INDEX OF ATTACHMENTS

I, Ben Lock, the duly appointed and qualified Secretary of the Board of Regents, hereby certify that the above and foregoing is a true and correct copy of the Minutes of the Texas Tech University System Board of Regents meeting on October 31, 2008.

Ben Lock

Ben Lock
Secretary

Seal

ADMISSION REQUIREMENTS

Angelo State University
Effective ~~2006~~ 2009 Fall Semester

1. HIGH SCHOOL GRADUATE

A graduate from an accredited or unaccredited high school will be eligible for admission to Angelo State University when the applicant has met all admission requirements and has on file in the Office of Admissions the following items:

Application for Admission
Official transcripts of high school records
Residency Questionnaire
Scores on the Enhanced American College Test (ACT) or the ~~Scholastic Assessment Test I~~ SAT Reasoning Tests (SAT I) (scores cannot be more than five years old)
Scores on Texas Success Initiative (TSI) assessment test or proof of exemption
~~$20.00~~ $25.00 (Approved Summer 2007 by TSUS) Application Fee

Regular Admission

Applicants from an accredited high school must meet one of the following requirements to be eligible for regular admission:

a. Rank in the top 10% of the senior class at the time of application or graduate in the top 10% of the graduating class.

~~a.~~b Satisfactorily complete the Texas Scholars Program, Recommended High School Program, Distinguished Achievement or other College Preparatory Curriculum and present a minimum composite score on the Enhanced American College Test (ACT) of 16 or a minimum composite score on the SAT Reasoning Tests (SAT I) of 760.

~~b. Rank in the top half of the senior class at the time of application or graduate in the top half of the graduating class.~~

c. Present a composite score on the Enhanced American College Test (ACT) or a combined verbal and math score on the ~~Scholastic Assessment Test~~ SAT Reasoning Tests (SAT I), for the high school class rank shown below:

High School Class Rank		Test Scores ACT	Test Scores SAT I
Top 10%	Automatic Admission by HB 588	No Minimum	
		16	760
Next 40%	....	~~No minimum~~	
3rd Qtr	....	23	1030
4th Qtr	....	30	1270

~~d. Have a 50% or greater probability of earning an overall "C" average (2.0 GPA) during the freshman year at Angelo State University as computed from high school grades and ACT, or SAT I scores.~~

d. In addition to current university requirements for admission, applicants must also have either:

1) successfully completed the curriculum requirements for the recommended or advanced high school program or its equivalent; or
2) satisfied ACT's College Readiness Benchmarks on the ACT assessment applicable to the applicant or earned on the SAT assessment a score of at least 1,500 out of 2,400 or the equivalent.

The above requirement may be satisfied if the applicant's official high school transcript or diploma states that the applicant completed the portion of the recommended or advanced curriculum or its equivalent that was available to the applicant, but was unable to complete the remainder of the curriculum solely because courses necessary to complete the remainder were unavailable to the applicant at the appropriate times in the applicant's high school career as a result of course scheduling, lack of enrollment capacity, or another cause not within the applicant's control

~~Provisional~~ Alternative Admission

High School graduates who do not qualify for regular admission and desire to enroll as full-time, degree-seeking students at ASU during the academic year may qualify for ~~provisional~~ alternative admission through the following special programs:

~~a. Academic Year~~

~~High school graduates who have satisfactorily completed at least four years of English, three years of mathematics, three years of social science, and three years of natural science in Grades 9-12 and who have a 50% or greater probability of earning a 1.35 GPA during their freshman year at ASU, as determined by the Office of Admissions, may be admitted on a provisional basis. Applicants who have not satisfactorily completed the course unit requirements listed above, but who have a 50% or greater probability of earning a 1.60 GPA during their freshman year at ASU, as determined by the Office of Admissions, may be admitted on a provisional basis.~~

Applicants who do not meet the regular admission requirements may be considered for the Alternative Admission Program.

The Undergraduate Admissions Appeals Committee will review applications for consideration into the Alternative Admission Program. In addition to reviewing the student's class rank, standardized test scores, and high school grades and courses, the committee will consider other factors such as leadership activities, community service, talents and awards, extenuating circumstances, and employment/internships.

Applicants for the Alternative Admission Program must have an official SAT or ACT score on file with the University. The applications considered under the Alternative Admission Program will be on a case-by-case basis. Students admitted may be subject to specific enrollment conditions established by the Undergraduate Admissions Appeals Committee based on the applicant's individual circumstances. These conditions may include enrolling in prescribed developmental course work, participating in tutoring sessions and other academic support activities, and meeting other conditions designed to promote academic success.

Students admitted ~~provisionally~~ under this program must register for courses only at ASU while on ~~provisional~~ alternative admission status and must complete 12 semester credit hours of prescribed course work at ASU during both the fall semester and spring semester. Students admitted ~~provisionally~~ alternatively must earn a GPA on all college level course work attempted at ASU during each semester which is at least equal to that required of regularly admitted students to maintain enrollment in the University as specified in the University Bulletin. Transfer credits will not be considered in connection with the admission or subsequent status of ~~a provisionally~~ an alternatively admitted student.

~~b. Summer Session~~

~~Students who do not qualify for provisional admission during the academic year may qualify for provisional admission by enrolling as a full-time student during a six-week summer term and completing six semester credit hours of prescribed course work at ASU and passing all course work attempted with a grade of "C" or better.~~

2. GENERAL EQUIVALENCY DIPLOMA (GED)

Individuals who are not high school graduates who have submitted evidence of a high school equivalency diploma from the Texas Education Agency may be eligible for admission to Angelo State University when they have met all admission requirements and have on file in the Office of Admissions the following items:

Application for Admission
Scores on the Enhanced American College Test (ACT) or ~~Scholastic Assessment Test I scores~~ the SAT Reasoning Tests (SAT I) (scores cannot be more than five years old)
High school equivalency diploma from the Texas Education Agency or any other state education agency
Residency Questionnaire
Scores on ~~a~~ Texas Success Initiative (TSI) assessment test or proof of exemption
~~$20.00~~ $25.00 (Approved Summer 2007 by TSUS) Application Fee

Applicants under this category may be admitted by meeting one of the following requirements:

a. Regular

Present a composite score of 23 or above on the Enhanced American College Test (ACT) or a combined verbal and math score of 1030 on the ~~Scholastic Assessment Test I~~ SAT Reasoning Tests (SAT I), or

b. Summer Session

Enroll as a full-time student during a ~~six-~~ four-week summer term and complete six semester credit hours of prescribed course work at Angelo State University with a grade of C or better in each course.

Students admitted under this category are subject to requirements regarding satisfactory writing, reading, and mathematics skills as imposed on high school graduates based upon their sub scores on the ACT or SAT I exams, or scores received on ~~a~~ the TSI assessment test.

3. EARLY ADMISSION

High school students who have completed the sophomore or junior year of high school may be eligible for special admission to Angelo State University under one of the following Early Admission policies.

a. Summer School Early Admission for High School Seniors

High school students who have completed their junior year of high school may be eligible for admission to Angelo State University for the full summer session or for either of the summer terms under the Summer School Early Admission Policy. Students approved for admission under this policy may enroll in course work on the campus of Angelo State University.

Enrollment under the Summer School Early Admission Policy will be limited to no more than seven semester credit hours, or two courses of prescribed work, excluding a physical activity course, during a summer term.

b. Academic Year Early Admission for High School Juniors or Seniors
High school students who have completed the sophomore or junior year of high school may be eligible for admission to Angelo State University for a fall or spring semester under the Academic Year Early Admission Policy. Students approved for admission under this policy must be enrolled concurrently in Angelo State University and high school. Enrollment under the Academic Year Early Admission Policy will be limited to no more than seven semester credit hours, or two courses of prescribed work, excluding a physical activity course, during a fall or spring semester.

In order to be eligible for admission to Angelo State University under the Summer School Early Admission Policy or the Academic Year Early Admission Policy, high school students must meet the following admission requirements:

a. Rank in the upper 25 percent of the high school class, and

b. Meet TSI exemption requirements with a composite score of 23 or above (19 subscore in English and math) on the Enhanced American College Test (ACT) or a combined verbal and math score of 1070 (minimum 500 verbal and 500 math subscores) or above on the ~~Scholastic Assessment Test I~~ SAT Reasoning Tests (SAT I), and

c. Letter of recommendation from high school guidance counselor

High school students will be eligible for admission to Angelo State University under the Summer School Early Admission Policy or the Academic Year Early Admission Policy when they have met all admission requirements and have on file in the Office of Admissions the following items:

Application for Early Admission
Official transcript of high school records, to include current class rank
Official Scores on the Enhanced American College Test (ACT) or the ~~Scholastic Assessment Test I~~ SAT Reasoning Tests (SAT I) (scores cannot be more than five years old)
~~Official Scores a Texas Success Initiative (TSI) assessment test, or p~~ Proof of TSI exemption
Letter of recommendation from high school ~~principal~~ guidance counselor
Residency Questionnaire
$~~20.00~~ $25.00 (Approved Summer 2007 by TSUS) Application Fee

Students granted early admission to take academic courses under the Summer School Early Admission Policy or the Academic Year Early Admission Policy will not be considered as having officially matriculated at Angelo State University until they graduate from high school and enroll in the University as regular students.

Upon graduation from high school, students must provide the Office of Admissions with an official final high school transcript. Once received, an official ASU transcript may be requested.

4. TRANSFER FROM ANOTHER COLLEGE OR UNIVERSITY

Transfer students from an accredited college or university will be eligible for admission to Angelo State University when they have met all admission requirements and have on file in the Office of Admissions the following items:

Application for Admission
Official transcripts of all college or university work*
Residency Questionnaire

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*Students meeting all admission requirements who are currently enrolled in another college or university and are unable to provide current transcripts of all previous work may petition for tentative admission to the Office of Admissions. It is the responsibility of the students to provide the official transcript to the Office of Admissions or be subject to forced withdrawal.

Transfer Admission Agreement (if currently enrolled at another college or university)
Scores on ~~a~~ Texas Success Initiative (TSI) assessment test or proof of exemption
~~$20.00~~ $25.00 (Approved Summer 2007 by TSUS) Application Fee

a. Transfer students from an accredited college or university who are not on disciplinary probation or suspension may be admitted if their cumulative grade point average on all college level work attempted meets the following criteria and the other designated requirements:

Total College Level Semester Credit Hours Attempted	Minimum Cumulative Grade Point Average and Other Requirements
1-17	2.00 and meet admission criteria for high school graduates
18 or more	2.00

Students who are on academic suspension at the last institution attended are ineligible for admission to Angelo State University until the period and terms of the suspension have been satisfied and the above criteria have been met.

b. Transfer students will be subject to the same Special Requirements regarding developmental course work in English/writing/reading and/or mathematics as required for high school graduates if their ACT or SAT I scores, their performance on the Texas Success Initiative (TSI) assessment test or on proficiency tests administered by the University, or their performance in subsequent course work at ASU indicates a deficiency in English and/or mathematics skills. Angelo State University will not accept transfer credit for developmental courses.

c. Graduates from an accredited Texas public two-year college with the associate degree will be admitted to Angelo State University without reservation once official transcripts have been received in the Office of Admissions. However, a maximum of sixty-six semester credit hours of college level academic course work may be applied towards a bachelor's degree at ASU.

d. When calculating a transfer grade point average, grades of "A," "B," "C," "D," and "F" are computed as recorded. Grades of "WF" are averaged as "F." When a course has been repeated, the last grade stands and is used for GPA calculations. Grades in non-transferable, developmental, and technical/vocational courses are disregarded.

Transient Admissions

Applicants who have completed college work and are working toward a degree at another college or university are eligible to be considered for transient admission. Transient admission is for the summer only. Applicants who desire to register only for a summer session may be considered for enrollment without regard to the provisions of (a) above, but must not be on academic or disciplinary probation or suspension from another institution.

5. OTHER PROVISIONS AND CONDITIONS OF ADMISSION

All other provisions and conditions of admission not covered by the above admission requirements, including but not limited to early admission for high school students, ~~foreign~~ international student admissions, consideration of the content of the high school or college curriculum pursued by the applicant, and special admission on an individual basis shall be established by the President of the University.

6. APPEALS

The policies and procedures for considering appeals shall be established by the Provost and Vice President for Academic and Student Affairs, subject to the approval of the President of the University, and the University's decision in all such cases shall be final.

TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER
School of Medicine

The Mildred and Shirley Garrison Geriatric Education and Care Center

Educational Accomplishments and Vision for the future

Steven L. Berk MD
Vice President for Medical Affairs and
Dean, School of Medicine

October 30 2008

Current Teaching Program

- Over the past four years students from the Texas Tech University Health Sciences Center, Schools of Medicine, Pharmacy, Nursing and Allied Health have had clinical rotations at this facility.
- Additionally, students from Schools of Engineering, Architecture, Business, Human Sciences and others have participated in education and research.

Medical Education

- Residents in Internal Medicine and Family Medicine take care of patients under the direction of Dr. Andrew Dentino. Fellows in geriatrics from Amarillo do a one month rotation; and a fellowship program in Lubbock will soon be approved and based at the Garrison Center.
- There is a required experience for both first year medical students and fourth year students .

Health Sciences Center Students

- Pharmacy: Six to eight students rotate through the facility reviewing medications, potential side effects and drug interactions.
- Nursing: Students observe, receive hands on training and conduct graduate research.
- Allied Health: Students work with the physical therapy department in both occupational and physical therapy programs; and also in speech and language as pathology interns.

