a letter of intent was signed between Texas A&M and Texas Wesleyan University in Fort Worth for Texas A&M to purchase the Texas Wesleyan Law School.

The Board of Regents also approved a motion at the August 2012 Board meeting to authorize the Chancellor and Texas A&M University President to take any and all action necessary to effectuate an administrative change bringing the Health Science Center under the administration of the university.

The record breaking 2011 Texas wildfire season ended in November 2011. As a result of the continued fire response in fiscal year 2012, an additional \$34.1 million of estimated costs for out-of-state resources were accrued in fiscal year 2012. Net unfunded emergency response expenses, without estimated FEMA reimbursements, is approximately \$198 million. Texas Forest Service expects to receive some FEMA reimbursements, which will take 2-3 years.

The Texas A&M System continues to focus on its mission to serve the needs of the state of Texas. The continued enrollment growth, quality education, expansion of sponsored project activity, and the successful capital improvements are an integral part of the future of the A&M System.

UNAUDITED

EXHIBIT III
THE TEXAS A&M UNIVERSITY SYSTEM
 COMBINED BALANCE SHEET
 FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
ASSETS AND DEFERRED OUTFLOWS		
Current Assets		
Cash & Cash Equivalents [Schedule Three]	\$ 753,736,564.46	\$ 613,926,438.36
Investments	20,933.41	
Derivative Instruments	(995,896.09)	(33,058.12)
Deferred Outflow of Resources	2,244,010.00	4,739,941.00
Restricted		
Cash & Cash Equivalents [Schedule Three]	339,663,917.68	247,867,909.38
Legislative Appropriations	103,056,733.91	75,680,839.15
Receivables, Net:		
Federal	91,481,012.10	123,746,696.79
Other Intergovernmental	5,586,243.95	5,120,167.23
Interest and Dividends	6,559,836.40	6,892,035.50
Gifts, Pledges and Donations	27,241,475.10	29,895,886.06
Self-Insured Health and Dental	18,667,261.66	17,945,575.55
Student	21,648,990.25	26,300,773.11
Investment Trades	160,396,351.24	19,474,668.98
Accounts	106,710,853.67	3,360,504.80
Other	4,143,233.36	96,458,746.56
Due From Other Agencies	20,162,752.06	18,603,934.33
Consumable Inventories	18,630,776.29	17,759,731.71
Merchandise Inventories	6,276,561.78	6,405,757.35
Loans and Contracts	25,996,788.04	25,843,033.07
Interfund Receivable	22,390,000.00	115,215,000.00
Other Current Assets	75,218,606.78	68,918,140.46
Total Current Assets	\$ 1,808,837,006.05	\$ 1,524,122,721.27
Non-Current Assets and Deferred Outflows		
Restricted		
Investments	\$ 758,816,631.91	\$ 722,193,263.98
Loans, Contracts and Other	4,137,180.21	4,435,582.84
Pledges Receivable	60,512,651.12	74,594,431.89
Loans and Contracts	21,959,475.52	21,344,114.97
Investments	1,744,977,258.76	1,649,214,951.61
Deferred Outflow of Resources		2,244,010.00
Interfund Receivable	734,789,840.87	529,210,000.00
Capital Assets, Non-Depreciable		
Land and Land Improvements	134,634,879.95	136,971,988.97
Construction In Progress	506,946,414.05	828,280,993.91
Other Tangible Capital Assets	42,428,450.03	41,167,793.72
Land Use Rights	47,817.00	47,817.00
Capital Assets, Depreciable		
Buildings and Building Improvements	3,949,512,073.07	3,462,349,580.71
Infrastructure	523,102,666.26	408,607,496.24
Facilities and Other Improvements	311,893,078.65	288,011,547.15
Furniture and Equipment	677,569,662.56	645,049,517.22
Vehicles, Boats, and Aircraft	112,349,943.66	105,135,476.76
Other Capital Assets	198,683,812.40	195,095,096.06
Intangible Capital Assets, Amortized		
Land Use Rights	255,457.00	255,457.00
Computer Software	55,224,570.60	52,840,240.28
Accumulated Depreciation/Amortization	(2,894,164,269.15)	(2,687,252,147.59)
Assets Held In Trust	362,100.00	362,100.00
Other Non-Current Assets	32,078.33	1,270,584.37
Total Non-Current Assets and Deferred Outflows	\$ 6,944,071,772.80	\$ 6,481,429,897.09
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 8,752,908,778.85	\$ 8,005,552,618.36

UNAUDITED

EXHIBIT III
THE TEXAS A&M UNIVERSITY SYSTEM
 COMBINED BALANCE SHEET
 FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
LIABILITIES		
Current Liabilities		
Payables		
Accounts	\$ 339,156,583.84	\$ 281,130,179.51
Payroll	110,950,744.67	115,427,527.10
Investment Trades	87,549,602.36	29,043,035.19
Self-Insured Health and Dental	23,564,888.32	18,317,472.35
Other	14,143,177.13	19,798,922.20
Interfund Payable	620,263.36	884,040.38
Due to Other Agencies	2,574,114.20	1,505,487.34
Hedging Derivative Instruments	2,244,010.00	4,739,941.00
Unearned Revenue	505,828,551.57	452,054,649.88
Employees Compensable Leave	9,220,406.15	7,595,819.36
Claims and Judgments	2,311,000.00	
Notes and Loans Payable	8,008,333.34	101,568,333.34
Bonds Payable	119,748,150.81	103,324,370.77
Capital Lease Obligations	637,004.01	361,133.96
Liabilities Payable From Restricted Assets	20,837,497.88	30,119,179.03
Funds Held for Others	34,369,030.35	35,042,529.53
Other Current Liabilities	16,828,102.55	15,286,456.86
Total Current Liabilities	\$ 1,298,591,460.54	\$ 1,216,199,077.80
Non-Current Liabilities		
Interfund Payable	\$ 4,091,173.62	\$ 2,371,917.34
Employees Compensable Leave	93,258,726.50	93,616,113.94
Other Post Employment Benefits	603,878,029.00	476,809,489.00
Claims and Judgments	4,257,000.00	5,244,262.00
Notes and Loans Payable	195,324,999.98	9,923,333.32
Bonds Payable	2,222,470,027.95	2,114,248,337.89
Hedging Derivative Instruments		2,244,010.00
Assets Held In Trust	362,100.00	362,100.00
Liabilities Payable From Restricted Assets	2,376,072.07	14,050,403.05
Funds Held for Others	71,170,762.30	68,723,051.37
Capital Lease Obligations	2,733,129.30	2,062,393.64
Other Non-Current Liabilities	21,408,709.75	21,769,510.85
Total Non-Current Liabilities	\$ 3,221,330,730.47	\$ 2,811,424,922.40
TOTAL LIABILITIES	\$ 4,519,922,191.01	\$ 4,027,624,000.20
NET ASSETS		
Invested In Capital Assets, Net of Debt	\$ 1,284,223,421.32	\$ 1,287,275,736.53
Restricted for:		
Capital Projects	84,372,806.48	62,947,448.00
Education	263,085,114.96	278,840,189.04
Endowment and Permanent Funds		
Nonexpendable	404,634,119.29	394,215,398.22
Expendable	133,894,137.14	133,743,486.36
Unrestricted	2,062,776,988.65	1,820,906,360.01
TOTAL NET ASSETS [EXHIBIT IV]	\$ 4,232,986,587.84	\$ 3,977,928,618.16
TOTAL LIABILITIES AND NET ASSETS	\$ 8,752,908,778.85	\$ 8,005,552,618.36

The Accompanying Summary of Significant Accounting Policies and Notes to
 Financial Statements are an integral part of this statement.

UNAUDITED

EXHIBIT IV

THE TEXAS A&M UNIVERSITY SYSTEM

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
OPERATING REVENUES		
Sales of Goods and Services		
Tuition and Fees-Pledged	\$ 998,027,301.01	\$ 923,746,898.32
Discounts and Allowances	(228,045,342.17)	(233,855,156.63)
Net Professional Fees	1,376,299.32	8,548,466.17
Net Auxiliary Enterprises	271,551,043.30	264,605,948.74
Net Other Sales of Goods and Services	238,190,823.00	242,770,861.10
Discounts and Allowances-Sales	(28,888,029.07)	(30,080,823.70)
Total Sales of Goods and Services	<u>\$ 1,252,212,095.39</u>	<u>\$ 1,175,736,194.00</u>
Interest Revenue	\$ 1,880,713.36	\$ 1,831,908.43
Federal Revenue - Operating	413,849,337.37	446,800,464.13
Federal Pass Through Revenue	33,978,780.21	37,562,827.10
State Grant Revenue	1,165,804.44	961,025.72
State Pass Through Revenue	75,288,158.15	83,755,428.35
Other Grants and Contracts - Operating	225,912,718.38	218,175,583.98
Other Operating Revenue	58,164,151.78	63,187,901.44
TOTAL OPERATING REVENUES	<u>\$ 2,062,451,759.08</u>	<u>\$ 2,028,011,333.15</u>
OPERATING EXPENSES		
Instruction	\$ 947,502,577.61	\$ 993,885,265.95
Research	656,362,679.21	629,222,658.80
Public Service	276,868,332.41	361,785,874.97
Hospitals and Clinics	9,829,181.66	9,640,062.19
Academic Support	237,061,070.10	211,297,116.13
Student Services	133,571,131.93	127,352,084.10
Institutional Support	334,511,861.67	361,772,550.88
Operation & Maintenance of Plant	219,464,737.35	237,669,855.42
Scholarships & Fellowships	161,335,011.93	160,314,202.90
Auxiliary	311,493,348.21	300,148,648.22
Depreciation/Amortization	235,011,570.11	206,547,337.51
TOTAL OPERATING EXPENSES	<u>\$ 3,523,011,502.19</u>	<u>\$ 3,599,635,657.07</u>
TOTAL OPERATING INCOME (LOSS)	<u>\$ (1,460,559,743.11)</u>	<u>\$ (1,571,624,323.92)</u>
NONOPERATING REVENUES (EXPENSES)		
Legislative Revenue	\$ 1,024,337,136.01	\$ 966,047,105.19
Federal Revenue Non-Operating	199,778,086.81	209,923,944.80
Federal Pass Through Non-Operating	88,604.62	22,914,837.48
Gifts	119,697,952.10	155,348,369.54
Land Income	6,398,330.48	8,396,063.55
Investment Income	51,664,251.45	56,618,523.14
Investing Activities Expense	(3,924,652.22)	(5,532,166.25)
Interest Expense and Fiscal Charges	(106,368,180.58)	(89,154,240.68)
Borrower Rebates and Agent Fees	(2,185,240.66)	(1,019,933.32)
Gain [Loss] On Sale or Disposal of Capital Assets	542,650.82	(475,071.83)
Net Increase [Decrease] In Fair Value	95,034,117.98	182,161,140.63
Settlement of Claims	(167,207.21)	(72,827.86)
Other Nonoperating Revenues	15,012,659.92	40,859,027.47
Other Nonoperating (Expenses)	(52,617,317.05)	(34,661,796.54)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 1,347,291,192.47</u>	<u>\$ 1,511,352,975.32</u>
INCOME (LOSS) BEFORE OTHER REVENUES AND TRANSFERS	<u>\$ (113,268,550.64)</u>	<u>\$ (60,271,348.60)</u>

UNAUDITED

EXHIBIT IV

THE TEXAS A&M UNIVERSITY SYSTEM

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
	<hr/>	<hr/>
OTHER REVENUES AND TRANSFERS		
Capital Contributions	\$ 2,109,254.53	\$ 11,873,297.82
Capital Appropriations (Higher Education Fund)	27,136,522.00	27,136,522.00
Additions to Permanent and Term Endowments	5,399,926.86	5,998,489.01
Transfers In		
Transfers From Other State Agencies	340,515,416.25	228,386,478.12
Nonmandatory Transfers From Members/Agencies-Cap Assets	139,057.31	2,645.52
Transfers Out		
Transfers to Other State Agencies	(8,698,013.53)	(8,783,381.05)
Nonmandatory Transfers to Members/Agencies - Cap Assets	(97,212.42)	(69,068.68)
Legislative Appropriations Lapsed	(535,732.73)	(2,455,720.73)
TOTAL OTHER REVENUES AND TRANSFERS	<u>\$ 365,969,218.27</u>	<u>\$ 262,089,262.01</u>
CHANGE IN NET ASSETS	<u>\$ 252,700,667.63</u>	<u>\$ 201,817,913.41</u>
Beginning Net Assets, September 1, 2011 and 2010	\$ 3,977,928,618.16	\$ 3,775,265,636.10
Restatement	2,357,302.05	845,068.65
Beginning Net Assets, September 1, 2011, and 2010 Restated	<u>\$ 3,980,285,920.21</u>	<u>\$ 3,776,110,704.75</u>
NET ASSETS, AUGUST 31, 2012 AND 2011	<u><u>\$ 4,232,986,587.84</u></u>	<u><u>\$ 3,977,928,618.16</u></u>

The Accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of this statement.

UNAUDITED

SCHEDULE IV-1

THE TEXAS A&M UNIVERSITY SYSTEM
 COMBINED NACUBO FUNCTION TO NATURAL CLASSIFICATION MATRIX
 FOR THE YEAR ENDED AUGUST 31, 2012

NATURAL CLASSIFICATION	INSTRUCTION	RESEARCH	PUBLIC SERVICE	HOSPITALS & CLINICS	ACADEMIC SUPPORT	STUDENT SERVICES
Cost of Goods Sold	\$ 175,896.26	\$ 1,149,445.94	\$ 1,148,356.34	\$ 19,335.11	\$ 107,414.71	\$ 45,693.28
Salaries & Wages	645,733,261.17	313,511,215.46	72,490,780.26	5,270,268.58	121,844,260.41	70,718,035.67
Payroll Related Costs	144,497,977.56	62,246,571.00	20,872,461.58	1,015,869.41	23,009,801.44	15,217,624.57
Professional Fees & Services	30,759,987.72	96,583,306.24	10,021,945.21	279,240.82	16,367,884.54	7,689,527.96
Travel	22,292,459.49	23,970,430.49	4,655,030.95	52,778.03	5,918,654.15	3,651,728.01
Materials & Supplies	43,474,995.78	66,384,715.48	15,176,185.35	771,406.20	38,332,544.81	11,021,668.30
Communication & Utilities	6,214,471.66	11,287,231.29	4,418,854.07	80,617.10	5,764,899.36	2,090,322.36
Repairs & Maintenance	6,584,914.61	12,811,913.07	3,385,064.25	60,312.66	7,273,414.65	4,437,646.69
Rentals & Leases	12,633,698.41	7,788,363.90	4,988,295.25	669,194.81	3,020,875.87	2,796,308.26
Printing & Reproduction	2,767,110.86	1,973,277.48	1,558,286.07	15,591.49	1,470,725.95	1,316,220.29
Federal Pass-Through	(500,660.17)	1,078,402.78	217,189.32			
State Pass-Through	56,752.98	305,580.08	39,131.76			
Depreciation & Amortization						
Bad Debt Expense			17,160.86			993,886.72
Interest	4,487.44	10,094.14	6,167.10	545.16	3,750.64	1,534.84
Scholarships	4,298,650.55	23,224,258.53	277,780.35		2,668,948.08	1,689,254.70
Claims & Losses						
Net Change In OPEB Obligation						
Other Operating Expenses	28,508,573.29	34,037,873.33	137,595,643.69	1,594,022.29	11,277,895.49	11,901,680.28
TOTAL OPERATING EXPENSES	\$ 947,502,577.61	\$ 656,362,679.21	\$ 276,868,332.41	\$ 9,829,181.66	\$ 237,061,070.10	\$ 133,571,131.93

<u>INSTITUTIONAL SUPPORT</u>	<u>OPERATION & MAINTENANCE OF PLANT</u>	<u>SCHOLARSHIPS & FELLOWSHIPS</u>	<u>AUXILIARY</u>	<u>DEPRECIATION & AMORTIZATION</u>	<u>TOTAL</u>	<u>PRIOR YEAR</u>
\$ 7,250.00	\$ 835.86		\$ 17,605,124.35		\$ 20,259,351.85	\$ 16,962,689.68
105,811,095.93	59,119,759.10	7,299,913.49	104,648,129.73		1,506,446,719.80	1,521,691,698.26
32,262,613.17	15,762,371.48	362,877.33	21,933,467.18		337,181,634.72	351,196,038.37
23,365,412.09	8,294,413.41	324,787.77	38,320,623.74		232,007,129.50	246,312,880.44
2,320,677.54	309,252.70	265,030.57	10,614,628.21		74,050,670.14	72,103,228.23
9,778,405.09	12,667,175.98	345,016.38	26,667,219.48		224,619,332.85	219,769,651.45
4,944,608.75	69,858,823.35	2,975.63	27,722,871.61		132,385,675.18	141,722,891.25
2,701,028.58	40,576,475.11	19,420.67	18,887,507.03		96,737,697.32	81,131,806.02
2,648,732.70	4,680,265.21	211,812.05	11,943,834.94		51,381,381.40	43,915,513.50
1,312,572.96	276,875.60	10,469.84	1,563,703.72		12,264,834.26	12,333,951.57
89,890.48		2,101,596.77			2,986,419.18	2,388,775.19
		23,498.42			424,963.24	540,152.83
				235,011,570.11	235,011,570.11	206,547,337.51
					1,011,047.58	173,178.92
11,496.49	7,810.97	2.05	7,256.38		53,145.21	48,216.07
215,155.40	85,800.00	150,011,283.67	9,610,505.31		192,081,636.59	193,839,565.63
5,296,176.84					5,296,176.84	1,502,488.74
127,068,540.00					127,068,540.00	134,429,902.00
16,678,205.65	7,824,878.58	356,327.29	21,968,476.53		271,743,576.42	353,025,691.41
\$ 334,511,861.67	\$ 219,464,737.35	\$ 161,335,011.93	\$ 311,493,348.21	\$ 235,011,570.11	\$ 3,523,011,502.19	\$ 3,599,635,657.07

UNAUDITED

EXHIBIT V

THE TEXAS A&M UNIVERSITY SYSTEM

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds Received From Tuition and Fees	\$ 757,833,901.17	\$ 747,686,036.81
Proceeds Received From Customers	235,479,942.58	240,355,888.89
Proceeds From Sponsored Programs	902,568,570.70	920,617,992.95
Proceeds From Auxiliary Enterprises	232,700,395.48	236,558,176.41
Proceeds From Loan Programs	8,199,059.55	6,293,957.18
Proceeds From Other Revenues	68,850,277.23	57,179,447.96
Payments to Suppliers for Goods and Services	(1,122,728,023.28)	(1,081,144,026.21)
Payments to Employees - Salaries	(1,511,059,615.58)	(1,520,524,308.18)
Payments to Employees - Benefits	(336,271,509.34)	(348,286,252.88)
Payments for Loans Provided	(9,049,992.10)	(5,238,073.83)
Payments for Other Expenses	(228,729,203.78)	(263,158,857.64)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,002,206,197.37)	\$ (1,009,660,018.54)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds From State Appropriations	\$ 999,386,089.26	\$ 979,544,478.85
Proceeds From Gifts	135,516,551.27	113,679,139.10
Proceeds From Endowments	5,399,926.86	5,998,489.01
Proceeds - Transfers From Other Funds	227,532,268.29	195,498,766.33
Proceeds From Other Grant Revenue	210,854,290.13	262,406,495.35
Proceeds From Other Revenues	99,976,723.70	69,526,477.82
Payments - Transfers to Other Funds	(9,011,102.81)	(8,791,615.17)
Payments for Other Uses	(64,473,256.15)	(57,667,581.95)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACT.	\$ 1,605,181,490.55	\$ 1,560,194,649.34
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Sale of Capital Assets	\$ 1,573,898.85	\$ 965,213.14
Proceeds From Capital Debt Issuance	691,494,027.75	231,449,711.00
Proceeds From State Grants and Contracts	24,175,941.26	39,905,605.34
Proceeds From Interfund Loans	4,711,436.98	
Proceeds From Other Financing Activities	39,961.89	131,250.00
Payments for Additions to Capital Assets	(436,507,676.96)	(604,841,472.51)
Payments of Principal On Debt	(475,006,890.99)	(192,188,333.34)
Payments for Capital Leases	(416,572.12)	
Payments for Interest On Capital Related Debt	(106,367,114.09)	(89,079,021.86)
Payments for Interfund Loans	(3,255,957.72)	(1,114,907.88)
Payments of Other Costs On Debt Issuance	(2,182,541.36)	(1,003,770.30)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FIN. ACT.	\$ (301,741,486.51)	\$ (615,775,726.41)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sales and Maturities of Investments	\$ 1,603,339,079.52	\$ 3,631,650,757.23
Proceeds From Interest and Investment Income	47,682,127.91	51,054,754.40
Payments to Acquire Investments	(1,720,648,879.70)	(3,077,521,095.01)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ (69,627,672.27)	\$ 605,184,416.62
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 231,606,134.40	\$ 539,943,321.01
Beginning Cash and Cash Equivalents, September 1, 2011 and 2010	\$ 861,794,347.74	\$ 321,851,026.73
CASH AND CASH EQUIVALENTS, AUGUST 31, 2012 AND 2011 (SCH THREE)	\$ 1,093,400,482.14	\$ 861,794,347.74

