OFFICIAL STATEMENT
Dated August 13, 2003

NEW ISSUE - BOOK-ENTRY ONLY RATINGS: (See "RATINGS" herein)

$13,180,000
TEXAS PUBLIC FINANCE AUTHORITY
MIDWESTERN STATE UNIVERSITY
REVENUE FINANCING SYSTEM
REVENUE AND REFUNDING BONDS, SERIES 2003

Dated Date: August 1, 2003 **Due: December 1, as shown herein**

The bonds described herein (the "Bonds") are issued by the Texas Public Finance Authority (the "Authority") on behalf of the Board of Regents (the "Board") of Midwestern State University (the "University"). The Bonds are payable from and secured by a lien on "Pledged Revenues" (as defined herein) of the University. **THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE AUTHORITY, THE UNIVERSITY OR ANY PART THEREOF, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE BOARD NOR THE AUTHORITY HAS ANY TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED AS SECURITY FOR THE BONDS. THE BREACH OF ANY COVENANT, AGREEMENT, OR OBLIGATION CONTAINED IN THE RESOLUTION (AS DEFINED HEREIN) WILL NOT IMPOSE OR RESULT IN GENERAL LIABILITY ON OR A CHARGE AGAINST THE GENERAL CREDIT OF THE BOARD, THE AUTHORITY, OR THE UNIVERSITY. THE OWNERS OF THE BONDS WILL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "SECURITY FOR THE BONDS."**

The proceeds from the sale of the Bonds will be used for the purpose of (i) improving, renovating, enlarging and/or equipping university residence halls, including fire safety improvements and other general modernization improvements, (ii) refunding the Refunded Bonds (as defined herein) set forth on Schedule I hereto, (iii) capitalizing approximately twenty-four months' interest on the Bonds, and (iv) paying the costs related thereto. See "PLAN OF FINANCING - Purpose."

Interest on the Bonds will accrue from the dated date, and is payable on December 1, 2003 and each June 1 and December 1 thereafter, calculated on the basis of a 360-day year composed of twelve 30-day months. 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 JPMorgan Chase Bank, Dallas, Texas, the initial Paying Agent/Registrar, to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the bonds. See "DESCRIPTION OF THE BONDS - Book-Entry Only System."

FSA® The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "BOND INSURANCE" herein.

See Inside Cover Page for Maturity Schedule

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

The Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, as to the validity of the issuance of the Bonds under the Constitution and the laws of the State of Texas and to the effect that, assuming continuing compliance by the Authority and the Board with certain requirements contained in the Resolution of the Authority and the Board authorizing the Bonds and subject to certain matters discussed under "TAX MATTERS" herein, interest on the Bonds will be excludable from the gross income of the owners thereof for federal income tax purposes and will not be included in computing the alternative minimum taxable income of owners thereof who are individuals or, except as herein described, corporations. See "TAX MATTERS" herein. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews & Kurth L.L.P., Austin, Texas. The Bonds are expected to be available for delivery through DTC on or about August 28, 2003.

RBC DAIN RAUSCHER

SOUTHWEST SECURITIES **SIEBERT BRANDFORD SHANK & CO., L.L.C.**

MATURITY SCHEDULE [1]

Due December 1	Maturing Amounts	Interest Rates	Initial Yield	CUSIP[2]
2003	$320,000	2.00%	0.94%	882756 NT 2
2004	300,000	2.00%	1.15%	882756 NU 9
2005	610,000	2.00%	1.48%	882756 NV 7
2006	620,000	2.25%	1.92%	882756 NW 5
2007	635,000	2.75%	2.39%	882756 NX 3
2008	655,000	3.00%	2.77%	882756 NY 1
2009	680,000	3.50%	3.12%	882756 NZ 8
2010	705,000	3.75%	3.48%	882756 PA 1
2011	730,000	4.00%	3.77%	882756 PB 9
2012	760,000	4.00%	3.95%	882756 PC 7
2013	790,000	4.00%	4.08%	882756 PD 5
2014	830,000	5.25%	4.30%	882756 PE 3
2015	600,000	4.35%	4.45%	882756 PF 0
2016	450,000	4.50%	4.57%	882756 PG 8
2017	470,000	5.00%	4.67%	882756 PH 6
2018	495,000	4.65%	4.77%	882756 PJ 2
2019	520,000	4.75%	4.89%	882756 PK 9
2020	545,000	4.90%	4.99%	882756 PL 7
2021	570,000	5.00%	5.04%	882756 PM 5
2022	600,000	5.00%	5.05%	882756 PN 3
2023	630,000	5.00%	5.07%	882756 PP 8
2024	665,000	5.00%	5.10%	882756 PQ 6

(plus accrued interest from August 1, 2003)

(1) The Bonds are subject to redemption as set forth herein in the section “DESCRIPTION OF THE BONDS – Redemption.”

(2) CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the Authority, the University nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

TEXAS PUBLIC FINANCE AUTHORITY

Board of Directors

R. David Kelly, Chair
H. L. Bert Mijares, Vice Chair
J. Vaughn Brock, Secretary
Helen Huey, Member
Daniel T. Serna, Member
Barry T. Smitherman, Member
Vacant, Member

Certain Appointed Officers

Kimberly K. Edwards, Executive Director
Judith Porras, General Counsel

MIDWESTERN STATE UNIVERSITY

Board of Regents

Name	Residence	Term Expiration
Mr. Mac W. Cannedy, Jr., Chairperson	Wichita Falls	February 25, 2006
Dr. Jaime A. Davidson	Dallas	February 25, 2004
Mr. Munir A. Lalani	Wichita Falls	February 25, 2004
Mr. Chaunce O. Thompson, Jr.	Breckenridge	February 25, 2004
Mr. John C. Bridgman	Wichita Falls	February 25, 2006
Mr. David L. Stephens	Plano	February 25, 2006
Ms. Pat Haywood	Wichita Falls	February 25, 2008
Mr. Don Ross Malone	Vernon	February 25, 2008

Certain Appointed Officials

Name	Title	Length of Service
Dr. Jesse W. Rogers	President	35 Years
Dr. John Alexander	Vice President, Administration and Finance	2 Years
Ms. Gail Ferguson	Controller	14 Years

Consultants

Financial Advisor	Bond Counsel
Coastal Securities	McCall, Parkhurst & Horton L.L.P.
San Antonio, Texas	Austin, Texas

For additional information regarding Midwestern State University, please contact:

Dr. John H. Alexander
Vice President, Administration and Finance
Midwestern State University
3410 Taft Boulevard
Wichita Falls, Texas 76308-2099
(940) 397-4105

Mr. Tim Kelley
Vice President
Coastal Securities
600 Navarro, Suite 350
San Antonio, Texas 78205
(210) 487-7000

This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof.

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.

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

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

Neither the Authority, the Board nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its book-entry-only system.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix D – "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Bonds.

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OFFICIAL STATEMENT
relating to

$13,180,000
TEXAS PUBLIC FINANCE AUTHORITY
MIDWESTERN STATE UNIVERSITY
REVENUE FINANCING SYSTEM
REVENUE AND REFUNDING BONDS, SERIES 2003

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, schedules and the appendices hereto, is to provide certain information regarding the issuance by the Texas Public Finance Authority (the "Authority"), on behalf of the Board of Regents (the "Board") of Midwestern State University (the "University"), of a series of its bonds entitled "Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue and Refunding Bonds, Series 2003" (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in APPENDIX A, except as otherwise indicated herein.

The University was established pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State") as an institution of higher education. For the 2003 Spring Semester, the University had a total enrollment of approximately 6,034 students. The 2002-2003 budget of the University is approximately $48,913,792. The Board is the governing body of the University 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 University, see "MIDWESTERN STATE UNIVERSITY" herein.

The Authority is the issuer of bonds for the benefit of the University pursuant to an act of the Texas Legislature adopted in 1997. This Official Statement contains summaries and descriptions of the plan of financing, the Bonds, the University, the Authority and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Vice President for Administration and Finance, Midwestern State University, 3410 Taft Boulevard, Wichita Falls, Texas 76308-2099; (940) 397-4105. Copies of documents relating to the Authority may be obtained from the Executive Director, Texas Public Finance Authority, 300 West 15th Street, Suite 411, Austin, Texas 78701, (512) 463-5544.

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds are being issued in accordance with the general laws of the State of Texas, including Chapter 55, Texas Education Code as amended (including particularly Sections 55.13(c), Texas Education Code, as amended), Chapter 1232, Texas Government Code, as amended (the "Enabling Act") (including particularly Section 1232.101 of the Enabling Act ("Section 1232.101")), Chapter 1201, Texas Government Code, as amended, Chapter 1207, Texas Government Code, as amended, and additionally pursuant to a resolution (the "Resolution") adopted by both the Board and the Authority's board.

Pursuant to Section 1232.101, the Authority has the exclusive authority to issue bonds on behalf of the University. Further, Section 55.13(c) of the Texas Education Code, as amended, provides that the Authority must exercise the authority of the Board to issue bonds on behalf of the University, and the Authority has all the rights and duties granted or assigned to and is subject to the same conditions as the Board under Chapter 55, Texas Education Code. The University submitted to the Authority, and the Authority approved, a request for financing.

Purpose

Proceeds of the Bonds will be used for the purpose of (i) improving, renovating, enlarging and/or equipping university residence halls, including fire safety improvements and other general modernization improvements, (ii) refunding all of the outstanding Board of Regents of Midwestern State University Building Revenue and Refunding Bonds, Series 1996, as set forth in Schedule I hereto (the "Refunded Bonds"), (iii) capitalizing approximately twenty-four months' interest on the Bonds and (iv) paying the costs related thereto.

Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such obligations, as applicable, from funds to be deposited pursuant to an Escrow Agreement for the Refunded Bonds (the "Escrow Agreement"), by and among the Authority, the University and Bank One, National Association (the "Escrow Agent"). A portion of the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary, together with a cash contribution from the University, to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a separate special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

McGladrey & Pullen LLP, a firm of independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriters the arithmetical accuracy of the schedules that demonstrate the Escrowed Securities purchased with the proceeds of the Bonds will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on such Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS."

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the University will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds in accordance with applicable law. Bond Counsel will render an opinion to the effect that, as a result of such firm banking and financial arrangements, and in reliance upon the Verification Report of McGladrey & Pullen LLP, such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in said Escrow Fund.

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

Sources and Uses of Funds

The proceeds of the Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of Bonds	$ 13,180,000.00
Accrued Interest	39,614.81
Net OID/Premium	97,539.70
Release of Reserve Funds from Refunded Bonds	477,118.00
Total	$ 13,794,272.51
Uses of Funds	
Deposit to Project Account	$ 8,012,377.63
Deposit to Escrow Fund	4,815,757.80
Deposit to Accrued and Capitalized Interest Account	733,888.01
Underwriters' Discount	71,641.13
Deposit to Cost of Issuance Account (including insurance premium)	160,607.94
Total	$ 13,794,272.51

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DESCRIPTION OF THE BONDS

General

The Bonds will be issued only as fully registered bonds, without coupons, in any integral multiple of $5,000 principal amount within a stated maturity, will be dated August 1, 2003, will accrue interest from their dated date, and will bear interest at the per annum rates shown on the inside cover page hereof. Interest on the Bonds is payable on December 1 and June 1 of each year, commencing December 1, 2003, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds mature on December 1, in the years and in the principal amounts set forth on the inside cover page hereof.

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

Transfer, Exchange, and Registration

Upon surrender for transfer of any Bond at the Designated Trust Office described herein, the Authority will execute, and the Paying Agent/Registrar, initially JPMorgan Chase Bank, Dallas, Texas will authenticate and deliver, in the name of the designated transferee, one or more new fully registered Bonds of the same Stated Maturity, of any authorized denomination, and of a like aggregate principal amount. At the option of the Holder, Bonds may be exchanged for other Bonds of the same Stated Maturity, of any authorized denomination, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the place of payment for the Bonds. Whenever any Bonds are so surrendered for exchange, the Authority and the Board will execute, and the Paying Agent/Registrar will authenticate and deliver, the Bonds which the Holder of Bonds making the exchange is entitled to receive. Every Bond presented or surrendered for transfer or exchange will be duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to the Authority and the Paying Agent/Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing. No service charge will be made to the Holder for any registration, transfer, or exchange of Bonds, but the Authority or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.

Paying Agent/Registrar

The Paying Agent/Registrar may be removed from its duties at any time with or without cause by action of the Board and not less than 30 days notice to each Holder specifying the substitution of another Paying Agent/Registrar, the effective date thereof, and the address of such successor Paying Agent/Registrar, but no such removal is effective until such successor has accepted the duties of the Paying Agent/Registrar. Every Paying Agent/Registrar appointed will at all times be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $10,000,000, subject to supervision or examination by federal or state authority, registered as a transfer agent with the Securities and Exchange Commission, and having an office designated in the notice to Holders as the place of payment. The Designated Trust Office for the initial Paying Agent/Registrar is in Dallas, Texas (the "Designated Trust Office").

Record Date for Interest Payment

The regular record date ("Regular Record Date") for the interest payable on any interest payment date means the close of business on the 15th calendar day of the month preceding each interest payment date.

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

Redemption

Optional Redemption

The Bonds scheduled to mature on and after December 1, 2014 are subject to redemption prior to maturity at the option of the Authority, upon the request of the Board, on December 1, 2013 or on any date thereafter, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and, if in part within a maturity, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar) at a price of par plus accrued interest from the most recent interest payment date to the redemption date.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption will be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, to the registered owner of each Bond to be redeemed at its address as it appeared on the Registration Books on the 45th day prior to such redemption date; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, will not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and the Resolution specifically provides that the publication of such notice as required above is the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof.

In addition, the Paying Agent/Registrar will give notice of redemption of Bonds by mail, first-class postage prepaid at least 30 days prior to a redemption date to each registered securities depository and to any national information service that disseminates redemption notices. Any notice sent to the registered securities depositories or such national information services will be sent so that they are received at least two days prior to the general mailing date of such notice. The Paying Agent/Registrar will also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent the Bonds in for redemption 60 days after the redemption date.

Each notice of redemption will contain a description of the Bonds to be redeemed, including the complete name of the Bonds, the Series, the date of issue, the interest rate, the maturity date, the CUSIP number, a reference to the principal amounts of each maturity called for redemption, the mailing date for the notice, the date of redemption, the redemption price, the name of the Paying Agent/Registrar, and the address at which the Bonds may be redeemed, including a contact person and telephone number.

Book-Entry Only System

This section describes how ownership of the bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's 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 Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Authority 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 Participant, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act 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 in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 in Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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 or 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 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 Security 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 and request that copies of notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. 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. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as made by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding information from Issuer or Agent, 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 or its nominee, the Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Agent, 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 Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

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

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

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

DEBT SERVICE SCHEDULE (1)

Fiscal Year August 31	Previously Issued Parity Obligations (1)	The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2004	$1,373,949	$320,000	$436,965	$756,965	$2,130,913
2005	1,374,674	300,000	518,798	818,798	2,193,471
2006	1,375,621	610,000	509,698	1,119,698	2,495,319
2007	1,381,556	620,000	496,623	1,116,623	2,498,179
2008	1,385,761	635,000	480,916	1,115,916	2,501,678
2009	1,383,314	655,000	462,360	1,117,360	2,500,674
2010	1,383,833	680,000	440,635	1,120,635	2,504,468
2011	1,386,806	705,000	415,516	1,120,516	2,507,323
2012	1,392,191	730,000	387,698	1,117,698	2,509,889
2013	1,394,510	760,000	357,898	1,117,898	2,512,408
2014	1,394,403	790,000	326,898	1,116,898	2,511,300
2015	1,392,279	830,000	289,310	1,119,310	2,511,589
2016	1,387,149	600,000	254,473	854,473	2,241,621
2017	1,393,730	450,000	231,298	681,298	2,075,028
2018	1,392,019	470,000	209,423	679,423	2,071,441
2019	1,391,971	495,000	186,164	681,164	2,073,135
2020	696,164	520,000	162,305	682,305	1,378,469
2021	695,125	545,000	136,603	681,603	1,376,728
2022	697,000	570,000	109,000	679,000	1,376,000
2023	--	600,000	79,750	679,750	679,750
2024	--	630,000	49,000	679,000	679,000
2025	--	665,000	16,625	681,625	681,625
	$24,272,054	**$13,180,000**	**$6,557,951**	**$19,737,951**	**$44,010,005**

(1) Excludes debt service on the Refunded Bonds. This debt service schedule sets forth debt service in respect of Parity Obligations secured by the Pledged Revenues. Following the issuance of the Bonds, no Prior Encumbered Obligations will be outstanding. See "SECURITY FOR THE BONDS – The Revenue Financing System" and "Table 4 – Outstanding Indebtedness."