The Vision

- A Continuous Care Retirement Center
- Elderly of all levels of function on one campus
- Students participate in all aspects of this full scale retirement community
- Encourage a diversity of health care providers, but also many different disciplines to design the best possible geriatric community

The Components of a Continuous Care Retirement Community

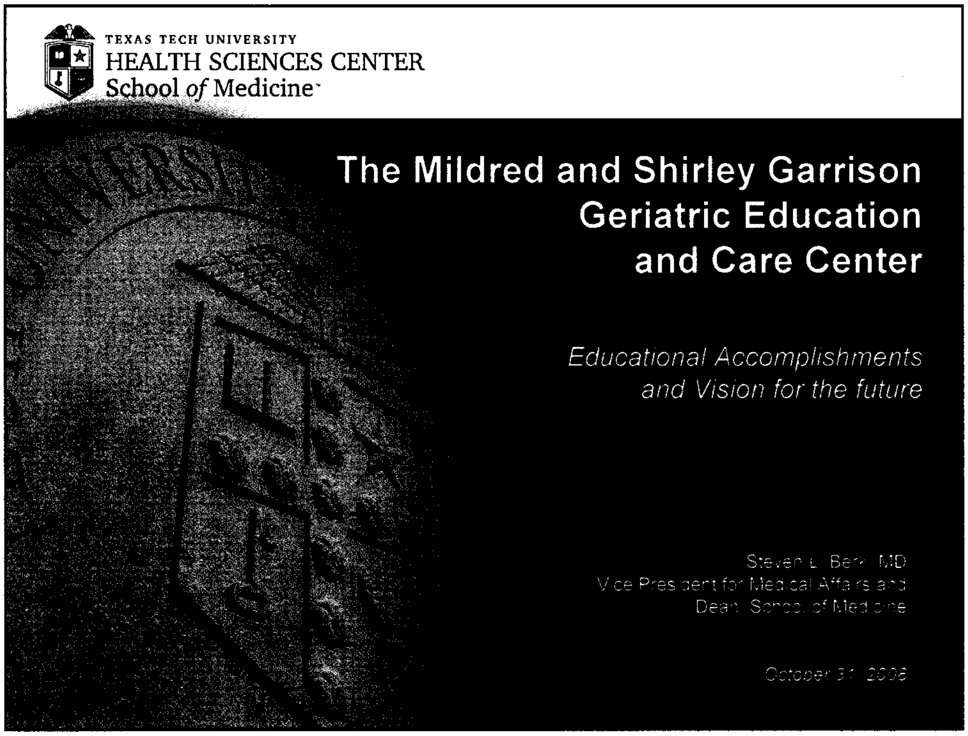
- Independent Living: Homes and apartments
- Assisted Living: Apartments for patients who need routine medical care and assistance. Design and innovation are highly valued
- Ambulatory Care Clinic: Geriatrician is the primary care physician
- Long term care *"Nursing home"*
- Alzheimer's Unit
- Recreational facilities

Goals of the Retirement Community

- Excellent, optimal care for older people
- World class learning environment for Texas Tech – both the Health Sciences Center and the University. *A place where research and innovation thrives.*
- Lubbock as a highly respected community for the care of older and retired citizens

A Proposed Model

- 50 executive homes and 40-60 luxury apartments
- Three separate houses for assisted living quarters with 30-36 residents
- Medical clinic – physician and geriatric fellow
- Recreation facility on land surrounding the Garrison Center and adjacent to the TTU Rawls course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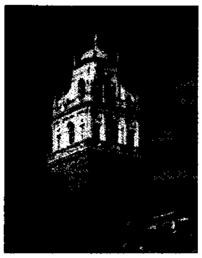


Enrollment Statistics

Texas Tech University

Dr. Guy Bailey
President

October 31, 2008

TTU Enrollment Statistics

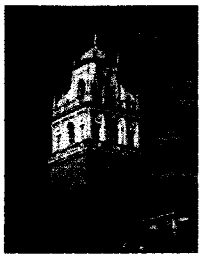
- Total Enrollment (headcount) F08: 28,422
- Enrollment Increase, F07-F08: 162 (.057%)
- Increase in Graduate Student Headcount: 124 (2.73%)
- Increase in Transfer Student Headcount: 208 (10.4%)
- Decrease in New Freshman Headcount: 108 (-2.93%)

TTU Enrollment Statistics - continued

- Increase in Hispanic Enrollment: 76 (13.31%)
- Decrease in African American Enrollment: 5 (2.24%)
- Increase in Average Freshman SAT Scores: 21 pts (1113)
- Increase in Presidential Endowed Scholarships: 40 (to 99)
- Increase in Honors Endowed Scholarships: 29 (to 170)
- Overall Merit Scholarships: 114 (to 606)

Statewide Enrollment Statistics, F08

- Headcount Enrollment in 4-Year Institutions: 510,735
- Enrollment Increase in 4-Rear Institutions: 13,540 (2.72%)
- Headcount Enrollment in 2-Year Institutions: 610,495
- Enrollment Increase in 2-Year Institutions: 34,861 (6.06%)



Incentive Funding
Board of Regents Meeting

Texas Tech University

Dr. Guy Bailey
President

October 31, 2008

Statewide Distribution of Incentive Funding

- Texas Higher Education Coordinating Board recently distributed $80,000,000 in incentive funding for FY09
- Distribution was based on productivity and progress
  - — $40 million distributed based on 3-year average of degrees granted in all fields, in critical fields, and to at-risk students
  - — $40 million distributed based on the *increase* between 04-05 and 06-07 in degrees granted in all fields, in critical fields, and to at-risk students

Incentive Funding Distributed to TTU

- TTU ranked 4th in productivity (3-year average in total number of degrees, critical field degrees, and degrees to at-risk students)
- TTU ranked 7th in progress (increase in total number of degrees, critical fields degrees, and degrees to at-risk students)
- As a result, TTU received $4,441,168 (5th largest amount in state)

Proposed Use of Incentive Funds at TTU

- Coordinating Board Constraints on Using Funds
  - —They are E&G funds and must comply with paragraph 8, section 6, article III of the General Appropriations Act for the 80th Legislature
  - — They must be spent during FY09
- Texas Tech University Principles for Using Funds
  - — Build enrollment, especially for Spring 09
  - — Increase degree production
  - —Help transition to a different summer school model

Proposed Use of Incentive Funding

- Four New Scholarship Programs ($950,000)
- Additional Courses (up to 120) for Spring 09 ($2.1 million)
- Incentive Funding for Summer School ($1.4 million)
- Additional money to general scholarship fund to supplement current scholarships (balance of funds)

New Scholarship Programs

- Red Raider *Back on Track*-- $3000 scholarships for undergraduates who have completed at least 90 student credit hours, are in good academic standing, and have not enrolled since Fall 06 (anticipate 25 students)
- Red Raider *Phi Theta Kappa* --$3000 scholarships for members of the community college honor society (3.25 GPA min.) to complete degrees at TTU (anticipate 100 students)
- Red Raider *Taking the Next* --$1000 scholarships for other community college transfers (anticipate 50 students)

New Scholarship Programs - continued

- Red Raider *Veterans Assistance* -- $1500 scholarships for veterans, spouses, and dependents who have not enrolled for Fall 08 (anticipate 35 students)
- Red Raider *Higher Educational Professionals*--$1000 scholarships for faculty/staff at South Plains College to enroll as graduate students at Texas Tech University (anticipate 25 students)
- Additional money to general scholarship funds to supplement current scholarships (balance funds)

Additional Courses for Spring 09

- Additional courses (up to 120) will provide instructional capacity for new students and for generating additional student credit hours
- The costs of the new courses will be an estimated $2.1 million; while incentive funding will initially cover the cost of the courses, no course will be offered unless it pays for itself

Summer School Incentive Funding

- Summer incentives for graduate students that will allow them
  - — to take additional courses in summer (and thus to enhance student credit hour production)
  - — to speed up their time to degree completion
  - —to teach summer courses to undergraduates (and thus to enhance summer student credit hour production in another way)

TEXAS TECH UNIVERSITY

Hammond Associates
INSTITUTIONAL FUND CONSULTANTS, INC.

HammondAssociates
INSTITUTIONAL FUND CONSULTANTS, INC.

Texas Tech University System

Board of Regents

October 31, 2008

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St. Louis, MO 63105-3406
314-746-1600
www.hammondassociates.com

Table of Contents

Executive Summary

Section I

Executive Summary *(as of September 2008)*

Performance

- For the year ending September 30, 2008, the Texas Tech portfolio was valued at $662 million and is down 9.8% with the policy index falling 16.4%. Nevertheless, the five-year annualized return is 10.1%.
- Total Equity returned -24.2% for the trailing 12 months:
  - Domestic equity performance relative to its benchmark has improved over the last quarter and is slightly ahead of the index for the trailing 12 months, -20.4% versus -21.3%.
  - International equity, which has long been a value contributor, was hit particularly hard. For the trailing 12 months, the overseas portfolio is down 32.3% while the all country (ex-US) benchmark fell 30.0%. Emerging markets and small-cap stocks were especially beaten down. However, the Investment Committee has been reducing international stocks, targeting small caps and emerging funds. About $19.4 million was redeemed from international stocks over the past 12 months;
- Global Allocation is slightly positive, and substantially beating the MSCI AC World benchmark.
- As an asset class, hedge funds are coming off one of the worst quarters on record. Texas Tech's hedge fund composite returned -8.1%. While this performance beat the public equity markets by a wide margin, this was less protection than was anticipated. Looking forward to the coming months and year, we believe the portfolio is well positioned to rebound. There are several important factors regarding the recent results:
  - The crisis that gripped the markets was credit related and many of the University's hedge funds have a credit orientation;
  - Forced selling by some (non- Tech managers) forced down securities held by the Tech managers well below, we believe, intrinsic value. This is particularly true for illiquid fixed income securities;
  - Government intervention changed the rules under which hedging could take place.
- Fixed income (excluding cash) has matched the Lehman Aggregate with a 3.8% return for the same period.

Executive Summary *(Cont'd)*

Carr Foundation

- Texas Tech University System has begun to receive installments of the $70 million from the Carr Foundation. There was $11 million added in August with about $11 million left to be received in 2008, and about $22 million in the first half of 2009.

Recommendations

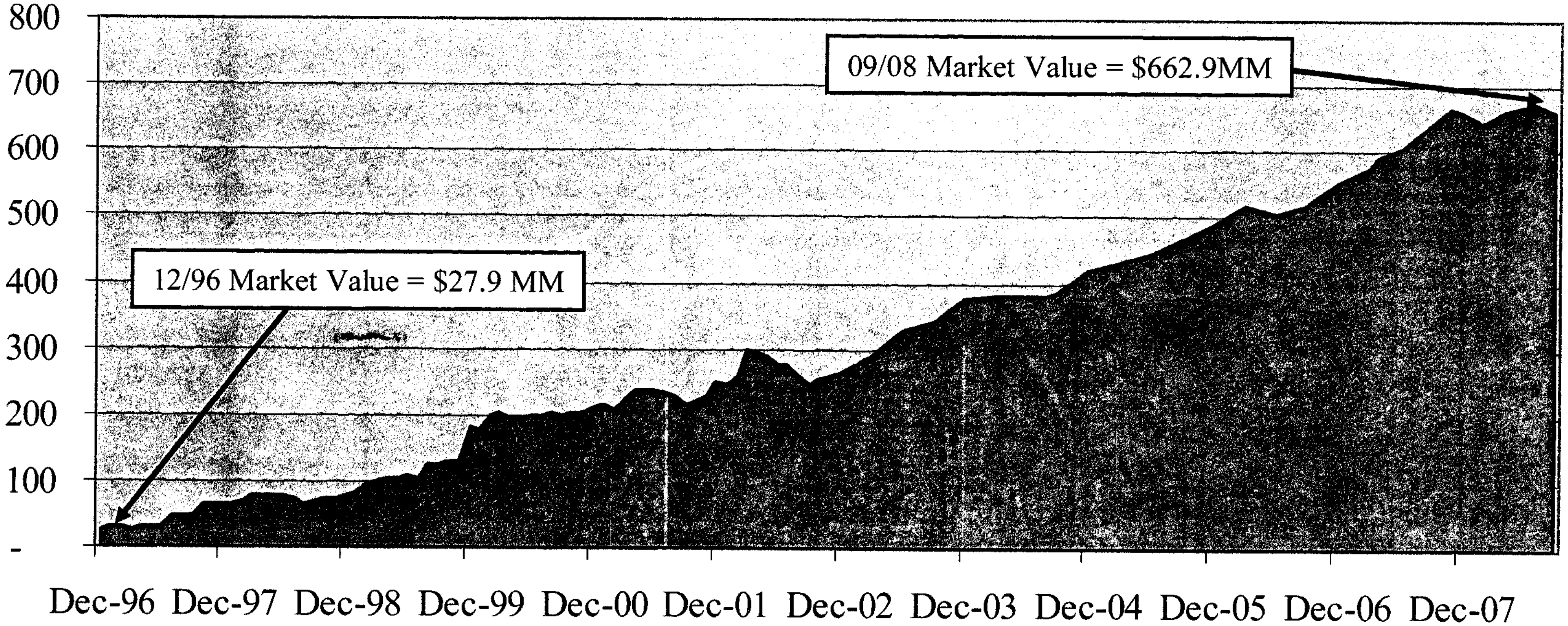
- Domestic Equity
  - Recognizing the need for security selection in this difficult environment, the Committee proposed shifting $20 million from ~~the~~ S&P index fund to Arnhold & S Bleichroeder and $13 million from INTECH (a semi-indexer) to Stralem Large Cap. This was approved on October 10th. Both managers seek out firms that should perform better in this tumultuous environment.
- Private Equity
  - The Committee proposes re-investing with two of the University's private equity managers, Goldman Sachs Vintage and Reservoir, at $10 million a piece.