UNAUDITED

EXHIBIT V
THE TEXAS A&M UNIVERSITY SYSTEM
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL	PRIOR YEAR TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,460,559,743.11)	\$ (1,571,624,323.92)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	235,011,570.11	206,547,337.51
Bad Debt Expense	2,218,006.59	2,988,198.07
Operating Income and Expense Classification Differences	4,686.91	38,867.29
Changes in Assets and Liabilities		
Accounts Receivable, Net	18,143,667.06	12,243,078.89
Due From Other Agencies/Funds	(1,316,098.10)	2,729,589.20
Inventory	(741,849.01)	306,510.53
Prepaid Expenses	(6,812,915.38)	(2,428,817.78)
Loans and Contracts	(951,462.94)	(46,468.38)
Other Assets	586,455.10	(1,656,870.93)
Payables	52,175,904.45	176,160,058.64
Due to Other Agencies/Funds	1,068,626.86	(401,528.11)
Unearned Revenue	21,879,427.73	31,077,846.20
Deposits	2,744,913.60	1,751,617.80
Compensated Absence Liability	1,267,199.35	(3,329,570.58)
Other Post Employment Benefits Liability	127,068,540.00	134,409,902.00
Self Insured Accrued Liability	6,571,153.97	1,305,843.35
Other Liabilities	(564,280.56)	268,711.68
Total Adjustments	\$ 458,353,545.74	\$ 561,964,305.38
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,002,206,197.37)	\$ (1,009,660,018.54)
NON-CASH TRANSACTIONS		
Nonmonetary Gifts, Including Capital Assets	\$ 2,082,821.84	\$ 3,868,862.06
Net Increase [Decrease] In Fair Value of Investments	35,425,882.91	137,527,013.00
Gain/Loss On Sale or Disposal of Capital Assets	(606,429.73)	(1,295,478.17)
Refunding of Long Term Debt	301,730,000.00	42,955,000.00
Amortization of Bond Premiums and Discounts	6,718,087.55	6,250,289.00
Other	(942,934.04)	(66,423.16)

The Accompanying Summary of Significant Accounting Policies and Notes to
Financial Statements are an integral part of this statement.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

General Introduction

This report covers all financial operations of The Texas A&M University System (A&M System) for the fiscal year ended August 31, 2012. The A&M System is an agency of the State of Texas providing education, research, and extension work in the broad fields of Agriculture and Engineering, as well as in Geosciences, Science, the Arts, Architecture, Medicine, Veterinary Medicine, Dentistry, Business, Education, Marine Engineering and Transportation. The financial records of the A&M System reflect compliance with applicable State statutes and regulations.

The significant accounting policies followed by all members of the A&M System in maintaining accounts and in the preparation of the preceding statements are materially in accordance with the Texas Comptroller of Public Accounts' *Financial Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. 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).

The financial statement presentation provides a comprehensive, entity-wide perspective of the A&M System's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. The A&M System includes within this report one blended and four discrete component units. The A&M System has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The A&M System has elected not to apply FASB pronouncements issued after the applicable date.

Due to the statewide requirements embedded in 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*, therefore, an opinion has not been expressed on the financial statements and the related information contained in this report.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 1: Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the A&M System is considered a special-purpose government engaged in business-type activities. Accordingly, the A&M System's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization on capital assets.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents according to GASB No. 9. With the exception of residual cash which results from the management of investment portfolios, the A&M System maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

In accordance with GASB No. 31, the A&M System reports investments at fair value on the Balance Sheet. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

GASB No. 40, implemented in fiscal year 2005, requires the disclosure of common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Under GASB 40, disclosure of carrying value of investments is no longer required.

GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, is effective for periods beginning in fiscal year 2010. This statement addresses the recognition, measurement and disclosure of information pertaining to derivative instruments. Most derivative instruments are required to be measured at fair value on the Balance Sheet. The statement also makes consideration of hedge accounting necessary. The disclosures required by GASB No. 40 have been incorporated into GASB No. 53.

Current Assets

On the Balance Sheet, items classified as current are defined as resources expected to be realized or consumed within one year.

Receivables

Receivable balances are grouped into several receivable categories. Accounts receivable reflects amounts owed for goods and services provided. Self-insured health and dental represents August premiums for the A&M System's self-insured arrangement for group health and dental plan insurance coverage. The investment trades category reports pending security sales that have been traded and not settled as of the end of the reporting period. Other receivables include items such as travel advances, returned checks, and various items accrued and not yet invoiced.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM NOTES TO THE COMBINED FINANCIAL STATEMENTS August 31, 2012

Receivable balances are presented net of an allowance for uncollectible accounts. The allowance is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. Refer to Note 24, Disaggregation of Receivable and Payable Balances, for additional details.

Voluntary Nonexchange Transaction

Voluntary nonexchange transactions (primarily private donations and pledges) are recognized in accordance with GASB No. 33, adopted by the A&M System on September 1, 2000.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at estimated fair value. The capitalization threshold for personal property is \$5,000. The capitalization threshold is \$100,000 for buildings/building improvements, facilities and other improvements, software purchased, land use rights with terms, and leasehold improvements. Infrastructure has a capitalization threshold of \$500,000. Internally developed software has a capitalization threshold of \$1,000,000. All land, land improvements, permanent land use rights, library books/materials, museums/collections, and works of art/historical treasures are capitalized.

According to GASB No. 34, No. 35, and No. 51, the A&M System is required to depreciate and amortize capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 10 to 30 years for buildings, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

GASB No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires all intangible assets not specifically excluded by scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

Payables

Payable balances are grouped into several payable categories. Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending. Payroll payable includes accrued salary, wages, and benefits. The investment trades category reports pending security purchases traded and not settled as of the end of the reporting period. Self-insured health and dental represents claims owed for the self-insured group health and dental plan insurance coverage. Other payables include a variety of items, including payables for purchasing card activity, manager fees, sales taxes, student liabilities.

Unearned Revenue

The A&M System members record receivables when revenue is earned but not collected. Unearned revenue is recognized when cash is received prior to revenue recognition, and is considered a liability.

Other Postemployment Benefits (OPEB)

The liability and associated expenses for the A&M System's single-employer postemployment health care and life insurance benefit plan is recorded by the A&M System Offices. In accordance with GASB 45, the OPEB liability is classified as noncurrent. Additionally, the net change in OPEB obligation is recorded as a natural classification of expense, which was formerly included in the payroll related costs classification.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted net assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Other Significant Accounting Policies

The combined financial statements for the A&M System include the primary financial statements of each member of the A&M System, including the A&M System Offices, as well as the Texas A&M Research Foundation (Research Foundation). Transfers, federal and state pass throughs between A&M System members have been eliminated. Certain operations provide goods and services to internal customers. These operations include activities such as self insured programs, repairs & maintenance, utilities, computer services, and other services with interdepartmental activities. The revenues were eliminated to the extent of expenses for these internal transactions in the Statement of Revenues, Expenses, and Changes in Net Assets to avoid inflating revenues and expenses. Receivables and payables between A&M System members were eliminated except those arising from service department operations and auxiliary enterprises, which are considered to be exchange in nature.

An Appreciation Reserve was created in fiscal year 1997 for the purpose of providing a consistent and predictable income stream for the System Endowment Fund. The Appreciation Reserve is administered by the A&M System Offices and distributions occur when current income is insufficient to meet the distribution of income in accordance with the System Endowment Fund spending policy.

UNAUDITED
 THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 2: Capital Assets

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

Primary Government	Balance 09/01/11	Adjustments	Completed CIP	Inc-Interagency Transactions	Dec-Interagency Transactions	Additions	Deletions	Balance 08/31/12
Business-Type Activities								
Capital Assets Not Depreciated/Amortized								
Land and Land Improvements	\$ 136,971,988.97	\$ (3,076,901.76)	\$ 225,580.00	\$ -	\$ -	\$ 864,262.94	\$ (350,050.20)	\$ 134,634,879.95
Construction in Progress	828,280,993.91	(187,558,660.58)	(476,810,843.23)	-	-	343,034,923.95	-	506,946,414.05
Other Tangible Capital Assets	41,167,793.72	33,918.00	337,500.00	-	-	895,328.31	(6,090.00)	42,428,450.03
Land Use Rights	47,817.00	-	-	-	-	-	-	47,817.00
Total Non-Depreciable/Amortizable Assets	1,006,468,593.60	(190,601,644.34)	(476,247,763.23)	-	-	344,794,515.20	(356,140.20)	684,057,561.03
Capital Assets Depreciated								
Buildings & Building Improvements	3,462,349,580.71	90,761,297.10	408,407,878.24	-	-	10,107,183.48	(22,113,866.46)	3,949,512,073.07
Infrastructure	408,607,496.24	92,490,083.24	26,434,018.86	-	-	1,066,462.14	(5,495,394.22)	523,102,666.26
Facilities and Other Improvements	288,011,547.15	5,867,933.55	20,034,748.54	-	-	603,280.87	(2,624,431.46)	311,893,078.65
Furniture and Equipment	645,049,517.22	2,633,306.02	17,885,424.22	308,923.85	(471,448.53)	50,215,860.51	(38,051,920.73)	677,569,662.56
Vehicles, Boats and Aircraft	105,135,476.76	1,294,566.19	679,742.09	18,833.00	-	9,075,612.25	(3,854,286.63)	112,349,943.66
Other Capital Assets	195,095,096.06	-	-	-	-	4,428,732.21	(840,015.87)	198,683,812.40
Total Depreciated Assets	5,104,248,714.14	193,047,186.10	473,441,811.95	327,756.85	(471,448.53)	75,497,131.46	(72,979,915.37)	5,773,111,236.60
Less Accumulated Depreciation								
Buildings & Building Improvements	(1,590,130,695.62)	861,768.77	-	-	-	(134,866,493.15)	2,696,008.90	(1,721,439,411.10)
Infrastructure	(229,547,849.09)	(745,336.39)	-	-	-	(17,656,430.19)	-	(247,949,615.67)
Facilities and Other Improvements	(190,517,802.91)	(83,496.48)	-	-	-	(9,731,860.08)	1,141,224.09	(199,191,935.38)
Furniture and Equipment	(434,695,014.41)	17,081.68	-	(169,866.54)	374,236.11	(49,780,831.64)	18,678,847.68	(465,575,547.12)
Vehicles, Boats and Aircraft	(77,585,337.83)	(23,464.81)	-	(18,833.00)	-	(7,997,584.31)	3,686,941.00	(81,938,278.95)
Other Capital Assets	(126,060,477.14)	122,577.60	-	-	-	(8,084,272.26)	411,995.72	(133,610,176.08)
Total Accumulated Depreciation	(2,648,537,177.00)	149,130.37	-	(188,699.54)	374,236.11	(228,117,471.63)	26,615,017.39	(2,849,704,964.30)
Capital Assets Depreciated, Net	2,455,711,537.14	193,196,316.47	473,441,811.95	139,057.31	(97,212.42)	(152,620,340.17)	(46,364,897.98)	2,923,406,272.30
Intangible Capital Assets Amortized								
Land Use Rights	255,457.00	-	-	-	-	-	-	255,457.00
Computer Software	52,840,240.28	257,680.00	2,805,951.28	-	-	1,545,853.07	(2,225,154.03)	55,224,570.60
Total Intangible Capital Assets Amortized	53,095,697.28	257,680.00	2,805,951.28	-	-	1,545,853.07	(2,225,154.03)	55,480,027.60
Less Accumulated Amortization								
Land Use Rights	(38,318.58)	-	-	-	-	(25,545.72)	-	(63,864.30)
Computer Software	(38,676,652.01)	(85,893.33)	-	-	-	(6,868,552.76)	1,235,657.55	(44,395,440.55)
Total Accumulated Amortization	(38,714,970.59)	(85,893.33)	-	-	-	(6,894,098.48)	1,235,657.55	(44,459,304.85)
Intangible Capital Assets Amortized, Net	14,380,726.69	171,786.67	2,805,951.28	-	-	(5,348,245.41)	(989,496.48)	11,020,722.75
Business-Type Activities								
Capital Assets, Net	\$ 3,476,560,857.43	\$ 2,766,458.80	\$ -	\$ 139,057.31	\$ (97,212.42)	\$ 186,825,929.62	\$ (47,710,534.66)	\$ 3,618,484,556.08

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Capital Asset Activity

Discrete Component Units

	Beginning Balance	Adjustments	Completed CIP	Additions	Deletions	Ending Balance
Compenent Unit Activities						
Capital Assets Not Depreciated/Amortized						
Land and Land Improvements	\$ 3,934.22	\$ -	\$ -	\$ 127.35	\$ -	\$ 4,061.57
Total Non-Depreciable/Amortizable Assets	3,934.22	-	-	127.35	-	4,061.57
Capital Assets Depreciated						
Buildings & Building Improvements	474,073.49	-	-	15,346.11	-	489,419.60
Infrastructure	17,255.29	-	-	3,604.74	-	20,860.03
Furniture and Equipment	399,575.12	-	-	24,877.74	-	424,452.86
Other Capital Assets	60,181.67	-	-	3,997.33	-	64,179.00
Total Depreciated Assets	951,085.57	-	-	47,825.92	-	998,911.49
Less Accumulated Depreciation						
Buildings & Building Improvements	(3,160.49)	-	-	(11,522.10)	-	(14,682.59)
Infrastructure	(841.60)	-	-	(503.82)	-	(1,345.42)
Furniture and Equipment	(172,864.79)	-	-	(56,882.00)	-	(229,746.79)
Other Capital Assets	(5,899.18)	-	-	(3,544.82)	-	(9,444.00)
Total Accumulated Depreciation	(182,766.06)	-	-	(72,452.74)	-	(255,218.80)
Capital Assets Depreciated, Net	768,319.51	-	-	(24,626.82)	-	743,692.69
Component Unit Activities						
Capital Assets, Net	\$ 772,253.73	\$ -	\$ -	\$ (24,499.47)	\$ -	\$ 747,754.26

UNAUDITED
 THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 3: Deposits, Investments and Repurchase Agreements

The Texas Education Code, Title III, Chapter 51.0031 grants authority for a governing board to invest funds under prudent person standards “if a governing board has under its control at least \$25 million in book value of endowment funds.”

The A&M System’s investment policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker’s acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITs), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash in Bank

As of August 31, 2012, the carrying amount of deposits was \$34,022,411.78 as presented below:

Cash in Bank – Carrying Amount	
Primary Government	
Cash in Bank per AFR	\$ 34,022,411.78
Discrete Component Units	
Mexico City Center Cash in Bank – Carrying Value (December 31, 2011)	37,471.00
Casa Verde Center Cash in Bank – Carrying Value (September 30, 2012)	1,251.47
Texas 4-H Inc.	16,430.33
Total Discrete Component Units	<u>\$ 55,152.80</u>

These amounts consist of all cash in local banks. These amounts are included on the Combined Balance Sheet as part of the “Cash and Cash Equivalents” line items. As of August 31, 2012, the total bank balances were as follows:

Bank Balances	
Primary Government	
	<u>\$ 14,892,436.98</u>
Discrete Component Units	
Mexico City Center (December 31, 2010)	\$ 37,374.00
Casa Verde Center (September 30, 2011)	3,102.05
Texas 4-H Inc.	16,430.33
Total Discrete Component Units	<u>\$ 56,906.38</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The A&M System’s policy requires collateral of 102% pledged against all deposits and limits the amounts of funds which may be deposited with any bank to the lesser of \$100,000,000 or 10% of total deposits. The policy also requires that deposits in federally insured savings and loan associations, building and loan associations,

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

and state and national banks not exceed the amount insured by the Federal Savings and Loan Insurance Corporation, Federal Deposits Insurance Corporation (FDIC), or their successors. The A&M System regulation applicable to working fund bank accounts requires the Chancellor, or designee, to approve a working fund in any bank with which the System Member does not have a depository agreement. As permitted by the Texas Education Code, Title III, Chapter 51.003, the A&M System has accounts with two foreign banks to accommodate operational needs for educational programs in foreign countries. As of August 31, 2012, the A&M System had bank accounts held in Doha, Qatar for the operation of Texas A&M University at Qatar. The daily average exposure during fiscal year 2012 was \$811,442.09. As of August 31, 2012, the A&M System also had a working fund bank account in Italy to facilitate Texas A&M University's Santa Chiara Study Center in Arezzo, Italy. The daily average exposure during fiscal year 2012 was \$853.43. No appropriated or tuition funds other than those collected from students enrolled in the affected programs are deposited with the foreign banks. The funds held in Qatar and Italy are not insured or collateralized.

Incidental amounts of various foreign currencies are held through Bank of New York Mellon, their foreign branches and/or foreign sub-custodian banks. These amounts represent interest and/or dividend payments received in foreign currencies that are not yet converted to U.S. dollars. Such deposits of foreign currency are not insured or collateralized and are subject to custodial risk and the risk of fluctuations in exchange rates. The average exposure to these deposits during fiscal year 2012 was \$39,093.79.

Incoming wire deposits are sometimes received by the A&M System's custodian after the cut-off time for investment in the money market fund. When this occurs, the funds are credited to a "late" money account and invested the following day in the money market fund. The first \$250,000.00 in the late money fund is insured by the FDIC and the remaining balance is uninsured, but collateralized with securities held by the pledging financial institution (BNY Mellon). During fiscal year 2012, the balance in the late money account exceeded the FDIC insurance on 26 occasions and the average amount collateralized with securities held by the pledging financial institution was \$628,798.27.

The bank balances exposed to custodial credit risk as of August 31, 2012 are as follows:

Bank Balances Exposed to Custodial Credit Risk	
Primary Government	
Uninsured and uncollateralized	\$ 843,972.45
Uninsured and collateralized with securities held by the pledging financial institution	\$ 583,944.03
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name	\$ -
Discrete Component Units	
Mexico City Center (December 31, 2011)	
Uninsured and uncollateralized	\$ 37,374.00
Casa Verde Center (September 30, 2012)	
Uninsured and uncollateralized	\$ 3,102.05

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposits. The A&M System does not have a deposit policy for foreign currency risk.