SECURITY FOR THE BONDS

The Revenue Financing System

The Resolution confirms the creation in 1998 of the Midwestern State University Revenue Financing System (the "Revenue Financing System") to provide a financing structure for revenue supported indebtedness of the University and any research and service agencies or other components of the University which may thereunder be included, by Board action, as participants in the Revenue Financing System ("Participants"). The Revenue Financing System is intended to facilitate the assembling of all of the University's revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to Participants and to maximize the financing options available to the Board. Presently, only the University is a Participant. The Resolution provides that once a university or agency becomes a Participant, its Revenue Funds become part of the Pledged Revenues; provided, however, that, if at the time an entity becomes a Participant it has outstanding obligations secured by any or all of its Revenue Funds, such obligations will constitute Prior Encumbered Obligations under the Resolution and the pledge of such sources as Pledged Revenues will be subject and subordinate to such outstanding Prior Encumbered Obligations. Thereafter, the Board or the Authority, on behalf of the Board, may issue bonds, notes, commercial paper, contracts, or other evidences of indebtedness, including credit agreements on behalf of such institution on a parity, as to payment and security, with the Outstanding Parity Obligations, subject only to the outstanding Prior Encumbered Obligations, if any, with respect to such Participant. Upon becoming a Participant, an entity may no longer issue obligations having a lien on Pledged Revenues prior to the lien on the Outstanding Parity Obligations. Generally, Prior Encumbered Obligations are those bonds or other obligations issued on behalf of a Participant which were outstanding on the date such entity became a Participant in the Revenue Financing System. The University's Outstanding Prior Encumbered Obligations are described in Table 4 below. Following the issuance of the Bonds and the defeasance of the Refunded Bonds, it is anticipated that no Prior Encumbered Obligations will be outstanding. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" and "APPENDIX A - DEFINITIONS".

Pledge Under Resolution

The Bonds and any additional obligations previously or hereafter issued on a parity with the Bonds (referred to herein collectively as "Parity Obligations") are special obligations of the Board equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues as described below.

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

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

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE BOARD, THE AUTHORITY, THE UNIVERSITY OR ANY PART THEREOF, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE BOARD NOR THE AUTHORITY HAS ANY TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED AS SECURITY FOR THE BONDS. THE BREACH OF ANY COVENANT, AGREEMENT, OR OBLIGATION CONTAINED IN THE RESOLUTION WILL NOT IMPOSE OR RESULT IN GENERAL LIABILITY ON OR A CHARGE AGAINST THE GENERAL CREDIT OF THE BOARD, THE AUTHORITY, OR THE UNIVERSITY. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "SECURITY FOR THE BONDS."

Table 1 - Pledged Revenues

The following table sets forth the Pledged Revenues for the Fiscal Years ending August 31, 1998 through August 31, 2002, including pledged unappropriated fund balances available at the beginning of the year. The Pledged Revenues consist of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and, student service fees and private gifts in the Auxiliary Fund Group, as such terms are used in "APPENDIX B - Financial Report". See "SELECTED FINANCIAL INFORMATION" and "SECURITY FOR THE BONDS".

	1998	1999	2000	2001	2002
Available Pledged Revenues Not Including Fund Balances (1)	$ 15,253,672	$15,376,173	$17,981,757	$19,260,544	$20,296,579
Pledged Unappropriated Funds and Reserve Balances(1)	$ 8,157,954	$7,680,836	$7,592,061	$9,723,902	$11,793,066
Total Pledged Revenues	$ 23,411,626	$23,057,009	$25,573,818	$28,984,446	$32,089,645

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

Maximum annual debt service over the life of the Outstanding Parity Obligations and the Bonds is $2,512,408.

Additional Obligations

The Board has previously entered into certain obligations related to a student housing facility. See "SELECTED FINANCIAL INFORMATION."

Parity Obligations

The Board reserves the right to issue or incur, or request that the Authority, on its behalf, issue or incur additional Parity Obligations for any purpose authorized by law pursuant to the provisions of the Resolution. The Board or the Authority acting on behalf of the Board may incur, assume, or guarantee, or cause to be incurred, assumed or guaranteed, or otherwise become liable with respect to any Parity Obligations if (i) the Board will have determined (A) that it will have sufficient funds to meet the financial obligations of the University, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and (B) the Participant or Participants for whom the Parity Obligations are being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations, after taking into account the then proposed additional Parity Obligations, and (ii) a Designated Financial Officer delivers to the Board and the Authority a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Resolution and any resolution adopted authorizing the issuance of Parity Obligations, and is not in default in the performance and observance of any of the terms, provisions, and conditions thereof. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" and "SELECTED FINANCIAL INFORMATION – Debt Management."

Nonrecourse Debt and Subordinate Debt

Nonrecourse Debt and Subordinated Debt may be incurred by the Board, or the Authority on behalf of the Board, without limitation.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,932,647,000 and its total unearned premium reserve was approximately $1,077,095,000 in accordance with statutory accounting practices. At March 31, 2003, Financial Security's total shareholders' equity was approximately $2,043,103,000 and its total net unearned premium reserve was approximately $904,700,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

THE AUTHORITY

The Authority is a public authority and body politic and corporate originally created in 1984 by an act of the Texas Legislature as the Texas Public Building Authority. The Authority (formerly known as the Texas Public Building Authority) succeeded to the ownership of all property of and all lease and rental contracts entered into by, the Texas Public Building Authority, and all of the obligations contracted or assumed by the Texas Public Building Authority became obligations of the Authority.

The Authority is currently governed by a board of directors (the "Authority Board") composed of seven members appointed by the Governor of the State (the "Governor") with the advice and consent of the State Senate. The Governor designates one member to serve as Chair at the will of the Governor. Board members whose terms have expired continue to serve on the Authority Board, until a successor therefore has been appointed by the Governor. The current members of the Authority Board, the office held by each member, and the date on which each member's term expires are as follows:

Name	Position	Term Expires (February 1)
R. David Kelly	Chair	2007
H.L. Bert Mijares, Jr.	Vice-Chair	2005
J. Vaughn Brock	Secretary	2007
Helen Huey	Member	2005
Daniel T. Serna	Member	2003
Barry T. Smitherman	Member	2007
(Vacant)	Member	--

The Authority employs an executive director (the "Executive Director") who is charged with managing the affairs of the Authority, subject to and under the direction of the Authority Board. The Executive Director is Kimberly K. Edwards, who has been employed in that position since March 1997.

Pursuant to the Enabling Act and Chapters 1401 and 1403, Texas Government Code, as amended, the Authority issues general obligation and revenue bonds for designated State agencies (including certain institutions of higher education) and administers the Master Lease Purchase Program, a revenue commercial paper program, primarily to finance equipment acquisitions by State agencies. Under these authorities, the Authority has issued revenue bonds on behalf of the Texas Parks and Wildlife Department, the Texas Building and Procurement Commission (formerly the Texas General Services Commission), the State Preservation Board, the Texas Department of Criminal Justice, the Texas Department of Health, the Texas Military Facilities Commission (formerly, the National Guard Armory Board), the Texas State Technical College System, Texas Southern University, Stephen F. Austin State University and the University. The Authority has also issued general obligation bonds for the Texas Parks and Wildlife Department, the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, the Texas Department of Public Safety, the Texas Youth Commission, the Texas National Research Laboratory Commission, the Texas Juvenile Probation Commission, the Texas School for the Deaf, the Texas School for the Blind and Visually Impaired, the Texas Department of Transportation, the Texas Department of Health, the Texas Building and Procurement Commission, Adjutant General's Department and the Texas Department of Agriculture.

Before the Authority may issue bonds for the acquisition or construction of a building, the Legislature must have authorized the specific project for which the bonds are to be issued and the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance of bonds. The Texas Supreme Court, in Texas Public Building Authority v. Mattox, 686 S.W.2d 924 (1985), ruled that revenue bonds issued by the Authority do not constitute debt of the State within the meaning of the State Constitution. As set forth in the Enabling Act, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit of them.

Sunset Review

In 1977, the Texas Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended) which provides that virtually all agencies of the State, including the Authority, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Authority was reviewed during the 1997 legislative session under the Texas Sunset Act, and the next scheduled review of the Authority is during the legislative session in 2009. The Enabling Act of the Authority, as amended by the 75th Legislature, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2009; however, the Texas Sunset Act provides that the Authority will exist until September 1 of the following year (September 1, 2010) in order to conclude its business.

In the event the Authority is abolished pursuant to the Texas Sunset Act in 2009, the Governor is required to designate an appropriate State agency to carry out the Authority's covenants contained in the Bonds and in the documents authorizing the Bonds. In such event, the Authority's General Counsel has opined (1) the Bonds would remain valid and binding obligations, subject to all applicable terms and conditions of the laws and proceedings authorizing the Bonds and (2) such designated agency would be obligated and authorized to carry out all such covenants and to provide payment from the sources pledged to the Bonds in accordance with the terms thereof until the Bonds are paid in full.

Relationship with Other State Agencies

Under the Enabling Act, the Authority's power is limited to financing projects and does not affect the power of the Board to carry out its statutory authority, including its authority to construct buildings. Accordingly, the Authority will not be responsible for supervising the construction and maintenance of any of the projects of the University. See also "THE UNIVERSITY" herein for a discussion of the University's relationship with other state agencies.

Payments on the Bonds are expected to be made solely from the Pledged Revenues. See "SECURITY FOR THE BONDS." Any default in payments on the Bonds will not affect the payment of any other obligations of the Authority.

With certain exceptions, bonds issued by State agencies and institutions, including bonds issued by the Authority, must be approved by the Texas Bond Review Board prior to their issuance. The Texas Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the House of Representatives and the Comptroller of Public Accounts. The Governor is the Chairman of the Texas Bond Review Board. Each member of the Texas Bond Review Board may, and frequently does, act through a designee. An application was submitted to the Texas Bond Review Board and approved on July 22, 2003. In the case of bonds issued by institutions of higher education, such as the University, the projects to be financed by the bonds are also reviewed or approved by the Texas Higher Education Coordinating Board (the "Coordinating Board"). The projects (that exceed two million dollars) to be financed by the Bonds were approved by the Coordinating Board as required by law.

MIDWESTERN STATE UNIVERSITY

History and Organization

Midwestern State University is a public co-educational institution. It originated in 1922 as Wichita Falls Junior College, the first municipal junior college in Texas. In 1937, in honor of a gift to the institution by Mr. and Mrs. John G. Hardin, Wichita Falls Junior College was renamed Hardin Junior College. When the senior college division was established in 1946, the name of the institution became Hardin College. In January 1950, the name was changed to Midwestern University. On September 1, 1961, Midwestern University became a part of the Texas colleges and universities system and the junior college division was dissolved. The institution became Midwestern State University in 1975.

The University is organized into six colleges of academic structure. These colleges are Business Administration, Education, Fine Arts, Health Sciences, Liberal Arts, and Science and Mathematics. In addition to the academic divisions, the university graduate council administers graduate programs of the university. The graduate council is composed of the graduate program coordinators of each academic division. The council is chaired by the Vice President for Academic Affairs. The university's colleges offer 14 undergraduate degrees in 40 majors and master's degrees in 23 majors.

Location and Physical Facilities

The University is located in Wichita Falls, Texas, a city approximately 120 miles northwest of the Dallas/Ft. Worth metroplex. The original campus consisted of 40 acres of land given to the institution by W.B. Hamilton and Anne H. Martin. Later, the University campus was expanded to 100 acres by the addition of a 60-acre tract, and a 1970 acquisition added approximately 67 acres directly south of the campus. An additional 4.5 acres were acquired as a part of the purchase of the property on the southwest corner of the campus in 1989. An approximate ½-acre tract was included in the purchase of the Bridwell Court Apartments in 1991.

There are approximately 30 buildings on the main campus. All buildings on the main campus have a planned architectural harmony. All classes are held in air-conditioned facilities. Residence halls consist of modern facilities for both men and women. In addition to the instructional buildings and residence halls, other university facilities include the Clark Student Center, Daniel Building which houses maintenance shops, Vinson Health Center, University Supply, Central Power Plant, Business Administration Annex, and Bridwell Courts.

Control

The University is governed by a Board of nine Regents who serve without pay and are appointed by the governor of Texas with the approval of the Texas Senate. The Board appoints the president and is legally responsible for the establishment and control of the University's policies.

Accreditation

The University is fully accredited by its regional accrediting body, the Southern Association of Colleges and Schools. All academic programs of the University are fully accredited. Various departments of the university are fully accredited with their respective professional associations.

Retirement Systems

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the University participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries currently provided by the State and by each participant are 6% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report.

The State has also established an optional retirement program 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. The contributory percentages on salaries for participants entering the program prior to September 1995 are 8.5% and 6.65% by the state and each participant, respectively. The state's contribution is comprised of 6.00% from the ORP's appropriation and 2.5% from other funding sources. The 6.00% contribution is mandatory with the other contributions being at the discretion of the Board of Regents. The Board of Regents has approved the additional contributions for employees of the University. The contributory percentages on salaries for participants entering the program after August 31, 1995 are 6.00% and 6.65% by the state and each participant, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The total retirement expense to the State for the University was $950,708 for the fiscal year ended August 31, 2002. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the University. The total retirement expenses from the University's institutional funds was $604,540.

Financial Support

As a State institution, the University receives approximately half of its operating funds from State appropriations. Other operating funds are derived from student tuition and fees and auxiliary enterprises such as dormitories and dining halls. For financial information concerning the State of Texas, reference is made to "APPENDIX A" published by the Comptroller of Public Accounts of the State of Texas which is filed quarterly with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and State Information Depository ("SID"). See "SELECTED FINANCIAL INFORMATION – Funding for the University".

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Table 2 - Enrollment Data

Headcount enrollment at the University has been as follows:

Scholastic Year	Fall Semester	Spring Semester	Summer Session First Term	Summer Session Second Term
1992-93	5,757	5,511	2,439	1,629
1993-94	5,794	5,584	2,258	1,510
1994-95	5,821	5,554	2,246	1,446
1995-96	5,832	5,464	2,151	1,444
1996-97	5,642	5,447	2,046	1,455
1997-98	5,770	5,460	2,181	1,530
1998-99	5,687	5,350	1,971	1,578
1999-00	5,717	5.498	2,090	1,623
2000-01	5,809	5,468	2,230	1,722
2001-02	5,999	5,798	2,568	1,899
2002-03	6,235	6,034	N/A	N/A

SELECTED FINANCIAL INFORMATION

Audits and Financial Reports

The State of Texas issues audited financial statements, prepared in accordance with generally accepted accounting principles for the State government as a whole. The statements are prepared by the Comptroller of Public Accounts and are audited by the State Auditor's Office. The State Auditor expresses an opinion on the financial statements of the State but does not express an opinion on the financial statements of individual component units including those of the University. The scope of the State Auditor's audit includes tests for compliance with the covenants of general obligation and revenue bond issues of the State and its component agencies and institutions. Supplementary schedules are included in the State financial statements providing for each bond issue information related to the pledged revenues and expenditures, coverage of debt service requirements, restricted account balances, and/or other relevant information that may be feasibly incorporated. The State Auditor does not express an opinion on such schedules in relation to the basic financial statements taken as a whole.

Any material compliance exceptions related to bond covenants are addressed in the overall management letter for the State audit.

Annually, not later than November 29, an unaudited financial report dated as of August 31, prepared from the books of the University, must be delivered to the Governor and the State Comptroller of Public Accounts. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University, and in so doing examines the financial records at each of the University's component institutions. No outside audit in support of this detailed review is required or obtained by the University.

The Fiscal Year of the State and the University begins on September 1 of each year. The University is an agency of the State of Texas and its financial records reflect compliance with applicable State statutes and regulations. The significant accounting policies followed by the University in maintaining accounts and in the preparation of the combined primary financial reports are in accordance with "Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements." Historically, these requirements follow, as nearly as practicable, the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, Audits of Colleges and Universities, 1996 Edition, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements cited in Codification Section CO5, "Colleges and Universities." The requirements were also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education published by the National Association of College and University Business Officers (NACUBO).

During Fiscal Year 2002, the State and the University adopted GASB Statement Nos. 34 and 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities," as amended by GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local

Governments Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" (collectively, "GASB 35"). The implementation of GASB 35 is required to be undertaken by colleges and universities with total annual revenues in excess of $100 million for fiscal periods beginning after June 15, 2001. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the entity as a whole. Previous financial statement presentation focused on the combined fund group perspective.

GASB 35 has materially affected the University's financial data accumulation and financial statement presentation processes. Following is a list of significant changes to the University's financial statements mandated by GASB 35, including certain changes mandated by the revised Financial Reporting Requirements of the State Comptroller of Public Accounts.

(1) The University's financial information is reported under GASB 35 as a Business-Type Activity.

(2) The measurement focus and basis of accounting is presented in full accrual, consistent with the accounting method used by private-sector institutions. All current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.

(3) Resources are classified for accounting and reporting purposes into the following four net asset categories: invested in capital assets – net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

(4) Revenues and expenses are categorized as operating or non-operating. Previously, a measure of operations was not presented. Significant recurring sources of the University's revenues, including State appropriations, gift contributions and investment income (loss), are considered non-operating.

(5) Depreciation of capital assets is now recognized. Previously, the historical costs of capital assets were not systematically expensed to reflect use of these assets over time. Accumulated depreciation for prior periods is reflected as a restatement to net assets, and current year's depreciation expense is shown as an operating expense, on the Combined Statement of Revenues, Expenses and Changes in Net Assets.

(6) Capitalization thresholds have increased for the 2002 financial statements. These thresholds are personal property $5,000, buildings and improvements $100,000, and infrastructure $500,000. The University's financial statements reflect a restatement for those capital assets that no longer meet the capitalization thresholds.