Asset Allocation

- In 2004, GMO Global Asset Allocation Return Strategy was selected as a placeholder for assets as the University built up its private equity and real assets portfolios. This GMO strategy has performed particularly well, earning 9.6% annualized since inception versus global stocks which gained 5%. It is recommended that an allocation of 0% to 5% be earmarked for the Global Opportunistic segment of the portfolio. The current weight is 3%. In the future, other opportunistic global managers may be so engaged.

Performance Review

Long Term Investment Fund Growth Over Time *(as of September 2008)*



11 Years 9 Months	$635 MM Increase[1]	9.2% Annualized Return[2]

[1] Includes net additions/withdrawals.

[2] Excludes net additions/withdrawals. Net investment performance only.

	Market Value ($'s, MM's)
Sep-08	662.9
Sep-07	612.6
Sep-06	518.7

Composite(s) Performance Review *(as of September 2008)*

Fund	Market Value($)	% of Portfolio	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Since Inception	Inception Date
TEXAS TECH UNIVERSITY	***662.9***	***100.0***	***-10.1***	***-5.3***	***-9.8***	***6.1***	***10.1***	***8.4***	***9.2***	***Aug-96***
Texas Tech University Policy Index			*-15.7*	*-7.3*	*-16.4*	*3.7*	*8.5*	*6.8*	*8.3*	
TOTAL MARKETABLE	***505.2***	***76.2***	***-15.0***	***-6.8***	***-15.5***	***3.5***	***8.1***	***7.4***	***8.4***	***Aug-96***
Texas Tech University Marketable			*-18.5*	*-8.7*	*-19.3*	*2.6*	*7.7*	*6.5*	*8.0*	
TOTAL EQUITY	***249.7***	***37.7***	***-22.7***	***-9.7***	***-24.2***	***1.2***	***8.4***		***5.7***	***Jul-01***
TOTAL DOMESTIC EQUITY	***131.8***	***19.9***	***-17.7***	***-8.3***	***-20.4***	***-1.2***	***5.0***		***3.2***	***Jul-08***
Wilshire 5000			*-18.6*	*-9.3*	*-21.3*	*0.6*	*6.0*		*2.5*	
TOTAL INTERNATIONAL EQUITY	***95.4***	***14.4***	***-31.2***	***-13.6***	***-32.3***	***2.8***	***13.2***		***9.4***	***Jul-01***
MSCI AC World ex USA (Gross)			*-29.5*	*-15.0*	*-30.0*	*3.1*	*11.8*		*7.8*	
FIXED INCOME (excluding cash)	***38.1***	***5.7***	***0.8***	***-1.2***	***3.8***	***4.2***	***3.8***		***4.8***	***Jul-01***
Lehman Aggregate			*0.6*	*-1.3*	*3.7*	*4.2*	*3.8*		*4.9*	
TOTAL HEDGE FUNDS	***145.9***	***22.0***	***-9.4***	***-6.2***	***-8.1***	***5.0***	***6.7***		***6.3***	***May-02***
HFR Fund of Funds			*-11.0*	*-5.0*	*-9.3*	*3.4*	*5.2*		*5.1*	
TOTAL REAL ASSETS	***63.4***	***9.6***								
TOTAL PRIVATE EQUITY	***103.6***	***15.6***								

Returns are net of fees. Returns greater than one year are annualized.

Performance is compared to the most appropriate index. Equity outperformance by greater than 100 bps is indicated in green; underperformance by greater than 100 bps is indicated in red. Fixed income outperformance by greater than 50 bps is indicated in green; underperformance by greater than 50 bps is indicated in red.

Domestic Manager Performance *(as of September 2008)*

Fund	Market Value($)	% of Portfolio	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Since Inception	Inception Date
TOTAL DOMESTIC EQUITY	***131.8***	***19.9***	***-17.7***	***-8.3***	***-20.4***	***-1.2***	***5.0***	***3.2***	***Jul-01***
Wilshire 5000			*-18.6*	*-9.3*	*-21.3*	*0.6*	*6.0*	*2.5*	
SSgA S&P 500 Index SL CTF	***60.3***	***9.1***	***-19.3***	***-8.9***	***-22.0***			***-1.5***	***Jan-06***
S&P 500 Index (Total Return)			*-19.3*	*-8.9*	*-22.0*			*-1.5*	
Jensen Investment Management	***19.7***	***3.0***	***-9.3***	***-3.7***				***-10.2***	***Nov-07***
S&P 500 Index (Total Return)			*-19.3*	*-8.9*				*-19.8*	
Atalanta Sosnoff Capital	***17.3***	***2.6***	***-23.4***	***-8.4***				***-24.0***	***Nov-07***
Russell 1000 Growth			*-20.3*	*-11.6*				*-20.6*	
Intech Risk-Managed Large Cap	***12.7***	***1.9***	***-17.5***	***-9.7***	***-16.6***	***-0.4***		***-0.4***	***Sep-05***
S&P 500/Citigroup Growth			*-18.4*	*-10.2*	*-19.4*	*0.3*		*0.3*	
SSgA S&P Mid Cap Index CTF	***13.0***	***2.0***		***-10.6***				***-9.1***	***Jul-08***
SSgA Russell 2000 Index SL CTF	***8.8***	***1.3***		***-7.9***				***-4.6***	***Jul-08***

Returns are net of fees. Returns greater than one year are annualized. Performance is compared to the most appropriate style index. Outperformance by greater than 100 bps is indicated in green; underperformance by greater than 100 bps is indicated in red.
Note: *Intech was terminated on October 15th.*

International Manager Performance *(as of September 2008)*

Fund	Market Value($)	% of Portfolio	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Since Inception	Inception Date
TOTAL INTERNATIONAL EQUITY	***95.4***	***14.4***	*-31.2*	***-13.6***	*-32.3*	***2.8***	*13.2*	*9.4*	***Jul-01***
MSCI AC World ex USA (Gross)			*-29.5*	*-15.0*	*-30.0*	*3.1*	*11.8*	*7.8*	
Axiom International Equity Fund II	***14.5***	***2.2***		***-14.4***				***-18.6***	***Jul-08***
MSCI AC World ex USA (Net)				*-15.0*				*-19.0*	
GMO Foreign Fund III	***33.3***	***5.0***	***-28.2***	***-12.3***	***-29.6***	***1.7***		***6.9***	***Jan-04***
MSCI EAFE			*-29.3*	*-14.5*	*-30.5*	*1.1*		*6.4*	
Silchester Int'l Value Equity	***17.7***	***2.7***		***-10.0***				***-10.2***	***Jul-08***
MSCI EAFE				*-14.5*				*-17.9*	
GMO Intl Small Companies-III	***5.1***	***0.8***	***-28.5***	***-14.1***	***-32.5***	***1.6***		***8.8***	***Jan-04***
EMI-EPAC (Int'l Small)			*-31.0*	*-16.1*	*-34.3*	*0.7*		*8.2*	
Acadian Int'l Small Cap CTF	***4.4***	***0.7***	***-37.8***	***-21.6***	***-44.7***	***-3.3***		***9.0***	***Jan-04***
EMI-EPAC (Int'l Small)			*-31.0*	*-16.1*	*-34.3*	*0.7*		*8.2*	
GMO Emerging Markets Fd-III	***20.4***	***3.1***	***-35.4***	***-15.9***	***-35.0***	***7.8***	***20.3***	***22.5***	***Jun-03***
MSCI EM (Emerging Markets)			*-35.5*	*-17.5*	*-33.2*	*8.4*	*18.7*	*20.7*	

Returns are net of fees. Returns greater than one year are annualized.
Performance is compared to the most appropriate style index. Outperformance by greater than 100 bps is indicated in green; underperformance by greater than 100 bps is indicated in red.

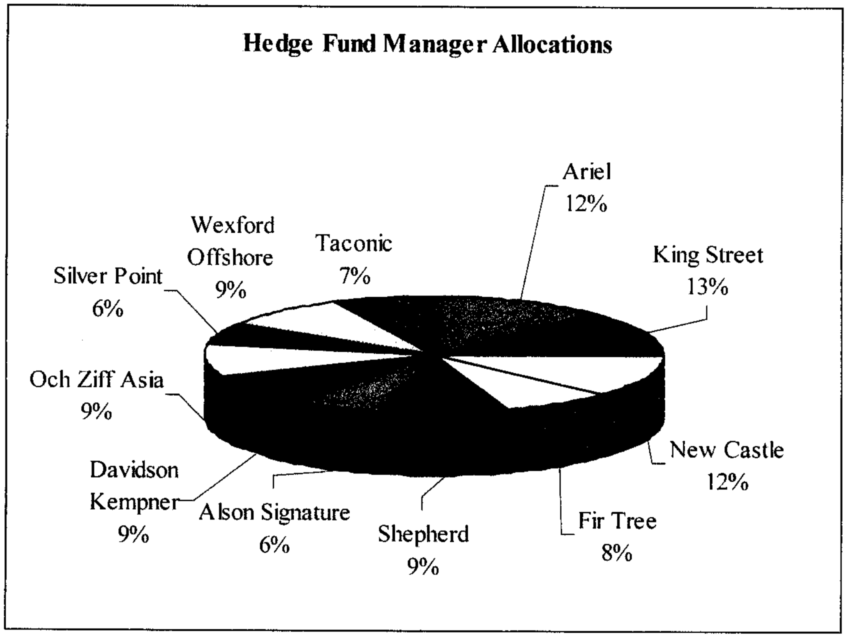
Fixed Income, Global Performance, and REITS *(as of September 2008)*

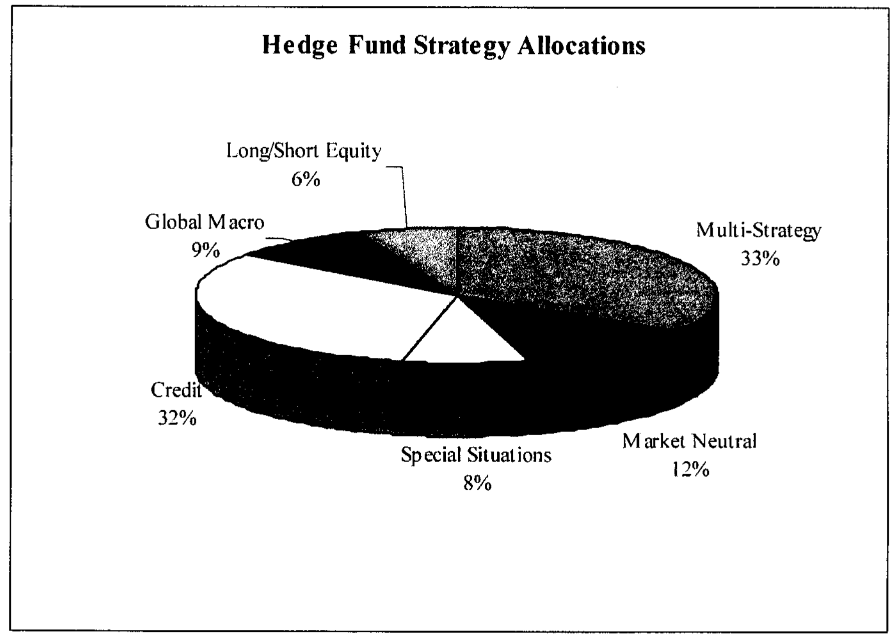
Fund	Market Value($)	% of Portfolio	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Since Inception	Inception Date
TOTAL FIXED INCOME	***100.2***	***15.1***	***1.5***	***-0.3***	***3.6***	***4.3***	***3.5***	***4.2***	***Jul-01***
Lehman Aggregate			*0.6*	*-1.3*	*3.7*	*4.2*	*3.8*	*4.9*	
SSgA Passive Bond Market Index	***38.1***	*5.7*	***0.8***	***-1.2***	***3.8***	***4.2***	***3.8***	***4.8***	***Apr-02***
Lehman Aggregate			*0.6*	*-1.3*	*3.7*	*4.2*	*3.8*	*4.8*	
Cash Account	***62.2***	***9.4***	***2.2***	***0.2***	***3.3***	***4.2***	***3.1***	***2.6***	***Mar-02***
91 Day T-Bills			*1.3*	*0.1*	*2.1*	*3.9*	*3.1*	*2.7*	
GMO Global Allocation Absolute	***22.5***	*3.4*	***-1.5***	*0.7*	***0.1***	*7.5*		***9.6***	***Mar-04***
MSCI AC World			*-25.5*	*-12.5*	*-26.9*	*1.3*		*5.0*	
Vanguard REIT Instl Index	***9.3***	***1.4***		***-0.1***				***-6.0***	***May-08***
Dow Jones Wilshire REIT				*-0.4*				*-6.8*	

Returns are net of fees. Returns greater than one year are annualized. Performance is compared to the most appropriate style index. Cash & fixed income outperformance by greater than 50 bps is indicated in green; underperformance by greater than 50 bps is indicated in red.