The exposure to foreign currency risk for deposits as of August 31, 2012 is as follows:

Bank Balances Exposed to Foreign Currency Risk		
Primary Government		
Currency		Balance
Canadian Dollar	\$	0.01
Euro		412.69
Japanese Yen		0.05
New Zealand Dollar		0.01
Pound Sterling		1,691.40
Qatar Riyal		804,530.93
Discrete Component Units		
Mexico City Center		
Currency		Balance
Mexican Peso (12/31/11)	\$	37,374.00
Casa Verde Center		
Currency		Balance
Costa Rica Colon (9/30/12)	\$	3,102.05

Investments

The A&M System invests in certain private investments including private equity, venture capital, natural resources, energy, and real estate. Fair value of private investment funds is estimated based on capital account balances for the most recent reporting period provided by the investment manager and adjusted for capital calls and distributions. Hedge fund investments are reported at net asset value as of August 31, 2012 based on information provided by the investment managers and their third party administrators. Mineral rights are held for the purpose of generating income and are carried on a cost basis. Mineral rights do not have an open market and GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, states that if there is no market, cost should be used. The value reported for mineral rights as of August 31, 2012 is \$119,283.57. The A&M System has invested in private equity technology partnerships through its Office of Technology Commercialization. These investments, totaling \$8,541,234.57 are also reported at cost or par.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

As of August 31, 2012, the fair value of investments is presented below:

Investment Fair Value	
U.S. Treasury Securities	\$ 72,641,825.05
U.S. Government Agency Obligations	164,788,534.71
Corporate Obligations	249,175,131.27
Corporate Asset and Mortgage Backed Securities	69,808,263.11
Equity	339,313,066.43
Fixed Income Money Market and Bond Mutual Fund	725,457,972.44
International Obligations	96,403,869.93
International Equity	219,315,414.02
Mutual Funds - U.S.	149,611,875.21
Mutual Funds - International	292,727,866.95
Repurchase Agreements - TISTC	399,983.68
Other Commingled Funds	
Bank Loans	133,653,133.36
Equity	23,197,166.00
Real Estate	119,283.07
Derivatives	(995,896.09)
Externally Managed Investments	
Hedge Funds	451,900,952.32
Limited Partnerships - Private Equity	101,025,551.78
Limited Partnerships - International Private Equity	16,534,298.52
Limited Partnerships - Real Estate	12,605,266.17
Limited Partnerships - International Real Estate	3,074,420.83
Limited Partnerships - Natural Resources	65,862,877.92
Total Investments	<u>\$ 3,186,620,856.68</u>

Investments per AFR	
Current Cash Equivalents	\$ 360,331,350.89
Current Investments	20,933.41
Current Short-Term Derivative Instruments	(995,896.09)
Current Restricted Cash Equivalents	323,470,577.80
Non-Current Restricted Investments	758,816,631.91
Non-Current Unrestricted Investments	1,744,977,258.76
Total Investments per AFR	<u>\$ 3,186,620,856.68</u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The A&M System's policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the A&M System investment policy and such collateral be held by a third party. As of August 31, 2012, there was no custodial credit risk related to securities lending or repurchase agreements. The A&M System did not participate in a securities lending program during fiscal year 2012 and the only repurchase agreement was held through Texas Treasury Safekeeping Trust Company.

Foreign investments are administered in book entry form by the A&M System's custodian, Bank of New York Mellon, through a network of international sub-custodians and securities depositories. Sub-custodians are evaluated by the custodian prior to selection and are monitored on an ongoing basis after selection to help ensure safeguarding of clients' assets. Sub-custodians are monitored according to four categories of risk: operations, financial, legal/regulatory and reputational. To reduce risk, the custodian has a standing policy not to process free of payment transactions unless that transaction is consistent with standard settlement practice for that instrument and market or unless written indemnification is received from the client. On a daily basis, the sub-custodians send a confirmation of settlement to the custodian which is reconciled to the custody system.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The A&M System's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2012 is as follows:

Investments Exposed to Foreign Currency Risk				
Foreign Currency	International Obligation	International Equity	International Equity Mutual Funds	International Externally Managed
U.S. Dollar Denominated Foreign Securities	\$ 66,451,031.28	\$ 80,826,866.56	\$ 292,727,866.95	\$ 12,481,535.83
Australian Dollar	14,208,413.34	3,188,432.47		
Brazillian Real				
Pound Sterling		19,421,268.74		
Canadian Dollar	8,024,817.19	13,898,289.82		
Euro		34,481,660.63		7,127,183.52
Hong Kong Dollar		2,285,519.37		
Japanese Yen		32,279,560.92		
Malaysian Ringgit		957,445.96		
New Turkish Lira		2,963,317.84		
Norwegian Krone		1,943,478.50		
New Zealand Dollar	7,719,608.12			
South African Rand		3,802,944.76		
Singapore Dollar		931,814.38		
Swedish Krona		3,565,422.51		
Swiss Franc		18,769,391.56		
Total	\$ 96,403,869.93	\$ 219,315,414.02	\$ 292,727,866.95	\$ 19,608,719.35

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The A&M System's investment policy requires that securities have a long-term rating of B or better and the fixed income portfolio have an overall credit rating of A or better. Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2012, the A&M System's credit quality distribution for securities with credit risk exposure is as follows:

Investments Exposed to Credit Risk – Standard & Poor's (in thousands)								
Investment Type	AAA	AA	A	BBB	BB	B	CCC	Unrated
Corporate Obligations	540	9,765	60,592	117,165	38,495	12,631		9,988
Corporate Asset and Mortgage Backed Securities	12,111	6,251	18,220	6,013	1,751	3,910	5,610	15,943
International Obligations	13,038	18,678	26,590	17,485	1,885	943		17,785
Repurchase Agreements (Texas Treasury Safekeeping Trust Co.)		400						
Fixed Income Money Market and Bond Mutual Fund								725,458

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2012, no more than 5% of the A&M System's total investments are represented by a single issuer. The A&M System's investment policy states that no more than 4.9% of the voting stock of any one corporation be owned by the A&M System at any given time.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the A&M System manages its exposure to fair value losses arising from changing interest rates by requiring fixed income managers to maintain duration of +/- 20% of the effective duration of the appropriate index. In addition, the A&M System's policy limits the duration of its short term investment portfolio to a maximum of one year. The A&M System's exposure to interest rate risk is presented using the effective duration method as follows:

Investments Exposed to Interest Rate Risk		
Investment Type	Effective Duration	Market Value
U.S. Treasury Securities	6.554	\$ 72,641,825.05
U.S. Government Agency Obligations		
Agencies and Other U.S. Government Obligations	4.723	9,873,961.55
U.S. Government Mortgages	2.065	154,914,573.16
Corporate Obligations		
Corporates and Other Credits	5.189	203,559,755.22
U.S. Private Placements	3.869	48,441,472.05
Corporate Asset and Mortgage Backed Securities		
CMBS	4.949	26,495,765.69
CMO Corporate	0.167	23,386,926.96
Asset Backed Securities	1.787	17,099,474.46
International Obligations	3.78	96,403,869.93
Repurchase Agreements TTSTC	0.011	399,983.68
Fixed Income Money Market and Bond Mutual Funds	3.958	80,978.66
		\$ 653,298,586.41

Securities Lending

The A&M System did not participate in a securities lending program during fiscal year 2012.

Derivative Investing

The A&M System Investment Policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity or index.

The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the A&M System's net equity in the contracts, representing unrealized gain or loss on the contracts as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is reported on the Balance Sheet as derivative instruments.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated Balance Sheet. Risks arise from the possibility counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2012.

Foreign Exchange Contracts				
Currency	Sell	Buy	Unrealized Gain on Foreign Exchange Contract	Unrealized Loss on Foreign Exchange Contract
Australian Dollar	\$ 30,527,019.25	\$ 15,702,027.70	\$ 67,599.03	\$ (1,056,886.78)
Canadian Dollar	1,411,910.15	115,957.81	368.23	(7,871.54)
Euro	3,287,808.92	352,767.29	1,292.09	(15,845.00)
Japanese Yen	2,851,438.60	298,791.80		(17,055.29)
Malaysian Ringgit	190,403.51			(517.98)
New Turkish Lira	247,641.12			(483.56)
New Zealand Dollar	9,679,307.29	930,495.56	70,056.27	(7,720.40)
Norwegian Krone	170,818.71			(1,993.50)
Pound Sterling	1,666,834.41			(11,251.69)
Singapore Dollar	79,713.70			(415.38)
South African Rand	320,051.89			(2,394.12)
Swedish Krona	601,412.91			(6,825.52)
Swiss Franc	1,546,683.68	610,229.12	2,370.20	(8,321.15)
	<u>\$ 52,581,044.14</u>	<u>\$ 18,010,269.28</u>	<u>\$ 141,685.82</u>	<u>\$ (1,137,581.91)</u>

The fair value of open foreign currency exchange contracts as of August 31, 2012 was (\$995,896.09), which is included in the net increase (decrease) in fair value of investments on the consolidated statement of revenues, expenses and changes in net assets.

The A&M System had gross counter party exposure as of August 31, 2012 as follows:

Foreign Exchange Contract Exposure to Counterparty Risk				
Assets Notional	Liabilities Notional	Assets Fair Value as of August 31, 2012	Liabilities Fair Value as of August 31, 2012	Counterparty Rating
\$ 52,581,044.14	\$ 18,010,269.28	\$ 141,685.82	\$ (1,137,581.91)	AA-

The A&M System has invested in U.S. Treasury futures contracts for the purpose of managing the duration of its liquidity portfolio. These instruments are subject to market, credit risk and counterparty risk. The portfolio manager includes derivatives in the portfolio that would not create additional risk as compared to cash instruments. Futures contracts are used as a way to gain the same risk exposure in a more efficient manner. The manager ensures that counterparty risk is well diversified and meets the credit quality criteria established in the account. Futures contracts are marked to market daily and the daily gain or loss difference is settled in cash with the broker. There were no open contracts as of August 31, 2012.

Several limited partnerships in which the A&M System invests may employ the use of forward currency exchange contracts as a hedge in connection with portfolio purchases and sales of securities denominated in foreign

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

currencies. Risks are consistent with those described in an above paragraph regarding direct currency hedging. The contracts are valued at the prevailing forward exchange rate of the underlying currencies and the unrealized gain (loss) is recorded daily. Unrealized gains and losses that represent the difference between the value of the forward contract to buy and the forward contract to sell are included in the net unrealized gain (loss) from the forward contracts.

Hedge fund pools are invested in private placements with external managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2012, the A&M System's investment in hedge funds was \$451,900,952.32.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity transactions. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty non-performance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty non-performance. As of August 31, 2012, the A&M System has committed \$396,483,022.00 to various private investments, of which \$242,028,002.00 has been funded. The fair value of the investments as of August 31, 2012 was \$190,561,180.65. In addition, the A&M System has invested directly in companies and partnerships to promote research technology. As of August 31, 2012, the cost of the investments in research technology was \$8,541,234.57. Associated risks include those applicable to other private investments as well as the risk of enterprise failure.

Hedge funds, private investment and public market funds include investments in private placement vehicles that are subject to risks, which could include the loss of invested capital. The risks include the following:

- Non-regulation risk –The A&M System's general partners and investment managers are registered with the Securities and Exchange Commission with the exception of four general partners that are exempt reporting advisers and are not required to comply with most rules that apply to registered advisers.
- Key personnel risk – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- Liquidity risk – Many of the A&M System's investment funds may impose lock-up periods, which would cause the A&M System to incur penalties to redeem its investment or prevent the System from redeeming its shares until a certain period of time has elapsed.
- Limited transparency – As private placement vehicles, these funds may not fully disclose the holdings of their portfolios.
- Investment strategy risk – These funds often employ sophisticated investment strategies and the use of leverage, which could result in the loss of invested capital.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Permanent University Fund

The Permanent University Fund (PUF) is administered by the University of Texas System and is not reflected in the financial statements of the A&M System. Prior to changes in the arbitrage laws, plant funds were appropriated from bond proceeds only after the bonds had been sold and cash was on hand. Currently, receipt of cash may or may not precede appropriations of bond or note proceeds.

The total carrying value of the PUF assets at August 31, 2012, was \$11,781,743,874.78 excluding PUF land grants. By acts of the Legislature and provisions of the State Constitution, the net income of the PUF is divided one-third to the A&M System and two-thirds to the University of Texas System. The A&M System's one-third share of the net revenues was \$199,829,438.08 for the fiscal year ended August 31, 2012, and was credited to the A&M System Available University Fund as reported in Unrestricted Funds.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 4: Short-Term Debt

During the year ended August 31, 2012, there was no reportable activity for short-term debt.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 5: Summary of Long-Term Liabilities

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

Long-Term Liabilities Activity-Primary Government						
	<u>Balance 9/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 8/31/12</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Employees'						
Compensable Leave	\$ 101,211,933.30	\$ 4,416,306.07	\$ (3,149,106.72)	\$ 102,479,132.65	\$ 9,220,406.15	\$ 93,258,726.50
Other Post						
Employment Benefits	476,809,489.00	127,068,540.00	-	\$ 603,878,029.00	-	603,878,029.00
Claims & Judgments *	23,561,734.35	2,311,000.00	(19,304,734.35)	\$ 6,568,000.00	2,311,000.00	4,257,000.00
Notes and Loans						
Payable	111,491,666.66	359,700,000.00	(267,858,333.34)	\$ 203,333,333.32	8,008,333.34	195,324,999.98
Bonds Payable	2,217,572,708.66	304,325,470.10	(179,680,000.00)	\$ 2,342,218,178.76	119,748,150.81	2,222,470,027.95
Assets Held in Trust	362,100.00	-	-	\$ 362,100.00	-	362,100.00
Liabilities Payable						
from Restricted Assets	44,169,582.08	6,531,010.41	(27,487,022.54)	\$ 23,213,569.95	20,837,497.88	2,376,072.07
Funds Held for Others	103,765,580.90	66,522,880.00	(64,748,668.25)	\$ 105,539,792.65	34,369,030.35	71,170,762.30
Capital Lease Obligations	2,423,527.60	1,237,262.03	(290,656.32)	\$ 3,370,133.31	637,004.01	2,733,129.30
Other-Pollution						
Remediation						
Obligations	-	-	-	-	-	-
Other Non-Current						
Liabilities	<u>37,055,967.71</u>	<u>4,822,280.07</u>	<u>(3,641,435.48)</u>	<u>\$ 38,236,812.30</u>	<u>16,828,102.55</u>	<u>21,408,709.75</u>
Total	<u>\$ 3,118,424,290.26</u>	<u>\$ 876,934,748.68</u>	<u>\$ (566,159,957.00)</u>	<u>\$ 3,429,199,081.94</u>	<u>\$ 211,959,525.09</u>	<u>\$ 3,217,239,556.85</u>

* Starting in fiscal year 2012, Claims and Judgments Long-term Liability no longer includes Self-Insured Accrued Liability which is no longer included in Claims & Judgments.

Long-Term Liabilities Activity-Discrete Component Units						
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Other Non-Current Liabilities	\$ 1,058,596.33	\$ -	\$ (405,287.24)	\$ 653,309.09	\$ -	\$ 653,309.09
Total	<u>\$ 1,058,596.33</u>	<u>\$ -</u>	<u>\$ (405,287.24)</u>	<u>\$ 653,309.09</u>	<u>\$ -</u>	<u>\$ 653,309.09</u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Notes and Loans Payable

Notes payable consists of amounts used to make permanent improvements at various institutions in the A&M System, to refund and retire the Board's Permanent University Fund Commercial Paper Notes and Flexible Rate Notes, to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes.

The Revenue Financing System Note (2007 TIPS Project) was issued on July 12, 2007 to fund \$4 million of costs for the Texas Institute for Preclinical Studies (TIPS) within Texas A&M University. The note is structured as a loan with the Office of the Governor, Economic Development and Tourism Division through the Texas Economic Development Bank; all authorized debt has been issued. The outstanding balance at August 31, 2012 was \$3,333,333.32

Notes and Loans Payable-Debt Service Requirements				
<u>Description</u>	Balances			Balances
	<u>September 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>August 31, 2012</u>
Permanent University Fund Commercial Paper Notes	\$ 101,000,000.00	\$ 155,000,000.00	\$ 256,000,000.00	\$ -
Revenue Financing System Commercial Paper Notes, Series B	6,825,000.00	204,700,000.00	11,525,000.00	200,000,000.00
Revenue Financing System Note (2007 TIPS Project)*	3,666,666.66	-	333,333.34	3,333,333.32
Total	\$ 111,491,666.66	\$ 359,700,000.00	\$ 267,858,333.34	\$ 203,333,333.32
<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest**</u>	<u>Total</u>
2013		8,008,333.34	5,465,916.66	\$ 13,474,250.00
2014		8,213,333.34	5,251,932.41	13,465,265.75
2015		8,428,333.34	5,032,413.15	13,460,746.49
2016		8,643,333.34	4,807,209.26	13,450,542.60
2017		8,868,333.34	4,575,959.62	13,444,292.96
2018-2022		47,926,666.62	19,194,610.56	67,121,277.18
2023-2027		52,855,000.00	12,509,910.00	65,364,910.00
2028-2032		60,390,000.00	4,978,395.00	65,368,395.00
TOTAL		\$ 203,333,333.32	\$ 61,816,346.66	\$ 265,149,679.98

* Private Placement note with the Office of the Governor, Economic Development and Tourism Division through the Texas Economic Development Bank. For fiscal years 2013 - 2022, actual principal and interest payments for this note are included in the debt service schedule above.

** For this schedule, assumption is that Revenue Financing System Commercial Paper Notes and Permanent University Fund Commercial Paper Notes will be refunded into long term bonds. For estimated debt service on this exhibit, the rate of 2.70% corresponds to the municipal market data published on August 31, 2012. Notes are remarketed in commercial paper mode at current market rates with maturities between 1 and 270 days.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Compensated Absences

Full-time State employees earn eight to twenty-one hours per month annual leave depending on years of State employment. Under the State's policy, an employee with 35 or more years of State service may carry up to 520 hours accrued leave forward from one fiscal year to another.

Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The A&M System has accrued the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability (current and noncurrent) for A&M System members is projected to be \$102,479,132.65 as of August 31, 2012. This liability is based on calculations from the A&M System centralized leave tracking system and employer estimates. The accrued liability for the unpaid annual leave has been recognized as a current and non-current liability. The A&M System made lump sum payments of \$12,766,634.46 for accrued vacation to employees who separated from State service during the fiscal year ended August 31, 2012.

Sick leave accumulation is not limited. Sick leave is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave payment to an employee's estate is the lesser of one-half of the employee's accumulated entitlement or 336 hours. The A&M System policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements since historical use of sick leave has been minimal.

Claims and Judgments

Claims and judgments related to the A&M System self-insured worker's compensation plan include a current portion of \$2,311,000.00 and a non-current portion totaling \$4,257,000.00, for a total worker's compensation liability of \$6,568,000.00. This liability represents the current and non-current portion of the incurred but not reported (IBNR) liability based on actuarial analysis of the plan. The IBNR represents claims that will be paid out over future fiscal years. A current portion has been estimated based on actual claims paid out over the last five fiscal years.

In prior fiscal years, all self-insured liabilities, including the worker's compensation plan, were reported on the financial statements as a current self insured liability. In fiscal year 2012, the self-insured worker's compensation is reported as a Claim and Judgment while other current self-insured liabilities were reported as a current Self-Insured Liability.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets represent payables at year-end from assets with external restrictions such as federal and state grants, and bond proceeds.

UNAUDITED
 THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 6: Bonded Indebtedness

A. Financial Reporting

The A&M System has established a financing program known as the Revenue Financing System. Members of the A&M System may use the Revenue Financing System as a long-term debt program to finance new facilities or as a short-term debt program to finance equipment or to interim finance construction projects. Members' financing requests are evaluated for adequate revenue streams and bonding capacity.

Assets created as a result of the expenditures of Permanent University Fund and Revenue Financing System Bonds and Notes (see Note 5) proceeds, which are subsequently capitalized, are reported on the applicable members' Balance Sheet in the Capital Assets category. The associated bond liability is reported in total by the A&M System Offices.