(7) Receivables, cash advances and unearned revenues for sponsored programs and student tuition and fees are now recorded as deferred revenues. Previously, only unearned cash receipts were recognized as deferred revenue.

(8) Scholarships and fellowships applied to student accounts are now shown as a reduction of student tuition and residence fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. Previously, all scholarships and fellowships were presented as expenditures.

See "Appendix B – FINANCIAL REPORT OF MIDWESTERN STATE UNIVERSITY FOR THE YEAR ENDED AUGUST 31, 2002—Management's Discussion and Analysis."

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

The table on the following page presents the Statement of Revenues, Expenses and Changes in Net Assets (Unaudited) for Fiscal Year 2002. For historical information regarding the University's operations and financial condition for Fiscal Years 1998 through 2001, see "Historical Summary – Total Sources of Unrestricted Current Funds Revenues," "Historical Summary – Total Sources of Unrestricted Current Funds Expenditures," "Historical Summary - Balance Sheet" and "Historical Summary - Statement of Current Funds Revenues and Expenditures."

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COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (UNAUDITED) FOR FISCAL YEAR 2002

	Total
OPERATING REVENUES:	
Student Tuition and Fees (net of scholarship allowances of $5,775,510)	$13,724,308
Federal Grants	449,136
Federal Pass-through Grants	123,644
State Pass-through Grants	215,659
Other Grants and Contracts	336,383
Sales and Services of Educational Activities	985,303
Sales and Services of Auxiliary Enterprises (net of scholarship allowances of $966,608)	3,262,068
Other Operating Revenues	424,092
Total Operating Revenues	$19,520,593
OPERATING EXPENSES:	
Salaries and Wages	$24,935,061
Payroll Related Costs	6,793,882
Professional Fees and Services	1,944,125
Travel	863,644
Materials and Supplies	4,725,707
Communication and Utilities	2,157,028
Repairs and Maintenance	856,175
Rentals and Leases	343,871
Printing and Reproduction	113,250
Depreciation	3,152,778
Bad Debt Expense	148,359
Interest	5,307
Scholarships	11,442,838
Total Operating Expenses	$57,482,025
OPERATING INCOME (LOSS)	(37,961,432)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	$17,539,990
Additional State Appropriations	4,357,755
State Grants	744,304
Federal Grants	3,530,655
Gifts	7,923,769
Other Nonoperating Revenues	18,132
Investment Income	1,336,164
Investing Activities Expenses	(123,839)
Net Increase (Decrease) in Fair Value of Investments	(1,021,760)
Gain (Loss) on Sale of Capital Assets	1,799
Expenses Incurred on Bonds Issued	(99,780)
Premium on Bonds Issued	99,789
Interest Expense on Capital Asset Financing	(655,820)
Total Nonoperating Revenues (Expenses)	$33,651,158
Income (Loss) Before Capital Contributions, Additions to Endowments and Special Items	(4,310,274)
Capital Contributions	1,084,017
HEAF Appropriation	3,007,669
Additions to Endowments	416,893
Transfers-In	1,418,412
Transfers-Out	(1,411,171)
INCREASE (DECREASE) IN NET ASSETS	$ 205,546
Net assets, beginning of year	$129,004,709
Restatements	(51,363,268)
Total net assets, beginning of year, as Restated	77,641,441
Net assets, end of year	$ 77,846,987

Funding for the University

Funding for the University for the Fiscal Year ended August 31, 2002 consisted of State appropriations; tuition and student fees; gifts, grants, and scholarships; sales, services, and other sources; designated funds; and auxiliary enterprises. As shown below, the amounts and the sources of such funding vary from year to year, there is no guarantee that the source or amounts of such funding will remain the same in future years.

State Appropriations

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

For fiscal years 2001 and 2002, State appropriations comprised approximately 48% and 37%, respectively, of the Revenue Funds (as defined in the Resolution) of the University. See "Table 3 - Statement of Revenues, Expenses and Changes in Net Assets" and "Historical Summary – Total Sources of Unrestricted Current Funds Revenues". The State Legislature finished its last regular session on June 2, 2003. Given the State's recent budget constraints, State appropriations to institutions of higher education (including the University) were less than in prior years. Final results for the University indicate appropriations in the following amounts for Fiscal Years 2004 and 2005: $17,175,434 and $17,274,721, plus other miscellaneous allocations, including that for Higher Education Assistance Funds, as shown below. The State Legislature commences its next biennial regular session in January, 2005.

In addition to the appropriation of general revenues of the State, the University receives a portion of an annual appropriation of funds made by the State Legislature pursuant to the provisions of Article VII, Section 17 of the State Constitution (the "Higher Education Assistance Funds"). The allocation of Higher Education Assistance Funds is made by the State in accordance with an equitable allocation formula. In 1995, the State Legislature approved a 10 year annual allocation (beginning in 1996) to the University. Prior to the convening of the regular session of the Texas Legislature in 1999, the Texas Higher Education Coordinating Board conducted, with the full participation of the eligible institutions, a study presenting recommendations to the State Legislature adjusting allocations for the five-year period beginning September 1, 2000. The Legislature acted on the recommendations and revised the funding distribution among eligible institutions. The annual allocation to the University for 2002 and 2003 is $3,007,669 per year.

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

Tuition and Fees

To date, the University had charged tuition and fees as set by the Texas Legislature and the Board under Chapters 54 and 55 of the Texas Education Code which permits (i) undergraduate tuition applicable to state residents to be charged up to $44 per semester credit hour for the 2002-2003 academic year; and (ii) tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be increased to an amount equal to the average of the nonresident undergraduate tuition charged to a resident of Texas at a public state university in each of the five most populous states other than Texas (the amount of which would be computed by the Coordinating Board for each academic year). In 1997, the Texas Legislature redesignated the "building use fee" previously authorized by Section 55.16, Texas Education Code as "tuition", and of the per semester credit hour amounts referenced above, up to $40 per semester credit hour for the 2000-2001 academic year and each academic year thereafter may be charged and pledged as a part of Pledged Revenues.

For the academic year 2003-2004, the Coordinating Board has computed $282 per semester credit hour for nonresident undergraduate tuition. As stated above, unless it is necessary to meet a debt service obligation, the amount of the tuition pledged under the Resolution as a Revenue Fund and charged in any academic year may not exceed the amount of tuition to be charged in that academic year.

Amendments to the provisions of the Education Code were enacted in 1997 which allow the Board to set the 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. Thus, notwithstanding the limitations outlined above, the rate of the tuition pledged as a Revenue Fund actually imposed to secure the Parity Obligations will not be limited by law or the Resolution, to the extent it is necessary to raise such rates if there are not sufficient Pledged Revenues to pay debt service on Parity Obligations.

The 78th Texas Legislature, during the regular session which ended June 2, 2003, enacted into law HB 3015, also referred to as the tuition deregulation bill, which authorizes the governing board of an institution of higher education, rather than the Texas Legislature, to set tuition rates. HB 3015, which becomes effective September 1, 2003, amends Chapter 54 of the Education Code to authorize the governing board of an institution of higher education to charge tuition under the terms and amounts the governing board considers appropriate for the effective operation of the institution. Pursuant to HB 3015, a governing board may set a different tuition rate for each program and course level offered by the institution and the governing board may further set different tuition rates as they determine appropriate to increase graduation rates, encourage efficient use of facilities or enhance employee performance. As a condition of tuition deregulation each institution must make satisfactory progress towards the goals provided in its master plan for higher education and in "Closing the Gaps" the State's master plan for higher education as well as meet acceptable performance criteria, including measures such as graduation rates, retention rates, enrollment growth, education quality, efforts to enhance minority participation, opportunities for financial aid and affordability.

HB 3015 further establishes a legislative oversight committee comprised of six members of the senate appointed by the lieutenant governor and six members of the house of representatives appointed by the speaker to monitor and regularly report to the legislature on each institution of higher education's compliance with the conditions outlined above. The legislative oversight committee is further mandated to make recommendations to the legislature of any action the committee considers necessary to meet the criteria of HB 3015 and such other criteria as the legislature may establish to improve higher education affordability and access.

The tuition to be charged to the University's students for the 2003-2004 academic year is (i) $46 per semester hour for undergraduate resident students and (ii) $282 per semester hour for non-resident undergraduate students.

Gifts, Grants, and Contracts

The University receives federal, state, local and private grants and contracts for research which incorporate an overhead component for use in defraying operating expenses. This overhead component is treated as unrestricted funds while the balance of the grant or contract is treated as restricted funds. Indirect cost recovery rates used in calculating the overhead component are negotiated periodically with the appropriate governmental agency.

Investment and Endowment Income

Investment and endowment income is received on both a restricted and unrestricted basis.

Sales and Services

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

Interest Income

The University generates interest from the investment of cash pursuant to investment policies adopted by the Board in accordance with State law. See "—Investment Policy and Procedures" below.

Other Sources

Other miscellaneous revenues not categorized above have been grouped together and are reported as "Operating Revenues" or "Non-operating Revenues", as applicable, in "Table 3 - Statement of Revenues, Expenses and Changes in Net Assets".

Information Relating to Fiscal Years 1998 through 2001

The University is not required to restate, and has not restated, prior year financials in connection with the implementation of the new accounting standards of GASB 35. The significant changes caused by these new accounting standards and the time required to implement the changes on a consistent basis made the restatement of the prior year financial statements impossible. As such, historical financial data is not comparable to the data presented in the tables for the Fiscal Year ended August 31, 2002. See "-Audits and Financial Reports."

Prior to adopting GASB 35, the University prepared its financial statements in accordance with the principles of fund accounting. Under the previous financial statement presentation, resources for various purposes were classified into funds in accordance with the activities or objectives specified. In addition, the University accounted for its finances within current and noncurrent funds groups. Current funds were defined as either unrestricted and available for operating purposes or other uses, as determined by the Board, or restricted and available for specific operating purposes. Noncurrent funds included loan funds, endowment and similar funds. Plant funds, which were used to construct or remodel buildings and facilities or to retire indebtedness, were reported in four categories: unexpended plant funds; renewal and replacement funds; retirement of indebtedness funds; and investment in plant funds.

Current Funds

For fiscal years ending prior to the Fiscal Year ended August 31, 2002, current funds represent funds expendable for current operating purposes. Within the current funds group, funds were segregated between unrestricted and restricted. The current funds revenues and expenditures described below were derived from the Combined Statement of Current Funds Revenues and Expenditures included in the University's unaudited combined primary financial report for each of the fiscal years indicated. These statements were prepared under the principles of fund accounting previously utilized by the Board to present the financial activities of the University. Such statements present the financial activities of current funds related to the applicable reporting period and do not purport to present the results of operations or the net income or loss for the period. See "- Audits and Financial Reports" and "APPENDIX B".

Unrestricted Current Funds Revenues

Unrestricted funds represent funds over which the Board retained full control in achieving institutional purposes. Not all unrestricted funds constitute Pledged Revenues. See "SECURITY FOR THE BONDS - Pledge Under Resolution." The Unrestricted Current Funds Revenues described below were derived from the unaudited combined primary financial report of the University for each of the fiscal years in the four-year period ended August 31, 2001. See "APPENDIX B". Unrestricted Current Funds Revenues are categorized by source.

Categories of Unrestricted Current Funds Revenues are presented below as a percent of total sources and by dollar amount of such revenues, as follows:

Historical Summary – Total Sources of Unrestricted Current Funds Revenues

The following tables set forth Historical Summaries of Total Sources of Unrestricted Current Funds Revenues for Fiscal Years 1998 through 2001 by source (as a percent of Total Unrestricted Current Funds Revenues and by dollar amount for each source of Total Unrestricted Current Funds Revenues) computed in accordance with the accounting principles in existence before the new accounting standards of GASB 35 were adopted. As stated above, the University is not required to restate, and has not restated, prior year financials in connection with the implementation of the new accounting standards of GASB 35. As such, historical financial data is not comparable to the data presented in the tables for the Fiscal Year ended August 31, 2002. See "-Information Relating to Fiscal Years 1998 through 2001."

	Fiscal Year Ended (August 31):			
Revenues	**2001**	**2000**	**1999**	**1998**
Tuition and Fees	38.6%	37.6%	39.2%	36.4%
State Appropriations	48.1%	51.0%	49.5%	53.8%
Gifts, Grants, and Contracts	0.8%	0.6%	0.3%	0.3%
Endowment/Investment/Interest Income	2.1%	1.2%	0.8%	0.7%
Sales and Service	9.5%	8.8%	9.4%	8.2%
Other Sources	0.9%	0.8%	0.8%	0.6%
Total Unrestricted Current Funds Revenues	100.00%	100.00%	100.00%	100.00%

Source: Unaudited Annual Financial Reports for Fiscal Years 1998 through 2001 - Combined Exhibit C - Statement of Current Funds Revenues and Expenditures.

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Revenues	Fiscal Year Ended (August 31): 2001	2000	1999	1998
Tuition and Fees	$18,584,314	$18,340,297	$16,042,637	$15,381,314
State Appropriations	23,140,473	24,822,054	20,244,702	19,805,451
Gifts, Grants and Contracts	404,159	303,009	138,153	150,591
Endowment, Investment and Other Interest	1,010,949	572,339	326,465	858,104
Sales and Services	4,562,452	4,293,262	3,850,145	3,764,329
Other Sources	431,749	386,721	306,917	321,560
Total Unrestricted Current Funds Revenues	$48,134,096	$48,717,682	$40,909,759	$40,281,349

Source: Unaudited Annual Financial Reports for Fiscal Years 1998 through 2001 - Combined Exhibit C - Statement of Current Funds Revenues and Expenditures.

Unrestricted Current Funds Expenditures

Unrestricted Current Funds Expenditures represent the cost incurred for goods and services used in the conduct of the University's operations. Such expenditures include the acquisition cost of capital assets, such as equipment and library books, to the extent Unrestricted Current Funds are budgeted for and used by operating departments for such purposes. The Unrestricted Current Funds Expenditures were derived from the unaudited Financial Reports for each of the fiscal years in the four-year period ended August 31, 2001. See "APPENDIX B". Unrestricted Current Funds Expenditures are categorized by function.

Categories of Unrestricted Current Funds Expenditures and mandatory transfers are presented below as a percent of total expenditures and by dollar amount of function and mandatory transfers, as follows:

Historical Summary - Total Sources of Unrestricted Current Funds Expenditures

The following tables set forth Historical Summaries of Total Sources of Unrestricted Current Funds Expenditures for Fiscal Years 1998 through 2001 by source (as a percent of Total Unrestricted Current Funds Expenditures and by dollar amount for each source of Total Unrestricted Current Funds Expenditures) computed in accordance with the accounting principles in existence before the new accounting standards of GASB 35 were adopted. As stated above, the University is not required to restate, and has not restated, prior year financials in connection with the implementation of the new accounting standards of GASB 35. As such, historical financial data is not comparable to the data presented in the tables for the Fiscal Year ended August 31, 2002. See "-Information Relating to Fiscal Years 1998 through 2001."

Expenditures	Fiscal Year Ended August 31: 2001	2000	1999	1998
Instruction	40.9%	39.8%	41.1%	40.8%
Research	0.1%	0.1%	0.0%	0.0%
Public Service	0.4%	0.3%	0.4%	0.4%
Academic Support	5.8%	6.4%	4.6%	4.7%
Student Services	4.3%	4.4%	4.6%	4.3%
Institutional Support	8.0%	8.0%	8.6%	9.0%
Operation and Maintenance of Plant	8.7%	8.1%	8.5%	8.5%
Scholarships and Fellowships	11.0%	12.1%	11.5%	11.8%
Auxiliary Enterprises Expenditures	15.3%	15.1%	15.4%	15.8%
Mandatory Transfers	5.5%	5.7%	5.2%	4.7%
Total Expenditures and Mandatory Transfers*	100.0%	100.0%	100.0%	100.0%

Source: Unaudited Annual Financial Reports for fiscal years 1998 through 2001 – Combined Exhibit C – Statement of Current Funds Revenues and Expenditures.
* Totals may not add due to rounding.

	Fiscal Year Ended August 31:			
Expenditures	**2001**	**2000**	**1999**	**1998**
Instruction	$17,994,218	$16,895,889	$15,851,593	$14,903,243
Research	22,830	22,759	11,881	14,828
Public Service	192,562	115,807	138,941	131,603
Academic Support	2,530,982	2,726,864	1,783,412	1,724,922
Student Services	18,98,820	1,868,138	1,777,091	1,588,846
Institutional Support	3,538,102	3,388,211	3,331,465	3,286,854
Operations and Maintenance of Plant	3,828,165	3,417,602	3,286,497	3,122,019
Scholarships and Fellowships	4,846,689	5,150,409	4,419,446	4,331,393
Auxiliary Enterprises	6,736,325	6,403,094	5,953,147	5,763,568
Mandatory Transfers	2,405,845	2,423,881	2,002,214	1,705,337
Total Expenditures and Mandatory Transfers	$43,994,538	$42,412,654	$38,555,687	$36,572,613

Source: Unaudited Annual Financial Reports for fiscal years 1998 through 2001 – Combined Exhibit C – Statement of Current Funds Revenues and Expenditures.