Hedge Fund Overview *(as of September 2008)*

Multi-Strategy	Market Neutral	Special Situations	Credit	Global Macro	Long/Short Equity
Shepherd	New Castle	Fir Tree	Ariel	Wexford	Alson Signature
Davidson Kempner			King Street		
Och Ziff Asia			Silver Point		
Taconic					





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Hedge Fund Manager Performance *(as of September 2008)*

Fund	Market Value($)	% of Portfolio	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Since Inception	Inception Date
TOTAL HEDGE FUNDS	***145.9***	***22.0***	***-9.4***	***-6.2***	***-8.1***	***5.0***	***6.7***	***6.3***	***May-02***
HFR Fund of Funds			*-11.0*	*-5.0*	*-9.3*	*3.4*	*5.2*	*5.1*	
Och Ziff Asia Overseas Fund, Ltd.	***12.8***	***1.9***		***-7.6***				***-14.8***	***Jan-08***
Davidson Kempner Inst. Partners LP	***12.9***	***1.9***	***-5.8***	***-5.6***	***-5.4***			***0.2***	***Dec-06***
Shepherd Investments Int'l Ltd. CL	***13.1***	***2.0***	***-11.9***	***-6.8***	***-14.4***			***2.2***	***Feb-06***
Alson Signature Fund Offshore	***9.0***	***1.4***	***-20.1***	***-11.3***	***-17.7***			***-5.6***	***Dec-06***
Silver Point Capital Offshore, Ltd.	***9.4***	***1.4***		***-5.2***				***-6.5***	***Mar-08***
Fir Tree International Value Fund	***11.4***	***1.7***		***-17.1***				***-24.0***	***Jan-08***
King Street Capital Ltd.	***19.0***	***2.9***	***0.0***	***-2.5***	***4.5***	***10.9***	***11.2***	***11.9***	***May-03***
Taconic Offshore Fund	***10.7***	***1.6***	***-10.3***	***-6.9***	***-9.8***	***3.2***	***6.6***	***7.0***	***May-03***
Ariel Fund Ltd.	***17.9***	***2.7***	***-4.3***	***-2.7***	***-3.8***	***8.5***	***10.8***	***10.7***	***Dec-02***
Wexford Offshore Spectrum CL A/C	***12.8***	***1.9***	***-9.8***	***-8.6***	***-11.3***			***1.1***	***Dec-06***
New Castle Market Neutral LP	***16.9***	***2.6***	***1.4***	***0.5***	***8.7***	***11.1***	***10.1***	***9.7***	***Dec-02***

Note: Returns are annualized if greater than one year. Returns are reported net of all fees.

Private Equity/Real Assets Update – Performance *(as of September 2008)*

Fund	Inception	Commitment	Capital Called	Remaining Commitment	Distributions	Capital Account Balance	Last Capital Account Statement	Capital Account Plus Distributions	Multiple of Invested Capital	Net IRR
OCM Opportunities Fund IV B	2002	5,000,000	6,000,000	-	9,774,398	12,521	6/30/2008	9,786,919	1.6	44.6%
Sterling Group Partners I	2003	6,000,000	4,395,116	-	9,298,139	4,520,451	6/30/2008	13,818,590	3.1	54.3%
OCM Principal Opportunities III	2004	10,000,000	10,000,000	289,960	5,909,204	10,550,310	6/30/2008	16,459,514	1.7	21.1%
Stone Point Capital Trident III	2004	15,000,000	16,602,312	-	6,262,160	19,845,589	6/30/2008	26,107,749	1.6	24.6%
Sterling Group Partners II	2005	6,000,000	3,817,100	2,414,449	2,691,715	1,948,162	6/30/2008	4,639,877	1.2	11.1%
Reservoir Capital Overseas Partners II	2005	15,000,000	15,000,000	-	-	18,178,554	8/31/2008	18,178,554	1.2	12.2%
OCM European Principal Opportunities Fund	2006	5,000,000	5,400,000	350,000	814,439	6,572,436	6/30/2008	7,386,875	1.4	18.9%
Bear Stearns Merchant Banking III	2006	12,000,000	4,522,395	7,477,605	-	4,440,040	6/30/2008	4,440,040	1.0	-1.3%
Main Street Capital II	2006	5,000,000	2,500,000	2,500,000	360,694	2,139,306	NA	2,500,000	1.0	0.0%
Goldman Sachs Vintage Fund IV	2006	10,000,000	5,517,822	4,482,178	261,099	5,755,831	6/30/2008	6,016,930	1.1	9.5%
OCM Principal Opportunities IV	2006	12,000,000	10,440,000	1,800,000	273,824	10,879,271	6/30/2008	11,153,095	1.1	9.1%
Stone Point Capital Trident IV	2007	15,000,000	8,257,628	6,742,372	585,290	7,481,780	6/30/2008	8,067,070	1.0	-5.3%
OCM Opportunities Fund VII	2007	5,000,000	5,000,000	-	15,397	5,315,392	6/30/2008	5,330,789	1.1	9.9%
OCM Opportunities Fund VIIb	2007	20,000,000	6,000,000	14,000,000	-	5,940,661	6/30/2008	5,940,661	1.0	-12.3%
Texas Tech University Private Equity		*141,000,000*	*103,452,373*	*40,056,564*	*36,246,359*	*103,580,304*		*139,826,663*	*1.4*	*24.4%*
EnCap Investment Fund IV-B	2002	15,000,000	16,558,312	-	27,962,851	1,832,018	6/30/2008	29,794,869	1.8	51.0%
EnCap Investment Fund V-B	2004	20,000,000	20,861,730	-	18,421,630	13,596,797	6/30/2008	32,018,427	1.5	25.0%
CDK Realty	2004	15,000,000	10,907,500	5,000,000	1,159,800	11,887,080	6/30/2008	13,046,880	1.2	6.7%
E2M Partners Value Addded Fund	2006	10,000,000	7,668,775	2,331,225	846,226	6,649,218	6/30/2008	7,495,444	1.0	-2.2%
Alcion Real Estate Partners Parallel Fund	2006	10,000,000	1,646,865	8,353,135	-	793,977	6/30/2008	793,977	0.5	-43.4%
EnCap Investment Fund VI-B	2006	20,000,000	9,800,056	10,199,944	1,837,263	8,852,185	6/30/2008	10,689,448	1.1	9.4%
Savanna Real Estate Fund I	2007	10,000,000	4,698,323	5,301,677	146,314	4,125,086	6/30/2008	4,271,400	0.9	-27.7%
EnCap Investment Fund VII-B	2007	15,000,000	2,792,568	12,207,432	185,582	2,533,496	6/30/2008	2,719,078	1.0	-6.7%
Natural Gas Partners IX	2007	12,000,000	1,922,436	10,095,532	17,968	1,767,150	6/30/2008	1,785,118	0.9	-21.4%
Denham Commodity Partners V	2008	10,000,000	2,206,000	7,794,000	-	2,132,950	6/30/2008	2,132,950	1.0	-20.8%
EnCap Energy Infrastructure Fund	2008	15,000,000	-	15,000,000	-	-	NA	-	NA	NA
Texas Tech University Real Assets		*152,000,000*	*79,062,565*	*76,282,945*	*50,577,634*	*54,169,957*		*104,747,591*	*1.3*	*23.6%*
Total		**293,000,000**	**182,514,938**	**116,339,509**	**86,823,993**	**157,750,261**		**244,574,254**	**1.3**	**24.0%**

Private Equity/Real Assets Update – Performance *(as of September 2008)*

Fund	Inception	Multiple of Money Invested	IRR	Too Early	Below Goal	Meeting Goal	Exceeding Goal
Private Equity							
OCM Opportunities Fund IVb	2002	1.6	45%				√
Sterling Group Partners I	2003	3.1	55%				√
OCM Principal Opportunities III	2004	1.7	21%	√			√
Stone Point Trident III	2004	1.6	25%	√			√
Sterling Group Partners II	2005	1.2	11%	√			
Reservoir Capital Overseas Partners II*	2005	1.2	12%				√
OCM Principal Opportunities Europe Fund	2006	1.4	19%			√	
Bear Stearns Merchant Banking III	2006	1.0	-1%	√			
Main Street Capital II	2006	1.0	0%	√			
Goldman Sachs Vintage IV	2006	1.1	10%	√			√
OCM Principal Opportunities IV	2006	1.1	9%	√			
Stone Point Trident IV	2007	1.0	-5%	√			
OCM Opportunities VII	2007	1.1	10%	√			
OCM Opportunities VIIB	2007	1.0	-12%	√			
Real Assets							
EnCap Energy Capital Fund IV-B	2002	1.8	51%				√
EnCap Energy Capital Fund V-B	2004	1.5	25%	√		√	
CDK Realty	2004	1.2	7%	√	√		
E2M Partners	2006	1.0	-2%	√			
Alcion Ventures Real Estate Opps Fund	2006	0.5	-43%	√			
EnCap Energy Capital Fund VI-B	2006	1.1	9%	√			
Savanna Real Estate Fund I	2007	0.9	-28%	√			
EnCap Energy Capital Fund VII	2007	1.0	-7%	√			
Natural Gas Partners IX	2008	0.9	-21%	√			
Denham Commodity Partners V	2008	1.0	-21%	√			
EnCap Energy Infrastructure Fund	2008	NA	NA	√			

**Marked to market IRR is estimated at 25%*

Asset Allocation

Texas Tech LTIF Portfolio Objectives

Investment Objectives - Long Term Investment Fund (LTIF):

	Return Objectives[1] (%)
Spending Rate	4.5
Inflation (CPI)	2.5
Investment Management Fee	0.5
Real Growth	0.5
Net Compound Return Needed	**8.0**

Distribution[2]:

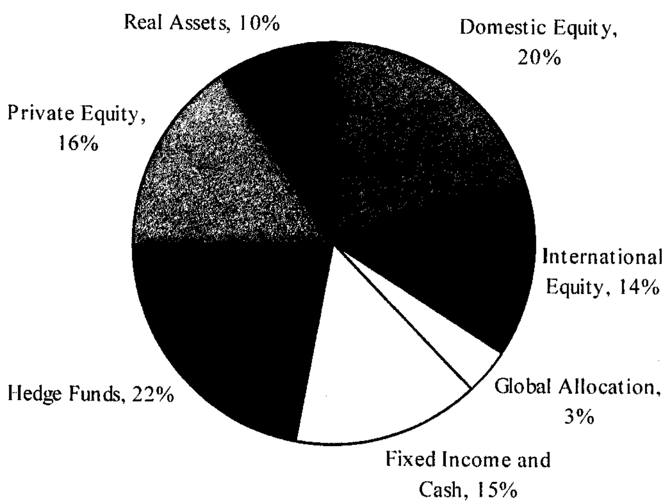
4.5% spending policy and 0.5% investment management fee based on previous 12 quarters' rolling average, distributed quarterly.

[1] *Source: Texas Tech University Performance Evaluation Report For Periods Ending May 31, 2001.*

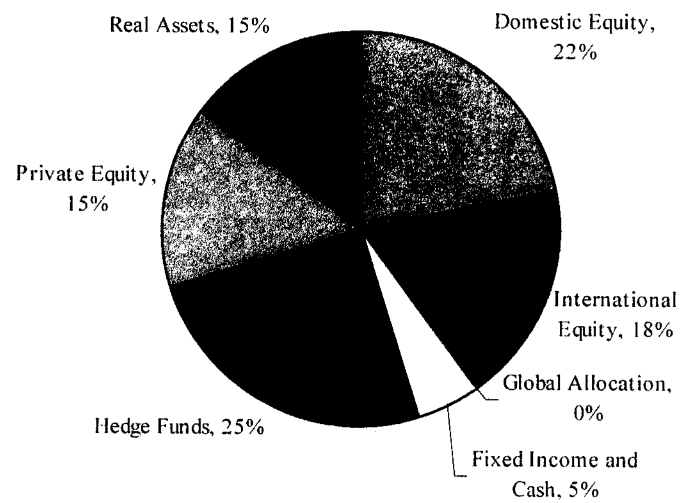
[2] *Source: Investment Policy Statement for Long Term Investment Fund and Certain Long-Term Institutional Funds.*

Asset Allocation – Actual vs. Policy *(as of September 30, 2008)*

Actual Asset Allocation



Policy Asset Allocation
(as of July 8th meeting)



The recommended policy asset allocation will add 3% to global allocation at the expense of domestic equity and international equity.

Asset Allocation

	Allocation as of Sept. - 08 A	Policy B	Propsed Policy C	Current Ranges D
Growth Assets				
US Large Stocks	17%	19%	18%	
US Mid Stocks	2%	2%	2%	
US Small Stocks	1%	1%	1%	
US Stocks	*20%*	*22%*	*21%*	*15-30%*
Intl Large Stocks	10%			
Intl Small Stocks	1%			
Intl Emerging Market Stocks	3%			
Intl Stocks	*14%*	*18%*	*16%*	*10-30%*
Global Opportunistic	3%	0%	3%	0-5%
Private Equity / Special Situations	16%	15%	15%	15-30%
Total Growth Assets	**53%**	**55%**	**55%**	***40-90%***
Risk Reduction Assets				
Cash	9%			5-15%
US / Global Fixed Income	6%	5%	5%	
Hedge Funds	22%	25%	25%	15-30%
Total Risk Reduction Assets	**37%**	**30%**	**30%**	
Inflation Protection Assets				
Real Assets	10%	15%	15%	
Total Inflation Protection Assets	**10%**	**15%**	**15%**	***5-15%***
Total	**100%**	**100%**	**100%**	
Assumes 2.5% inflation				
Return				
10 Yr. Horizon Expected Return	10.3%	10.8%	10.9%	
Risk (10-Yr Horizon Expectations)				
Standard Deviation (1 Yr.)	±11.0%	±11.7%	±11.7%	
Standard Deviation (10 Yr.)	±3.5%	±3.7%	±3.7%	
Probability of Loss Year	16.1%	16.2%	16.2%	
Probability of 10% or Worse Loss	2.9%	3.3%	3.3%	
Lowest Likely Return (1 Yr.)	-14.7%	-15.6%	-15.6%	
Lowest Likely Return (10 Yr.)	0.1%	0.2%	0.2%	
Sharpe Ratio	0.62	0.63	0.63	

Sources of Funds

Terminate Intech	($12.7 MM)
Reduce S&P 500 Index Fund	($20.0 MM)

New Investments

Stralem	$12.7 MM
Arnhold & S. Bleichroeder	$20.0 MM

Since all changes are taking place within US large-cap equity there are no adjustments to any of the current allocations. Details can be found on the following page.