As of August 31, 2012, \$73,520,822.35 of Revenue Financing System debt proceeds had been appropriated prior to the receipt of the proceeds. As of August 31, 2012, \$41,572,287.37 of Permanent University Fund debt proceeds had been appropriated prior to the receipt of the proceeds.

B. General Information

At August 31, 2012, the A&M System had outstanding bonds payable of \$2,241,200,000.00 as detailed in below, which does not include unamortized premium of \$101,018,178.76.

Bonds payable are due in annual installments varying from \$85,000.00 to \$18,135,000.00 with interest rates ranging from 0.579% to 5.50%, with the final installment due in 2041. The debt service requirements table summarizes the principal and interest expense for the next five years and beyond for bonds issued and outstanding.

Revenue for debt service on the Permanent University Fund Bonds and Notes is derived from liens on and pledges of payout distributions from the Permanent University Fund allocable to the A&M System.

Sources of revenue for debt service on the Revenue Financing System Bonds and Notes are pledged revenue from any or 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 which are lawfully available to the Board for the payment of Parity Obligations, including unrestricted funds and reserve balances.

All bonds are for the benefit of business-type activities. General information related to bonds payable is summarized in the following tables.

Bonds Payable			
	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal</u>
Permanent University Fund Bonds	0.579–5.50%	2013-2036	\$ 730,295,000.00
Revenue Financing System Bonds	2.25–5.50%	2013-2041	1,510,905,000.00
			<u>\$ 2,241,200,000.00</u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Debt Service Requirements			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 111,210,000.00	\$ 106,031,356.24	\$ 217,241,356.24
2014	115,745,000.00	101,158,757.24	216,903,757.24
2015	117,490,000.00	95,869,432.70	213,359,432.70
2016	120,025,000.00	90,386,385.96	210,411,385.96
2017	109,150,000.00	84,908,287.18	194,058,287.18
2018-2022	545,675,000.00	350,505,132.76	896,180,132.76
2023-2027	518,055,000.00	223,115,612.78	741,170,612.78
2028-2032	405,575,000.00	102,085,777.98	507,660,777.98
2033-2037	160,165,000.00	29,526,575.00	189,691,575.00
2038-2041	38,110,000.00	3,832,500.00	41,942,500.00
Total	<u>\$ 2,241,200,000.00</u>	<u>\$ 1,187,419,817.84</u>	<u>\$ 3,428,619,817.84</u>

Permanent University Fund Bonds, Series 1998

- Issued September 9, 1998, to refund \$65,000,000.00 of the Board's previously issued and outstanding Permanent University Fund Variable Rate Notes, Series B, and \$27,860,000.00 of Permanent University Fund Bonds, Series 1992B then outstanding in the aggregate principal amount of \$36,360,000.00; and to pay the costs of issuing the bonds.
- \$92,520,000.00 authorized; all authorized bonds have been issued. \$12,335,000.00 was refunded by Permanent University Fund Bonds, Series 2006. \$9,735,000.00 was refunded by Permanent University Fund Bonds, Series 2009AB. \$1,015,000.00 was refunded by Permanent University Fund Bonds, Series 2011. Outstanding balance at August 31, 2012, was \$28,795,000.00.

Permanent University Fund Bonds, Series 2003

- Issued April 3, 2003, to current refund \$28,210,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1992A; to current refund \$35,590,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1993; to advance refund \$31,080,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996; to advance refund \$12,500,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996A; and to pay the costs of issuing the bonds.
- \$102,645,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$90,135,000.00.

Permanent University Fund Bonds, Series 2004

- Issued September 1, 2004, to current refund \$73,978,393.00 of the Board's previously issued and outstanding Permanent University Fund Flexible Rate Notes; to provide funds for construction and other capital improvements; and to pay the costs of issuing the bonds.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

- \$79,715,000.00 authorized; all authorized bonds have been issued. \$79,715,000.00 was refunded by Permanent University Fund Bonds, Series 2012A. Outstanding balance at August 31, 2012, was \$0.00.

Permanent University Fund Bonds, Series 2006

- Issued July 6, 2006, to current refund \$29,340,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1996A; to advance refund \$12,335,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 1998; to provide funds for construction and other capital improvements; and to pay for the costs of issuing the bonds.
- \$165,940,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$117,100,000.00.

Permanent University Fund Bonds, Series 2009AB

- Issued April 7, 2009, to refund \$100,000,000.00 of the Board's previously issued and outstanding Permanent University Fund Commercial Paper Notes; to currently refund \$9,735,000.00 of Permanent University Fund Bonds, Series 1998; to provide funding for project costs of approximately \$113,700,000.00; and to pay the costs of issuing the bonds.
- \$218,895,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$212,945,000.00.

Permanent University Fund Bonds, Series 2011

- Issued October 18, 2011, to refund \$96,000,000.00 of the Board's previously issued and outstanding Permanent University Fund Commercial Paper Notes; to refund \$1,015,000.00 of Permanent University Fund Bonds, Series 1998; and to pay the cost of issuing the bonds.
- \$87,145,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012 was \$84,890,000.00.

Permanent University Fund Bonds, Series 2012A

- Issued July 18, 2012, to refund \$79,715,000.00 of the Board's previously issued and outstanding Permanent University Fund Bonds, Series 2004; and to pay the cost of issuing the bonds.
- \$70,680,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012 was \$70,680,000.00.

Permanent University Fund Bonds, Taxable Series 2012B

- Issued July 18, 2012, to refund \$125,000,000.00 of the Board's previously issued and outstanding Permanent University Fund Commercial Paper Notes; and to pay the cost of issuing the bonds.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

- \$125,750,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012 was \$125,750,000.00.

Revenue Financing System Bonds, Series 2002

- Issued October 10, 2002, to refund \$40,000,000.00 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide for construction of certain improvements; and to pay the costs of issuing the bonds.
- \$93,835,000.00 authorized; all authorized bonds have been issued. \$40,355,000.00 was refunded by Revenue Financing System Bonds, Series 2010AB. Outstanding balance at August 31, 2012, was \$8,680,000.00.

Revenue Financing System Bonds, Series 2003A

- Issued May 20, 2003, to provide funds for certain improvements in the A&M System.
- \$117,135,000.00 authorized; all authorized bonds have been issued. \$28,560,000.00 was refunded by Revenue Financing System Bonds, Series 2010A. Outstanding balance at August 31, 2012, was \$51,865,000.00.

Revenue Financing System Bonds, Series 2003B

- Issued May 20, 2003, to current refund \$34,705,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993; to current refund \$3,925,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993A; to current refund \$9,470,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1993B; to advance refund \$72,775,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1996; and to pay the costs of issuing the bonds.
- \$117,140,000.00 authorized; all authorized bonds have been issued. \$13,210,000.00 was refunded by Revenue Financing System Bonds, Series 2010B. Outstanding balance at August 31, 2012, was \$40,005,000.00.

Revenue Financing System Bonds, Series 2005A

- Issued June 30, 2005, to advance refund \$6,820,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1997; to advance refund \$32,755,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1999; to advance refund \$11,105,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2001A; to provide funds for certain improvements in the A&M System; and to pay the costs of issuing the bonds.
- \$148,895,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$105,020,000.00.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Revenue Financing System Bonds, Series 2005B

- Issued June 30, 2005, to advance refund \$40,740,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1996; to advance refund \$15,730,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1997; to advance refund \$98,395,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 1999; to advance refund \$31,605,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2001B; to provide funds for construction and capital improvements; and to pay the costs of issuing the bonds.
- \$275,755,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$191,045,000.00.

Revenue Financing System Bonds, Series 2008

- Issued February 7, 2008, to refund approximately \$127,912,303.00 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide funding for project costs of approximately \$55,000,000.00; and to pay the costs of issuing the bonds.
- \$169,515,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$133,845,000.00.

Revenue Financing System Bonds, Series 2009A

- Issued March 11, 2009, to refund approximately \$49,819,793.00 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide funding for project costs of approximately \$221,400,000.00; and to pay the costs of issuing the bonds.
- \$251,735,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$214,630,000.00.

Revenue Financing System Bonds, Series 2009B

- Issued March 11, 2009, to refund approximately \$14,070,207.00 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to currently refund \$2,050,000.00 of Revenue Financing System Bonds, Series 1997; to provide funding for project costs of approximately \$64,700,000.00; and to pay the cost of issuing the bonds.
- \$78,085,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$71,255,000.00.

Revenue Financing System Bonds, Series 2009C

- Issued November 10, 2009, to provide funding for project costs of approximately \$57,300,000.00; and to pay the cost of issuing the bonds.
- \$54,240,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$40,305,000.00.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Revenue Financing System Bonds, Series 2009D

- Issued November 10, 2009, to provide funding for project costs of approximately \$344,600,000.00; and to pay the cost of issuing the bonds.
- \$320,760,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$301,485,000.00.

Revenue Financing System Bonds, Series 2010A

- Issued June 3, 2010, to advance refund \$1,418,558.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2002; to advance refund \$28,560,000.00 of Revenue Financing System Bonds, Series 2003A; to provide funding for project costs of approximately \$71,000,000.00; and to pay the cost of issuing the bonds.
- \$95,065,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$86,880,000.00.

Revenue Financing System Bonds, Series 2010B

- Issued June 3, 2010, to advance refund \$38,936,442.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2002; to advance refund \$13,210,000.00 of Revenue Financing System Bonds, Series 2003B; to provide funding for project costs of approximately \$105,200,000.00; and to pay the cost of issuing the bonds.
- \$146,120,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$143,085,000.00.

Revenue Financing System Bonds, Series 2011A

- Issued March 10, 2011, to currently refund \$5,980,000.00 of the Board's previously issued and outstanding Revenue Financing System Bonds, Series 2001A; to currently refund \$16,975,000.00 of Revenue Financing System Bonds, Series 2001B; and to pay the cost of issuing the bonds.
- \$22,335,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$19,320,000.00.

Revenue Financing System Bonds, Series 2011B

- Issued March 10, 2011, to refund \$20,000,000.00 of the Board's previously issued and outstanding Revenue Financing System Commercial Paper Notes, Series B; to provide funding for project costs of approximately \$87,771,000.00; and to pay the cost of issuing the bonds.
- \$105,365,000.00 authorized; all authorized bonds have been issued. Outstanding balance at August 31, 2012, was \$103,485,000.00.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

C. Advance Refunding Bonds

The A&M System has defeased certain revenue bond issues by placing the proceeds of new bonds issues in irrevocable trusts to provide for all future debt service payments on the issues. Accordingly, the liability for the bonds is not included in the financial statements. At August 31, 2012, the principal balance outstanding for the defeased bonds is \$121,560,000.00.

Permanent University Fund Bonds, Series 2011

- Current refunding of \$1,015,000.00 of Permanent University Fund Bonds, Series 1998 to allow the Board of Regents of the Texas A&M University System to restructure its debt service requirements and realize a present value debt service savings.
- Refunded by Permanent University Fund Bonds, Series 2011 issued October 18, 2011.
- Net proceeds from refunding bonds of \$0.00 after payment of \$655,962.10 which represents issuance costs and underwriter's discount.
- Current refunding of the bonds reduced The Texas A&M University System's debt service payments over the next two years by approximately \$50,748.61.
- Economic gain was \$50,385.28, the difference between the net present value of the old and new debt service payments.
- Current refunding resulted in the removal of \$1,015,000.00 of bond liability from the balance sheet and the addition of \$1,015,000.00 of bond liability, the net of which is neither an accounting gain or loss.

Permanent University Fund Bonds, Series 2012A

- Advance refunding of \$79,715,000.00 of Permanent University Fund Bonds, Series 2004 to allow the Board of Regents of the Texas A&M University System to restructure its debt service requirements and realize a present value debt service savings.
- Refunded by Permanent University Fund Bonds, Series 2012A issued July 18, 2012.
- Net proceeds from refunding bonds of \$0.00 after payment of \$481,883.15 which represents issuance costs and underwriter's discount.
- Advance refunding of the bonds reduced The Texas A&M University System's debt service payments over the next 12 years by approximately \$13,639,670.84.
- Economic gain was \$10,973,646.61, the difference between the net present value of the old and new debt service payments.
- Advance refunding resulted in the removal of \$79,715,000.00 of bond liability from the balance sheet and the addition of \$70,680,000.00 of bond liability, the net of which is an accounting gain of \$9,035,000.00.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

D. Pledged Future Revenues

Sources of pledged revenues include tuition and fees, auxiliary enterprises, sales of goods and services, and other non-operating activities. The following table provides the pledged future revenue information for the Texas A&M University System Permanent University and Revenue Financing System bonds:

Pledged Future Revenue	
Pledged revenue required for future principal and interest on existing revenue bonds	\$ 3,428,619,817.84
Term of commitment year ending 8/31	2041
Percentage of revenue pledged	54.6%
Current year pledged revenue	\$ 1,872,634,029.32
Current year principal and interest paid	\$ 206,018,477.83

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 7: Derivative Instruments

The A&M System Investment Policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity or index. Commodity forward contracts are entered into to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. Detailed information about investment derivatives is disclosed in Note 3.

The fair values and notional amounts of derivative instruments outstanding as of August 31, 2012, are reported in the financial statements as follows:

	Changes in Fair Value		Fair Value at August 31, 2012		Notional
	Classification	Amount	Classification	Amount	
<i>Cash Flow Hedges</i>					
Commodity Forward	Deferred Outflow	\$ (2,244,010.00)	Derivative Instruments	\$ (2,244,010.00)	960,000 MMBTUs
<i>Investment Derivatives</i>					
Forwards	Investment Revenue	\$ (995,896.09)	Investments	\$ (995,896.09)	\$ 34,570,774.86

Hedging Derivatives

The fair value of the hedging instruments is determined by comparing the term price, which represents the contract price for the commodity, to the NYMEX price.

The outstanding commodity forward contracts as of August 31, 2012, include contracts with future expiration dates extending from September 2012 through August 2013. Contracts will be cash-settled on the expiration date based on NYMEX market price. The totals are summarized below by fiscal year:

Hedging Forward Contracts: Significant Terms and Credit Ratings							
Fiscal Year	Number of Contracts	Notional Amount (MMBTU's)	Effective Date Range	Termination Date Range	Terms: Pay (Average)	Terms: Receive	Counterparty Credit Rating
2013							
Forward Contracts	24	960,000	02/06/2009- 02/12/2009	09/01/2012- 08/01/2013	\$7.44/MMBTU	NYMEX market price	AA

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

As of August 31, 2012, the A&M System is not exposed to credit risk on its outstanding forward contracts because the contracts have negative fair values. No exposure to interest rate risk exists for commodity forward contracts.

The A&M System is exposed to basis risk on its commodity forward contract because the expected commodity purchase being hedged will price based on a pricing point of Waha Natural Gas Hub, different than the NYMEX pricing point at which the forward contract is expected to settle. As of August 31, 2012, the Waha price is \$2.65 per MMBTU and the NYMEX price is \$2.74 per MMBTU.

The A&M System may terminate a forward contract if the other party fails to perform under the terms of the contract. If at the time of termination a contract is in a liability position, the A&M System would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements. If on any date amounts would otherwise be payable by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

Investment Derivatives

Investment derivatives expose the A&M System to certain investment related risks. More detail about investment derivatives is disclosed in Note 3.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 8: Leases

Capital Leases

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. At August 31, 2012, the A&M System had various capital lease obligations relating to the acquisition of capital assets. The original capitalized cost of the capital assets under capital lease as of August 31, 2012, is \$5,678,430.90. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments:

Assets Under Capital Leases			
<u>Class of Property</u>	<u>Assets under Capital Lease</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>Total</u>
Buildings	\$ 2,372,049.29	\$ (625,957.14)	\$ 1,746,092.15
Furniture and Equipment	2,425,903.61	(598,218.42)	1,827,685.19
Vehicles	223,408.00	(22,482.26)	200,925.74
Computer Software	<u>657,070.00</u>	<u>(99,378.27)</u>	<u>557,691.73</u>
Total	<u>\$ 5,678,430.90</u>	<u>\$ (1,346,036.09)</u>	<u>\$ 4,332,394.81</u>

Future Capital Lease Payments			
<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Minimum Future Lease Payments</u>
2013	\$ 637,004.01	\$ 189,724.53	\$ 826,728.54
2014	620,618.16	161,945.40	782,563.56
2015	621,222.37	114,481.19	735,703.56
2016	576,443.20	67,332.43	643,775.63
2017	103,504.35	43,067.55	146,571.90
2018-2022	327,254.62	164,287.95	491,542.57
2023-2027	419,781.31	71,602.49	491,383.80
2028-2032	<u>64,305.29</u>	<u>1,211.56</u>	<u>65,516.85</u>
	\$ 3,370,133.31	\$ 813,653.10	\$ 4,183,786.41
Summary:			
	Total: Minimum Lease Payments		\$ 4,183,786.41
	Less: Interest at Various Rates		<u>(813,653.10)</u>
	Present Value of Net Minimum Lease Payments		<u>\$ 3,370,133.31</u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Operating Leases

The A&M System has included operating expenses for rent paid under operating leases for space and equipment in the amount of \$15,918,458.19 for the primary government for the year ended August 31, 2012. Of this amount, \$4,905.00 represents contingent rentals.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2012, are as follows:

Operating Lease Obligations	
<u>Fiscal Year</u>	<u>Minimum Future Lease Payments</u>
2013	\$ 12,013,340.99
2014	9,098,753.10
2015	7,373,543.42
2016	5,839,673.25
2017	3,235,778.32
2018-2022	7,817,332.78
2033-2027	1,915,989.40
2028-2032	1,915,989.40
	<hr/>
Total: Minimum Future Lease Payments	<u><u>\$ 49,210,400.66</u></u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

The A&M System has also leased portions of buildings and land to outside parties under various operating leases. Operating lease income in the amount of \$4,789,081.30 has been recorded for the primary government for the year ended August 31, 2012. Of this amount, \$686,522.34 represents contingent rentals.

Future minimum lease rentals under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2012, are as follows:

Operating Lease Rentals	
<u>Fiscal Year</u>	<u>Minimum Future Rentals</u>
2013	\$ 4,133,347.57
2014	2,736,220.72
2015	1,498,282.73
2016	1,182,015.01
2017	961,361.24
2018-2022	4,381,780.23
2023-2027	4,362,875.00
2028-2032	4,362,875.00
2033-2037	4,083,870.00
2038-2042	1,812,693.00
2043-2047	298,575.00
2048-2052	238,860.00
	<hr/>
Total: Minimum Future Rentals	<u><u>\$ 30,052,755.50</u></u>

Carrying Value of Leased Assets			
<u>Class of Property</u>	<u>Leased Assets</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>Total</u>
Land	\$ 1,077,882.93	\$ -	\$ 1,077,882.93
Buildings	<u>86,029,714.72</u>	<u>(32,268,466.78)</u>	<u>53,761,247.94</u>
	<hr/>	<hr/>	<hr/>
Total	<u><u>\$ 87,107,597.65</u></u>	<u><u>\$ (32,268,466.78)</u></u>	<u><u>\$ 54,839,130.87</u></u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 9: Employee Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all its employees. The contribution amounts for both the employee and the A&M System are set by the Texas Legislature and can change over time. One of the primary plans in which the A&M System participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries provided by the State and by each participant during the fiscal year were 6.0% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System of Texas does not separately account for each of its component government agencies, since the Retirement System bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature.

The retirement expense to the State for the A&M System TRS retirement program was \$17,800,589.07 for the year ended August 31, 2012. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the A&M System. Further information regarding actuarial assumptions and conclusions, together with audited financial statements, is included in the Teacher Retirement System's annual financial report.

The State has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. The contributory percentages of participant salaries during the fiscal year provided by the State and by each participant who was enrolled in the plan on or before August 31, 1995 were 8.5% and 6.65%, respectively. The 8.5% is composed of 6.0% contributed by the State and an additional 2.50% contributed by the A&M System. For participants who enrolled on or after September 1, 1995, the State and participant contributions were 6.4% and 6.65%, respectively. The 6.4% is composed of 6.0% contributed by the state and 0.4% contributed by the A&M System.