Total Restricted Current Funds Revenues and Expenditures

Restricted current funds revenues refer to resources are externally restricted and may only be utilized in accordance with the purposes stipulated by the source of such funds. Such revenues include, among others, grants and contracts from governmental and private sources (other than the overhead component which is treated as unrestricted current funds revenue), restricted gifts, and income on restricted endowment funds. Receipts from these resources were reported as revenues only when expended. The following table presents a history of total restricted current funds revenues and expenditures for Fiscal Years 1998 through 2001:

Fiscal Year (August 31)	Total Restricted Current Funds Revenues and Expenditures
1998	$5,107,166
1999	5,959,958
2000	6,512,183
2001	6,236,317

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Historical Summary - Balance Sheet

The following table sets forth a Historical Summary Balance Sheet for the University for the Fiscal Years 1998 through 2001, computed in accordance with the accounting principles in existence before the new accounting standards of GASB 35 were adopted. See "-Information Relating to Fiscal Years 1998 through 2001."

	Fiscal Year Ended (August 31):			
Assets	**2001**	**2000**	**1999**	**1998**
Current Funds:				
Educational and General	$7,621,939	$7,301,201	$7,021,440	$6,432,154
Designated Funds	8,678,285	6,418,779	5,275,553	5,364,025
Auxiliary Funds	4,956,481	4,254,165	3,660,589	3,579,632
Restricted Current	3,250,992	3,011,232	2,963,942	2,441,557
Total Current Funds	$24,507,697	$20,985,377	$18,921,524	$17,817,368
Loan Funds	1,760,425	1,575,329	1,513,989	1,404,081
Endowment Funds	6,086,815	5,251,370	5,405,578	4,933,786
Plant Funds				
Unexpended	1,403,646	3,238,710	8,185,283	2,523,079
Renewals and Replacement	657,086	578,464	701,073	383,357
Retirement of Debt	476,138	462,655	462,824	794,256
Investment in Plant	108,272,196	106,001,086	96,056,934	91,375,640
Total Plant Funds	110,809,066	110,280,915	105,406,114	95,076,332
Agency Funds	73,439	119,934	109,665	129,575
Total Assets	$143,237,442	$138,212,925	$131,356,870	$119,361,142
Liabilities and Fund Balances				
Total Liabilities	$25,843,678	$27,080,610	$27,849,546	$19,648,523
Total Fund Balances	117,393,764	111,132,315	103,507,324	99,712,619
Total Liabilities & Fund Balances	$143,237,442	$138,212,925	$131,356,870	$119,361,142

Source: Unaudited Annual Financial Reports for Fiscal Years 1998 through 2001 - Exhibit A - Balance Sheet.

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Historical Summary - Statement of Current Funds Revenues and Expenditures

The following table sets forth a Historical Summary Statement of Current Funds Revenues and Expenditures for Fiscal Years 1998 through 2001 computed in accordance with the accounting principles in existence before the new accounting standards of GASB 35 were adopted. See "-Information Relating to Fiscal Years 1998 through 2001."

	Fiscal Year Ended (August 31):			
Current Revenues:	**2001**	**2000**	**1999**	**1998**
State Legislature Appropriations	$20,132,804	$21,959,857	$17,382,499	$16,943,248
Higher Education Assistance Funds	3,007,669	2,862,203	2,862,203	2,861,203
Student Tuition and Fees	18,584,314	18,340,297	16,042,637	15,381,314
Sales and Services	4,562,452	4,293,262	3,850,145	3,764,329
Gifts and Grants				
Federal	3,518,038	3,143,393	2,861,549	2,602,278
State	570,455	793,242	791,808	307,335
Local/Private	2,250,351	2,492,195	2,174,319	2,012,175
Interest Income	809,340	701,901	561,780	567,853
Net Increase in Fair Value of Investments	305,671	(49,423)	(194,199)	441,529
Endowment Income	186,057	234,311	227,833	181,366
Miscellaneous Income	443,262	458,633	309,143	324,885
Total Current Revenues	$54,370,413	$55,229,865	$46,869,717	$45,388,515
Current Expenditures:				
Instructional and Departmental	$18,584,608	$17,794,427	$16,567,087	$15,652,877
Research	91,230	107,823	109,978	163,939
Public Service	680,258	567,739	582,895	548,402
Academic Support	2,800,090	3,340,480	2,492,079	1,936,682
Student Services	2,030,875	1,903,457	1,813,014	1,626,985
Institutional Support	3,732,969	3,684,234	3,589,292	3,510,856
Operation & Maintenance of Plant	3,828,165	3,417,602	3,286,497	3,122,019
Scholarships	9,330,305	9,273,966	8,105,955	7,623,743
Auxiliary Enterprises	6,746,509	6,411,228	5,966,634	5,788,939
Total Current Expenditures	$47,825,009	$46,500,956	$42,513,431	$39,974,442

Source: Unaudited Annual Financial Reports of the University – Exhibit C – Statement of Current Funds Revenues and Expenditures

Table 4 - Outstanding Indebtedness

After the delivery of the Bonds, the University will have outstanding the following described indebtedness:

Revenue Financing System	
Revenue Refunding and Improvement Bonds, Series 1998	$ 7,805,000
Revenue Financing System Bonds, Series 2002	8,700,000
Revenue Financing System Revenue and Refunding Bonds, Series 2003	13,180,000
TOTAL	$29,685,000*

* Following the issuance of the Bonds and the defeasance of the Refunded Bonds (which are currently outstanding in the aggregate principal amount of $4,400,000), no Prior Encumbered Obligations will be outstanding.

Student Housing Project

The University has entered into an agreement with the Texas Student Housing Corporation - MSU Project, a Texas non-profit corporation (the "Corporation"), in connection with the construction of additional student housing for use by students and faculty at the University. The Project was financed in August 2002 with the issuance of $14,540,000 of revenue bonds issued by the Corporation. The Corporation entered into an agreement with Collegiate Development Service, L.P. with respect to the construction of the student housing project, an apartment-style housing development which consists of approximately 336 beds (the "Project"). Construction of the Project is complete and it is scheduled to open in mid-August 2003. The Project is located on the University campus on land owned by the University. The University and the Corporation entered into a ground lease with a term commensurate with the term of the bonds issued by the Corporation. The Corporation owns the Project, and the University operates and manages the Project in accordance with the terms of the ground lease. The bonds are secured only by the revenues generated from the Project and not by the University's general revenues. The University's only potential financial liability with respect to the financing is to pay operating and management expenses of the Project to the extent that the Project does not generate sufficient funds to pay such expenses.

Investment Policy and Procedures

Management of Investments

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

Authorized Investments

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

Investment Programs

The University invests public funds in its custody with primary emphasis on the preservation and safety of the principal amount. Secondarily, investments must be of sufficient liquidity to meet the day-to-day cash requirements of the University. Finally, the University invests to maximize yield within the two previously indicated standards. All investments within this scope conform to applicable State statutes and local rules governing the investment of public funds. Deposits and investments in other than United States Treasury or Agency securities or money market funds invested in United States Treasury or Agency securities are secured by depository pledges of collateral with market value no less than 100% of the value of the deposits and investments. Diversification maximums and actual investment levels for eligible securities as of August 31, 2002 were:

Category	Maximum	Actual
United States Treasury or Government securities	100%	0%
United States Agency securities	90%	42%
Mortgage-backed securities	25%	1%
Fully insured or collateralized certificates of deposit	20%	0%
Repurchase agreements	20%	0%
Registered money-market funds	15%	5%
Local Government Investment Pool	50%	52%*

* Exceeds the maximum amount allowed by the University's investment policy as a result of the temporary investment of revenues received during the Fall registration.

Endowments

Although not pledged to the payment of debt obligations, the University controls or is benefited by endowments valued, as of August 31, 2002, of approximately $5,202,412. As of August 31, 2002, endowment funds under the direct control of the University had a book value of $5,212,999 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.

Debt Management

Debt management of the University is the responsibility of the Vice President for Administration and Finance. The University evaluates its financing needs pursuant to a debt capacity analysis and annual funding requirements determined by the capital budget. It then submits a request for financing to the Authority. Issuance of debt requires approval of the Board, the Authority, and the Texas Bond Review Board.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The information contained in this section is a summary of certain provisions of the Resolution and is in addition to other information in such documents which is summarized elsewhere in this Official Statement under the captions "PLAN OF FINANCING," "DESCRIPTION OF THE BONDS," and "SECURITY FOR BONDS." This information is intended as a summary only and is qualified in its entirety by reference to the complete Resolution, which may be examined at the offices of the Authority or copies of which may be obtained from the Authority at 300 W. 15th Street, Suite 411, Austin, Texas 78701.

Establishment of Revenue Financing System

The Revenue Financing System has been established to provide a consolidated financing structure for revenue-supported debt obligations of the Board, including the Bonds, which are to be issued for the benefit of Participants which are or will be included as part of the Revenue Financing System. The University is the only current Participant, but the Revenue Financing System may include other entities that are hereafter included as part of the University but only upon affirmative official action of the Board. Each issue or series of Parity Obligations is to be provided for under a separate resolution consistent with the provisions of the Resolution.

Security and Pledge; Membership in the Revenue Financing System

Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations, Parity Obligations issued under the 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 Resolution or a supplemental resolution to secure the repayment of Parity Obligations. The Authority, upon approval and consent of the Board, may execute and deliver one or more Credit Agreements to additionally secure Parity Obligations. Credit Agreements may also be secured by a pledge of Pledged Revenues on a parity with or subordinate to Parity Obligations.

If an additional institution hereafter becomes a component of the University, the Board may include the new component as a Participant of the Revenue Financing System. In that event, the lien on and pledge of Pledged Revenues established pursuant to the 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 secured by a lien on the portion of the Pledged Revenues providing such security which is superior to the lien established by the 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 a parity with any Prior Encumbered Obligations.

Annual and Direct Obligation of Participants

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

Pledged Revenues

Tuition and Other Pledged Revenues

Subject to the provisions of the resolutions authorizing the Prior Encumbered Obligations and to the other provisions of the Resolution and any resolution authorizing the issuance of Parity Obligations, the Board has covenanted and agreed at all times to fix, levy, charge, and collect at each Participant from each student enrolled at each Participant, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, 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 provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Obligations then outstanding when and as required. Students exempt by law or the Board may be excluded from the requirement to pay student tuition. Tuition and the other rentals, rates, fees, and charges included in Pledged Revenues will be adjusted, if and when permitted or required by the Resolution, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with the Parity Obligations then outstanding. The Board may fix, levy, charge, and collect the Pledged Revenues in any manner it may determine within its discretion, and in different amounts from students enrolled in different Participants, respectively, and in addition it may totally suspend the collection of any item included in Pledged Revenues from the students enrolled in any Participant, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits in connection with the Parity Obligations then outstanding. All changes in the tuition charged students at each Participant must be made by a resolution of the Board, but such procedure will not constitute or be regarded as an amendment of the Resolution, but merely the carrying out of the provisions and requirements thereof.

Annual Obligation

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

Anticipated Deficit

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

Economic Effect of Adjustments

Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues at any of the Participants pursuant to the provisions described above will be based upon a certificate and recommendation of a Designated Financial Officer, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at the various Participants (after taking into account the anticipated effect the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each Participant) 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 by the Resolution.

Payment and Funds

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

The Resolution allows the Board to establish one or more reserve funds or accounts to further secure any Parity Obligations. Currently, the Board has not established a reserve fund to secure the payment of the Parity Obligations.

Additional Parity Obligations; Non-Recourse Debt and Subordinated Debt

In the Resolution, the Board reserves the right to issue or incur additional Parity Obligations for any purpose authorized by law. The Board may incur, assume, guarantee, or otherwise become liable in respect of additional Parity Obligations if the Board determines that it will have sufficient funds to meet the financial obligations of the University, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System.

In addition, the Board covenants not to issue or incur Parity Obligations unless (i) it determines that the Participant or Participants for whom Parity Obligations are being issued or incurred possesses the financial capacity to satisfy their respective Direct Obligations, after taking into account the then proposed additional Parity Obligations, and (ii) a Designated Financial Officer delivers to the Board a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Resolution and any supplemental resolution authorizing outstanding Parity Obligations, and is not in default in the performance and observance of any of the terms, provisions and conditions thereof.

The Board has reserved the right to issue without limit debt secured by a lien other than a lien on Pledged Revenues and debt 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 Resolution recognizes that the State may combine or divide Participant institutions and provides that so long as the combined or divided institutions continue to be governed by the Board such action must not violate the Resolution or require any amendment thereof. The Resolution also provides that subject to the conditions set forth below, any Participant or portion thereof may be closed and abandoned by law or may be removed from the Revenue Financing System (thus deleting the revenues, income, funds, and balances attributable to said Participant or portion thereof from the Pledged Revenues) without violating the terms of the Resolution provided:

> (1) the Board specifically finds that (based upon a certificate of a Designated Financial Official to such effect) after the release of the Participant or portion thereof, the Board will have sufficient funds during each Fiscal Year in which Parity Obligations will thereafter be outstanding to meet the financial obligations of the 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 and the Authority have received an Opinion of Counsel which states that such release will not affect the status for federal income tax purposes of interest on any Outstanding Parity Obligations and that all conditions precedent provided in the Resolution or any supplement relating to such release have been complied with; and
>
> (3)(A) if the Participant or portion thereof to be released from the Revenue Financing System is to remain under the governance and control of the Board, the Board must either (i) provide, from lawfully available funds, including Pledged Revenues attributable to said withdrawing Participant, for the payment or discharge of said Participant's Direct Obligations or (ii) pledge to the payment of Parity Obligations, additional resources not then pledged in an amount sufficient to satisfy such withdrawing Participant's Direct Obligations; or (B) if the Participant or portion thereof to be released from the Revenue Financing System is to no longer be under the governance and control of the Board and remains in operation independent of the Board, the Board must receive a

binding obligation of the new governing body of the withdrawing institution or the portion thereof being withdrawn, obligating said governing body to make payments to the Board at the times and in the amounts equal to said Participant's Annual Obligations or to pay or discharge said Participant's Direct Obligations, or, in the case of a portion of a Participant being withdrawn, the proportion of the Participant's Annual Obligation or Direct Obligation, as the case may be, attributable to the withdrawing portion of the Participant.

Disposition of Assets

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

(1) such disposition must occur in the ordinary course of business of the Participants of the Revenue Financing System responsible for such properties; or

(2) the Board determines that after the disposition, the Board has sufficient funds during each Fiscal Year during which Parity Obligations are to be Outstanding to meet the financial obligations of each Participant in the Revenue Financing System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all other financial obligations of the Board relating to the Revenue Financing System.

Admission of Participants

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

Certain Covenants

Rate Covenant

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

Tuition

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

General Covenants

The Board has additionally covenanted in the Resolution (i) to faithfully perform all covenants and provisions contained in the Resolution, and in each Parity Obligation; (ii) to call for redemption all Parity Obligations, in accordance with their terms, 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 University 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 additional debt secured by the Pledged Revenues except as permitted in the Resolution; (vii) to invest and secure money held in funds and accounts established under the Resolution in accordance with law and written policies of the Board; (viii) to keep proper books and records and account for the Revenue Financing System and to cause to be prepared annual financial reports of the Revenue Financing System and to furnish such report, to the Authority, 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

The 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 Resolution. The obligation of the Board to pay or cause to be paid the amounts payable under the Resolution out of the Pledged Revenues is absolute, irrevocable, complete, and unconditional, and the amount, manner and time of payment of such amounts may not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever.

Waiver of Covenants

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

Remedies

Any owner of Parity Obligations in the event of default in connection with any covenant contained in the Resolution or default in the payment of said obligations, or of any interest due thereof, or other costs and expenses related thereto, may require the Board, the Authority, their respective officials and employees, and any appropriate official of the State of Texas, 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, the Authority, or any appropriate official of the State of Texas. 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 Resolution and the rights and obligations of the Authority, the Board and of the owners of the Outstanding Parity Obligations may be modified or amended at any time without notice to or the consent of any owner of the Parity Obligations, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the Board or the Authority 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 or the Authority in the Resolution;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Resolution, upon receipt by the Board and the Authority 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;

(iii) To supplement the security for the Parity Obligations to provide for the additions of new institutions and agencies to the Revenue Financing System or to clarify the provisions regarding the University as a Participant in the Revenue Financing System; provided, however, that any amendment to the definition of Pledged Revenues 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;

(iv) 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 and the Authority, materially adversely affect the interests of the owners of the Parity Obligations;

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

(vi) To make such other changes in the provisions of the Resolution as the Board and the Authority may deem necessary or desirable and which does not, in the judgment of the Board and the Authority, materially adversely affect the interests of the owners of Outstanding Parity Obligations; or

(vii) To make such other amendments as necessary to comply with Rule 15c2-12.