The addition of the Global Allocation category in Growth Assets reduces the allocations to US and Int'l equity. There is also a range of 0-5%.

HammondAssociates
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Private Equity

SECTION IV

Illiquid Funding: Private Equity

Private Equity Commitment Schedule
9/30/2008

Target Allocation	15%	
Total Portfolio Market Value	$ 695,937,030	(includes Carr Foundation funds)
Target Private Equity NAV	$ 104,390,555	
Estimated Portfolio Growth Rate	2.5%	

Year	Commitment	Cumulative Commitments	Estimated Private Equity NAV	Target Private Equity NAV	Est. % of Target Allocation Invested
2004	$25,000,000	$36,000,000	$11,465,674	$ 104,390,555	11.0%
2005	$21,000,000	$57,000,000	$12,893,847	$ 104,390,555	12.4%
2006	$44,000,000	$101,000,000	$43,184,155	$ 104,390,555	41.4%
2007	$40,000,000	$141,000,000	$76,153,656	$ 107,000,318	71.2%
2008	$24,000,000	$165,000,000	$87,660,000	$ 109,675,326	79.9%
2009	$28,500,000	$193,500,000	$104,995,000	$ 112,417,209	93.4%
2010	$32,000,000	$225,500,000	$118,320,000	$ 115,227,640	102.7%
2011	$34,500,000	$260,000,000	$131,390,000	$ 118,108,331	111.2%
2012	$37,500,000	$297,500,000	$141,310,000	$ 121,061,039	116.7%
2013	$41,500,000	$339,000,000	$140,780,000	$ 124,087,565	113.5%

**Realized data is incorporated up to the date of the report.*

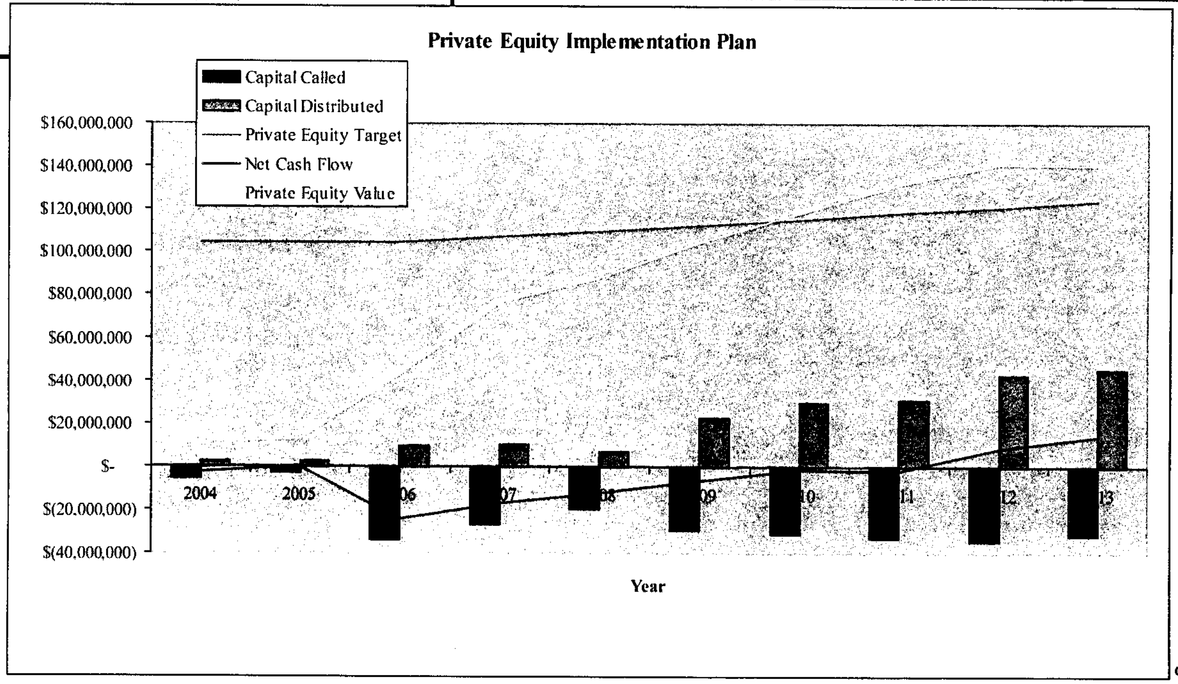
- This model accounts for $44 MM committed in 2006, and $40 MM committed in 2007.
- Commitments slow to $24 MM, then begin to steadily rise.

2007 Commitments

- Stone Point Capital Trident IV $15MM
- OCM Opportunities Fund VII $5 MM
- OCM Opportunities Fund VIIB $20 MM

Recommended 2008 Commitments

- Goldman Sachs Vintage V $10 MM
- Reservoir III $10 MM



Real Assets

SECTION V

Illiquid Funding: Real Assets

Real Assets Commitment Schedule
9/30/2008

Target Allocation		15%
Total Portfolio Market Value	$	695,937,030 (includes Carr Foundation Funds)
Target Real Assets NAV	$	104,390,555
Estimated Portfolio Growth Rate		**2.5%**

Year	Commitment	Cumulative Commitments	Estimated Real Assets NAV	Est. % in Real Estate	Target Real Assets NAV	Est. % of Target Allocation Invested
2004	$35,000,000	$50,000,000	$14,530,136	15%	$104,390,555	13.9%
2005	$0	$50,000,000	$23,827,773	35%	$104,390,555	22.8%
2006	$40,000,000	$90,000,000	$39,336,201	36%	$104,390,555	37.7%
2007	$25,000,000	$115,000,000	$49,068,780	37%	$107,000,318	45.9%
2008	$37,000,000	$152,000,000	$57,810,000	42%	$109,675,326	52.7%
2009	$23,000,000	$175,000,000	$81,730,000	41%	$112,417,209	72.7%
2010	$23,000,000	$198,000,000	$110,860,000	36%	$115,227,640	96.2%
2011	$25,000,000	$223,000,000	$136,495,000	40%	$118,108,331	115.6%
2012	$26,000,000	$249,000,000	$151,717,000	40%	$121,061,039	125.3%
2013	$26,500,000	$275,500,000	$149,078,200	42%	$124,087,565	120.1%

**Realized data is incorporated up to the date of the report.*

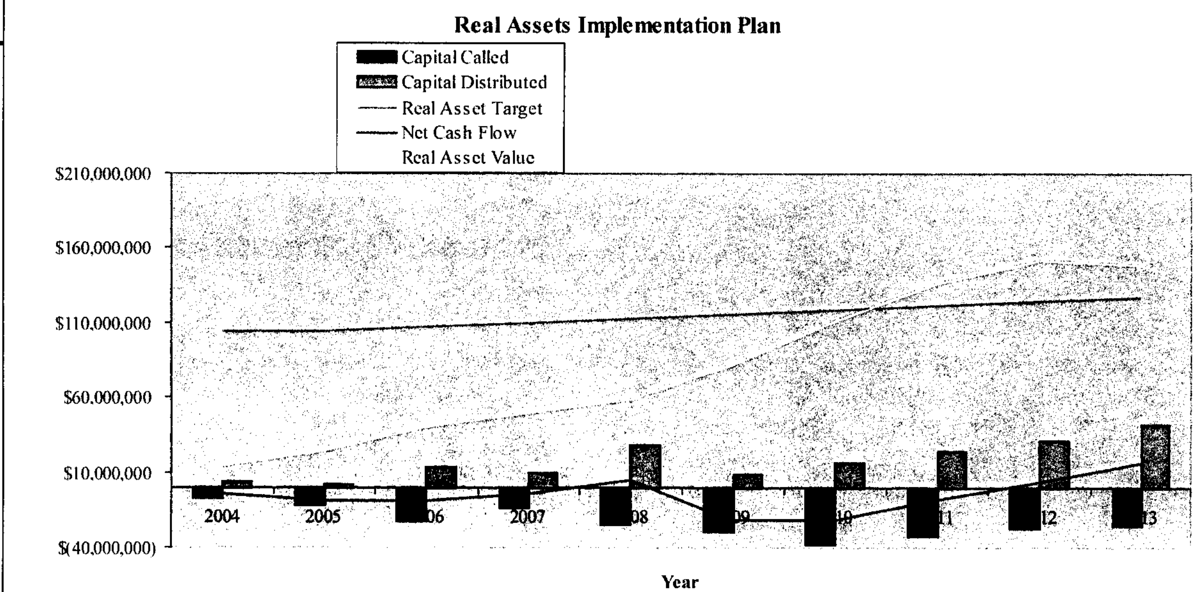
2007 Commitments

- Savanna Real Estate Fund I $10 MM
- EnCap Investment Fund VII $15 MM

2008 Commitments

- Natural Gas Partners $12 MM
- Denham Partners $10 MM
- Encap Infrastructure $15 MM

- Commitments for 2007 were $25 MM, in 2006 they were $40 MM.
- Commitments are scheduled to be reduced in 2009 then begin to rise again in 2011.



HammondAssociates
INSTITUTIONAL FUND CONSULTANTS, INC

Appendix I: Equity Manager Write-ups

Arnhold & S. Bleichroeder Advisers, LLC (ASB)

U.S. Large Cap Equity

Fund Type	U.S. Large Cap Equity – Long Only
	Opportunistic
Benchmark	S&P 500 or Russell 1000, although ASB is "benchmark-agnostic"
$AUM	As of 6/30/08 $2.6 billion in US Large Equity – long only; $43 billion firm-wide. The Arnhold family is the largest non-mutual fund client and pays full fees on about $600 million invested with the US Equity team in the long-short version of this product.
Meeting	7/29/08 with Doug Meyer, Head of Institutional Sales, Dick Anderson, and Pat Little

Firm History/Overview

ASB traces its roots to the foundings of S. Bleichroder (eventually banker to Bismarck) in Berlin, Germany in 1803 and of Arnhold Brothers (bankers) in Dresden in 1864. Arnhold acquired S. Bleichroder in 1931 and moved the firm's activities to New York in 1937. In 2002 Arnhold & S. Bleichroeder Holdings Inc. sold its investment banking and global securities businesses; the investment advisory businesses and related services became a wholly-owned subsidiary of the holding company that operates under the current name of Arnhold & S. Bleichroeder Advisers, LLC (**ASB**). (The advisory and broker-dealer businesses are now separate corporate entities.)

In July 2007 ASB signed an agreement with TA Associates, a private equity firm, to recapitalize: former employee shares were repurchased, TA has a minority interest (don't know exact percentage yet), current key investment professionals have opportunities to own up to 10% (not yet effected), and the Arnhold family owns the remainder.

ASB has about 130 employees in its main office in New York City and 2 employees at its Florida marketing office. ASB has two investment management groups: 1) the US Equity team which manages the long only product reviewed here and a US long/short event driven product (GoodHope Funds) with $1.3 billion of assets, and 2) the Global Value team, which manages about $36 billion in global products including the First Eagle funds. ASB also manages several offshore limited partnerships.

Investment Philosophy and Approach

The objective of US Large Cap Equity is to achieve long-term growth of capital by investing in US securities with significant upside potential over 2 years in the context of a concentrated, liquid and **benchmark-unaware** portfolio. ASB believes that markets are inefficient in recognizing the effects of **corporate and global change** in the short term and efficient in valuing such change over the long term. These changes may include

- operational and financial restructurings
- industry consolidations
- mergers and acquisitions
- new products
- management changes
- changes in economic cycles
- currency movements, and
- geopolitical events.

As changes like these occur, the team believes that markets go through a short-term period of valuation uncertainty. Investors tend to overpay for good news and overreact to bad news. The team believes it has an edge in understanding and evaluating the valuation effects of changes and can therefore profit from longer term return opportunities and also exploit shorter term opportunities created by under- or over-reacting marginal investors.

The team employs fundamental valuation principles that focus on 1) high and/or improving cash flow, ROI, or market share, 2) strong management with track records of successfully changing or adapting to change, and 3) discounted prices that can be expected to adjust upward in 18-24 months. Macroeconomic issues and insights factor into idea generation and fundamental company analysis.

The portfolio typically contains 20-30 names. Risk is managed by 1) limiting exposure to any single industry to 25%, 2) limiting exposure to any single stock to 10%, and 3) balancing the overall portfolio according to geographic revenue streams and companies' end customer markets.

ASB believes it can add value by trading the stocks in the portfolio—trimming or exiting on upside volatility and adding or entering on downside volatility. Turnover has averaged about 200% per year since 1998.