The contributions for the A&M System ORP retirement program were as follows:

Optional Retirement Program	
	<u>Amount</u>
Employer Contributions	\$ 40,627,092.00
Employee Contributions	<u>36,894,582.00</u>
Total	<u>\$ 77,521,674.00</u>

Effective January 1, 1999, the A&M System implemented an excess benefit arrangement under Section 415(m) of the Internal Revenue Code (IRC).

Since the A&M System bears no responsibility for retirement commitments beyond contributions, GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, do not apply to these financial statements or disclosures.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 10: Deferred Compensation

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. All payroll deductions have been invested in approved plans during the fiscal year. Two deferred compensation plans are available for A&M System employees.

The State's 457 Plan complies with IRC Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan (DCP) and is available to all employees. The DCP is an employer-sponsored plan administered by the Employees Retirement System of Texas (ERS). A&M System employees are permitted to participate in the plan as an agency of the State. The deductions, purchased investments and earnings attributed to the 457 Plan are held in trust and belong to the participants. The State has no liability under the 457 Plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

The A&M System also administers a Tax-Deferred Account (TDA) Program, created in accordance with IRC Section 403(b). All employees are eligible to participate. The TDA is an employer-sponsored plan. The deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee from an approved vendor list provided by the A&M System. The funds held in the accounts belong to the individual participants. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the A&M System or the State and thus do not have a liability related to this plan beyond the administrative requirements outlined in the corresponding provisions of the IRC.

The 457(f) Deferred Compensation Plan allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. The plan is structured under Section 457(f) of the Internal Revenue Code of 1986, as amended. It is authorized for use by Texas institutions of higher education in Title 109, Article 6228a-5, Section 3 of Vernon's Texas Civil Statutes. All employees of the A&M System are eligible to participate in this plan subject to the approval of the Board of Regents, the Chancellor, or any Chancellor-designated A&M System member Chief Executive Officer.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 11: Postemployment Health Care and Life Insurance Benefits

Plan Description and Funding Policy

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through the group insurance program, and premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expensing the annual premiums. For the year ending August 31, 2012, the employer contributions are presented below.

Employer Contribution Rates	
<u>Level of Coverage</u>	<u>Amount</u>
Full-Time Employee/Retiree Only	\$ 366.71
Full-Time Employee/Retiree and Spouse	\$ 551.60
Full-Time Employee/Retiree and Children	\$ 482.27
Full-Time Employee/Retiree and Family	\$ 644.04

For the year ended August 31, 2012, benefit plan expenses totaled \$157,228,099.91. The cost of providing benefits for 7,415 retirees was \$39,855,107.52; and for 22,149 active employees the cost was \$117,372,992.39.

Other Postemployment Benefits (OPEB) are benefits provided to the A&M System's retirees under the A&M System group insurance program. The authority under which the obligations of the plan members and the A&M System are established, and may be amended, is Chapter 1601, *Texas Insurance Code*. Retiree eligibility for insurance continuation is determined by the Legislature and is subject to change.

The A&M System and member contribution rates are determined annually by the A&M System based on the recommendations of the A&M System Office of Benefits Administration. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature in connection with benefits provided through the plan. The A&M System revises benefits plans and rates as necessary to match expected costs with available revenue. The plan is operated on a pay-as-you-go basis and is unfunded.

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not applicable to the A&M System.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

For the year ended August 31, 2012, the contributions for the self-funded plan by the state per full-time retired employee are shown in the following table. The retiree contributes any premium over and above state contributions.

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At End of Fiscal Year
8/31/2012	\$ 63,131,287	\$ 190,199,827	33%	\$ 603,878,029
8/31/2011	\$ 40,489,312	\$ 174,919,214	23%	\$ 476,809,489
8/31/2010	\$ 40,173,687	\$ 162,680,000	25%	\$ 342,379,587

The OPEB expense reflected in the Statement of Revenues, Expenses and Changes in Net Assets is net of the Employer Contributions, as these costs are included as a portion of Payroll Related Costs expense.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost of the plan is calculated and based on the annual required contribution (ARC). The ARC is the amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of years, not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year for the plan:

Annual Required Contribution (ARC)	\$ 180,940
Interest on Net OPEB Obligation	34,807
Adjustment to ARC	<u>(25,547)</u>
Annual OPEB Cost	190,200
Employer Contributions Made	<u>(63,131)</u>
Increase Net OPEB Obligation	127,069
Net OPEB Obligation 9/1/2011	<u>476,809</u>
Net OPEB Obligation 8/31/2012	<u><u>\$ 603,878</u></u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Schedule of Funding Progress of the Plan

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The amounts determined for the funded status of the plan and the Annual Required Contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The multiyear schedule of funding progress is presented in the following table:

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over AAL (Unfunded AAL)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((a-b)/c)
Date	(a)	(b)	(a)-(b)	(a)/(b)	(c)	((a-b)/c)
8/31/2010	\$ -	\$ 1,996,798,639	\$ (1,996,798,639)	0.0%	\$ 1,359,512,304	146.9%
9/1/2010	\$ -	\$ 1,854,690,001	\$ (1,854,690,001)	0.0%	\$ 1,313,538,458	141.2%
9/1/2009	\$ -	\$ 1,864,320,000	\$ (1,864,320,000)	0.0%	\$ 1,315,291,687	141.7%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the plan valuation include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional detail about the actuarial assumptions used in the plan valuation is outlined in the following table:

Summary of Actuarial Methods and Assumptions	
Actuarial Valuation Date	September 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Open
Remaining Amortization Period of Unfunded Liability	30 years
Actuarial Assumptions:	
Investment Rate of Return	7.3%
Inflation	3.0%
Health Care Trend Rates	9.5% in 2012 Decreasing to 5.0% in 2021

Medicare Part D

In fiscal year 2012 the plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. In fiscal year 2012 the system received \$3,834,331.80 of Medicare Part D payments from the federal government.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 12: Interfund Activity and Transactions

As of August 31, 2012, amounts to be received or paid between funds and agencies are to be reported as interfund receivable or interfund payable. Legislative Transfers In and Legislative Transfers Out between A&M System members have been eliminated.

Individual balances and activity at August 31, 2012, were as follows:

Interfund Receivables/Payables			
Current Portion	Current Interfund Receivable	Current Interfund Payable	Purpose
ENTERPRISE FUND (05)			
Agy# 710, Appd Fund 0047, D23 Fund 0047 from Agy# 720, D23 Fund 0011	\$ 22,390,000.00	\$ -	PUF
Agy# 715, Appd Fund 0515, D23 Fund 0047 from Agy# 907, D23 Fund 0515	-	620,263.36	SECO LoanSTAR Program
Total Current Interfund Receivable/Payable	<u>\$ 22,390,000.00</u>	<u>\$ 620,263.36</u>	
Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable	Purpose
ENTERPRISE FUND (05)			
Agy# 710, Appd Fund 0047, D23 Fund 0047 from Agy# 720, D23 Fund 0011	\$ 734,789,840.87	\$ -	PUF
Agy# 711, Appd Fund 0001, D23 Fund 0001 from Agy# 907, D23 Fund 0515	-	2,340,088.30	SECO LoanSTAR Program
Agy# 715, Appd Fund 0047, D23 Fund 0047 from Agy# 907, D23 Fund 0515		1,751,085.32	SECO LoanSTAR Program
Total Non-Current Interfund Receivable/Payable	<u>\$ 734,789,840.87</u>	<u>\$ 4,091,173.62</u>	

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 13: Continuance Subject to Review

This note does not apply to the A&M System.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 14: Restatement of Net Assets

Beginning balance of net assets has been restated as presented below:

Restatements of Net Assets-Primary Government			
System Member	Agency Number	Amount	Description
System Offices	710	\$ 1,259,327.24	Prior year airplane renovations and corresponding depreciation for renovations
Prairie View A&M University	715	3,212,348.13	Reclassified building component; Corrected depreciation
Tarleton State University	713	(58,500.82)	Depreciation on CIP closings with prior year effective dates
Texas A&M International University	761	(59,913.98)	Depreciation on CIP closings with prior year effective dates
Texas A&M University	711	(1,324,497.93)	Depreciation on CIP closings with prior year effective dates
Texas A&M University at Galveston	718	(247,673.70)	Depreciation on CIP closings with prior year effective dates
Texas A&M University-Commerce	751	(48,547.86)	Depreciation on CIP closings with prior year effective dates
Texas A&M University-Corpus Christi	760	(31,590.42)	Depreciation on CIP closings with prior year effective dates
Texas A&M University-San Antonio	749	178,123.11	Software agreement amortized over a 3 year period.
Texas A&M Agrilife Research	556	(7,220.61)	Depreciation on CIP closings with prior year effective dates
Texas A&M Engineering Extension Service	716	(105,394.36)	Returned prior year asset to vendor; Interest not capitalized
Texas A&M Transportation Institute	727	(409,156.75)	Correction of prior year billings
Total		<u>\$ 2,357,302.05</u>	

Discrete Component Units

Net assets for the Mexico City Center at December 31, 2011, were restated by \$14,135.83 to recognize the exchange rate difference when converting the financial statements to U.S. currency. Net assets for the Casa Verde Center at September 30, 2012, were restated by \$415,118.69 to restate fiscal year 2011 activity.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 15: Commitments and Contingencies

At August 31, 2012, various lawsuits and claims involving the A&M System and its members had arisen in the course of conducting A&M System business. While the ultimate liability with respect to litigation and other claims cannot be reasonably estimated at this time, management is of the opinion that the liability not provided for by insurance or otherwise, if any, for these legal actions will not have a material adverse effect on the A&M System's financial position.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity transactions. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain funds may utilize credit default swaps which have additional risk, including the risk of counterparty nonperformance. Collateral in the form of cash or securities may be required to be held in segregated accounts with the fund's custodian. Bi-lateral agreements and daily settlement with counterparties reduce the risk of counterparty nonperformance. As of August 31, 2012, the A&M System has committed \$396,483,022 to various private investments, of which \$155,204,349 is unfunded. The fair value of the investments as of August 31, 2012 was \$190,561,181.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 16: Subsequent Events

The A&M System is authorized to issue up to \$460 million of Revenue Financing System Bonds during fiscal year 2013 to provide funding for project costs, refund previously issued bonds, refund commercial paper and pay the costs of issuing the bonds. The A&M System is authorized to issue up to \$410 million of Permanent University Fund Bonds during fiscal year 2013 to provide funding for eligible projects, refund previously issued bonds, refund commercial paper and pay the costs of issuing the bonds. In addition, the A&M System expects to issue Revenue Financing System Commercial Paper and/or Permanent University Fund Commercial Paper for interim financing of projects, as needed.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM NOTES TO THE COMBINED FINANCIAL STATEMENTS

August 31, 2012

Note 17: Risk Management

The A&M System is exposed to various risks of loss related to property – fire, windstorm or other loss of capital assets; general and employer liability – resulting from alleged wrongdoings by employees and others; net income – due to fraud, theft, administrative errors or omissions, and business interruptions; and personnel – unexpected expense associated with employee health, termination or death. As an agency of the State of Texas, the A&M System and its employees are covered by various immunities and defenses which limit some of these risks of loss, particularly in liability actions brought against the A&M System or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance, or a combination of these risk financing techniques.

All commercial insurance policies include retention amounts (deductibles) for which the A&M System is responsible and for which A&M System members maintain funding reserve pools. Ongoing analysis of the risks facing the A&M System results in the continual evaluation of insurance policies purchased.

The A&M System has self-insured arrangements for coverage in the areas of workers' compensation, group health and dental insurance and certain areas of medical malpractice. Based on the requirements of GASB No. 10, liabilities for claims have been reported where information prior to issuance of the financial statements indicated that it was probable that a liability had been incurred and the amount of the loss could be reasonably estimated.

The workers' compensation plan is considered a funded employer liability pool. The workers' compensation incurred but not reported liability is based on actuarial analysis of all historical claims data. The plan provides claims servicing and claims payments by charging a "cost allocation" assessment to each A&M System member based on a percentage of payroll.

The A&M System implemented a self-insured health and dental plan on September 1, 1994, which is also considered a funded pool. Premiums are determined through an actuarial pricing process that takes place each spring. The A&M System maintains an experience stabilization fund of \$51,188,287.56 that is comprised of excess premiums from previous years and is used to offset losses in a given year. Dental benefits under the plan are limited to \$1,500 per individual per year, so the potential for catastrophic loss is not a significant risk.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

The Texas A&M University System Health Science Center College of Medicine has established a medical student liability self-insurance plan (the Plan) to provide eligible medical students of the Texas A&M University System Health Science Center College of Medicine with medical malpractice liability indemnity from and against medical malpractice claims. Limits of liability are \$25,000 per claim, \$75,000 aggregate per participant, and \$100,000 annual aggregate. The Plan is funded through a student participation fee. At August 31, 2012, the Plan had a balance of \$311,423.52 with no accrued liabilities.

IBNR Liability		
Plan	WCI	Health & Dental
IBNR Liability 9/1/11	\$ 7,349,000.00	\$ 10,218,000.00
CY Claims Plus Change in Estimates	2,723,000.00	178,306,499.00
Claims Payments	(3,041,000.00)	(174,433,499.00)
Other Items (changes in estimates)	(463,000.00)	-
IBNR Liability 8/31/12	<u>\$ 6,568,000.00</u>	<u>\$ 14,091,000.00</u>

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 18: Management Discussion and Analysis (MD&A)

This note is not used by the Texas A&M University System. The A&M System's Management Discussion and Analysis is included as a separate section of the report.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM NOTES TO THE COMBINED FINANCIAL STATEMENTS

August 31, 2012

Note 19: The Financial Reporting Entity

The A&M System is composed of a series of distinct members, each of which was created to render a specific service for the State within the limits of the A&M System's objectives, and all of which are under the control and direction of the Board of Regents of the A&M System.

Blended Component Unit

The **Texas A&M Research Foundation (Research Foundation)** has been included as a blended component unit in the combined financial statements of the A&M System since fiscal year 1990, at the direction of the State Auditor's Office. This determination is based on the close relationship and joint agreements in effect between the Research Foundation and the A&M System in regard to research grant/contract administration, as well as the fact that various officials of the A&M System serve as ex-officio voting and non-voting trustees, and members of the executive committee of the Research Foundation. The Research Foundation has a fiscal year end of August 31, 2012 and is Fund Type 05, Appd Fund 9999. Complete financial statements of the Research Foundation may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas, 77845.

A new agency Texas A&M University System- Office of Sponsored Research Services now manages a number of the relationships and agreements that the Texas A&M Research Foundation has previously managed beginning in 2012. The intent is to move the majority of fiscal activity to each System member's financial statements. We will begin to see a reduction in the balances and activities reported by the Texas A&M Research Foundation.

Discrete Component Units

The **Mexico City Center (Representacion de Texas A&M University en la Republica Mexicana, A.C.)** has been included in the combined financial statements of the A&M System as a discretely presented component unit. The audited financial statements of the Mexico City Center for the year ended December 31, 2011 are prepared in accordance with the financial accounting standards in Mexico.

The **Casa Verde Research Center, Sociedad Anonimo**, has also been included in the combined financial statements of the A&M System. The financial statements for the Casa Verde Research Center for the year ended September 30, 2012 are prepared in accordance with the financial accounting standards in Costa Rica.

Texas A&M University can appoint a voting majority of the boards of The Mexico City Center and the Casa Verde Research Center. Complete financial statements for the Mexico City Center and the Casa Verde Research Center may be obtained from Texas A&M University, External Reporting at 750 Agronomy Road, Suite 3101 GSC, 6000 TAMU, College Station, Texas, 77843-6000.

The **National Biosecurity Foundation** has been included in the combined financial statements of the A&M System beginning in fiscal year 2011 and was dissolved at the end of fiscal year 2012. The A&M System can appoint a voting majority of the board of the foundation. The foundation's financial statements for the fiscal year ended August 31, 2012 may be obtained from The Texas A&M University System, Office of Budgets and Accounting at 301 Tarrow, Suite 350, College Station, Texas, 77840-7896.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

The **Texas 4-H Incorporated** has been included in the combined financial statements of the A&M System beginning in fiscal year 2012. Texas A&M Agrilife Research is in control of the board. Texas 4-H's financial statements for the fiscal year ended August 31, 2012 may be obtained from The Texas A&M University System, Office of Budgets and Accounting at 301 Tarrow, Suite 350, College Station, Texas, 77840-7896.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 20: Stewardship, Compliance and Accountability

Changes to the financial reports of the A&M System are discussed in Note 1. The A&M System has no material violations of finance related legal and contract provisions. Per the laws of the State of Texas, the A&M System cannot spend amounts in excess of appropriations granted by the Texas Legislature and there are no deficits reported in net assets or retained earnings.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 21: Tobacco Settlement

This note is reserved for State Comptroller of Public Accounts' use.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 22: Donor Restricted Endowments

The purpose of The Texas A&M University System Endowment Fund (the Fund) is to provide for the collective investment of all endowment and trust funds held by the A&M System or by the Board of Regents of the A&M System in a fiduciary capacity. The Fund is used to provide funding for scholarships, fellowships, professorships, academic chairs and other uses as specified by donors.

Distribution is made quarterly after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. Income consists of interest earnings, dividends and realized capital gains. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

The amount of net appreciation for donor restricted true endowments presented in the table below is available for authorization and expenditure by the A&M System.

Net Appreciation of Donor-Restricted Endowments		
Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	\$ 65,655,987.30	Restricted for Expendable

* The total fiscal year 2012 fair value adjustment to the Fund was \$39,832,113.02

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 23: Extraordinary and Special Items

The A&M System does not have any special or extraordinary items to report for the year ended August 31, 2012.

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 24: Disaggregation of Receivable and Payable Balances

A summary of accounts receivable and associated allowances for doubtful accounts balances for the year ended August 31, 2012, is presented below for the primary government:

Accounts Receivable-Primary Government			
	Gross	Allowance for Doubtful Accounts	Net
Current Accounts Receivable:			
Federal Receivables	\$ 91,481,012.10	\$ -	\$ 91,481,012.10
Other Intergovernmental	5,586,243.95	-	5,586,243.95
Interest and Dividends	6,559,836.40	-	6,559,836.40
Gift, Pledges, Donations	27,323,465.67	(81,990.57)	27,241,475.10
Student Receivables	31,391,309.12	(9,742,318.87)	21,648,990.25
Investment Trade Receivables	160,396,351.24	-	160,396,351.24
Self Insured Receivables	18,667,261.66	-	18,667,261.66
Accounts Receivables	109,095,312.77	(2,384,459.10)	106,710,853.67
Other Receivables	4,408,472.25	(265,238.89)	4,143,233.36
Total Current Accounts Receivable:	\$ 454,909,265.16	\$ (12,474,007.43)	\$ 442,435,257.73
Non-Current Accounts Receivable:			
Pledges Receivable	\$ 60,512,651.12	\$ -	\$ 60,512,651.12
Total Non-Current Accounts Receivable:	\$ 60,512,651.12	\$ -	\$ 60,512,651.12

Starting in fiscal year 2012, Customer Receivables are recorded in Accounts Receivables rather than Other Receivables. Customer Receivables accounted for \$42,029,900.24 of total Other Receivables in fiscal year 2011.

Payable balances are presented on the Balance Sheet.

UNAUDITED

THE TEXAS A&M UNIVERSITY SYSTEM
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 August 31, 2012

Note 25: Termination Benefits

As of August 31, 2012, the A&M System has not incurred obligations to pay voluntary or involuntary termination benefits in fiscal year 2013.

For the fully-insured HMO health plans, dental plan, and vision plan, the carrier is responsible for the billing and collection from all COBRA participants. The carrier retains all premiums and is liable for all claims and expenses. Enrollment information for these plans is included below; however, the A&M System does not have premium and expense information related to these plans.