Amendments With Consent

Subject to the other provisions of the Resolution, the owners of Parity Obligations aggregating 51% in Outstanding Principal Amounts have the right from time to time to approve any amendment, other than amendments described in the foregoing paragraph, to the Resolution, 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 Outstanding Parity Obligations, the amendment of the terms and conditions in the Resolution so as to:

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

(ii) Materially adversely affect the rights of the owners of less than all Parity Obligations then Outstanding;

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

(iv) Make any change in the maturity of the Outstanding Bonds;

(v) Reduce the rate of interest borne by the Outstanding Bonds;

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

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

Defeasance

The Resolution provides for the defeasance of the Bonds and the termination of the pledge of revenues and all other general defeasance covenants in the Resolution under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Obligation") within the meaning of the Resolution, except to the extent provided below for the Paying Agent to continue payments and for the Authority to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the Authority with the Paying Agent for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the revenues pledged as provided in the Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bond shall have been given, in accordance with the Resolution. Any money so deposited with the Paying Agent may at the discretion of the Authority also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Resolution, and all income from such Defeasance Securities received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Authority.

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

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

To the extent that, upon the defeasance of any Defeased Obligation to be paid at its maturity, the Authority retains the right under Texas law to later call that Defeased Obligation for redemption in accordance with the provisions of the order authorizing its issuance, the Authority may call such Defeased Obligation for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligation as through it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

Any escrow agreement or other instrument entered into between the Authority and the Paying Agent pursuant to which money and/or Defeasance Securities are held by the Paying Agent for the payment of Defeased Obligations may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the Authority.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1993, 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 other jurisdiction. The Authority 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.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the Authority issued on behalf of the University secured by and payable from the Pledged Revenues, such lien on and pledge of the Pledged Revenues being subordinate only to the lien on and pledge of certain of the Pledged Revenues securing any outstanding Prior Encumbered Obligations, and the approving legal opinion of McCall, Parkhurst & Horton, L.L.P., Austin, Texas, Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. Bond Counsel was engaged by, and only represents, the Authority. In its capacity as Bond Counsel, such firm has reviewed the statements and information appearing under captions "PLAN OF FINANCING (except under the subcaption "Sources and Uses of Funds"), "DESCRIPTION OF THE BONDS" (except under the subcaption "Book Entry Only System"), "SECURITY FOR THE BONDS," "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the statements and information contained under such captions and subcaptions provides an accurate and fair description of the Bonds and the Resolution and are correct as to matters of law. The legal fee to be paid Bond

Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews & Kurth L.L.P., Austin, Texas.

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

Forward Looking Statements

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

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

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the University, including information and representations contained in the University's federal tax certificate and the verification report of McGladrey & Pullen LLP, and (b) covenants of the Board and the Authority contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the University or the Authority, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.
Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

LEGAL INVESTMENTS IN TEXAS

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

Neither the Authority nor the University has made any investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. Neither the Authority nor the University has made any review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings of "Aaa" and "AAA", respectively, to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy will be issued by Financial Security Assurance Inc. In addition, the Bonds were assigned ratings by Moody's and Fitch of "A2" and "A+", respectively, before the commitment for the aforesaid bond insurance policy for the Bonds was issued. An explanation of the significance of each such rating 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 and the Authority make 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

In the Resolution, the Board, as the obligated party on the Bonds, has made the following agreement for the benefit of the Authority and the holders and beneficial owners of the Bonds. The Board is required to observe its agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Board will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the University of the general type included in this Official Statement under the heading(s) "SECURITY FOR THE BONDS - TABLE 1 - Pledged Revenues", "MIDWESTERN STATE UNIVERSITY", "SELECTED FINANCIAL INFORMATION", and in APPENDIX B. The Board will update and provide this information within 180 days after the end of each Fiscal Year. The Board will provide the updated information to the Authority and each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

Please note that the immediately following paragraph describes the Board's undertaking with respect to financial information for fiscal years prior to fiscal year 2002.

In the proceedings authorizing each of the series of bonds constituting Outstanding Parity Obligations, the Board agreed in undertakings made under SEC Rule 15c2-12 (the "Rule") to update financial information and operating data in the section of the respective official statements relating to those prior issues entitled "SELECTED FINANCIAL INFORMATION" (the "Prior Undertaking"). The Prior Undertaking required the Board to provide historical information on a number of items for the last complete fiscal year and for the four preceding fiscal years. As described in "SELECTED FINANCIAL INFORMATION - Audits and Financial Reports" and in APPENDIX B, the implementation of GASB 35 for the fiscal year ending August 31, 2002, resulted in much of the information required to be updated by the Prior Undertaking no longer being available. In addition, it was not possible for the Board to restate the financial results of any prior period under GASB 35. Thus, the information in "SELECTED FINANCIAL INFORMATION" and APPENDIX B contains financial information and operating data for the year ended August 31, 2002, as required to be reported under GASB 35. "SELECTED FINANCIAL INFORMATION" also contains a summary of certain financial information and operating data in the old accounting format for the previous four fiscal years. The complete information for the fiscal years ending August 31, 1998, 1999, 2000 and 2001 required to be updated by the Prior Undertaking was included in the Official Statement dated June 18, 2002, relating to the Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue Bonds, Series 2002 (the "Series 2002 Official Statement"). The Series 2002 Official Statement has been filed with each NRMSIR and the SID.

The undertaking made by the Board in connection with the issuance of the Bonds obligates the Board annually to update financial information and operating data reported under GASB 35 for those years for which it is available and to present, including by incorporation, the financial information and operating data in the old format to the extent necessary to give five years of historical data.

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

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

Material Event Notices

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

Availability of Information from NRMSIRs and SID

The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone is (512) 476-6947.

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 its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability of damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

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

Compliance with Prior Agreements

During the last five years, neither the Board nor the Authority have failed to comply in any material respect with their continuing disclosure agreements made in accordance with the Rule.

UNDERWRITING

RBC Dain Rauscher, acting as the representative of the Underwriters set forth on the cover page of this Official Statement, has agreed, subject to certain conditions set forth in a bond purchase agreement with the Authority, to purchase the Bonds at a purchase price of $13,205,898.57 (which represents the par amount of the Bonds, plus a net reoffering premium of $97,539.70 and less an underwriting discount of $71,641.13), plus accrued interest on the Bonds from their dated date to the date of delivery. The bond purchase agreement pertaining to the Bonds provides that the Underwriters will purchase all of the Bonds, if any Bonds are purchased.

FINANCIAL ADVISOR

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

Although the Financial Advisor has read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Authority's and the University's records and from other sources which are believed to be reliable. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters and reviewed by the Authority and its representatives relating to (a) computation of anticipated receipts of principal and interest on the Escrowed Securities and the anticipated payments of principal and interest to defease the Refunded Bonds, and (b) computation of the yields on the Bonds and the Escrowed Securities was verified by McGladrey & Pullen LLP (the "Verification Agent"). Such computations were based solely upon assumptions and information supplied by the Underwriters and reviewed by the Authority and its representatives. The Verification Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events. Such verification will be relied upon by Bond Counsel in rendering its opinion with respect to the tax exemption of interest on the Bonds and with respect to defeasance of the Refunded Bonds, if any. The verification report to be prepared by the Verification Agent will state that the Verification Agent has no obligation to update the report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

PENDING LITIGATION

As of the date of this Official Statement, a lawsuit involving Midwestern State University was pending. The University's legal counsel has indicated that there has been no material change in the status of such filed litigation with respect to the University's potential liability. While the ultimate liability with respect to litigation and other claims asserted against the University cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the University.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

/s/ *Kimberly K. Edwards*
Kimberly K. Edwards, Executive Director
Texas Public Finance Authority

/s/ *Dr. John H. Alexander*
Dr. John H. Alexander, Vice President for
Administration and Finance
Midwestern State University

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SCHEDULE I

Schedule of Refunded Bonds
Board of Regents of Midwestern State University
Building Revenue and Refunding Bonds, Series 1996

Maturity	Principal Amount	Interest Rate	Redemption Date	Redemption Price
June 1, 2004	$260,000	5.00%	N.A.	100%
June 1, 2005	270,000	5.10%	N.A.	100%
June 1, 2006	285,000	5.15%	N.A.	100%
June 1, 2007	300,000	5.25%	June 1, 2006	100%
June 1, 2008	315,000	5.35%	June 1, 2006	100%
June 1, 2009	330,000	5.40%	June 1, 2006	100%
June 1, 2010	350,000	5.50%	June 1, 2006	100%
June 1, 2011	370,000	5.60%	June 1, 2006	100%
June 1, 2012	390,000	5.65%	June 1, 2006	100%
June 1, 2013	415,000	5.70%	June 1, 2006	100%
* * *	* * *	* * *	* * *	* * *
June 1, 2016	1,115,000	5.50%	June 1, 2006	100%

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APPENDIX A
DEFINITIONS

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APPENDIX A
DEFINITIONS

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

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

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

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

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

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

(5) *Variable Rate*. As to any Parity Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the Board, either (1) an interest rate equal to the average rate borne by such Parity Obligations (or by

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

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

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

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

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

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

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

"*Authority*" means the Texas Public Finance Authority, or any successor thereto.

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

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

"*Bonds*" means the Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue and Refunding Bonds, Series 2003, issued pursuant to the terms of the Resolution and the Pricing Certificate, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to the Resolution; and the term "Bond" means any of the Bonds.

“*Code*” means the Internal Revenue Code of 1986, as amended.

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

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

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

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

“*Debt*” means all:

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

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

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

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

“*Defeasance Securities*” means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Authority adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, 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 governing body of the Authority adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent.

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

"*Designated Trust Office*" means Dallas, Texas for the initial Paying Agent/Registrar.

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

"*Executive Director*" means the duly acting Executive Director of the Authority, and any person authorized by the Board of Directors of the Authority to serve in the capacity of and perform the duties and obligations of the Executive Director.

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

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

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

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

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

"*MSRB*" means the Municipal Securities Rulemaking Board.

"*NRMSIR*" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

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

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

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

"*Outstanding*" when used with respect to Parity Obligations means, as of the date of determination, all Parity Obligations theretofore delivered under the Resolution and any resolution hereafter adopted authorizing the issuance of Parity Obligations, except:

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

(2) Parity Obligations deemed paid pursuant to the provisions of Section 19 of the Resolution or any comparable section of any resolution hereafter adopted authorizing the issuance of Parity Obligations;

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

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

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

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

"*Outstanding Revenue Bonds*" means those bonds listed below which are secured by a lien on and pledge of the Prior Encumbered Revenues charged and collected at the University in support thereof:

Building Revenue and Refunding Bonds, Series 1996, outstanding, as of July 1, 2003, in the aggregate principal amount of $4,440,000.

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

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

"*Paying Agent/Registrar*", "*Paying Agent*" or "*Registrar*" means each of the agents (one or more) appointed pursuant to the Resolution, or any successor to any such agent.

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

"*Previously Issued Parity Obligations"* means the Series 1998 Bonds and the Series 2002 Bonds.

"*Pricing Certificate"* means the Pricing Certificate of the Authority's pricing committee executed and delivered pursuant to the Resolution in connection with the Bonds.

"*Prior Encumbered Obligations*" means (i) the Outstanding Revenue Bonds and (ii) those outstanding bonds or other obligations of an institution which becomes a Participant of the Financing System after the date of adoption of the Resolution, which are secured by a lien on and pledge of the Prior Encumbered Revenues charged and collected at such institution or agency, and any other bonds or other obligations secured by revenues which are hereafter designated by the Board as a Pledged Revenue.

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

"*Record Date*" means, with respect to the Bonds, the last business day of each month preceding an interest payment date.

"*Refunded Bonds*" means the Outstanding Revenue Bonds set forth in Schedule I of this Official Statement, to be refunded with the proceeds of the Bonds.

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

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

"*Revenue Financing System*" or "*Financing System*" means the "Midwestern State University Revenue Financing System", currently for the benefit of the University, and such other institutions and agencies now or hereafter under the control or governance of the Board, and made a Participant of the Revenue Financing System by specific action of the Board.

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

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

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

"*Series 1998 Bonds*" means the Board of Regents of Midwestern State University Revenue Financing System, Texas Public Finance Authority Revenue Refunding and Improvement Bonds, Series 1998, issued in the aggregate principal amount of $9,860,000.

"*Series 2002 Bonds*" means the Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue Bonds, Series 2002, issued in the original aggregate principal amount of $8,965,000 pursuant to the terms of the underlying Resolution.

"*SID*" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

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

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

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

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

APPENDIX B
FINANCIAL REPORT OF MIDWESTERN STATE UNIVERSITY
FOR THE YEAR ENDED AUGUST 31, 2002

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Midwestern State University
Wichita Falls, Texas

Financial Report
(Unaudited)
For The Year Ended August 31, 2002

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Midwestern State University

Annual Financial Report
(Unaudited)

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MIDWESTERN STATE UNIVERSITY
Office of the President
3410 Taft Boulevard Wichita Falls, Texas 76308-2099
Office: 940-397-4211 Fax: 940-397-4010

November 13, 2002

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Rylander, State Comptroller
Mr. John Keel, Director, Legislative Budget Board
Mr. Lawrence F. Alwin, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of Midwestern State University for the year ended August 31, 2002, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions, please contact Ms. Gail Ferguson at (940) 397-4273. Karen Beaman may be contacted at (940) 397-4107 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Jesse W. Rogers, Ph.D.
President

JWR/cm

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MIDWESTERN STATE UNIVERSITY

ORGANIZATION DATA
August 31, 2002

THE BOARD OF REGENTS

Term Expires February 25, 2004

Dr. Jaime A. Davidson	Dallas
Mr. Munir A. Lalani	Wichita Falls
Mr. Chaunce O. Thompson, Jr.	Breckenridge

Term Expires February 25, 2006

Mr. Mac W. Cannedy, Jr., Chairman	Wichita Falls
Mr. John C. Bridgman	Wichita Falls
Mr. David L. Stephens	Plano

Term Expires February 25, 2008

Ms. Donna Arp	Colleyville
Ms. Pat Haywood	Wichita Falls
Mr. Don Ross Malone	Vernon

Ms. Kathryn A. Yeager, Regent Emeritus

PRESIDENT

Dr. Jesse W. Rogers

UNIVERSITY FISCAL OFFICERS

Dr. John H. Alexander	Vice President, Administration and Finance
Ms. Gail Ferguson	Controller

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The management's discussion and analysis of Midwestern State University's financial statements provides an overview of the university's financial activities for the year ended August 31, 2002. The financial statements have been prepared incorporating totals from the university and the MSU Charitable Trust. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the university administration.

Using this Report

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35 "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" which applies these standards to public colleges and universities. Due to significant changes related to the above statements, the Comptroller of Public Accounts does not require the accompanying annual financial report to be in compliance with generally accepted accounting principles (GAAP).

The major changes from the fund basis financial statements presented by the university in the past and the new requirements are as follows:

- The new reporting standards include a Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows.
- An overall operating and nonoperating basis of reporting has been established. Revenues that are charges for services are recorded as operating revenues and all other types of revenue are nonoperating or other revenue.
- Tuition and fees for scholarship allowances that were also reported as federal and state grant revenue are netted against tuition.

This annual financial report includes management's discussion and analysis, the basic financial statements in the new format, notes to financial statements and supplemental information.

Financial Highlights

As illustrated by the financial statements, Midwestern State University's financial position increased slightly during the fiscal year ended August 31, 2002. However, the university did have to restate net assets at the beginning of the year due to a change in the capitalization threshold and to record accumulated depreciation on fixed assets.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

By reporting information on the university as a whole, these two statements highlight for the reader whether or not the year's activities strengthened or weakened Midwestern's financial position. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Midwestern State University's operating results.

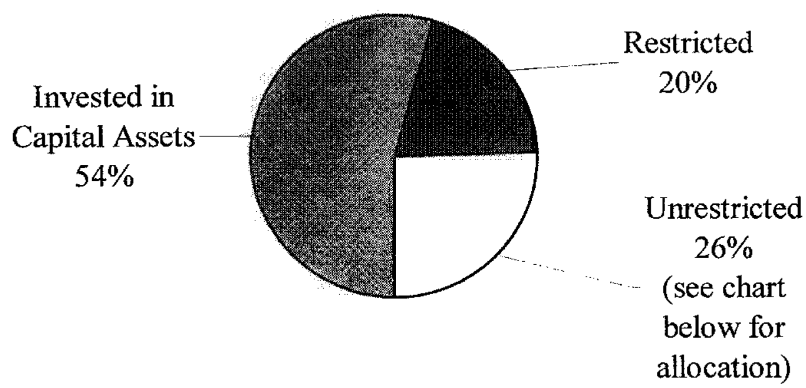
These two statements report the university's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the university's financial health or financial position. Increases in net assets show an improvement in financial health while decreases often indicate declining financial stability. However, many other non-financial factors, such as the trend in admission applicants, enrollment, student retention, and condition of the buildings must be considered to accurately assess the overall health of the university.

Following is a statement of the major components of the net assets of the university as of August 31, 2002.