Performance

Composite trailing returns (%) net 75 bps (fee estimate) as of 6/30/08:

	ASB	S&P 500	Excess Return (*Confidence Level*)
1 Year	-5.5	-13.1	7.7 *(93)*
2 Years	9.7	2.4	7.3 *(96)*
3 Years	8.6	4.4	4.2 *(90)*
5 Years	12.9	7.6	5.3 *(99)*
7 Years	9.5	2.5	7.1 *(99.9)*
10 Years	9.3	2.9	6.4 *(99.9)*
Since Jan-96 inception	13.5	7.8	5.6 *(99.9)*

Composite calendar returns (%) net 75 bps (fee estimate) as of 6/30/08:

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
ASB	-3.7	8.9	18.0	6.7	15.0	38.2	-13.7	8.2	-16.2	25.4
S&P 500	-11.9	5.5	15.8	4.9	10.9	28.7	-22.1	-11.9	-9.1	21.0

Performance was impressive in Q2-2008, and attribution analysis supports Arnhold's claim that stock-picking is their strength.

Arnhold & S Bleichroeder US Long Only vs.
SPDR S&P 500 3/31/2008 - 6/30/2008

Sector Name	ID	Avg Port Wt	Port Return	Port Contrib	Avg Bench Wt	Bench Return	Bench Contrib	Alloc Effect	Select Effect	[illegible]
Total Portfolio	ARNHOLD	100.00	5.79	5.79	100.00	-2.71	-2.71	**-2.33**	**10.83**	**8.[illegible]**
Energy	10	8.73	22.62	1.83	14.41	17.31	2.19	-1.09	0.42	-0.[illegible]
Materials	15	5.77	45.86	2.11	3.73	4.42	0.14	0.13	1.95	2.07
Industrials	20	34.49	7.65	2.56	11.68	-10.10	-1.18	-1.78	6.22	4.[illegible]
Consumer Discretionary	25	14.25	-1.78	-0.26	8.55	-7.79	-0.65	-0.32	0.88	0.[illegible]
Consumer Staples	30	0.00	0.00	0.00	10.58	-5.37	-0.59	0.32	0.00	0.32
Health Care	35	3.40	3.89	0.15	11.45	-1.24	-0.14	-0.11	0.18	0.0[illegible]
Financials	40	13.01	-15.19	-1.87	16.28	-18.30	-2.96	0.61	0.42	1.[illegible]
Information Technology	45	20.36	6.49	1.29	16.26	2.49	0.33	0.23	0.76	0.99
Telecomm Service	50	0.00	0.00	0.00	3.37	-4.13	-0.14	0.05	0.00	0.0[illegible]
Utilities	55	0.00	0.00	0.00	3.70	7.97	0.28	-0.39	0.00	-0.[illegible]

Investment Team

Colin Morris, Sr. V.P. and Portfolio Manager, has had primary responsibility for the US Equity strategy since its inception in January 1996. Five of the seven team members have been working together for 10 years; the other two were added to the team in 2003 and 2005. No members of the US Equity team have departed in the last 9 years. Colin Morris joined ASB in 1992, became PM of Aetos Corporation, an event-drive arbitrage fund, in 1993, and assumed lead PM responsibility of First Eagle Fund N.V., the firm's US Value separate accounts, and this strategy in 1996. The other members of the team include 3 analysts with different sector responsibilities, a specialist in merger & acquisition activity and other events, and 2 traders. All of the team members own equity in ASB.

Comments and Assessment

Performance is impressive. The team has been together for a long time and employee retention is apparently very high. The interests of the owners, managers, and clients are aligned. The portfolio is very concentrated, but not more than others we have recommended.

We do not often see long-only large cap managers who actively trade their stocks to add value (create alpha). We have not reviewed trading to confirm, but ASB says their trading does, in fact, add value.

While ASB says they follow a value approach to investing, it would be problematic to use this portfolio to fulfill a classic large cap value mandate for a client who is benchmark-sensitive. There is no reason to expect it to look anything like the Russell 1000 Value index in terms of characteristics or have returns that are highly correlated with the index. Our first thought is that it is "opportunistic US large-cap core," so in this preliminary analysis we compared it to the S&P 500.

Fund Evaluation

June 2008

Stralem & Company, Inc.

Large-Cap Equity Strategy

Strategy Basics	
Asset Class	U.S. Large-Cap Core Equity
Firm Location	New York, NY
Strategy Assets ($Millions)	2,088
Firm Assets ($Millions)	2,140
Primary Vehicle	Separate
Investment Minimum ($)	4,000,000
Annual Fee (%)	0.80 on first $5 million
Secondary Vehicle	Mutual Fund (STEFX)
Investment Minimum ($)	100
Expense Ratio (%)	1.49
Inception Date / Vehicle	January 1992 / Composite
Typical Number of Holdings	25-35
Annual Portfolio Turnover (%)	20-25
Primary Research Methodology	Fundamental

Firm Overview

Stralem & Company Inc. (Stralem) is an employee-owned investment advisory firm that has offered a range of integrated brokerage and asset management services since its founding in 1967. Stralem offers only one product, its domestic large-cap core/quality growth strategy, although it does manage both equity and fixed income assets for some high net worth clients. At the end of 2005, Stralem sold its Geneva office along with approximately $400 million of managed assets. As of June 2008, Stralem was managing $2.1 billion, the vast majority of which is for tax-exempt investors, from its one office in New York City.

Investment Philosophy

Stralem's management strategy is based upon the idea that superior relative performance can be achieved by structuring the portfolio to exploit inefficiencies specific to the current market cycle. In particular, Stralem asserts that there are two types of bull markets and two types of bear markets characterized by momentum and valuation factors. Further, they believe that there are inefficiencies intrinsic to each market. By identifying the current market environment, Stralem believes they can structure the portfolio to outperform the S&P 500 in each phase of the market cycle, while concurrently maintaining a lower level of risk relative to the market. Market changes are more strategic than tactical and coincide with Stralem's long-term oriented investment approach.

Investment Process

The strategy is carried out by a bottom-up approach that is "fundamentally driven and quantitatively enhanced." First, Stralem selects equities from the S&P 500 that have a minimum market capitalization of $4 billion. Each of these equities is evaluated for long-term growth potential as indicated by consistent earnings growth, sustainable cash flows, strong financials, and robust leadership within their respective industries. Second, Stralem conducts fundamental analysis through company visits and research reviews. Finally, Stralem calculates each stock's "ratio of growth" using their proprietary Valuation Growth Model, which links the average of a company's historical GAAP and I/B/E/S consensus earnings growth estimates to its relative price level. This quantitative input helps in selecting growth stocks that are reasonably valued without using discounted cash flows for valuation purposes.

Portfolio construction and sector allocation depend upon the current market environment. Stralem analyzes market fundamentals and macroeconomic factors and defines the market phase as either 1) valuation-driven bull, 2) momentum-driven bull, 3) valuation-driven bear (Stralem's categorization of the current market), or 4) momentum-driven bear. Factors like market dividend yields, P/E multiples, and earnings growth rates are used to gauge inflection points between market phases.

In bull markets Stralem will favor companies that compete in newer industries and are dominant in their respective sectors or industries. Conversely, in bear markets Stralem will favor companies that possess relatively low valuations and high dividend yields, while still maintaining a sizable allocation to industry-dominant companies. The allocation to *up market* stocks and *down market* stocks gradually shifts from one market phase to the next. At the extremes, Stralem may own *up market* stocks totaling 90% (during a valuation-driven bull market) and only 50% (during a valuation-driven bear market).

Stralem uses a two-pronged approach to risk control. First, they use a Relative Valuation Growth Model to identify holdings that have become mis-priced given the market environment. This allows the portfolio managers to identify where tactical rebalancing may be necessary. Second, Stralem employs a strict sell discipline. If a stock's relative growth score falls below that of the market (the S&P 500 index) or if the stock falls below specific fundamental criteria, the stock becomes a sell candidate.

Comparative Statistics	Stralem	S&P 500
Average Capitalization ($M)	66,134	88,940
Median Capitalization ($M)	42,009	10,801
Yield (%)	2.46	2.27
Beta [1]	0.94	1.00
Price/Earnings – Average	11.64	12.80
Price/Book	2.42	2.38
Debt/Equity	0.59	2.12
Five Year Earnings Growth	18.19	21.90

[1] Calculated using S&P 500 as the benchmark

Key Investment Professionals

The portfolio is managed by the investment policy group, which consists of eight investment professionals. The following three individuals are particularly important to the investment process:

Mr. Hirschel Abelson, President, CIO

Mr. Abelson, now in his 70's, co-founded Stralem in 1966. He became Executive Vice President in 1970 and President in 1973. Mr. Abelson oversees Stralem's investment policies and is one of three principal shareholders. Prior to founding Stralem, Mr. Abelson was an economic advisor at Ladenburg, Thalmann. He received his BA and his MBA from Cornell University.

Mr. Philippe Baumann, Executive VP & Director

Mr. Baumann joined Stralem in 1970 and became Executive Vice President in 1973. He oversees domestic and foreign investment policy, and is also a principal shareholder. Prior to Stralem, Mr. Baumann was with Coleman & Co. where he oversaw international operations. He received his BS from NYU.

Mr. Adam S. Abelson, Senior Portfolio Manager

The junior Mr. Abelson joined Stralem in 1998 after six years of management in the emerging technologies, consumer products, and hotel/gaming industries. In addition to managing the large-cap equity portfolio, Mr. Abelson oversees the research and implementation of Stralem's proprietary Relative Growth Valuation Model. He received his BA from Pitzer College & Claremont College.

Manager Commentary

Based on its assessment of what phase or part of the cycle markets are in, Stralem selects stocks that satisfy the up-market/down-market allocation dictated by that phase. Since 2003 they have used the 50% up-market / 50% down-market allocation they deem appropriate for valuation-driven bear markets. Whether a stock is up- or down-market, Stralem looks for consistent and stable earnings growth, high earnings purity, strong operating margins, and strong, sustainable cash flows. The allocation has changed somewhat since 2003 in terms of what the team has determined to be 1) the "new industries and products" half of the up-market allocation and 2) the companies that comprise the "low price-to-cash-flow" half of the down-market allocation. For several years Stralem has been finding better long-term growth opportunities in global markets, and, hence, has focused on identifying U.S. companies which can participate in that growth.

Stralem does not claim to try or be able to adjust the portfolio to every rotation in sectors or other short-term shift in the market. They do not set limits on the extent to which GICs sector weights can deviate from those of the S&P 500. The current portfolio, for example, is overweight Energy stocks (because of their appealing price-to-cash flow measures) and Utility stocks (because of their high dividend yields). Each of these weightings is the result of the up- and down-market allocation and the bottom-up analysis that identified those companies as being the best for the task at hand.

Investment Merits

Consistent Approach

Stralem approaches the positioning of the portfolio within a consistent framework, using a macroeconomic and market assessment to determine which of four basic allocations to implement and letting their fundamental company and industry analysis drive sector and industry weightings.

Superior Long-term Track Record

Stralem has demonstrated that their process works well in differing market environments. Since the inception of their composite in 1992, they have outperformed the S&P 500 by 3.4% net of fees (12.5% vs. 9.1%) with lower total risk as measured by the standard deviation of returns (12.5% vs. 14.7%). In the last decade they have done even better on a relative basis, beating the S&P 500 by 6.1% (9.0% vs. 2.9%) and ranking in the top 3% of 307 active large-cap core managers. Much of Stralem's out-performance has been generated by producing a cumulative positive return during periods of market decline.

Concerns

The Management Team

The concern of tenured investment professionals stepping out of the process is real, but we believe the process has been transferred to and embraced by the younger generation. All indications are that the younger team is in charge, but it is difficult to assess what might be lost when the senior Mr. Abelson completely retires.

Structural Framework

Stralem's portfolio structuring, and ultimately its performance, is based on the team's ability to 1) correctly assess the current phase of the market cycle and 2) correctly categorize industries and companies according to their "up-" and "down-" market behaviors. As the global economy becomes more complex and capital markets more interdependent, the application of this methodology could become increasingly more complicated and challenging.

Active Risk

The portfolio should not be expected to outperform or match the S&P 500 every quarter. In fact, Stralem's tracking error of 4.3% for five years (7.1% for ten years) is not for everyone. Stralem's superior long-term returns have not come without stretches of short-term underperformance. Although within the range of likely outcomes, their excess return of -6.0% (9.8% vs. 15.8% for the S&P 500) in calendar year 2006 was painful. However, in calendar 2007 they produced an excess return of +7.2% (12.6% vs. 5.5%). During the first two quarters of 2008 Stralem returned -6.2% vs. -11.9% for the S&P 500.

Recommendation

We recommend the product as appropriate for concentrated U.S. Large-Cap Core mandates.