For the self-insured health and dental plans, the carrier performs the billing and collections process for COBRA participants. The carrier then forwards the premium to the A&M System, net of the 2% administrative fee, which is intended to cover costs related to the billing and collection functions. However, since the plan is self-insured, the A&M System is responsible for any claims or administrative costs associated with COBRA participants, and these amounts are included below.

As part of the stimulus funding from the federal government, some terminated employees were eligible for the 65% subsidy for COBRA coverage. The Federal Department of Labor agreed to reimburse employers the 65% COBRA reimbursement up to 15 months. This applies to employees who were involuntarily terminated between September 1, 2008 and May 31, 2010. The maximum end of the 15 month payment period was August 31, 2011. The remaining balances received in fiscal year 2012 totaled \$1,805.18.

COBRA benefits for the Texas A&M University System for the year ended August 31, 2012 are as follows:

Termination Benefits - COBRA					
Enrollment					
	Self-Insured Medical Plan	Self-Insured Dental Plan	Fully-Insured Medical HMO Plans	Fully-Insured Dental Plan	Fully- Insured Vision Plan
Number of Participants	208	115	16	27	137
Self-Insured Activity					
Premium Revenue	\$ 940,024	\$ 69,165			
2 Percent Administrative Fee Revenue	18,800	1,383			
Total COBRA Revenue	<u>958,824</u>	<u>70,548</u>			
Claims Paid	1,985,079	154,429			
Administrative Expenses	27,680	6,694			
Total COBRA Expenses	<u>2,012,759</u>	<u>161,123</u>			
Total Cost to State	<u>\$ 1,053,935</u>	<u>\$ 90,575</u>			

UNAUDITED
THE TEXAS A&M UNIVERSITY SYSTEM
NOTES TO THE COMBINED FINANCIAL STATEMENTS
August 31, 2012

Note 26: Segment Information

The A&M System does not have any reportable segments.

Exhibit VI
Texas A&M University System
Combining Balance Sheet for
Discretely Presented Component Units
For the Fiscal Year Ended August 31, 2012

	<u>Casa Verde Center</u>	<u>Mexico City Center</u>	<u>National Biosecurity Foundation</u>	<u>Texas 4-H Inc.</u>	<u>Totals</u>
ASSETS					
Current Assets					
Cash and Cash Equivalents					
Cash on Hand	\$ 1,000.00	\$ 510.00	\$ -	\$ -	\$ 1,510.00
Cash in Bank	1,251.47	37,471.00	-	16,430.33	55,152.80
Accounts Receivable	12,101.23	33,898.00	-	-	45,999.23
Prepaid Expenses	1,955.48	-	-	-	1,955.48
Total Current Assets	<u>\$ 16,308.18</u>	<u>\$ 71,879.00</u>	<u>\$ -</u>	<u>\$ 16,430.33</u>	<u>\$ 104,617.51</u>
Non-Current Assets					
Capital Assets					
Non-Depreciable or Non-Amortizable	\$ 4,061.57	\$ -	\$ -	\$ -	\$ 4,061.57
Depreciable or Amortizable, Net	649,334.69	94,358.00	-	-	743,692.69
Other Non-Current Assets	35,809.96	202.00	-	-	36,011.96
Total Non-Current Assets	<u>\$ 689,206.22</u>	<u>\$ 94,560.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 783,766.22</u>
TOTAL ASSETS	<u>\$ 705,514.40</u>	<u>\$ 166,439.00</u>	<u>\$ -</u>	<u>\$ 16,430.33</u>	<u>\$ 888,383.73</u>
LIABILITIES					
Current Liabilities					
Payables					
Payroll	\$ 16,150.05	\$ -	\$ -	\$ -	\$ 16,150.05
Other	704.50	5,675.00	-	-	6,379.50
Total Current Liabilities	<u>\$ 16,854.55</u>	<u>\$ 5,675.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,529.55</u>
Non-Current Liabilities					
Other Non-Current Liabilities	\$ 603,148.09	\$ 50,161.00	\$ -	\$ -	\$ 653,309.09
Total Non-Current Liabilities	<u>\$ 603,148.09</u>	<u>\$ 50,161.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 653,309.09</u>
TOTAL LIABILITIES	<u>\$ 620,002.64</u>	<u>\$ 55,836.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 675,838.64</u>
NET ASSETS					
Unrestricted	\$ 85,511.76	\$ 110,603.00	\$ -	\$ 16,430.33	\$ 212,545.09
TOTAL NET ASSETS	<u>\$ 85,511.76</u>	<u>\$ 110,603.00</u>	<u>\$ -</u>	<u>\$ 16,430.33</u>	<u>\$ 212,545.09</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 705,514.40</u>	<u>\$ 166,439.00</u>	<u>\$ -</u>	<u>\$ 16,430.33</u>	<u>\$ 888,383.73</u>

Exhibit VII
Texas A&M University System
Combining Statement of Revenues, Expenses and Changes in Net Assets for
Discretely Presented Component Units
For the Fiscal Year Ended August 31, 2012

	<u>Casa Verde Center</u>	<u>Mexico City Center</u>	<u>National Biosecurity Foundation</u>	<u>Texas 4-H Inc.</u>	<u>Totals</u>
OPERATING REVENUES					
Sales of Goods and Services - Non-Pledged	\$ -	\$ 105,508.00	\$ -	\$ 80,000.00	\$ 185,508.00
Contract and Grants	-	171,028.00	-	-	171,028.00
Other Operating Revenue	-	24,051.00	-	-	24,051.00
TOTAL OPERATING REVENUES	\$ -	\$ 300,587.00	\$ -	\$ 80,000.00	\$ 380,587.00
OPERATING EXPENSES					
Cost of Goods Sold	\$ -	\$ 126,848.00	\$ -	\$ -	\$ 126,848.00
Salaries and Wages	173,515.50	-	-	-	173,515.50
Payroll Related Costs	49,501.88	-	-	-	49,501.88
Professional Fees and Services	20,920.39	-	32,924.55	850.00	54,694.94
Travel	55,998.32	-	1,845.24	-	57,843.56
Materials and Supplies	51,739.10	-	258.54	35.94	52,033.58
Communication and Utilities	20,275.32	-	-	-	20,275.32
Repairs and Maintenance	13,162.66	-	-	-	13,162.66
Rentals and Leases	6,704.71	-	-	-	6,704.71
Printing and Reproduction	-	-	-	-	-
Depreciation and Amortization	45,783.27	26,669.47	-	-	72,452.74
Other Operating Expenses	6,175.47	198,352.53	-	62,683.73	267,211.73
TOTAL OPERATING EXPENSES	\$ 443,776.62	\$ 351,870.00	\$ 35,028.33	\$ 63,569.67	\$ 894,244.62
OPERATING INCOME (LOSS)	\$ (443,776.62)	\$ (51,283.00)	\$ (35,028.33)	\$ 16,430.33	\$ (513,657.62)
NONOPERATING REVENUES (EXPENSES)					
Nonoperating Revenues	\$ 450,307.06	\$ -	\$ -	\$ -	\$ 450,307.06
Nonoperating (Expenses)	(9,412.42)	(14,029.00)	(2,480.02)	-	(25,921.44)
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ 440,894.64	\$ (14,029.00)	\$ (2,480.02)	\$ -	\$ 424,385.62
CHANGE IN NET ASSETS	\$ (2,881.98)	\$ (65,312.00)	\$ (37,508.35)	\$ 16,430.33	\$ (89,272.00)
Net Assets, September 1, 2011	\$ (326,724.95)	\$ 161,779.17	\$ 37,508.35	\$ -	\$ (127,437.43)
Restatements	415,118.69	14,135.83	-	-	429,254.52
Net Assets, September 1, 2011, as Restated	<u>\$ 88,393.74</u>	<u>\$ 175,915.00</u>	<u>\$ 37,508.35</u>	<u>\$ -</u>	<u>\$ 301,817.09</u>
NET ASSETS, AUGUST 31, 2012	<u>\$ 85,511.76</u>	<u>\$ 110,603.00</u>	<u>\$ -</u>	<u>\$ 16,430.33</u>	<u>\$ 212,545.09</u>

UNAUDITED

SCHEDULE 2A
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF MISCELLANEOUS BOND INFORMATION
 For the Year Ended August 31, 2012

DESCRIPTION	BONDS ISSUED TO DATE	RANGE OF INTEREST RATES	M A T U R I T I E S		
			FIRST YEAR	LAST YEAR	FIRST CALL DATE
Revenue Bonds - Self Supporting					
Permanent University Fund Bonds, Series 1998 Revenue Bonds	\$ 92,520,000.00	3.55 - 5.5%	7/1/1999	7/1/2028	7/1/2008 (1) (2)
Permanent University Fund Refunding Bonds, Series 2003 Revenue Bonds	102,645,000.00	5.25%	7/1/2012	7/1/2018	7/1/2013 (1)
Permanent University Fund Bonds, Series 2004 Revenue Bonds	79,715,000.00	4.5 - 5.25%	7/1/2019	7/1/2024	7/1/2014 (1)
Permanent University Fund Bonds, Series 2006 Revenue Bonds	165,940,000.00	4.5 - 5.0%	7/1/2007	7/1/2036	7/1/2016 (1)
Permanent University Fund Bonds, Series 2009AB Revenue Bonds	218,895,000.00	2.5 - 5.5%	7/1/2010	7/1/2034	7/1/2019 (1) (2)
Permanent University Fund Bonds, Series 2011 Revenue Bonds	87,145,000.00	2.0 - 5.0%	7/1/2012	7/1/2031	7/1/2021 (1)
Permanent University Fund Bonds, Series 2012A Revenue Bonds	70,680,000.00	4.0 - 5.0%	7/1/2013	7/1/2024	7/1/2022 (1)
Permanent University Fund Bonds, Taxable Series 2012B Revenue Bonds	125,750,000.00	0.579 - 3.575%	7/1/2013	7/1/2032	Make Whole (2) (3)
Revenue Financing System Bonds, Series 2002 Revenue Bonds Tuition Revenue Bonds	86,935,000.00 6,900,000.00	1.5 - 4.9%	5/15/2003	5/15/2014	5/15/2012 (1)
Revenue Financing System Bonds, Series 2003A Tuition Revenue Bonds	117,135,000.00	4.0 - 5.25%	5/15/2006	5/15/2022	5/15/2013 (1)
Revenue Financing System Refunding Bonds, Series 2003B Revenue Bonds	117,140,000.00	2.0 - 5.25%	5/15/2004	5/15/2016	5/15/2013 (1)
Revenue Financing System Bonds, Series 2005A Tuition Revenue Bonds	148,895,000.00	4.0 - 5.25%	5/15/2006	5/15/2025	5/15/2015 (1)
Revenue Financing System Bonds, Series 2005B Revenue Bonds	275,755,000.00	4.0 - 5.25%	5/15/2006	5/15/2029	5/15/2015 (1) (2)
Revenue Financing System Bonds, Series 2008 Revenue Bonds Tuition Revenue Bonds	164,900,000.00 4,615,000.00	4.5 - 5.0%	5/15/2008	5/15/2037 5/15/2027	5/15/2018 (1) (2)
Revenue Financing System Bonds, Series 2009A Tuition Revenue Bonds	251,735,000.00	3.0 - 5.0%	5/15/2010	5/15/2029	5/15/2019 (1)
Revenue Financing System Bonds, Series 2009B Revenue Bonds	78,085,000.00	2.25 - 5.0%	5/15/2010	5/15/2039	5/15/2019 (1) (2)
Revenue Financing System Bonds, Series 2009C Tuition Revenue Bonds	54,240,000.00	2.0 - 5.0%	5/15/2010	5/15/2029	11/15/2019 (1)
Revenue Financing System Bonds, Series 2009D Revenue Bonds	320,760,000.00	4.0 - 5.0%	5/15/2011	5/15/2040	11/15/2019 (1) (2)
Revenue Financing System Bonds, Series 2010A Tuition Revenue Bonds	95,065,000.00	1.5 - 5.0%	8/2/2010	5/15/2029	5/15/2020 (1)
Revenue Financing System Bonds, Series 2010B Revenue Bonds	146,120,000.00	3.0 - 5.0%	5/15/2011	5/15/2039	5/15/2020 (1) (2)
Revenue Financing System Bonds, Series 2011A Revenue Bonds Tuition Revenue Bonds	16,605,000.00 5,730,000.00	2.5 - 4.0%	5/15/2011	5/15/2021 5/15/2017	5/15/2020 (1)
Revenue Financing System Bonds, Series 2011B Revenue Bonds	105,365,000.00	3.0 - 5.5%	5/15/2012	5/15/2041	5/15/2020 (1) (2)
	<u>\$ 2,939,270,000.00</u>				

(1) Option for Partial Redemption

(2) Mandatory Redemption Required

(3) Subject to redemption prior to maturity on any business day at the "Make Whole Redemption Price"

UNAUDITED

SCHEDULE 2B
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF CHANGES IN BONDED INDEBTEDNESS
 For the Year Ended August 31, 2012

DESCRIPTION	BONDS OUTSTANDING SEPT. 1, 2011	BONDS ISSUED OR CONVERTED	BONDS MATURED OR RETIRED	BONDS REFUNDED	BONDS OUTSTANDING AUG. 31, 2012	AMOUNTS DUE WITHIN ONE YEAR
Revenue Bonds - Self Supporting						
Permanent University Fund Bonds, Series 1998 Revenue Bonds	\$ 29,810,000.00	\$	\$	\$ 1,015,000.00	\$ 28,795,000.00	\$ -
Permanent University Fund Refunding Bonds, Series 2003 Revenue Bonds	102,645,000.00		12,510,000.00		90,135,000.00	13,170,000.00
Permanent University Fund Bonds, Series 2004 Revenue Bonds	79,715,000.00			79,715,000.00	-	-
Permanent University Fund Bonds, Series 2006 Revenue Bonds	118,230,000.00		1,130,000.00		117,100,000.00	1,180,000.00
Permanent University Fund Bonds, Series 2009AB Revenue Bonds	213,025,000.00		80,000.00		212,945,000.00	85,000.00
Permanent University Fund Bonds, Series 2011 Revenue Bonds	-	87,145,000.00	2,255,000.00		84,890,000.00	2,515,000.00
Permanent University Fund Bonds, Series 2012A Revenue Bonds	-	70,680,000.00			70,680,000.00	-
Permanent University Fund Bonds, Taxable Series 2012B Revenue Bonds	-	125,750,000.00			125,750,000.00	5,440,000.00
Revenue Financing System Bonds, Series 2002 Revenue Bonds	11,525,437.00		3,700,838.00		7,824,599.00	3,835,480.00
Tuition Revenue Bonds	1,259,563.00		404,162.00		855,401.00	419,520.00
Revenue Financing System Bonds, Series 2003A Tuition Revenue Bonds	57,905,000.00		6,040,000.00		51,865,000.00	6,355,000.00
Revenue Financing System Refunding Bonds, Series 2003B Revenue Bonds	41,055,000.00		1,050,000.00		40,005,000.00	13,230,000.00
Revenue Financing System Bonds, Series 2005A Tuition Revenue Bonds	115,370,000.00		10,350,000.00		105,020,000.00	10,845,000.00
Revenue Financing System Bonds, Series 2005B Revenue Bonds	213,000,000.00		21,955,000.00		191,045,000.00	13,240,000.00
Revenue Financing System Bonds, Series 2008 Revenue Bonds	137,990,000.00		8,040,000.00		129,950,000.00	8,290,000.00
Tuition Revenue Bonds	4,065,000.00		170,000.00		3,895,000.00	180,000.00
Revenue Financing System Bonds, Series 2009A Tuition Revenue Bonds	222,655,000.00		8,025,000.00		214,630,000.00	8,425,000.00
Revenue Financing System Bonds, Series 2009B Revenue Bonds	73,735,000.00		2,480,000.00		71,255,000.00	2,555,000.00
Revenue Financing System Bonds, Series 2009C Tuition Revenue Bonds	41,925,000.00		1,620,000.00		40,305,000.00	1,670,000.00
Revenue Financing System Bonds, Series 2009D Revenue Bonds	311,315,000.00		9,830,000.00		301,485,000.00	10,325,000.00
Revenue Financing System Bonds, Series 2010A Tuition Revenue Bonds	89,140,000.00		2,260,000.00		86,880,000.00	2,330,000.00
Revenue Financing System Bonds, Series 2010B Revenue Bonds	145,525,000.00		2,440,000.00		143,085,000.00	2,545,000.00
Revenue Financing System Bonds, Series 2011A Revenue Bonds	16,385,000.00		1,580,000.00		14,805,000.00	1,455,000.00
Tuition Revenue Bonds	5,665,000.00		1,150,000.00		4,515,000.00	1,180,000.00
Revenue Financing System Bonds, Series 2011B Revenue Bonds	105,365,000.00		1,880,000.00		103,485,000.00	1,940,000.00
		[a]			[b]	
	\$ 2,137,305,000.00	\$ 283,575,000.00	\$ 98,950,000.00	\$ 80,730,000.00	\$ 2,241,200,000.00	\$ 111,210,000.00
			(Schedule 2D)	(Schedule 2D)	(Schedule 2C)	(Schedule 2C)

UNAUDITED

SCHEDULE 2B - Concluded
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF CHANGES IN BONDED INDEBTEDNESS
 For the Year Ended August 31, 2012

	UNAMORTIZED PREMIUM	UNAMORTIZED DISCOUNT	GAIN/(LOSS) ON REFUNDING	NET BONDS OUTSTANDING AUG. 31, 2012	AMOUNTS DUE WITHIN ONE YEAR
Revenue Bonds - Self Supporting	<u>\$ 101,018,178.76</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,342,218,178.76</u> (Exhibit III)	<u>\$ 119,748,150.81</u>
[a] Bonds Issued or Converted					
Bond Issuance					
Permanent University Funds Bonds, Series 2011	\$ 87,145,000.00				
Permanent University Funds Bonds, Series 2012A	70,680,000.00				
Permanent University Funds Bonds, Taxable Series 2012B	<u>125,750,000.00</u>				
Total, Bonds Issued or Converted	<u>\$ 283,575,000.00</u>				
[b] Current Bonds Payable				\$ 119,748,150.81	
NonCurrent Bonds Payable				<u>2,222,470,027.95</u>	
Bonds Payable per Exhibit III				<u>\$ 2,342,218,178.76</u>	

UNAUDITED

SCHEDULE 2C
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 For the Year Ended August 31, 2012