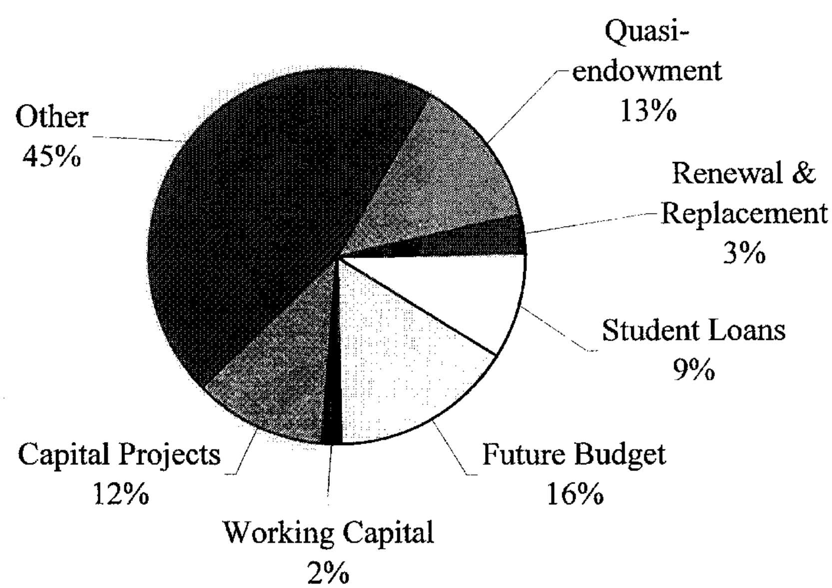
		Blended Component Unit	Total
Current Assets	$ 30,174,002	$ 758,295	$ 30,932,297
Non-Current Assets			
Capital Assets	55,748,207		55,748,207
Other	20,497,068	10,682,733	31,179,801
Total Assets	$106,419,277	$11,441,028	$117,860,305
Current Liabilities	$ 17,739,682		$ 17,739,682
Non-Current Liabilities	22,273,636		22,273,636
Total Liabilities	40,013,318		40,013,318
Net Assets:			
Invested in Capital Assets	42,386,470		42,386,470
Restricted – Debt Retirement	503,645		503,645
Restricted – Nonexpendable	2,642,370	11,441,028	14,083,398
Expendable – Contributor Restricted	998,942		998,942
Unrestricted*(see next page)	19,874,532		19,874,532
Total Net Assets	66,405,959	11,441,028	77,846,987
Total Liabilities and Net Assets	$106,419,277	$11,441,028	$117,860,305

*Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, quasi-endowments, capital projects, and student loans. The following graphs indicate the allocations.

Net Assets
August 31, 2002



Allocation of Unrestricted Net Assets
August 31, 2002

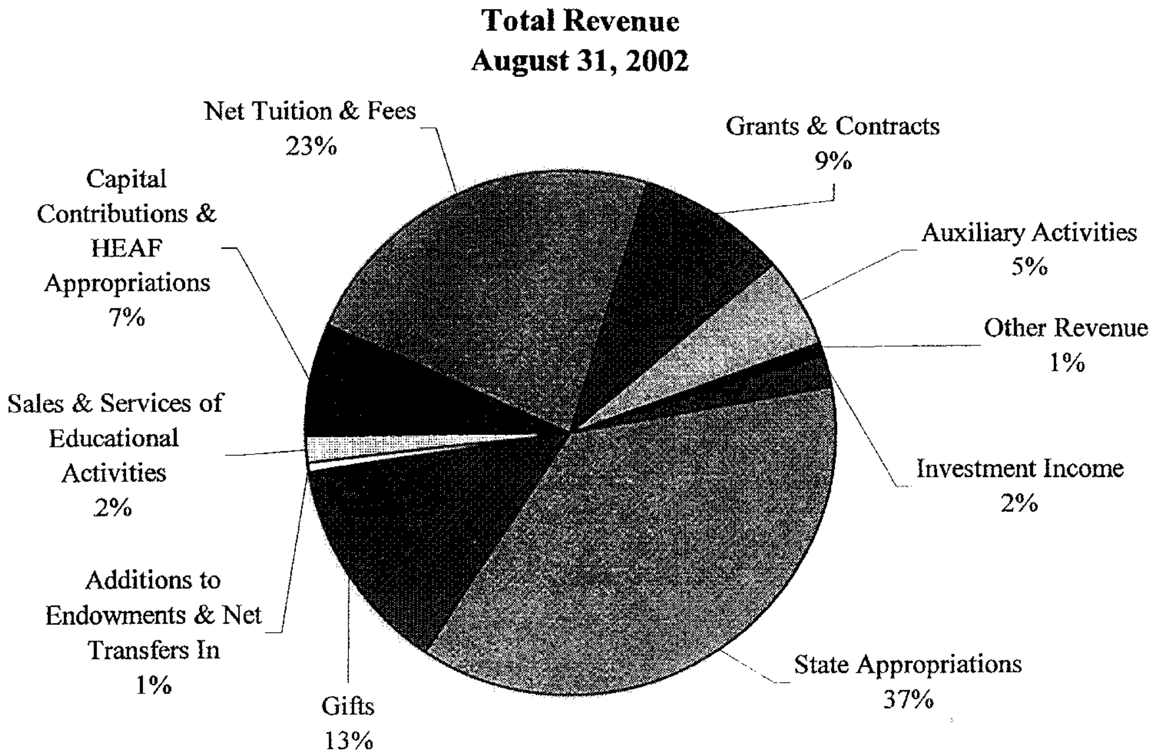


Statement of Revenues, Expenses and Changes in Net Assets

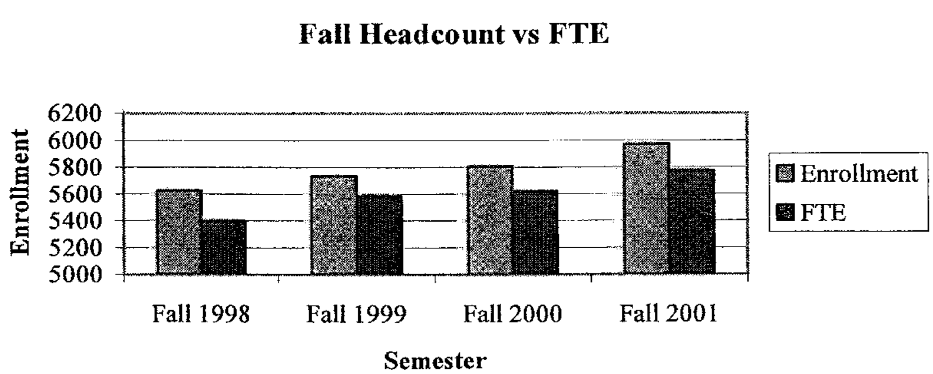
The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the university, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

		Blended Component Unit	Total
Operating Revenue:			
Net tuition and fees	$13,724,308		$13,724,308
Auxiliary	3,262,068		3,262,068
Grant and contracts	1,124,822		1,124,822
Sales and Service of Educational Activities	985,303		985,303
Other	424,092		424,092
Total Operating Revenue	19,520,593		19,520,593
Operating Expenses	57,482,025		57,482,025
Net Operating Loss	(37,961,432)		(37,961,432)
Nonoperating Revenues:			
State Appropriations	21,897,745		21,897,745
Gifts (Scholarships)	7,923,769		7,923,769
Grants (Federal & State)	4,274,959		4,274,959
Investment Income	750,511	461,814	1,212,325
Interest Expense	(655,820)		(655,820)
Net Increase (Decrease) in Fair Value of Investments	(10,655)	(1,011,105)	(1,021,760)
Other Nonoperating Revenues	18,132		18,132
Other Nonoperating Expenses	1,808		1,808
Total Nonoperating Revenue (Expense)	34,200,449	(549,291)	33,651,158
Capital Contributions, Additions to Endowments, and Special Items			
Capital Contributions & HEAF Appropriation	4,091,686		4,091,686
Additions to Endowments	191,893	225,000	416,893
Transfers In (Out)	(147,133)	154,374	7,241
Increase in Net Assets	375,463	(169,917)	205,546
Net Assets, Beginning of Year, as Restated	66,030,496	11,610,945	77,641,441
Net Assets, End of Year	$66,405,959	$11,441,028	$77,846,987

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and food services. In addition, certain federal, state and private grants are considered operating if they are not for capital purposes and are considered a contract for services. The following graph indicated the percentages that comprise total revenue.



Student tuition and fee revenue increased due to enrollment growth, tuition increases, and a student service fee increase. This graph shows that total enrollment and full time equivalent (FTE) figures continue to steadily increase.



Statement of Cash Flows

Another way to assess the financial health of the university is to look at the Statement of Cash Flows. This statement provides information about cash receipts and cash payments during the year. It also helps users assess the university's ability to generate future net cash flows, its ability to meet obligations as they come due, and its needs for external financing.

Cash Flows for the Year
(Including the Component Unit)

Cash provided (used) by:	
Operating activities	$(31,402,208)
Noncapital financing activities	34,098,826
Capital and related financing activities	9,654,743
Investing activities	(10,591,695)
Net increase in cash	1,759,666
Cash - Beginning of the year	5,862,393
Cash - End of year	$ 7,622,059

The university's liquidity improved during the year as shown by the net increase in cash of $1,759,666. The following discussion amplifies the overview of cash flows presented above.

Per Exhibit III, the Statement of Cash Flows, the major sources of funds from operations came from student tuition and fees ($15.9 million) and auxiliary enterprises, which include housing and dining ($3.3 million).

State appropriations ($21.5 million), are the primary source of non-capital financing. The new accounting standards require that this source be reflected as non-operating revenue even though the university's budget depends on this to continue the current level of operations. Other non-capital financing activity includes state and federal grants ($4.2 million) and gifts ($7.8 million).

The main sources for financing activities came from the new bond issue ($8.9 million), State Higher Education Assistance Funds ($3 million) and gifts ($1 million). Cash was used for the purchase of capital assets ($1.9 million) and for the reduction of capital debt ($1.4 million).

The use of cash in investing activities was also related to the proceeds from the new bond issue of $8,991,535.

Capital Asset and Debt Administration

Capital Assets

At August 31, 2002, the university had $55.7 million invested in capital assets, net of accumulated depreciation of $47.4 million. Depreciation charges totaled $3.2 million for the current fiscal year. Details of these assets are shown below.

Capital Assets Before Accumulated Depreciation

Land and Land Improvements	$ 2,701,434
Construction in Progress	771,844
Buildings and Building Improvements	72,272,448
Infrastructure	3,935,210
Facilities and Improvements	2,857,111
Furniture and Equipment	7,742,630
Vehicles	1,263,553
Other Capital Assets	11,613,263
Total	$103,157,493

The addition to land and buildings for the year was for the purchase of the Mertens Home located at 4014 Taft. This is being used as an Honors housing facility. The $771,844 representing construction in process at the end of the year includes the dredging of Sikes Lake and the HVAC/Chilled Water Project. The category of other capital assets includes library holdings, artwork and collections. Detailed financial information about the university's capital assets is presented in Note 2 of the footnotes to the financial statements.

Debt

At year-end, the university had $33 million in outstanding debt. The table below summarizes the amount by type of debt instrument.

Revenue Bonds	$21,735,000
Accrued long term interest payable on revenue bonds	10,572,440
Capital Lease Obligations	591,737
Accrued long term interest payable on capital lease obligations	85,686
Total	$32,984,863

Debt repayments made during the year were comprised of principal in the amount of $776,120 and interest in the amount of $655,820.

The university completed one bond sale during the year, an $8,965,000 revenue bond issued by the Texas Public Finance Authority (TPFA). Proceeds of the bonds will be used for the purpose of providing funds to finance campus improvements in heating, ventilating and air conditioning systems; chilled water distribution; street drainage and paving; and other projects including Americans with Disabilities Act (ADA) accessibility, elevator improvements, safety, and security lighting, and to pay the costs of issuing bonds.

The university's revenue bond rating is A2. More detailed information about the liabilities of the university is presented in Schedules 2A through 2D of the financial statements and in Notes 4, 5 and 14 of the footnotes.

Factors That Will Affect the Future

The economic position of Midwestern State University is closely tied to that of the State of Texas. State appropriations, comprising 37% of the university's total revenue, are the largest source of funding for the university.

Fall 2002 enrollment was 6,235 students, which gratifyingly exceeded the university's goal of 6,000 students and was an increase of 4% compared to the previous fall semester. The university administration and faculty are working on a comprehensive master plan to address the challenges of increasing enrollment.

In September of 2002, construction of a 336-bed student housing facility began. The facility is being constructed by Collegiate Development Services, working as a building contractor for the Texas Student Housing Corporation. The university has agreed to operate and manage the project as a student housing facility to be rented solely to students, faculty, and staff of the university.

In May or June of 2003, the university plans to issue new Housing System Revenue Bonds to renovate and repair two of the university's existing housing facilities, Killingsworth and Pierce Halls.

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Unaudited

Midwestern State University
Exhibit I
Statement of Net Assets
August 31, 2002

			Blended Component Unit	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents:				
Cash on Hand		$ 16,050		$ 16,050
Cash in Bank		1,074,404		1,074,404
Cash in State Treasury		5,948,751		5,948,751
Short-term Investments		13,510,544		13,510,544
Restricted:				
Cash and Cash Equivalents:				
Cash in Bank		195,814	$ 311	196,125
Cash Equivalents			386,729	386,729
Short-term Investments		1,115,199	301,664	1,416,863
Notes and Loans receivable		13,082		13,082
Net Receivables:				
Student Receivables		3,145,829		3,145,829
Federal Receivables		55,891		55,891
Other Intergovernmental Receivables		17,751		17,751
Receivable - TRS		25,829		25,829
Interest and Dividends		70,398	69,591	139,989
Other Receivables		665,109		665,109
Appropriation Receivable - SORM		298,059		298,059
Pledges receivable		101,000		101,000
Consumable Inventories		328,429		328,429
Prepaid Expenses		3,591,863		3,591,863
Total Current Assets		30,174,002	758,295	30,932,297
Noncurrent Assets:				
Restricted:				
Short-term Investments		8,812,442		8,812,442
Investments		2,627,946	10,682,733	13,310,679
Loans and Contracts		94,022		94,022
Other Long term Investments		8,962,658		8,962,658
Capital Assets, Non-depreciable:				
Land and Land Improvements	$ 2,701,434			
Construction in Progress	771,844			
Other Capital Assets	11,367,854	14,841,132		14,841,132
Capital Assets, Depreciable:				
Buildings & Building Improvements	72,272,448			
Less Accumulated Depreciation	(37,913,198)	34,359,250		34,359,250
Infrastructure	3,935,210			
Less Accumulated Depreciation	(1,555,623)	2,379,587		2,379,587
Facilities and Other Improvements	2,857,111			
Less Accumulated Depreciation	(1,636,070)	1,221,041		1,221,041
Furniture and Equipment	7,742,630			
Less Accumulated Depreciation	(5,229,130)	2,513,500		2,513,500
Vehicles	1,263,553			
Less Accumulated Depreciation	(868,766)	394,787		394,787
Other Capital Assets	245,409			
Less Accumulated Depreciation	(206,499)	38,910		38,910
Total Noncurrent Assets		76,245,275	10,682,733	86,928,008
Total Assets		$ 106,419,277	$ 11,441,028	$ 117,860,305

		Blended Component Unit	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 1,523,917		$ 1,523,917
Accrued Liabilities	1,904,889		1,904,889
Intergovernmental Accounts Payable	621,865		621,865
Employees' Compensable Leave	68,275		68,275
Room/Property Deposits	72,186		72,186
Deferred Revenues	12,571,535		12,571,535
Retainages and Contracts	6,039		6,039
Revenue Bonds Payable	830,000		830,000
Capital Lease Obligations	140,976		140,976
Total Current Liabilities	17,739,682		17,739,682
Noncurrent Liabilities:			
Employees' Compensable Leave	701,317		701,317
Room/Property Deposits	216,558		216,558
Revenue Bonds Payable	20,905,000		20,905,000
Capital Lease Obligations	450,761		450,761
Total Noncurrent Liabilities	22,273,636		22,273,636
Total Liabilities	40,013,318		40,013,318
NET ASSETS			
Invested in Capital Assets, net of related debt	42,386,470		42,386,470
Restricted for:			
Debt Retirement	503,645		503,645
Nonexpendable	2,642,370	$ 11,441,028	14,083,398
Expendable:			
Restricted by Contributor	998,942		998,942
Unrestricted	19,874,532		19,874,532
Total Net Assets	66,405,959	11,441,028	77,846,987
Total Liabilities and Net Assets	$ 106,419,277	$ 11,441,028	$ 117,860,305

Unaudited

Midwestern State University
Exhibit II
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended August 31, 2002