Pat Little, PhD
Senior Research Analyst

U.S. Large-Cap Core Equity Fund Evaluation

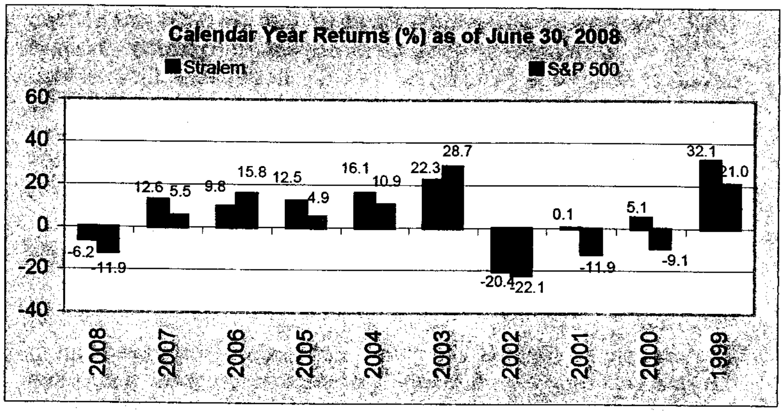
Stralem & Company

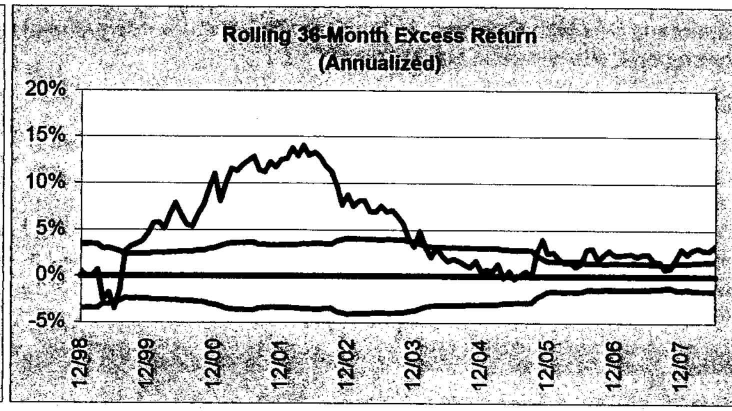
Performance Versus Benchmark as of June 30, 2008	
Inception Date: January 1992	
3-Year Excess Return vs. S&P 500 (%)	3.4
5-Year Excess Return vs.S&P 500 (%)	3.3
10-Year Excess Return vs. S&P 500 (%)	6.1
Confidence Level for Skill (3 Years, %)	90
Confidence Level for Skill (5 Years, %)	94
Confidence Level for Skill (10 Years, %)	99
Tracking Error vs. Index (5 Years, ± %)	4.3
Volatility vs. Index (5 Years, %)	8.2 vs. 9.5
R^2 to the Index (5 Years, %)	81

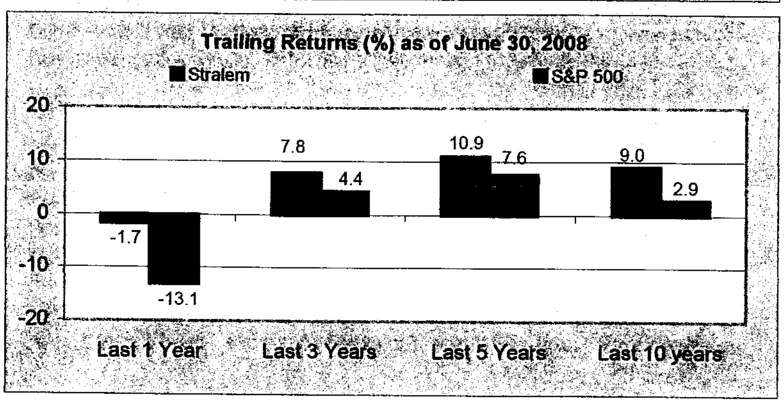
Peer Rankings[1]	Return (%tile)	Risk (%tile)	Number of Peers
3 Years	11	3	544
5 Years	10	5	473
10 Years	8	4	424

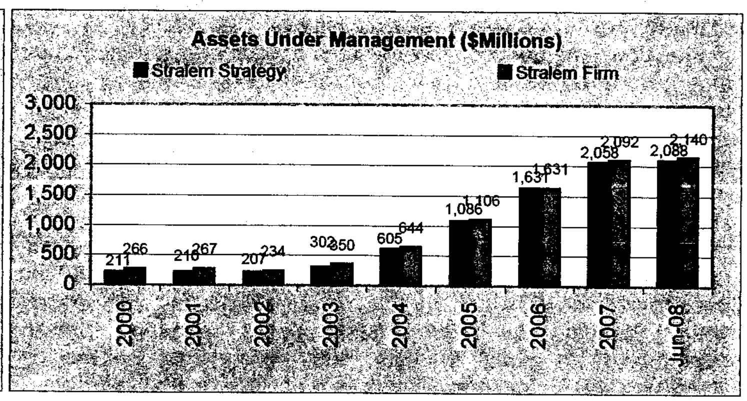
[1] The lower the number, the better the ranking

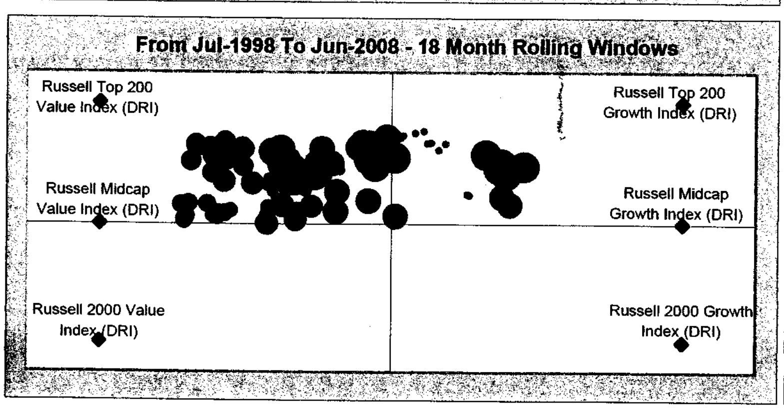
Excess Returns	
Frequency of Rolling 12-Month Outperformance (%)	63
Frequency of Rolling 36-Month Outperformance (%)	94
Worst 12-Month Excess Return (%)	-17.7

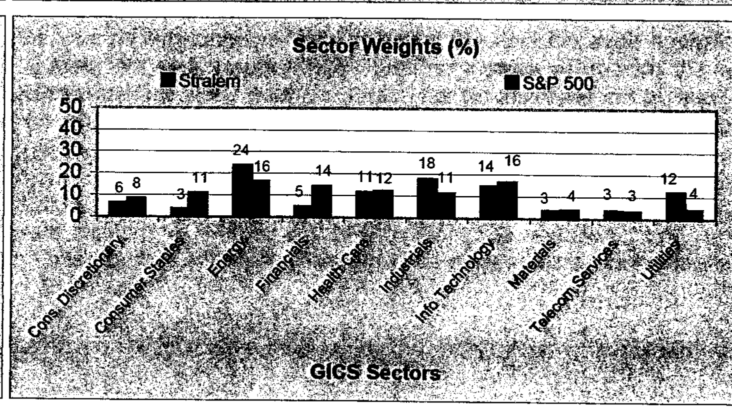












All data are as of June 30, 2008. Returns beyond one year and standard deviations are annualized. The fund's returns are net of fees for the minimum size separate account.

Hammond Associates serves as an independent investment consultant. All information presented herein is accurate to the best of our knowledge.

Pat Little, PhD
Senior Research Analyst

Appendix II: Private Equity Manager Write-ups

Direct Partnership Fund Evaluation

June, 2008

Reservoir Capital Group, LLC

Reservoir Capital Partners (Cayman), L.P.

Fund Basics

Type	Special Situations Fund
Target Capitalization	$2.5 Billion (Target)
Stated Min. Commitment	$10 Million
Working Min. Commitment	$5 Million
GP Commitment*	$260 Million
Investment Period	Capital draws typically occur over two to three years
Partnership Term	Evergreen with 3 year liquidity windows
Closing(s)	1st Close June-2008 Final Close October 2008

*The fair market value of the existing investments by members of the GP actively involved in managing the fund.

Overview

Reservoir Capital Group (RCG) was founded in 1998 by Daniel Stern, Craig Huff, and Gregg Zeitlin, former partners at Ziff Brothers Investments, a New York based family investment firm. Reservoir Capital Partners and Reservoir Capital Master Fund had final closings of $445 million in October 1999 and $415 million in July 2003 and $1.5 billion in 2005. Reservoir is currently closed, but will open to new investors on July 1, 2008. The firm is targeting $2.5 billion of additional capital. The manager has the flexibility to invest in marketable securities, private equity and debt, and establish new investment businesses as a means to implement their ideas. The fund's goal is to generate attractive risk-adjusted returns for investors. We find the creativity of the management team and the flexibility of the investment strategy to be the offering's greatest strengths. The fund is a hybrid vehicle that has some elements of hedge funds, private equity funds, and funds of funds wrapped in one package. We classify the fund as a special situations investment within a private equity allocation. Investors must select how much of their capital can be in illiquid investments. We recommend clients elect to have up to 90% illiquid "side-pocketed" investments.

Firm History & Investment Strategy

Experience & Firm Resources

Reservoir Capital Group manages approximately $3.9 billion of invested/committed capital. The founders have worked together since 1994 at Ziff Brothers Investments prior to founding the firm in 1997. RCG now has 64 employees including 16 investment professionals.

Investment Strategy

The firm's investment philosophy is that patient capital and a flexible investment mandate are competitive advantages in pursuit of superior risk-adjusted returns. As superior risk-adjusted returns are the Fund's goal, RCG allows itself a great deal of flexibility to invest in a wide range of opportunities, including marketable securities, private equity & debt, and new investment businesses.

RCG typically perceives such attractive risk-adjusted return opportunities in markets or companies that (1) are distressed or out of favor, (2) lack institutional focus, or (3) are undergoing significant change.

The firm may capitalize on such opportunities directly by making the investment themselves or indirectly by teaming with specialists. The firm may also pursue investments that are publicly traded or private. For example, a direct-public investment would be buying a public stock, while a direct-private investment might consist of buying privately placed debt of a company. An indirect-public investment would typically be investing with a hedge fund, while an indirect-private deal might consist of investing in a private equity fund. The allocation by strategy has been as follows:

	Direct	Indirect
Public Markets	[redacted]	Hedge Fund seeding (30%)
Private Markets	[redacted]	Private equity fund seeding Co-investments (16%)

Regarding direct investments, private equity deals in the power generation, insurance, and orange grove businesses reflect the breadth of investment themes and opportunities sought out by RCG.

Power Generation: The investment catalyst was primarily financial distress. The merchant power industry grew at rapid rates in the 1990s, resulting in an imbalance in supply and demand. By 2003, the industry was rife with speculation that many companies would have difficulty servicing inflated debt loads. Under such circumstances, RCG was able to acquire selected power generation facilities with reduced downside risk, given several long-term supply contracts, at attractive prices. That initial investment in power assets led to the platform company investment in Contour Global in 2005.

Insurance: The investment theme was the significant change in the industry following the events of September 11th, which led to a capital void in the property and casualty insurance and reinsurance businesses. Under such circumstances, RCG was able to structure a convertible preferred equity stake in a publicly listed reinsurer with protection from certain adverse loss developments from past underwriting. The involvement in the insurance industry has continued with the most recent investments being in an insurance marketing and distribution company in 2007.

Orange Groves: The overriding theme was a lack of institutional focus. Minute Maid (Coca-Cola) and Tropicana (Pepsi) were willing to sign long-term contracts with attractive economics to large orange growers, yet were unwilling to own groves. With orange production being a highly fragmented industry, RCG engineered a public-to-private transaction of a small-cap company that owned premier Florida orange grove assets and capitalized on the opportunities presented by the name-brand orange juice producers.

Other direct private platform companies have been in the cargo aviation, Latin American commodity finance, and energy exploration sectors.

Structured direct private investments are usually done around a single asset or investment opportunity rather than an ongoing operation and management team. Such investments include the restructuring of the Ritchie Capital hedge fund, as well as investments in insurance marketing and brokerage, oil and gas exploration and energy infrastructure.

Indirect investments encompass the establishment and seeding of new investment management firms to take advantage of markets that are inefficient and out of favor. In such cases, RCG invests in the new firm's offering as a Limited Partner on preferred economic terms and takes a net profits interest in the General Partner.

The table below details the existing indirect investments and platform companies in which 2008 investors will participate.

Fund	Strategy	Investment Thesis
Greyrock Capital II	Mezzanine Debt (small-mid companies)	Scarcity of capital in credit markets for small- to mid-sized companies
Rockport Capital III	Energy Venture Capital	Accelerating demand for distributed power generation and more reliable power after 2000 crisis in California.
Clearlake Capital II	Distressed PE	Increasing market uncertainty and credit dislocation
Company		
Contour Global	Global Power and Infrastructure	Developing power assets in countries where capital is scarce, including emerging markets.

2008 Investors will share in the net profits of prior hedge fund investments with the prior LP tranches. This arrangement was negotiated with the input of prior investors as a fair means of sharing the benefits from prior investment in return from the future benefit of new investors' capital.

Side-Pocket Election
Investors may elect to have 50%, 75% or 90% of their capital in the illiquid portion of the portfolio. Such investments have generated higher rates of return than the liquid portion by a meaningful amount, 37% versus 24% gross returns. We recommend clients elect to have up to 90% illiquid "side-pocketed" investments.

Track Record

As of December 31, 2007

Fund	New Commits	Net IRR	VE Top Qtile
1999	$445MM	16.4%	5.9%
2003	$415MM	18.7%	15.7%
2005	$1.5B	25.0%	8.3%

Figures are in millions.
All returns as provided by Reservoir Capital Group.
VE Top Quartile for ALL Private Equity fund universe.

The fund is performing above the Venture Economics top-quartile net IRR benchmarks from the inception of each new fundraising period.

Fees

A 1.50% management fee will be assessed on Committed Capital during the initial investment period, then 1.5% on the Total Capital Account balance.

The General Partner will be entitled to 20% of profits on direct investments and 10% of profits on indirect investments after Limited Partners receive a priority return equal to the 1-year treasury rate. Since the indirect managers will also get 10% of profits, the effective carried interest is 20% on all investments. (Indirect investments reflect positions in underlying limited partnerships.)