DESCRIPTION	YEAR ENDING AUGUST 31,					
	2013	2014	2015	2016	2017	
Revenue Bonds - Self Supporting						
Permanent University Fund Bonds, Series 1998						
Revenue Bonds	Principal	\$	\$	\$	\$	\$
	Interest	1,583,725.00	1,583,725.00	1,583,725.00	1,583,725.00	1,583,725.00
Permanent University Fund Refunding Bonds, Series 2003						
Revenue Bonds	Principal	13,170,000.00	13,860,000.00	14,585,000.00	15,360,000.00	16,160,000.00
	Interest	4,732,087.50	4,040,662.50	3,313,012.50	2,547,300.00	1,740,900.00
Permanent University Fund Bonds, Series 2006						
Revenue Bonds	Principal	1,180,000.00	1,230,000.00	1,290,000.00	1,345,000.00	1,410,000.00
	Interest	5,782,000.00	5,728,900.00	5,673,550.00	5,615,500.00	5,554,975.00
Permanent University Fund Bonds, Series 2009AB						
Revenue Bonds	Principal	85,000.00	630,000.00	650,000.00	670,000.00	690,000.00
	Interest	10,655,706.28	10,653,156.28	10,634,256.28	10,614,756.28	10,592,981.28
Permanent University Fund Bonds, Series 2011						
Revenue Bonds	Principal	2,515,000.00	2,045,000.00	2,085,000.00	2,145,000.00	1,720,000.00
	Interest	3,771,450.00	3,721,150.00	3,680,250.00	3,617,700.00	3,553,350.00
Permanent University Fund Bonds, Series 2012A						
Revenue Bonds	Principal	0.00	0.00	0.00	0.00	0.00
	Interest	3,345,679.16	3,511,500.00	3,511,500.00	3,511,500.00	3,511,500.00
Permanent University Fund Bonds, Taxable Series 2012B						
Revenue Bonds	Principal	5,440,000.00	5,395,000.00	5,420,000.00	5,465,000.00	5,545,000.00
	Interest	3,036,813.23	3,078,525.84	3,047,288.80	3,005,229.60	2,937,518.30
Revenue Financing System Bonds, Series 2002						
Revenue Bonds	Principal	3,835,480.00	3,989,119.00			
	Interest	311,143.04	161,559.32			
Tuition Revenue Bonds	Principal	419,520.00	435,881.00			
	Interest	34,014.46	17,653.18			
Revenue Financing System Bonds, Series 2003A						
Tuition Revenue Bonds	Principal	6,355,000.00	6,685,000.00	3,545,000.00	3,725,000.00	3,915,000.00
	Interest	2,634,712.50	2,301,075.00	1,950,112.50	1,764,000.00	1,577,750.00
Revenue Financing System Refunding Bonds, Series 2003B						
Revenue Bonds	Principal	13,230,000.00	13,415,000.00	6,505,000.00	6,855,000.00	
	Interest	2,100,262.50	1,405,687.50	701,400.00	359,887.50	
Revenue Financing System Bonds, Series 2005A						
Tuition Revenue Bonds	Principal	10,845,000.00	11,385,000.00	11,550,000.00	11,465,000.00	10,990,000.00
	Interest	5,008,243.76	4,465,993.78	3,896,743.78	3,319,243.74	2,745,993.76
Revenue Financing System Bonds, Series 2005B						
Revenue Bonds	Principal	13,240,000.00	13,890,000.00	14,580,000.00	14,875,000.00	15,615,000.00
	Interest	8,875,406.27	8,213,406.28	7,518,906.28	6,789,906.28	6,046,156.28
Revenue Financing System Bonds, Series 2008						
Revenue Bonds	Principal	8,290,000.00	8,720,000.00	8,220,000.00	8,420,000.00	8,840,000.00
	Interest	6,409,200.00	5,994,700.00	5,558,700.00	5,147,700.00	4,726,700.00
Tuition Revenue Bonds	Principal	180,000.00	190,000.00	200,000.00	210,000.00	220,000.00
	Interest	192,975.00	183,975.00	174,475.00	164,475.00	153,975.00
Revenue Financing System Bonds, Series 2009A						
Tuition Revenue Bonds	Principal	8,425,000.00	8,850,000.00	9,255,000.00	9,720,000.00	10,145,000.00
	Interest	10,520,450.00	10,099,200.00	9,693,700.00	9,230,950.00	8,801,950.00
Revenue Financing System Bonds, Series 2009B						
Revenue Bonds	Principal	2,555,000.00	2,650,000.00	2,715,000.00	2,790,000.00	2,875,000.00
	Interest	3,223,825.00	3,121,625.00	3,062,000.00	2,980,550.00	2,896,850.00
Revenue Financing System Bonds, Series 2009C						
Tuition Revenue Bonds	Principal	1,670,000.00	1,725,000.00	1,775,000.00	1,850,000.00	1,915,000.00
	Interest	1,861,575.00	1,811,475.00	1,759,725.00	1,688,725.00	1,614,725.00
Revenue Financing System Bonds, Series 2009D						
Revenue Bonds	Principal	10,325,000.00	10,835,000.00	10,905,000.00	10,050,000.00	10,450,000.00
	Interest	14,898,287.50	14,382,037.50	13,840,287.50	13,295,037.50	12,893,037.50
Revenue Financing System Bonds, Series 2010A						
Tuition Revenue Bonds	Principal	2,330,000.00	2,420,000.00	6,480,000.00	6,735,000.00	7,005,000.00
	Interest	4,044,975.00	3,951,775.00	3,854,975.00	3,595,775.00	3,326,375.00

UNAUDITED

SCHEDULE 2C
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 For the Year Ended August 31, 2012

DESCRIPTION		2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	TOTAL REQUIREMENTS
Revenue Bonds - Self Supporting							
Permanent University Fund Bonds, Series 1998							
Revenue Bonds	Principal	\$ 9,710,000.00	\$ 15,465,000.00	\$ 3,620,000.00	\$	\$	\$ 28,795,000.00
	Interest	7,153,300.00	3,637,975.00	199,100.00			18,909,000.00
Permanent University Fund Refunding Bonds, Series 2003							
Revenue Bonds	Principal	17,000,000.00					90,135,000.00
	Interest	892,500.00					17,266,462.50
Permanent University Fund Bonds, Series 2006							
Revenue Bonds	Principal	1,475,000.00	21,670,000.00	47,500,000.00	40,000,000.00		117,100,000.00
	Interest	27,192,125.00	26,150,450.00	17,375,000.00	5,000,000.00		104,072,500.00
Permanent University Fund Bonds, Series 2009AB							
Revenue Bonds	Principal	23,990,000.00	57,705,000.00	98,435,000.00	30,090,000.00		212,945,000.00
	Interest	51,047,056.40	42,588,243.78	23,361,250.00	2,244,750.00		172,392,156.58
Permanent University Fund Bonds, Series 2011							
Revenue Bonds	Principal	16,945,000.00	26,955,000.00	30,480,000.00			84,890,000.00
	Interest	16,532,350.00	11,725,500.00	3,911,000.00			50,512,750.00
Permanent University Fund Bonds, Series 2012A							
Revenue Bonds	Principal	44,785,000.00	25,895,000.00				70,680,000.00
	Interest	14,412,500.00	1,956,000.00				33,760,179.16
Permanent University Fund Bonds, Taxable Series 2012B							
Revenue Bonds	Principal	29,215,000.00	32,985,000.00	36,285,000.00			125,750,000.00
	Interest	13,170,663.40	9,386,293.70	3,982,371.56			41,644,704.43
Revenue Financing System Bonds, Series 2002							
Revenue Bonds	Principal						7,824,599.00
	Interest						472,702.36
Tuition Revenue Bonds	Principal						855,401.00
	Interest						51,667.64
Revenue Financing System Bonds, Series 2003A							
Tuition Revenue Bonds	Principal	27,640,000.00					51,865,000.00
	Interest	4,751,000.00					14,978,650.00
Revenue Financing System Refunding Bonds, Series 2003B							
Revenue Bonds	Principal						40,005,000.00
	Interest						4,567,237.50
Revenue Financing System Bonds, Series 2005A							
Tuition Revenue Bonds	Principal	28,535,000.00	20,250,000.00				105,020,000.00
	Interest	8,645,087.52	2,057,750.00				30,139,056.34
Revenue Financing System Bonds, Series 2005B							
Revenue Bonds	Principal	68,190,000.00	40,585,000.00	10,070,000.00			191,045,000.00
	Interest	20,223,425.14	7,443,562.50	665,437.50			65,776,206.53
Revenue Financing System Bonds, Series 2008							
Revenue Bonds	Principal	37,890,000.00	36,125,000.00	6,125,000.00	7,320,000.00		129,950,000.00
	Interest	17,729,750.00	8,514,500.00	2,533,175.00	1,020,787.50		57,635,212.50
Tuition Revenue Bonds	Principal	1,270,000.00	1,625,000.00				3,895,000.00
	Interest	594,125.00	242,375.00				1,706,375.00
Revenue Financing System Bonds, Series 2009A							
Tuition Revenue Bonds	Principal	58,550,000.00	74,455,000.00	35,230,000.00			214,630,000.00
	Interest	36,189,150.00	20,278,500.00	2,663,750.00			107,477,650.00
Revenue Financing System Bonds, Series 2009B							
Revenue Bonds	Principal	14,190,000.00	18,005,000.00	12,775,000.00	8,620,000.00	4,080,000.00	71,255,000.00
	Interest	12,959,050.00	9,157,250.00	4,676,500.00	2,354,750.00	308,500.00	44,740,900.00
Revenue Financing System Bonds, Series 2009C							
Tuition Revenue Bonds	Principal	10,915,000.00	13,875,000.00	6,580,000.00			40,305,000.00
	Interest	6,759,500.00	3,794,250.00	497,500.00			19,787,475.00
Revenue Financing System Bonds, Series 2009D							
Revenue Bonds	Principal	60,345,000.00	74,470,000.00	66,895,000.00	33,550,000.00	13,660,000.00	301,485,000.00
	Interest	56,364,250.00	39,886,750.00	20,464,750.00	7,823,250.00	1,388,000.00	195,235,687.50
Revenue Financing System Bonds, Series 2010A							
Tuition Revenue Bonds	Principal	32,685,000.00	19,850,000.00	9,375,000.00			86,880,000.00
	Interest	11,602,925.00	5,204,875.00	636,750.00			36,218,425.00

UNAUDITED

SCHEDULE 2C
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 For the Year Ended August 31, 2012

DESCRIPTION	YEAR ENDING AUGUST 31,					
	2013	2014	2015	2016	2017	
Revenue Financing System Bonds, Series 2010B						
Revenue Bonds	Principal	2,545,000.00	2,635,000.00	12,980,000.00	13,660,000.00	7,195,000.00
	Interest	7,102,450.00	7,000,650.00	6,895,250.00	6,246,250.00	5,563,250.00
Revenue Financing System Bonds, Series 2011A						
Tuition Revenue Bonds	Principal	1,180,000.00	1,230,000.00	1,055,000.00	785,000.00	265,000.00
	Interest	168,800.00	133,400.00	84,200.00	42,000.00	10,600.00
Revenue Bonds	Principal	1,455,000.00	1,495,000.00	1,555,000.00	1,620,000.00	1,685,000.00
	Interest	538,012.50	494,362.50	434,562.50	372,362.50	307,562.50
Revenue Financing System Bonds, Series 2011B						
Revenue Bonds	Principal	1,940,000.00	2,035,000.00	2,140,000.00	2,280,000.00	2,510,000.00
	Interest	5,199,562.54	5,102,562.56	5,000,812.56	4,893,812.56	4,768,412.56
Total		217,241,356.24	216,903,757.24	213,359,432.70	210,411,385.96	194,058,287.18
Less Interest		(106,031,356.24)	(101,158,757.24)	(95,869,432.70)	(90,386,385.96)	(84,908,287.18)
Total Principal		\$ 111,210,000.00	\$ 115,745,000.00	\$ 117,490,000.00	\$ 120,025,000.00	\$ 109,150,000.00
		(Schedule 2B)				

UNAUDITED

SCHEDULE 2C
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 For the Year Ended August 31, 2012

DESCRIPTION		2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	TOTAL REQUIREMENTS
Revenue Financing System Bonds, Series 2010B							
Revenue Bonds	Principal	39,820,000.00	17,485,000.00	18,730,000.00	19,035,000.00	9,000,000.00	143,085,000.00
	Interest	22,138,000.00	14,357,000.00	9,705,500.00	5,197,750.00	680,500.00	84,886,600.00
Revenue Financing System Bonds, Series 2011A							
Tuition Revenue Bonds	Principal						4,515,000.00
	Interest						439,000.00
Revenue Bonds	Principal	6,995,000.00					14,805,000.00
	Interest	597,887.50					2,744,750.00
Revenue Financing System Bonds, Series 2011B							
Revenue Bonds	Principal	15,530,000.00	20,655,000.00	23,475,000.00	21,550,000.00	11,370,000.00	103,485,000.00
	Interest	21,550,487.80	16,734,337.80	11,413,693.92	5,885,287.50	1,455,500.00	82,004,469.80
Total		896,180,132.76	741,170,612.78	507,660,777.98	189,691,575.00	41,942,500.00	3,428,619,817.84
Less Interest		(350,505,132.76)	(223,115,612.78)	(102,085,777.98)	(29,526,575.00)	(3,832,500.00)	(1,187,419,817.84)
Total Principal		\$ 545,675,000.00	\$ 518,055,000.00	\$ 405,575,000.00	\$ 160,165,000.00	38,110,000.00	\$ 2,241,200,000.00

(Schedule 2B)

UNAUDITED

SCHEDULE 2D
 TEXAS A&M UNIVERSITY SYSTEM OFFICES
 ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
 For the Year Ended August 31, 2012

DESCRIPTION	PLEGGED REVENUES, OTHER SOURCES AND RELATED EXPENDITURES					
	OPERATING REVENUES	INTEREST EARNED ON INVESTMENTS	OTHER PLEDGED REVENUES	TOTAL PLEDGED REVENUES	OTHER SOURCES	OPERATING EXPENSES & EXPENDITURES
Permanent University Fund Bonds	\$	\$ 1,170,979.72	\$ 199,829,438.08	\$ 201,000,417.80	\$ -	\$
Revenue Financing System Bonds	1,570,022,242.00	68,948,937.37	32,662,432.15	1,671,633,611.52		
		[a]	[b]			
	<u>\$ 1,570,022,242.00</u>	<u>\$ 70,119,917.09</u>	<u>\$ 232,491,870.23</u>	<u>\$ 1,872,634,029.32</u>	<u>\$ -</u>	<u>\$ -</u>

[a]Analysis of Interest Earned on Investments

Permanent University Fund Bonds						\$ 1,170,979.72
Interest Earned on The Texas A&M University System Available Fund						
Revenue Financing System Bonds						
Interest Earned on Local Funds				\$ 67,976,541.98		
Special Mineral Income Fund Investment Income				972,395.39		68,948,937.37
Total Interest Earned on Investments						<u>\$ 70,119,917.09</u>

[b]Analysis of Other Pledged Revenues

Permanent University Fund Bonds						
Distributions from University of Texas System						\$ 199,829,438.08
Revenue Financing System Bonds						
Other NonOperating Revenues						32,662,432.15
Total Other Pledged Revenues						<u>\$ 232,491,870.23</u>

UNAUDITED
SCHEDULE 2D
TEXAS A&M UNIVERSITY SYSTEM OFFICES
ANALYSIS OF FUNDS AVAILABLE FOR DEBT SERVICE
For the Year Ended August 31, 2012

CAPITAL OUTLAY	NET AVAILABLE FOR DEBT SERVICE	D E B T S E R V I C E		REFUNDED OR EXTINGUISHED	R E S T R I C T E D A C C O U N T B A L A N C E S			
		PRINCIPAL	INTEREST		INTEREST AND SINKING FUND REQUIRED	ACTUAL	BOND RESERVE FUND REQUIRED	ACTUAL
\$	\$ 201,000,417.80	\$ 15,975,000.00	\$ 30,084,292.79	\$ 80,730,000.00	\$ N/A	\$ N/A	\$ N/A	\$ N/A
	1,671,633,611.52	82,975,000.00	76,984,185.04	0.00	N/A	N/A	N/A	N/A
			[c]					
\$ 0.00	\$ 1,872,634,029.32	\$ 98,950,000.00 (Schedule 2B)	\$ 107,068,477.83	\$ 80,730,000.00 (Schedule 2B)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

[c]Debt Service-Interest (IV)

Interest Expense and Fiscal Charges	\$ 106,368,180.58
Less:	
Interest on Permanent University Fund Notes	\$ 85,264.40
Interest on Revenue Financing System Commercial Paper	105,066.20
Other Member's Interest Expense (non-bonds)	391,678.57
Interest Expense on Defeased Bonds	7,338,215.11
	(7,920,224.28)
Plus Capitalized Interest Expense	8,620,521.53
Total, Debt Service-Interest	<u>\$ 107,068,477.83</u>

Estimated Expenses Associated with Pledged Revenues

Permanent University Fund Bonds	\$ 113,118,481.85
Revenue Financing System Bonds	940,757,528.81
Total Estimated Expenses Associated with Pledged Revenues	<u>\$ 1,053,876,010.66</u>

UNAUDITED

SCHEDULE 2E
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF DEFEASED BONDS OUTSTANDING
 For the Year Ended August 31, 2012

DESCRIPTION OF ISSUES	CALENDAR YEAR REFUNDED	PAR VALUE OUTSTANDING AUGUST 31, 2012
The Texas A&M University System		
Permanent University Fund Bonds,		
Series 2004	2012	\$ 79,715,000.00
Revenue Financing System		
Series 2003A	2010	28,560,000.00
Series 2003B	2010	13,210,000.00
Tarleton State University		
Housing System Revenue Bonds,		
Series 1983 B	1990	75,000.00
Total		<u>\$ 121,560,000.00</u>

UNAUDITED

SCHEDULE 2F
 SYSTEM ADMINISTRATIVE AND GENERAL OFFICES
 SCHEDULE OF EARLY EXTINGUISHMENT AND REFUNDING
 For the Year Ended August 31, 2012

DESCRIPTION	CATEGORY	REFUNDING ISSUE PAR VALUE	AMOUNT EXTINGUISHED OR REFUNDED	CASH FLOW INCREASE (DECREASE)	ECONOMIC GAIN / (LOSS)
Revenue Bonds - Self Supporting					
Permanent University Fund Bonds, Series 1998 Revenue Bonds	Current Refunding	\$ 1,015,000.00	\$ 1,015,000.00	\$ 50,748.61	\$ 50,385.28
Permanent University Fund Bonds, Series 2004 Revenue Bonds	Advance Refunding	<u>70,680,000.00</u>	<u>79,715,000.00</u>	<u>13,639,670.84</u>	<u>10,973,646.61</u>
Total, Early Extinguishment and Refunding		<u>\$ 71,695,000.00</u>	<u>\$ 80,730,000.00</u>	<u>\$ 13,690,419.45</u>	<u>\$ 11,024,031.89</u>

UNAUDITED

SCHEDULE THREE

THE TEXAS A&M UNIVERSITY SYSTEM

COMBINED SCHEDULE OF CASH & CASH EQUIVALENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	CURRENT YEAR TOTAL
	<hr/>
CASH & CASH EQUIVALENTS	
Unrestricted	
Cash On Hand	
Cashiers Account	\$ 109,217.59
Petty Cash Department Working Fund	411,451.04
Temporary Working Fund	11,948.81
Total Cash On Hand	\$ 532,617.44
Cash In Bank	\$ 18,097,971.90
Cash In State Treasury	
Fund 0047	\$ 105,722,906.83
Fund 0230	12,286,519.52
Fund 0231	6,557,360.28
Fund 0232	5,644,033.46
Fund 0242	57,766,533.69
Fund 0243	7,655,663.80
Fund 0245	47,309,255.14
Fund 0254	10,611,436.58
Fund 0257	8,338,365.01
Fund 0263	739,777.76
Fund 0275	5,745,276.59
Fund 0289	8,698,453.12
Fund 0290	5,667,607.16
Fund 0291	4,135,830.83
Fund 0818	3,165,086.83
Fund 0900	53,798.81
Fund 5029	7,436,159.26
Fund 5056	31,182.86
Fund 5064	65,508,059.41
Fund 5066	3,660,366.77
Fund 5130	7,701.31
Fund 5131	7,751.13
Fund 5132	1,178.79
Fund 5133	5,675.86
Total Cash In State Treasury	\$ 366,755,980.80
Reimbursements Due From State Treasury	\$ 8,018,643.43
Cash Equivalents	360,331,350.89
Total Unrestricted Cash and Cash Equivalents [Exhibit III]	\$ 753,736,564.46
Restricted	
Cash On Hand	
Petty Cash Department Working Fund	\$ 268,900.00
Cash In Bank	\$ 15,924,439.88
Cash Equivalents	323,470,577.80
Total Restricted Cash and Cash Equivalents [Exhibit III]	\$ 339,663,917.68
TOTAL CASH & CASH EQUIVALENTS [EXHIBIT V]	\$ 1,093,400,482.14

APPENDIX C

DEFINED TERMS

The following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

“*A&M System*” means and includes A&M System Administration and each of the following existing and operating institutions and agencies, respectively:

- (1) Texas A&M University located at College Station (including the Health Science Center, Texas A&M University at Galveston, and Texas A&M University at Qatar);
- (2) Texas A&M University – Central Texas
- (3) Texas A&M University - Commerce;
- (4) Texas A&M University - Corpus Christi;
- (5) Texas A&M International University;
- (6) Texas A&M University - Kingsville;
- (7) Texas A&M University – San Antonio
- (8) Texas A&M University - Texarkana;
- (9) Prairie View A&M University, including its nursing school in Houston;
- (10) Tarleton State University;
- (11) West Texas A&M University;
- (12) Texas A&M AgriLife Research;
- (13) Texas A&M AgriLife Extension Service;
- (14) Texas A&M Forest Service;
- (15) Texas A&M Veterinary Medical Diagnostic Laboratory;
- (16) Texas A&M Engineering Experiment Station;
- (17) Texas A&M Engineering Extension Service; and
- (18) Texas A&M Transportation Institute,

together with every other agency or institution, or branch thereof now or hereafter operated by or under the jurisdiction of the Board pursuant to law.