		Blended Component Unit	Total
Operating Revenues:			
Student tuition and fees (net of scholarship allowances of $5,775,510)	$ 13,724,308		$ 13,724,308
Federal Grants	449,136		449,136
Federal Pass-Through Grants	123,644		123,644
State Pass-Through Grants	215,659		215,659
Other Grants and Contracts	336,383		336,383
Sales and Services of Educational Activities	985,303		985,303
Sales and Services of Auxiliary Enterprises (net of scholarship allowances of $966,068)	3,262,068		3,262,068
Other Operating Revenue	424,092		424,092
Total Operating Revenues	19,520,593		19,520,593
Operating Expenses:			
Salaries and Wages	24,935,061		24,935,061
Payroll Related Costs	6,793,882		6,793,882
Professional Fees and Services	1,944,125		1,944,125
Travel	863,644		863,644
Materials and Supplies	4,725,707		4,725,707
Communications and Utilities	2,157,028		2,157,028
Repairs and Maintenance	856,175		856,175
Rentals and Leases	343,871		343,871
Printing and Reproduction	113,250		113,250
Depreciation	3,152,778		3,152,778
Bad Debt Expense	148,359		148,359
Interest	5,307		5,307
Scholarships	11,442,838		11,442,838
Total Operating Expenses	57,482,025		57,482,025
Operating Loss	(37,961,432)		(37,961,432)
Nonoperating Revenues (Expenses):			
State Appropriations	17,539,990		17,539,990
Additional State Appropriations	4,357,755		4,357,755
State Grants	744,304		744,304
Federal Grants	3,530,655		3,530,655
Gifts	7,923,769		7,923,769
Other Nonoperating revenues	18,132		18,132
Investment Income	750,511	$ 585,653	1,336,164
Investment Activities Expenses		(123,839)	(123,839)
Net Increase (Decrease) in Fair Value of Investments	(10,655)	(1,011,105)	(1,021,760)
Gain (Loss) on Sale of Capital Assets	1,799		1,799
Expenses incurred on Bonds Issued	(99,780)		(99,780)
Premium on Bonds Issued	99,789		99,789
Interest Expense on Capital Asset Financing	(655,820)		(655,820)
Total Nonoperating Revenues (Expenses)	34,200,449	(549,291)	33,651,158
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(3,760,983)	(549,291)	(4,310,274)

		Blended Component Unit	Total
Capital Contributions	$ 1,084,017		$ 1,084,017
HEAF Appropriation	3,007,669		3,007,669
Additions to Endowments	191,893	$ 225,000	416,893
Transfers In	636,046	782,366	1,418,412
Transfers Out	(783,179)	(627,992)	(1,411,171)
Increase (Decrease) in Net Assets	375,463	(169,917)	205,546
Net Assets, Beginning of Year	117,393,764	11,610,945	129,004,709
Restatements	(51,363,268)		(51,363,268)
Net Assets, Beginning of Year, as Restated	66,030,496	11,610,945	77,641,441
Net Assets, End of Year	$ 66,405,959	$ 11,441,028	$ 77,846,987

Unaudited

Midwestern State University
Exhibit III
Statement of Cash Flows
For the Year Ended August 31, 2002

		Blended Component Unit	Total
Cash Flows from Operating Activities:			
Proceeds Received from Students	$ 15,943,818		15,943,818
Proceeds Received for Sponsored Programs	1,126,325		1,126,325
Proceeds Received from Auxiliary Enterprises	3,322,351		3,322,351
Proceeds From Loan Programs	10,439		10,439
Proceeds From Other Revenues	1,438,925		1,438,925
Payments to Employees	(31,041,932)		(31,041,932)
Payments to Suppliers for Good and Services	(22,190,202)		(22,190,202)
Payments for Loans Provided	(11,932)		(11,932)
Net Cash Provided (Used) by Operating Activities	(31,402,208)		(31,402,208)
Cash Flows from Noncapital Financing Activities			
Proceeds from State Appropriations	21,558,832		21,558,832
Proceeds from State and Federal Grants	4,274,959		4,274,959
Proceeds from Contributed Capital	191,893		191,893
Gifts	7,822,769	$ 225,000	8,047,769
Proceeds from Other Noncapital Financing Activities	18,132		18,132
Transfers in from Other Funds	636,046	782,366	1,418,412
Transfers out to Other Funds	(783,179)	(627,992)	(1,411,171)
Net Cash Provided by Noncapital Financing Activities	33,719,452	379,374	34,098,826
Cash Flows from Capital and Related Financing Activities			
Proceeds from Issuance of Debt	8,991,535		8,991,535
Proceeds from Capital Gifts	1,052,122		1,052,122
Proceeds from HEAF Appropriations	3,007,669		3,007,669
Proceeds from Disposal of Capital Assets	21,012		21,012
Purchase of Capital Assets	(1,985,655)		(1,985,655)
Principal Paid on Capital Related Debt	(776,120)		(776,120)
Interest Paid on Capital Related Debt	(655,820)		(655,820)
Net Cash Provided by Capital and Related Financing Activities	9,654,743		9,654,743
Cash Flows from Investing Activities			
Proceeds from Interest and Investment Income	852,147	637,682	1,489,829
Payments for Investing Expenses		(123,839)	(123,839)
Proceeds from Sales and Maturities of Investments	48,857,575	2,531,716	51,389,291
Payments to Acquire Investments	(59,629,741)	(3,717,235)	(63,346,976)
Net Cash Provided (Used) by Investing Activities	(9,920,019)	(671,676)	(10,591,695)
Increase (Decrease) in Cash and Cash Equivalents	2,051,968	(292,302)	1,759,666
Cash and Cash Equivalents, September 1, 2001	5,183,051	679,342	5,862,393
Cash and Cash Equivalents, August 31, 2002	$ 7,235,019	$ 387,040	$ 7,622,059

		Blended Component Unit	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	$ (37,961,432)		$ (37,961,432)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:			
Amortization and Depreciation	3,152,778		3,152,778
Bad Debt Expense	148,359		148,359
(Increase) Decrease in Receivables	(2,064,251)		(2,064,251)
(Increase) Decrease in Inventories	30,579		30,579
(Increase) Decrease in Prepaid Expenses	(547,307)		(547,307)
(Increase) Decrease in Loans	(1,493)		(1,493)
Increase (Decrease) in Payables	1,465,482		1,465,482
Increase (Decrease) in Deferred Income	4,345,547		4,345,547
Increase (Decrease) in Other Liabilities	29,530		29,530
Total Adjustments	6,559,224		6,559,224
Net Cash Used by Operating Activities	$ (31,402,208)		$ (31,402,208)
Non Cash Transactions			
Net Increase (Decrease) in FMV of Investments	$ (10,655)	$ (1,011,105)	$ (1,021,760)

Note 1: Summary of Significant Accounting Policies

Introduction

Midwestern State University is a public institution of higher education and is an agency of the State of Texas. The university's Board of Regents is appointed by the Governor of the State. Accordingly, the university is included in the State's financial statements. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

The financial statements have been prepared incorporating totals from the university and the MSU Charitable Trust. The Trust was established as a separate nonprofit corporation which exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of the university. The MSU Charitable Trust's Board of Trustees is appointed by the university's Board of Regents thus creating a significant measure of control and fiduciary responsibility. Therefore, the MSU Charitable Trust is treated as a blended component unit of the university and the financial statements of the Trust have been combined with those of the university.

Basis of Presentation

The financial statements of Midwestern State University have been prepared in accordance with the requirements established by the Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities,* issued in June and November, 1999. Due to the significant changes related to these Statements, the Comptroller of Public Accounts does not require the annual financial report to be in compliance with GAAP.

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

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

Basis of Accounting – Proprietary Fund Accounting

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

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

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

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

The proprietary statement of revenues, expenses, and changes in net assets is segregated into operating and non-operating sections.

Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of an enterprise. GASB 34 indicates that a consideration for defining a proprietary fund's operating revenues and expenditures is how individual transactions would be classified for purposes of preparing a statement of cash flows according to GASB Statement No. 9.

Since certain grants are actually contracts for services, they are classified as operating activities. Although loan activity would normally be classified as an investing activity, lending activities in a university are directly related to the principal and usual activity of the university, and are classified as operating activities.

Net Assets

GASB Statement No. 34 reports equity as "Net Assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of university obligations.

Restricted Net Assets represent amounts over which third parties have imposed restrictions that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes. Restricted Net Assets includes funds held by the MSU Charitable Trust, the university's permanent endowments, and donor restricted funds.

Unrestricted Net Assets are available for university use, and have been internally designated or reserved for specific purposes such as renewals and replacements, quasi-endowments, capital projects, student loans, budget commitments, and reserves for working capital.

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.

Investments

The university reports investments at fair value in the Statement of Net Assets.

Restricted Assets

Restricted assets are those assets that have third party restrictions or are restricted for specific uses by a contractual obligation. Restricted assets include donor restricted funds and proceeds from bond issuances that can only be used for capital projects.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, and utilize the last-in, first-out method.

Capital Assets

Property, plant and equipment are recorded at cost, or, if acquired by gift, at the fair market value as of the date of the acquisition. Depreciation is provided on physical properties on a straight-line basis over the estimated useful life of the asset.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2002, is presented below:

	Balance 09/01/01	Adjustments	Category Reclassifications	Additions	Deletions	Balance 08/31/02
Non-depreciable Assets						
Land and Land Improvements	$2,016,273		$645,161	$40,000		$2,701,434
Construction in Progress				771,844		771,844
Other Capital Assets	9,436,817	$1,391,718	70,000	484,390	($15,071)	11,367,854
Total Non-depreciable Assets:	$11,453,090	$1,391,718	$715,161	$1,296,234	$(15,071)	$14,841,132
Depreciable Assets:						
Buildings and Building Improvements	72,696,303	(652,399)	56,695	171,849		72,272,448
Infrastructure	8,743,564	(1,249,387)	(3,558,967)			3,935,210
Facilities and Other Improvements			2,857,111			2,857,111
Furniture and Equipment	15,379,239	(6,454,202)	(1,476,178)	427,465	(133,694)	7,742,630
Vehicles		(4,970)	1,183,398	129,224	(44,099)	1,263,553
Other Capital Assets		38,979	222,780	3,650	(20,000)	245,409
Total Depreciable Assets at Historical Costs:	96,819,106	(8,321,979)	(715,161)	732,188	(197,793)	88,316,361
Total Assets Before Depreciation	108,272,196	(6,930,261)	0	2,028,422	(212,864)	103,157,493
Depreciation:						
Buildings and Building Improvements		(35,668,565)		(2,244,633)		(37,913,198)
Infrastructure		(1,428,363)		(127,260)		(1,555,623)
Facilities and Other Improvements		(1,548,518)		(87,552)		(1,636,070)
Furniture and Equipment		(4,742,305)		(599,225)	112,400	(5,229,130)
Vehicles		(827,093)		(85,772)	44,099	(868,766)
Other Capital Assets		(218,163)		(8,336)	20,000	(206,499)
Total Accumulated Depreciation		(44,433,007)		(3,152,778)	176,499	(47,409,286)
Depreciable Assets, Net	$96,819,106	($52,754,986)	($715,161)	($2,420,590)	($21,294)	$40,907,075
Capital Assets, Net	$108,272,196	($51,363,268)	$0	($1,124,356)	($36,365)	$55,748,207

Adjustment Column Worksheet	GASB 34/35 Fund Type Changes	Capitalization Threshold Changes	Accumulated Depreciation	Total Adjustments
Non-depreciable Assets:				
Land and Land Improvements				
Other Capital Assets	$1,391,718			$1,391,718
Total Non-depreciable Assets:	1,391,718			1,391,718
Depreciable Assets:				
Buildings and Building Improvements		($652,399)		(652,399)
Infrastructure		(1,249,387)		(1,249,387)
Facilities and Other Improvements				0
Furniture and Equipment		(6,454,202)		(6,454,202)
Vehicles		(4,970)		(4,970)
Other Capital Assets	38,979			38,979
Total Depreciable Assets at Historical Costs:	38,979	(8,360,958)		(8,321,979)
Less Accumulated Depreciation For:				
Buildings and Building Improvements			($35,668,565)	(35,668,565)
Infrastructure			(1,428,363)	(1,428,363)
Facilities and Other Improvements			(1,548,518)	(1,548,518)
Furniture and Equipment			(4,742,305)	(4,742,305)
Vehicles			(827,093)	(827,093)
Other Capital Assets			(218,163)	(218,163)
Total Accumulated Depreciation			(44,433,007)	
Depreciable Assets, Net	38,979	(8,360,958)	(44,433,007)	(52,754,986)
Capital Assets, Net	$1,430,697	($8,360,958)	($44,433,007)	($51,363,268)

Note 3: Deposits and Investments

Authorized Investments

Midwestern State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Governmental Code). Such investments include:

(1) Obligations of the United States or its agencies,
(2) Direct obligations of the State of Texas or its agencies,
(3) Obligations of political subdivisions rated not less than AA@ by a national investment rating firm,
(4) Certificates of deposit, and
(5) Other instruments and obligations authorized by statute.

Deposits of Cash in Bank

Cash In Bank

The carrying amount of $1,270,218 for Cash in Bank (including restricted assets) is presented below.

The bank balance of Midwestern State University has been classified according to the following risk categories.

- Category 1 - Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name.
- Category 3 - Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the governmental entity's name).

Cash and Deposits for the university:

Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
$1,270,218	$2,012,328	$100,000	$1,912,328	-0-

Bank deposits:		
Demand deposits		$ 1,270,218
Cash and cash equivalents:		
Petty cash on hand	$ 16,050	
Cash in the State Treasury	5,948,751	5,964,801
Total Cash and Deposits		$7,235,019

Cash and Deposits for the MSU Charitable Trust:

Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
$ 311	$ 311	$ 311	$ -0-	$ -0-

Bank deposits:	
Demand deposits	$ 311
Cash and cash equivalents:	
Money market accounts	386,729
Total Cash and Deposits	$ 387,040

Combined Cash and Deposits for the primary reporting entity:

Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
$1,270,529	$2,012,639	$100,000	$1,912,328	-0-

Bank deposits:		
Demand deposits		$ 1,270,529
Cash and cash equivalents:		
Petty cash on hand	$ 16,050	
Cash in the State Treasury	5,948,751	
Money market accounts	386,729	6,351,530
Total Cash and Deposits		$7,622,059

Investments

To comply with the reporting requirements of GASB Statement No. 3, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, Midwestern State University's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the University at year end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1: Investments that are insured or registered or for which the securities are held by the University or its agent in the University's name.
- Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or University in the University's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

Investment Categories for the University:

Type of Security	Category 1	2	3	Reported Value
U.S. Gov't. & Agency Securities	$11,570,474			$11,570,474
Corporate Stock	20,130			20,130
Uncategorized Investments:				
Texpool				22,950,198
Logic				487,987
Total Investments				$35,028,789

Investment Categories for the University's Component Unit, the MSU Charitable Trust:

Type of Security	Category 1	2	3	Market Value
U.S. Treasury Notes & Bills	$ 446,573			$ 446,573
U.S. Gov't. & Agency Securities	3,165,975			3,165,975
Corporate Bonds	1,989,300			1,989,300
Corporate Stock	5,373,050			5,373,050
Mutual Funds	9,499			9,499
Total Investments				$10,984,397

Combined Investments for the primary reporting entity.	$46,013,186

Consisting of the following on the Statement of Net Assets:

Current Assets:	
Short-term investments	$13,510,544
Restricted Short-term investments	1,416,863
Noncurrent Assets:	
Restricted Short-term investments	8,812,442
Restricted Investments	13,310,679
Other Long-term investments	8,962,658
Total Combined Investments	$46,013,186

Derivative Investing

Prior to the 1995 amendments to the Public Funds Investment Act, the University had invested in various real estate derivatives (Collateralized Mortgage Obligations), primarily inverse floaters, which are backed by U.S. Government agencies. These investments were made to maximize yields when interest rates were falling. The University had no remaining CMOs at August 31, 2002.

Note 4: Summary of Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2002, the following changes occurred in liabilities:

	Balance 09-01-01	Additions	Reductions	Balance 08-31-02	Amounts Due Within One Year
Revenue Bonds Payable	$13,310,000	$8,965,000	$540,000	$21,735,000	$830,000
Capital Lease Obligations	696,328	26,938	131,529	591,737	140,976
Compensable Leave	665,886	179,294	75,588	769,592	68,275
Total	$14,672,214	$9,171,232	$747,117	$23,096,329	$1,039,251

Employee's Compensable Leave

Full-time state employees earn annual leave from seven to fourteen hours per month depending on the respective employee's years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 520 for those employees with thirty-five years of state service. A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. For proprietary fund types an expense and liability are recorded as the benefits accrue to employees. The liability is determined through the summarization of each employee's annual leave balance multiplied by their respective salary rate. The estimated cumulative amount of this liability is $769,592. The University made lump sum payments totaling $75,588 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2002.

The University has an undetermined and unrecorded liability for employee's earned sick leave. Sick leave, the accumulation of which is unlimited, 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 that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 5: Capital Leases

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

The original capitalized costs of furniture and equipment under capital lease as of August 31, 2002, is $1,223,705. The accumulated depreciation is $269,938 resulting in a net book value of $953,767.

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

Fiscal Year	Future Minimum Lease Payments
2002	$176,828
2003	172,545
2004	163,415
2005	162,132
2006	2,502
2007 and beyond	0
Total Minimum Lease Payments	677,422
Less: Amount Representing Interest at Various Rates	(85,685)
Present Value of Net Minimum Lease Payments	$591,737

Note 6: Not Applicable

Note 7: Interfund Balances / Activities

During the year, the university experienced certain transfers in/out with other State agencies, and with its component unit, the MSU Charitable Trust. The amounts reflected in the financial statements are as follows:

Transferred in:	
From the MSU Charitable Trust	$ 627,992
From Texas Excellence Funds-Agency 902	8,054
Total	$ 636,046
Transferred out:	
To the MSU Charitable Trust	$ 782,366
To the Coordinating Board-Agency 781	813
Total	$ 783,179

Note 8: Employees Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the university participates is administered by the Teacher Retirement System of Texas (TRS). The contributory percentages of participant salaries currently provided by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

The Teacher Retirement System does not separately account for each of its component government agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report.