“*Annual Direct Obligation*” means the amount budgeted each Fiscal Year by the Board with respect to each Participant to satisfy the Participant’s proportion of debt service (calculated based on the Participant’s Direct Obligation) due by the Board in such Fiscal Year on Outstanding Parity Bonds.

“*Annual Obligation*” means, with respect to each Participant and for each Fiscal Year, the Participant’s Annual Direct Obligation plus the amount budgeted by the Board for such Fiscal Year to allow the Participant to retire its obligation for intra-Revenue Financing System advances made to it to satisfy part of all of a previous Annual Direct Obligation payment.

“*Board Designated Tuition*” has the meaning given in “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Funding of the A&M System Tuition and Fees.”

“*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, 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.

“*Designated Financial Officer*” means the Chancellor, the Treasurer, or such other financial or accounting official of the A&M System designated by the Board.

“*Direct Obligation*” means the proportionate share of outstanding Parity Obligations attributable to and the responsibility of each respective Participant.

“*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 Revenue Financing System, provided that such debt is being incurred in connection with the acquisition of property only, which property is not, at the time of such occurrence, owned by the Board and being used in the operations of a Participant.

“*Outstanding Principal Amount*” means the outstanding and unpaid principal amount of Parity Obligations paying interest on a current basis and the outstanding and unpaid principal and compounded interest on Parity Bonds paying accrued, accredited, or compounded interest only at maturity.

“*Parity Obligations*” means all debt of the Board which may be issued or assumed in accordance with the terms of the Resolution and a supplemental resolution, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations.

“*Participant*” means each of the institutions and agencies constituting components of the A&M System, including the A&M System Administration, and such other members as designated by the Board to be Participants.

“*Pledged General Fee*” means the gross collections of a student use fee to be fixed, charged, and collected pursuant to Section 55.16, Texas Education Code as it existed prior to the effective date of S.B. 1907, from the students (excepting, with respect to each series or issue of Parity Obligations issued prior to such date, any student in a category which, at the time of the adoption of a supplemental resolution relating to such Parity Obligations, was exempt by law from paying fees) regularly enrolled at the institutions and branches thereof now or hereafter constituting a Participant of the Revenue Financing System, respectively, for the general use and availability of such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in the Resolution, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered General Fee. This fee is now generally charged as Board Designated Tuition. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Funding for the A&M System – Tuition and Fees.”

“*Pledged General Tuition*” means all of the aggregate amount of student tuition charges now or hereafter required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school, now or hereafter operated by or under the jurisdiction of the Board, but specifically excluding and excepting, with respect to each series or issue of Parity Obligations, any student in a category which, at the time of the adoption of a supplemental resolution relating to such Parity Obligations (1) was exempt by law from paying such tuition, (2) the amount of tuition scholarships provided for by law at the time of the adoption of each Supplement, and (3) the Prior Encumbered Tuition Fees; and it is provided by law and hereby represented and covenanted that the aggregate amount of student tuition charges which are now required or authorized by law to be imposed, and which are pledged to the payment of the Parity Obligations, shall never be reduced or abrogated while such obligations are outstanding; it being further covenanted that the aggregate amount of student tuition charges now required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school operated by or under the jurisdiction of the Board are set forth in the Texas Education Code, as amended, to which Code reference is hereby made for all purposes. This fee is now charged as State Mandated Tuition. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Funding for the A&M System – Tuition and Fees.”

“*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 Revenue Financing System which are lawfully available to the Board for payments on Parity Obligations; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a Supplement; (a) the interest of the A&M System in the Available University Fund under Article VII, Section 18 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto; (b) amounts received on behalf of any Participant under Article VII, Section 17 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto; and (c) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas.

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

- \$5.00 from each enrolled student for each regular semester, and
- \$2.50 from each enrolled student for each summer term of each summer session.

This portion of tuition charged is now included in State Mandated Tuition. See “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Funding for the A&M System – Tuition and Fees.”

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

“*Prior Encumbered General Tuition*” means the Pledged General Tuition securing Prior Encumbered Obligations and the tuition charges in the maximum amount permitted in the definition of Pledged General Tuition charged and collected at an institution which becomes a Participant of the Revenue Financing System after the date of adoption of this Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Participant of the Revenue Financing System.

“*Prior Encumbered Obligations*” means the bonds, notes, and other obligations of a Participant outstanding on the date it becomes a Participant of the Revenue Financing System and which are secured by a lien on and pledge of the Prior Encumbered General Fee, the Prior Encumbered Revenues, the Prior Encumbered Tuition Fee, and/or the Prior Encumbered General Tuition charged and collected at such Participant and all existing obligations of the Board secured by a lien on a portion of the Pledged Revenues which is superior to the lien established by the Resolution on behalf of Parity Obligations.

“*Prior Encumbered Revenues*” means the revenues pledged to the payment of Prior Encumbered Bonds and the revenues of any revenue producing system or facility of a university, agency or health science center which hereafter becomes a Participant of the Revenue Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Participant of the Revenue Financing System.

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

“*Revenue Financing System*” means “The Texas A&M University System Revenue Financing System” composed of the institutions and agencies constituting parts of the A&M System including the A&M System Administration, and such other universities and agencies now or hereafter under the control or governance of the Board, and made a Participant of the Revenue Financing System by specific action of the Board.

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

“*S.B. 1907*” means Senate Bill 1907 passed by the State Legislature in the Seventy-fifth Regular Legislative Session.

“*State Mandated Tuition*” has the meaning given in “APPENDIX A – DESCRIPTION OF THE TEXAS A&M UNIVERSITY SYSTEM – SELECTED FINANCIAL INFORMATION – Funding of the A&M System Tuition and Fees.”

“*Subordinated Debt*” means any debt of the Board which may be issued or assumed in accordance with the terms of the Resolution and a supplemental resolution, secured by a pledge of the Pledged Revenues, junior and subordinate to the pledge thereof securing the Parity Obligations.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The information contained in this section is a summary of certain provisions of the Master Resolution and the Resolution and is in addition to other information in such documents which is summarized elsewhere in this Official Statement under the captions “PLAN OF FINANCING,” “DESCRIPTION OF THE BONDS,” and “SECURITY FOR THE BONDS.” This information is intended as a summary only and is qualified in its entirety by reference to the complete Master Resolution and the Resolution, copies of which may be obtained from the office of the Treasurer of the A&M System.

Establishment of Revenue Financing System

Pursuant to the Master Resolution, as amended, the Board has established the Revenue Financing System to provide a consolidated financing structure for revenue-supported debt obligations of the Board, including the Bonds, which are to be issued for the benefit of Participants which are or will be included as part of the Revenue Financing System. Each issue or series of Parity Obligations is to be provided for under a supplemental resolution consistent with the provisions of the Master Resolution.

Security and Pledge; Membership in the Revenue Financing System

Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations, Parity Obligations issued under the Master Resolution are payable from and secured by a lien on all Pledged Revenues. The Board has assigned and pledged the Pledged Revenues to the payment of the principal of and interest on Parity Obligations and to the establishment and maintenance of any funds that may be created under the Master Resolution or a supplemental resolution to secure the repayment of Parity Obligations. The Board may additionally secure Parity Obligations with one or more Credit Agreements.

All of the institutions and agencies currently constituting members of the A&M System have been included under the Master Resolution as Participants of the Revenue Financing System. If an additional institution or agency hereafter becomes a member of the A&M System, the Board may include the new member as a Participant of the Revenue Financing System. In that event, the lien on and pledge of Pledged Revenues established pursuant to the Master Resolution and effective when such institution becomes a Participant of the Revenue Financing System will apply to the revenues, funds, and balances of such Participant that constitute Pledged Revenues; provided, however, that if at the time a new Participant is admitted, it has outstanding debt obligations secured by any of such sources, such obligations will constitute Prior Encumbered Obligations of the Board secured by a lien on the portion of the Pledged Revenues providing such security which is superior to the lien established by the Master Resolution on behalf of Parity Obligations. The Board has reserved the right to refund Prior Encumbered Obligations with the proceeds of refunding bonds issued as Prior Encumbered Obligations secured by the same sources as the sources securing the refunded Prior Encumbered Obligations. Otherwise, while any Parity Obligations are outstanding, the Board has agreed not to issue additional obligations on parity with any Prior Encumbered Obligations.

Annual and Direct Obligation of Participants

The Master Resolution provides that each Participant of the Revenue Financing System is responsible for its Direct Obligation. The Board covenants in the Master 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 General Tuition

In the Master Resolution, the Board has covenanted and agreed at all times to maintain and collect at each institution which has students the Pledged General Tuition and the other Pledged Revenues in such amounts, without limitation, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to outstanding Parity Obligations when and as required. The Board has agreed that the Pledged General Tuition and the other Pledged Revenues will be adjusted to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with outstanding Parity Obligations. The Board may fix and collect the Pledged Revenues in any manner it may determine within its discretion and in different amounts from students enrolled in different Participants. In addition, if and for any period during which total Pledged Revenues, together with other legally available funds, are sufficient to meet all of the Board’s financial obligations of the Revenue

Financing System, the Board may suspend the collection of any item included in the Pledged Revenues from the students enrolled in any Participant.

The Board further covenants in the Resolution that if it determines that Pledged Revenues and other legally available funds are not anticipated to be sufficient to meet all of its financial obligations relating to the Revenue Financing System, including all deposits and payments coming due on outstanding Parity Obligations, or that any Participant will be unable to pay its Annual Direct Obligation in full, the Pledged General Tuition will be adjusted, effective at the next regular semester or semesters or summer term or terms, to an amount, without any limitations (other than as provided in the next to the last sentence of this paragraph), at least sufficient to provide, together with other Pledged Revenues and legally available funds, the money for paying when due all financial obligations of the Board relating to the Revenue Financing System, including all payments and deposits with respect to outstanding Parity Obligations. Any adjustment in the rate of the Pledged General Tuition of any of the Participants will be based upon the certificate and recommendation of a Designated Financial Officer delivered to the Board, as to the rates and anticipated collection of the Pledged General Tuition at the various Participants (after taking into account the anticipated effect the proposed adjustment would have on enrollment and the receipt of Pledged Revenues and other funds of such Participant) which 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 Revenue Financing System, including all deposits and payments due on or in connection with outstanding Parity Obligations when and as required. Notwithstanding the foregoing, it is recognized that certain Participants do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Tuition at such Participants.

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 Master 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 A&M System, including sufficient Pledged Revenue 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 Master 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 which expressly provides that all payments thereon will be subordinated to the timely payment of all Parity Obligations.

Participants

Combination or Release of Participants

The Master 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 Master Resolution or require any amendment thereof. The Master 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 shall thereafter be outstanding to meet the financial obligations of the Revenue Financing System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; and
- (2) the Board has received an opinion of counsel which states that such release will not affect the status for federal income tax purposes of interest on any Parity Obligations and that all conditions precedent provided in the Resolution or any supplement relating to such release have been complied with; and
- (3) (A) if the Participant or portion thereof to be released from the Revenue Financing System is to remain under the governance and control of the Board, the Board must either (i) provide, from lawfully available funds, including Pledged Revenues attributable to said withdrawing Participant, for the payment or discharge of said Participant's Direct Obligations or (ii) pledge to the payment of Parity Obligations, additional resources not then pledged in an amount sufficient to satisfy such withdrawing Participant's Direct Obligations as they come due; or
(B) if the Participant or portion thereof to be released from the Revenue Financing System is to no longer be under the governance and control of the Board, 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 Participants Assets

In the Master 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 to meet the financial obligations of the A&M 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, it may include said university or agency in the Revenue Financing System with the effect set forth in the Resolution by the adoption of a supplemental resolution to the Resolution.

Certain Covenants

Rate Covenant

The Resolution requires the Board to establish, charge, and use its reasonable efforts to collect at each Participant the Pledged Revenues which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System, including all deposits or payments due on or with respect to Parity Obligations. The Board has covenanted in the Resolution to fix, levy, charge, and collect at each Participant which has students the Pledged General Tuition and, with respect to the currently outstanding Parity Obligations and to the extent necessary, the Pledged General Fee from each student (unless exempted therefrom by law) enrolled at each Participant, at each regular fall and spring semester and at each term of each summer session, in such amounts,

without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to make payments with respect to Parity Obligations when due.

General Covenants

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

Special Obligations; Absolute Obligation to Pay Parity Obligations

The Master Resolution provides that all Parity Obligations 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 Master Resolution or any supplemental resolution. The obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and each supplemental 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.

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 which may be levied or foreclosed against.

Amendment of Resolution

Amendment Without Consent

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

- (1) To add to the covenants and agreements of the Board contained in the Resolution, other covenants and agreement thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in the Resolution;
- (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; provided, however, that any amendment to the definition of Pledged Revenues which 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 such other changes in the provisions hereof as the Board may deem necessary or desirable and which does not, in the judgment of the Board, materially adversely affect the interests of the owners of Parity Obligations; or
- (5) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Obligations, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the Parity Obligations.

Amendments With Consent

Subject to the other provisions of the Resolution, the owners of 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 Master Resolution, or with respect to an amendment affecting a particular supplemental resolution only, 51% in aggregate principal amount of the Parity Obligations issued under such supplemental resolution, which may be deemed necessary or desirable by the Board; provided, however, that no provision may permit or be construed to permit, without the approval of the owners of all of the Parity Obligations, the amendment of the terms and conditions in the Resolution so as to:

- (1) Grant to the owners of any Parity Obligations a priority over the owners of any other Parity Obligations;
- (2) Materially adversely affect the rights of the owners of less than all Parity Obligations then outstanding; or
- (3) Change the minimum percentage of the Outstanding Principal Amount necessary for consent to such amendment.

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

- (1) Make any change in the maturity of the Obligations;
- (2) Reduce the rate of interest borne by the Obligations;
- (3) Reduce the amount of principal payable on the outstanding Obligations;
- (4) Modify the terms of payment of principal of or interest on the Obligations, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all Obligations then outstanding; or
- (6) Change the minimum percentage of the Outstanding Principal Amount of Obligations necessary for consent to such amendment.

Defeasance

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

transfer, and exchange. The Board has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the Board moneys in excess of the amount required for such defeasance.

Additional Defeasance Provisions

In addition to the defeasance provisions set forth in the Master Resolution, the Resolution provides that, to the extent that the Bonds are treated as Defeased Debt for purposes of the Master Resolution, any determination not to redeem Defeased Debt that is made in conjunction with the payment arrangements described above shall not be irrevocable, provided that: in the proceedings providing for such defeasance, the Board (1) expressly reserves the right to call the Defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at or prior to the time of the redemption, satisfies the conditions of subsection (a) of Section 12 of the Master Resolution with respect to such Defeased Debt as though it was being defeased at the time of the exercise of the option to redeem the Defeased Debt, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

The Resolution also provides that, with respect to a defeasance of the Bonds, the term Government Obligations shall mean (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

[The remainder of this page intentionally left blank.]

APPENDIX E
FORMS OF BOND COUNSEL OPINIONS

_____, 2013

WE HAVE ACTED as Bond Counsel for the Board of Regents of The Texas A&M University System (the “Board”) in connection with an issue of bonds (the “Bonds”) described as follows:

BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM REVENUE FINANCING SYSTEM BONDS, TAXABLE SERIES 2013C, dated August 15, 2013, in the aggregate principal amount of \$_____ maturing on May 15 in each year from 20__ through 20__, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, and may be transferred and exchanged as set out in the Bonds and in the Twenty-Fourth Supplemental Resolution to the Master Resolution authorizing the issuance of such Bonds (the “Bond Resolution”) adopted by the Board authorizing their issuance. The Bond Resolution also authorizes the issuance of the Board’s Revenue Financing System Bonds, Series 2013D (the “Series 2013D Bonds”) being issued simultaneously with the issuance of the Bonds. Capitalized terms used herein and not otherwise defined shall have the meaning given to such terms in the Bond Resolution and the Master Resolution establishing The Texas A&M University System Revenue Financing System, as amended (collectively, with the Bond Resolution, the “Resolution”).

WE HAVE ACTED as Bond Counsel 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 of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Board; certain certifications and representations and other material facts within the knowledge and control of the Board, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the sale of the Bonds. 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

Board as to the current outstanding indebtedness of the Board and the sufficiency of the Pledged Revenues of the Board. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding special obligations of the Board enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and
- (2) The Bonds constitute valid and legally binding special obligations of the Board secured by and payable from, together with the Board's other outstanding Parity Obligations and the Series 2013D Bonds, a lien on and pledge of the Pledged Revenues, subject only to the provisions of Prior Encumbered Obligations.

THE BOARD has reserved the right, subject to the restrictions stated in the Resolution to amend the Resolution. The Board also has reserved the right, subject to the restrictions stated in the 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 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 Resolution.

WE EXPRESS NO OPINION as to the treatment of the interest on the Bonds for federal income tax purposes or any other matter.

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.

JVK/GHJ

_____, 2013

WE HAVE ACTED as Bond Counsel for the Board of Regents of The Texas A&M University System (the “Board”) in connection with an issue of bonds (the “Bonds”) described as follows:

BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 2013D, dated August 15, 2013, in the aggregate principal amount of \$_____ maturing on May 15 in each year from 20__ through 20__, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, and may be transferred and exchanged as set out in the Bonds and in the Twenty-Fourth Supplemental Resolution to the Master Resolution authorizing the issuance of such Bonds (the “Bond Resolution”) adopted by the Board authorizing their issuance. The Bond Resolution also authorizes the issuance of the Board’s Revenue Financing System Bonds, Taxable Series 2013C (the “Series 2013C Bonds”) being issued simultaneously with the issuance of the Bonds. Capitalized terms used herein and not otherwise defined shall have the meaning given to such terms in the Bond Resolution and the Master Resolution establishing The Texas A&M University System Revenue Financing System, as amended (collectively, with the Bond Resolution, the “Resolution”).

WE HAVE ACTED as Bond Counsel 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 of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Board; certain certifications and representations and other material facts within the knowledge and control of the Board, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Board or the disclosure thereof in connection with the sale of the Bonds. 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 Board as to the current outstanding indebtedness of the Board and the sufficiency of the Pledged Revenues of the Board. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding special obligations of the Board enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and
- (2) The Bonds constitute valid and legally binding special obligations of the Board secured by and payable from, together with the Board's other outstanding Parity Obligations and the Series 2013C Bonds, a lien on and pledge of the Pledged Revenues, subject only to the provisions of Prior Encumbered Obligations.

THE BOARD has reserved the right, subject to the restrictions stated in the Resolution to amend the Resolution. The Board also has reserved the right, subject to the restrictions stated in the 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 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 Resolution.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Board comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Board has covenanted in the Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the District fails to comply with the foregoing

provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusions occurs.

INTEREST ON the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX MATTERS" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

JVK/GHJ