The State has also established an optional retirement program 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. The contributory percentages on salaries for participants entering the program prior to September 1995 are 8.5% and 6.65% by the state and each participant, respectively. The state's contribution is comprised of 6.00% from the ORP's appropriation and 2.5% from other funding sources. The 6.00% contribution is mandatory with the other contributions being at the discretion of the Board of Regents. The Board of Regents has approved the additional contributions for employees of the University. The contributory percentages on salaries for participants entering the program after August 31, 1995 are 6.00% and 6.65% by the state and each participant, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The total retirement expense to the State for the university was $950,708 for the fiscal year ended August 31, 2002. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the university. The total retirement expense from the university's institutional funds was $604,540.

Note 9: Deferred Compensation Program

Not Applicable.

Note 10: Contingent Liabilities

Subsequent to August 31, 2002, a lawsuit involving Midwestern State University was pending. While the ultimate liability with respect to litigation and other claims asserted against the university cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the university.

Note 11: Continuance Subject to Review

Not Applicable.

Note 12: Risk Financing and Related Insurance

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for university employees. At August 31, 2002, the university was assessed $491,065 for worker's compensation coverage. The cost to the State from the State's General Revenue Fund was $298,059, and the cost to the university, paid out of local funds, was $193,006.

The university is required by certain bond covenants to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments. There was one insurance claim made during the fiscal year ended August 31, 2002, for a dryer fire which started in the coliseum, for a total amount of $42,110. Insurance covered all but $10,000 of the claim.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of $20,000/$40,000 bodily injury and $15,000 property damage. However, the university has chosen to carry liability insurance on its licensed vehicles in the amount of $250,000/$500,000/$100,000.

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The university does purchase educators legal liability insurance.

Note 13: Segment Information

Not Applicable.

Note 14: Bonded Indebtedness

Revenue Bonds Payable

Detailed supplemental bond information is disclosed in Schedule 2A Miscellaneous Bond Information, Schedule 2B Changes in Bonded Indebtedness, Schedule 2C Debt Service Requirements, and Schedule 2D Analysis of Funds Available for Debt Service.

General information related to bonds is summarized below:

Building Revenue and Refunding Bonds, Series 1996

- To advance refund Housing System Revenue Bonds, Series 1965 and Building Revenue Refunding Bonds, Series 1994, to restructure the University's existing debt service, and to expand and renovate the Clark Student Center.
- Issued September 1, 1996.
- $5,850,000; all bonds authorized have been issued.
- Source of revenue for debt service – University Center Fee, Student Union Fee, Student Center Building Use Fee, and Pledged Auxiliary Revenues.

Revenue Refunding and Improvement Bonds, Series 1998

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To advance refund Tuition and General Fee Revenue Bonds, Series 1975 and Series 1989, to renovate Bea Wood and O'Donohoe Halls, to construct a health and wellness center and to acquire various equipment.
- Issued September 1, 1998.
- $9,860,000; all bonds authorized have been issued.
- Source of revenue for debt service – Pledged Revenues, consisting of unrestricted current funds and revenues and unappropriated fund balances available, but not including remissions, governmental appropriations, gifts, grants, and contracts, and student service fees.

Revenue Financing System Revenue Bonds, Series 2002

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To pay for campus improvements in heating, ventilating and air conditioning systems; chilled water distribution; street drainage and paving; and other projects including Americans with Disabilities Act (ADA) accessibility, elevator improvements, safety, and security lighting.
- Issued June 15, 2002.
- $8,965,000; all bonds authorized have been issued.
- Source of revenue for debt service – Pledged Revenues, consisting of non-restricted current funds revenues and unappropriated fund balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, and student service fees and private gifts.

Note 15: Subsequent Events

In September, 2002, Collegiate Development Services, working as a building contractor for the Texas Student Housing Corporation, began construction of a 336 bed student housing facility. The facility is being built on university property, on the far west side of campus. The university, in a Ground Lease, has agreed to operate and manage the project as a student housing facility to be rented solely to students and faculty of the university.

In May or June of 2003, the university plans to issue new Housing System Revenue Bonds to renovate and repair two of the university's existing housing facilities; Killingsworth and Pierce Halls. The amount of the issuance has not yet been determined.

Note 16: Related Parties

Midwestern State University Foundation is a nonprofit organization with the sole purpose of supporting the educational and other activities of the University. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of $684,081 to the University during the year ended August 31, 2002.

The balances, or transactions, of funds held in trust by others on behalf of the university are not reflected in the financial statements. At August 31, 2002, there were four such funds, including the Foundation, held for the benefit of the university. Based upon the most recent available information, the assets of these funds are reported by the Trustees at values totaling $11,723,121.

Note 17: Stewardship, Compliance and Accountability

The university administration is not aware of any noncompliance items.

Note 18: The Financial Reporting Entity

Midwestern State University is an agency of the State of Texas and operates under a nine member Board of Regents appointed by the Governor of the State. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the University (the primary government) and its component unit. The component unit discussed below is included in the University's reporting entity because of the significance of operational control and financial relationship with the University.

Blended Component Unit

In conformity with generally accepted accounting principles, the financial statements of the MSU Charitable Trust have been included in the financial reporting entity as a blended component unit.

The MSU Charitable Trust, an entity legally separate from the University, is governed by a six member Board of Trustees, all of whom are appointed and can be removed by the University's Board of Regents. For financial reporting purposes, the MSU Charitable Trust is reported as if it were part of the University's operations because its purpose is to operate for the exclusive financial support of the University.

Note 19: Restatement of Fund Balances/Net Assets

During fiscal year 2002, two adjustments were made during the GASB 34/35 transition, which required the restatement of Net Assets:

		Blended Component Unit	Total
Net Assets, September 1, 2001	$117,393,764	$ 11,610,945	$129,004,709
Restatement:			
Change in Capitalization Threshold	(6,930,261)		(6,930,261)
Accumulated Depreciation	(44,433,007)		(44,433,007)
Total Restatement	(51,363,268)		(51,363,268)
Net Assets, September 1, 2001 As Restated	$66,405,959	$ 11,610,945	$77,846,987

Note 20: Donor Restricted Endowments

Endowments	$425,384	$11,441,028	$11,866,412
Term Endowments	2,216,986		2,216,986
Total Reported as Nonexpendable Net Assets	$2,642,370	$11,441,028	$14,083,398

Note 21: Pledged/Non-Pledged Revenues and Discounts and Allowances

See Schedule 2D for pledged revenues of the university.

Unaudited

Midwestern State University
Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2002

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Pass-Through From ID #	Agy #	Univ #	Agy Amount	Univ Amount
Student Financial Assistance Cluster						
U.S Department of Education						
Direct Programs						
--Federal Supplemental Education Opportunity Grant Program	84.007					
--Federal Work Study Program	84.033					
--Federal Pell Grant Program	84.063					
--Federal Family Education Loan Program	84.032					
--Federal Perkins Loan Program	84.038					
--Upward Bound	84.047					
Total Student Financial Assistance Cluster Programs						
Other Clusters						
U.S. Department of Education						
Pass Through from Texas Higher Education Coordinating Board - Eisenhower Higher Ed Grants	84.168		781		$73,722	
U.S. Department of Health & Human Services						
Research on Aging - Nortex	93.044				6,966	
Small Business Administration						
Pass-Through from Texas Tech- Small Business Development Center	93.298			733		$116,678
Donation of Federal Surplus Personal Property						
Texas Building and Procurement Commission -General Services Administration	39.003		303		10,471	
Total Federal Financial Assistance					$91,159	$116,678

Note 1: Nonmonetary Assistance

The "Donation of Federal Surplus Personal Property" is presented as 23.3 percent of the original federal acquisition cost of $44,940.72. The surplus property is passed through from the Texas Building and Procurement Commission. The federal grantor agency is the General Services Administration (GSA), and the federal CFDA number is 39.003. The estimated fair value for fiscal year 2002 is $10,471.10.

Note 3: Student Loans

Federal Grantor/CFDA #/Program Name	New Loans Processed	Adm. Costs Recovered	Loans Outstanding at 8/31/02	Ending balances of loans from previous years
U.S. Department of Education				
84.032 Federal Family Education Program	$9,688,053			
84.038 Federal Perkins Loan Program	11,932			$103,877
Total Department of Education	$9,699,985			$103,877

		Total Pass-Through	Pass Through To				Total Pass
Non St A Amount	Direct Program	From & Direct Program	Agy #/ Univ #	State Entities	Other Entities	Expenditures	Through To and Expenditures
	$120,914	$120,914				$120,914	$120,914
	91,340	91,340				91,340	91,340
	3,409,741	3,409,741				3,409,741	3,409,741
	9,688,053	9,688,053				9,688,053	9,688,053
	11,932	11,932				11,932	11,932
	284,074	284,074				284,074	284,074
	13,606,054	13,606,054				13,606,054	13,606,054
		73,722				73,722	73,722
		6,966				6,966	6,966
		116,678				116,678	116,678
		10,471				10,471	10,471
$0	$13,606,054	$13,813,891		$0	$0	$13,813,891	$13,813,891

Note 2: Reconcilation

Federal Revenues - per Exhibit II	
Federal grant revenue - operating	$449,136
Federal pass - through revenue-operating	123,644
Federal grant revenue - non-operating	3,530,655
Total Federal Revenues	4,103,435
Reconciling Items: Add	
Federal Family Education Loans Processed	9,688,053
Federal Perkins Loans Processed	11,932
Fderal Surplus Personal Property	10,471
	$13,813,891

Unaudited

Midwestern State University
Schedule 1B - Schedule of State Grant Pass Throughs From/To State Agencies
For the Year Ended August 31, 2002

Operating Revenue:	
Pass Through From:	
Texas Higher Ed. Coord. Board (Agy #781)	
Advanced Research Program	$74,100
Developmental Education Program	44,031
Nursing and Allied Health	92,528
Financial Aid - Professional Nursing	5,000
Total Operating Pass Through Revenue (Exhibit II)	$215,659
Non-Operating Revenue:	
Pass Through From:	
Texas Higher Ed. Coord. Board (Agy #781)	
Texas Grants	$725,125
College Work Study	12,777
Fifth Year Accounting	6,402
Total Nonoperating Pass Through Revenue (Exhibit II)	$744,304
Total Pass Through From Other Agencies	$959,963

Pass Through To:

None

Unaudited

Midwestern State University
Schedule 2A - Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2002

Description of Issue	Bonds Issued To Date	Range of Interest Rates	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call Date
Revenue Bonds					
Building Revenue & Refunding Bonds: Series 1996	$5,850,000	4.00% - 5.50%	1997	2016	06-01-06
Tuition & General Fee Revenue Bonds: Series 1998	9,860,000	3.45% - 5.10%	1998	2018	12-01-08
Revenue Financing System Revenue Bo Series 2002	8,965,000	4.00% - 5.00%	2003	2021	12-01-12
Total	$24,675,000				

Unaudited

Midwestern State University
Schedule 2B - Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2002

Description of Issue	Bonds Outstanding 09-01-2001	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08-31-2002	Amounts Due Within One Year
Revenue Bonds						
Building Revenue & Refunding Bonds -Series 1996	$4,880,000		$235,000		$4,645,000	$245,000
Tuition & General Fee Revenue Bonds -Series 1998	8,430,000		305,000		8,125,000	320,000
Revenue Financing System Revenue Bonds - Series 2002		$8,965,000			8,965,000	265,000
Total	$13,310,000	$8,965,000	$540,000	$0	$21,735,000	$830,000

Unaudited

Midwestern State University
Schedule 2C - Debt Service Requirements
For the Fiscal Year Ended August 31, 2002

Description of Issue	2003	2004	2005	2006	2007	2008-12	All Other Years	Total Requirements
Revenue Bonds:								
Building Revenue & Refunding Bonds:								
Series 1996								
Principal	$245,000	$260,000	$270,000	$285,000	$300,000	$1,755,000	$1,530,000	$4,645,000
Interest	251,105	238,855	225,855	212,085	197,407	728,198	195,805	2,049,310
Tuition & General Fee Revenue Bonds:								
Series 1998								
Principal	320,000	340,000	355,000	370,000	390,000	2,210,000	4,140,000	8,125,000
Interest	378,948	362,447	345,073	328,520	312,555	1,285,653	761,386	3,774,582
Revenue Financing System Revenue Bonds:								
Series 2002								
Principal	265,000	290,000	305,000	320,000	335,000	1,940,000	5,510,000	8,965,000
Interest	377,127	381,501	369,601	357,101	344,001	1,496,253	1,422,964	4,748,548
Total	1,837,180	1,872,803	1,870,529	1,872,706	1,878,963	9,415,104	13,560,155	32,307,440
Less Interest	1,007,180	982,803	940,529	897,706	853,963	3,510,104	2,380,155	10,572,440
Total Principal	$830,000	$890,000	$930,000	$975,000	$1,025,000	$5,905,000	$11,180,000	$21,735,000

Unaudited

Midwestern State University
Schedule 2D - Analysis of Funds Available for Debt Service
For Revenue Bonds Outstanding
For the Year Ended August 31, 2002

Description of Issue	Pledged and Other Sources and Related Expenses for FY 2002							
	Operating Revenues	Net Interest Earned and Loss on Investments	Other Pledged Revenues	Total Pledged Sources	Other Sources	Operating Expenses	Capital Outlay	Net Available for Debt Service
Building Revenue & Refunding Bonds Series 1996	$3,875,242	$195,672	$1,803,029	$5,873,943		$4,202,510	$850	$1,670,583
Tuition & General Fee Revenue Bonds Series 1998 **And** **Revenue Financing System Revenue Bonds** Series 2002			32,089,645	32,089,645				32,089,645
Total	$3,875,242	$195,672	$33,892,674	$37,963,588	$0	$4,202,510	$850	$33,760,228

Description of Issue	Debt Service		Refunded or Extinguished	Interest and Sinking Fund		Reserve Fund	
	Principal	Interest		Minimum	Actual	Minimum	Actual
Building Revenue & Refunding Bonds Series 1996	$235,000	$262,620				$477,118	$477,118
Tuition & General Fee Revenue Bonds Series 1998	305,000	393,200					
Revenue Financing System Revenue Bonds Series 2002							
Total	$540,000	$655,820				$477,118	$477,118

Unaudited

Midwestern State University
Schedule 3 - Reconciliation of Cash in State Treasury
August 31, 2002

Cash in State Treasury	Unrestricted	Restricted	Current Year Total
General Revenue - Fund 0001 (non-HEAF)	$486,682		$486,682
General Revenue - Fund 0001 (HEAF)	1,988,340		1,988,340
General Revenue - Dedicated Fund 0264	3,458,694		3,458,694
Fifth Year Accounting Scholarships - Fund 0106	0		0
Special Mineral Fund - Fund 0412	8,801		8,801
Texas Excellence Fund - Fund 0347	4,809		4,809
License Plate Schol Program - Fund 5015	1,425		1,425
Total Cash in State Treasury (Stmt of Net Assets)	$5,948,751		$5,948,751

Unaudited

Midwestern State University
Schedule 4 - Higher Education Assistance Fund
For the Year Ended August 31, 2002

Balance, September 1, 2001	$	815,999
Revenues:		
HEAF Appropriation		3,007,669
Other Revenues		3,969
Total Revenues		3,011,638
Expenses:		
Professional Fees and Services		36,507
Materials and Supplies		751,965
Repairs and Maintenance		175,688
Interest		3,204
Printing and Reproduction		1,956
Total Expenses		969,320
Other Revenues (Expenses):		
Special Items - Purchase of Capital Assets		(1,026,557)
Balance At August 31, 2002	$	1,831,760

APPENDIX C
FORM OF BOND COUNSEL'S OPINION

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

TEXAS PUBLIC FINANCE AUTHORITY
MIDWESTERN STATE UNIVERSITY REVENUE FINANCING SYSTEM
REVENUE AND REFUNDING BONDS, SERIES 2003
$13,180,000

AS BOND COUNSEL FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the "Authority") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and within the Resolution (hereinafter defined). The Board of Directors of the Authority and the Board of Regents (the "Board") of Midwestern State University (the "University"), respectively, authorized the issuance of the Bonds pursuant to separate resolutions (collectively, the "Resolution"). Terms used herein and not otherwise defined shall have the meaning given in the Resolution.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Board relating to the authorization, issuance, sale, and delivery of the Bonds, including the Resolution, certificates and opinions of officials of the Board, and other pertinent instruments relating to the issuance of the Bonds. We have also examined one of the executed Bonds (Bond Numbered R-1) which we found to be in due form and properly executed. We express no opinion with respect to any statement of insurance that may appear on the Bonds.

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

THE REGISTERED OWNERS of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation.

THE AUTHORITY AND THE BOARD have reserved the right, subject to the restrictions stated in the resolution authorizing the Bonds, to issue additional parity revenue bonds which also may be secured by and made payable from a first lien on and pledge of the aforesaid Pledged Revenues.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of McGladrey & Pullen LLP, and assume compliance by the Authority and the Board with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Authority or the Board to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by Section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by Section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by Section 1375 of the Code.

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

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

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

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

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

Respectfully,

APPENDIX D
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

SPECIMEN

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022 (212) 826-0100

Form 500NY (5/90)

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