A high-water mark is in place during the 3-year lock-up period, and no withdrawals of the General Partner's carried interest allocations will occur until the end of the lock-up period. Once an investor decides to redeem its shares, its interests in illiquid sidepocket investments are returned as those investments are sold. The effective term of the partnership is ten years from the redemption date. Redemptions are allowed every three years.

Biographies of Key Personnel

Daniel H. Stern, Co-CEO. Prior to co-founding RCG, Mr. Stern served as President of Ziff Brothers Investments, Managing Director of William A.M. Burden & Co., and as an Associate at Bass Brothers Enterprises. Education: M.B.A. from Harvard Graduate Business School and A.B. in Economics from Harvard College.

Craig A. Huff, Co-CEO. Prior to co-founding RCG, Mr. Huff served as a Partner at Ziff Brothers Investments. Education: M.B.A. from Harvard Graduate School of Business and B.S. in Engineering Physics.

Gregg Zeitlin. Senior Managing Director. Prior to co-founding RCG, Mr. Zeitlin was at Ziff Brothers for three years and was a VP of Financial Strategy for Ziff Communications Corp and helped with the sale of the business for $2 billion. Greg was a partner through 2004 and worked with Reservoir on various capacities from 2005-2007 before re-joining the firm in his former role as partner in 2008.

Adeel Qalbani, Senior Managing Director. Adeel joined Reservoir in 2000 and became a partner in 2006. Mr. Qalbani graduated summa cum laude and Phi Beta Kappa from Princeton and received an M.Phil in Economics from Oxford where he was a Rhodes Scholar.

Merits

Investment Flexibility
The Fund is as opportunistic as you will be able to find. Accordingly, should any economic/financial dislocation offer opportunity for particularly attractive risk-adjusted returns in the upcoming years, the Fund will have both the flexibility and a variety of means with which to seek out such opportunities.

Solid Track Record
The Fund has continued to produce attractive returns even as it has grown to be much more substantial than when it launched roughly ten years ago. Investors have received very competitive returns, ranking in the top quartile of the Venture Economics universe regardless of when they entered.

Structured Direct Investments
RCG tends to go into direct-private transactions that have been structured to provide attractive returns with downside protection. As such, the investments do not tend to produce as high a return as might be found elsewhere, but the downside protection has resulted in good returns with relatively low risk.

Concerns

Lack of Transparency
RCG views itself much like a hedge fund and offers limited transparency relative to a typical private equity fund. Reports will detail the investments in the portfolio and provide much information regarding the status thereof, but without the granular financial detail we are used to receiving. One could describe the reporting as anecdotal. Reports include the total portfolio value and the value of the largest holdings, but not a total schedule of all investments. Quarterly reports provide detailed operational updates on portfolio holdings, but lack some financial details. We are able to accept the state of their reporting since we can get detailed information upon request. Additionally, we have been successful in slowly getting them to improve their disclosures, and they have implemented a rigorous mark to market process in 2008.

Cash Balances

Unlike typical private equity funds, RCG will carry cash balances from time to time as they seek new investments, since this is an evergreen format. Holding cash creates a drag on returns compared to private equity funds that carry none. To date, RCG has not made discretionary distributions of capital to investors.

Evaluation Summary

The opportunistic strategy, flexibility in implementing it, and focus on risk-adjusted returns are very attractive features of this fund. The biggest negatives are complex accounting, and potential cash drag on returns. On balance, we believe that the Fund's attributes far outweigh the problems, and believe that investors will find this to be a nice special situation component of a private equity portfolio. We recommend clients elect to have up to 90% illiquid "side-pocketed" investments.

Michael J. Forestner
Director – Private Markets
June, 2008

Secondary Fund Evaluation

May 2008

Goldman, Sachs & Company

Goldman Sachs Vintage Fund V, L.P.

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By accepting this evaluation, all prospective investors agree to the foregoing. All investments may experience gain or loss. No representation is made that this fund will or is likely to achieve its objective, or that any investor will or is likely to achieve results comparable to any shown, or will make any profit or will not sustain losses. Past performance is not necessarily indicative of future results.

Fund Basics

Fund Type	Secondary Private Equity
Target Capitalization	$3,000,000,000
Stated Minimum Commitment	$2,000,000
First Closing	June 2008
Expected Final Closing	Fall 2008
Goldman Commitment	At least 5% up to $250,000,000
Investment Period	4 Years
Partnership Term	10 Years + Extensions

Overview

Goldman Sachs Vintage Fund V, L.P. (the "Fund") is a secondary fund that will seek to generate attractive returns by assembling and managing diversified portfolio of seasoned private equity funds as well as portfolios of direct private equity investments. The Fund will be managed by Goldman, Sachs & Company's Private Equity Group. Goldman, Sachs & Company ("Goldman") is a global investment bank and asset management company; its Private Equity Group (which manages the firm's private equity fund of funds and secondary fund programs) was founded in 1996 and currently manages over $24 billion in committed capital. The Fund will consider investments across the spectrum of the private equity market, including leveraged buyouts, growth financings, venture capital, distressed securities, mezzanine financing, and natural resources. A reasonable target range for the net IRR of the Fund is the low- to mid-teens.

Experience, Investment Strategy & Track Record

Experience

As previously noted, Goldman's Private Equity Group was founded in 1996 and currently manages in excess of $24 billion of commitments to private equity managers, secondary investments, and co-investment transactions. Goldman's Private Equity Group has managed secondary funds since 1998, which marked the inception of GS Vintage Fund I, L.P. The investment process for the Fund will be led predominantly by J. Christopher Kojima and Michael Brandmeyer, but broad participation is expected from the group's thirty investment professionals.

Investment Strategy

Perhaps the most prominent component of Goldman's strategy in the secondary arena is a focus on "synthetic" secondary investments. In a synthetic secondary, there is essentially a pool of private equity investments for sale, but no fund structure that encompasses the assets. The typical synthetic secondary opportunity equates to a corporate investment program whereby a management team sources and oversees private equity investments that are housed on the corporate entity's balance sheet. Once the private equity investment program is deemed to be outside the firm's core strategy, it becomes a disposition candidate. As there is no distinct fund structure defining economic terms or governance and no trading of limited partnership interests (given the absence thereof), sales of such portfolios tend to be negotiated transactions with a sub-set of qualified buyers, rather than auctions driven solely by price considerations. Historically, Goldman has sourced numerous investment opportunities in such a fashion, with the largest transactions being sourced from financial services firms. At least on the near-term horizon, given the focus of many banks on generating liquidity, the macro opportunity appears to be relatively compelling.

In addition to the lift-outs of corporate private equity programs addressed above, Goldman will also purchase portfolios of direct investments from co-investing limited partners and private equity funds at the end of their terms in synthetic secondary transactions. In all of these cases, Goldman will engage a management team to steward the direct investments to liquidity, establishing governance and economic provisions to ensure that interests are aligned with Fund investors.

Outside of the synthetic secondary strategy, Goldman will also engage in more traditional secondary purchases of both individual private equity partnerships as well as portfolios thereof.

One of the keys to successfully executing a secondary private equity strategy is the ability to source transactions from buyers outside of competitive auctions. These sellers typically have considerations beyond price in deciding with whom they wish to deal. These considerations include swift execution, confidentiality, and comfort with the buyers' method of operation. The investment professionals at Goldman have been able to develop a global network of contacts within the private equity world that allows the firm to access transactions with limited competition from other funds. This network is enhanced by the presence of Goldman in local markets around the world.

The fund will conduct both top-down and bottom-up fundamental analysis on prospective deals. The top-down component of due diligence requires an analysis of the capabilities of the prospective fund's general partner. Goldman's activities managing private equity funds-of-funds and as a prominent investment bank provide the Fund with considerable research coverage of general partners worldwide. This is a notable asset for the Fund. The bottom-up component entails a detailed valuation analysis of the portfolio companies held within the prospective funds.

Track Record as of 12/31/07

	Fund Size	Drawn	Dist.*	Net IRR/ Cum. ROI
Vintage I ('98)	$412	$393	$429	8.8%/1.3x
Vintage II ('01)	$1,130	$1,041	$1,167	25.0%/1.6x
Vintage III ('04)	$1,500	$1,129	$578	30.8%/1.4x
Vintage IV ('06)	$3,000	$1,631	$75	NM/NM

*$ in millions. Cash flow information for Vintage IV is as of March 31, 2008.

Fees

For the first four years of the partnership, the management fee will be 1.25% of committed capital. Thereafter, the management fee will be 75% of the previous year's management fee.

The General Partner will receive 10% of profits (with a 100% catch-up provision) after limited partners have received 100% of contributed capital, and an 8% compound preferred return.

Despite the Goldman Sachs name, the economic terms are slightly below the average we have encountered in the secondary fund space.

Target Market Commentary

Secondary funds' primary investment activity involves purchasing seasoned interests of other private equity funds. Generally speaking, seasoned private equity partnerships are 3 – 7 years old with at least 50% of committed capital drawn. As such, the majority of the assets within the fund are already specified and much of the "blind pool" risk of the fund is mitigated. Accordingly, secondary fund managers are primarily underwriting the assets already specified within the economic structure of the target partnership. The quality of the underlying general partner remains an important factor in underwriting the transaction, but it is a lower priority than that involved in primary fund of funds investing.

Outside of the reduction of blind pool risk, some of the other key attractions of secondary fund investing include: not paying management fees prior to purchase, avoiding investment failures that tend to take place early in funds' lives, and diversification that is typically comparable to that of a fund of funds.

Investors should also note that the cash flow dynamics for a secondary fund tend to be somewhat different than those in a primary fund of funds. Drawdowns of committed capital tend to be accelerated, as fund investments are largely specified rather than blind pools. Distributions tend to take place sooner as well, given the seasoning of assets at the time of purchase. The combination of those two traits typically equates to a limited j-curve for investors – should one occur at all.

One of the primary concerns related to secondary fund investing at this point in time is pricing. As secondary fund assets have ballooned in tandem with the primary markets, competition for secondary investments has escalated. With much of the quick returns we witnessed in secondary funds in 2004 – 2005 decelerating, it is clear that discounts (whether to NAV or fair market value) are slimmer today than they were several years back.

Biographies of Key Personnel

J. Christopher Kojima, *Managing Director, Private Equity Group*, is a Portfolio Manager for the GS Vintage Funds, responsible for sourcing, evaluating, structuring and negotiating transactions involving limited partnership secondaries and portfolios of direct investments. He also serves as the Co-Chief Operating Officer of the Private Equity Group (PEG). Prior to joining the PEG in 1999, Mr. Kojima specialized in leveraged buyouts and acquisition financing in Goldman Sachs' Leveraged Finance Group. J.D., *cum laude*, Harvard Law School; M. Phil. in Finance with first-class honors, The University of Cambridge; and B. Comm in Finance, The University of Manitoba.

Michael J. Brandmeyer, *Managing Director, Private Equity Group*, is a Portfolio Manager for the GS Vintage Funds, responsible for sourcing, evaluating, structuring and negotiating transactions involving limited partnership secondaries and portfolios of direct investments. Prior to joining the PEG, Mr. Brandmeyer was a portfolio manager in the Fixed Income Group focusing on domestic and international high yield. M.B.A., Columbia Business School; M.I.A., Columbia School of International and Public Affairs; B.A., University of California, Davis; Chartered Financial Analyst.

Investment Merits

Differentiated Strategy
Goldman Sachs Vintage funds have a higher percentage of direct investments and fund lift-outs (synthetic secondaries) than other secondary funds. The complexity of such transactions reduces competition and creates the potential to generate higher returns.

Track Record
To date, Goldman's Private Equity Group has managed to produce attractive returns (both relative and absolute) in the Vintage offerings.

General Secondary Fund Dynamics
Secondary funds tend to create distributions within the first twelve months of operations and become fully invested earlier than primary fund of fund investments. Secondary funds also tend to offer diversification comparable to that of primary funds of funds.

Concerns

Competition/Pricing in the Secondary Market
Though Goldman Sachs has been very successful in acquiring assets with relatively limited competition in the past, one cannot ignore the pricing pressures in the industry due to the amount of capital available.

Growth in Assets
While the stated target capitalization for the fund is $3 billion, we would not be surprised if Goldman raised between $5 - $6 billion for the Fund. Generally speaking, larger investment opportunities in the secondary space are more professionally intermediated, creating a more competitive environment.

Potential Conflicts of Interest
The list of potential conflicts of interest is quite long. Goldman Sachs' breadth of investment and advisory activities creates situations where an investment may be suitable for multiple products and portfolio companies may use the firm for investment banking services. Such conflicts are inherent in investing with diversified financial services companies like Goldman Sachs.

Evaluation Summary

Goldman Sachs often touts its global presence and deep personnel resources as major benefits to its alternative investment products. The Vintage Funds represent a case where such assets have proven to be beneficial for investors. While the growth in assets and potential conflicts of interest are points of concern, we believe the quality of the management, track record, and reasonable cost of the offering render the Fund a suitable investment opportunity.

Grant Leslie, CFA
Senior Research Analyst
May 2008

Dennis Hammond	Russ LaMore, CFA	Anthony Brown, CFA
Chief Executive Officer	President	Chief Investment Officer

Higher Education	Foundations	Healthcare	Corporate Retirement Plans	Public Retirement Plans	Private Wealth
Dick Anderson, Ph.D.	Keith Mote, CFA	Jonathan Evans, CFA	Rich Marra	Jerry Woodham	Michael Pompian, CFA
Practice Director	Practice Director	Practice Director	Practice Director	Practice Director	Practice Director

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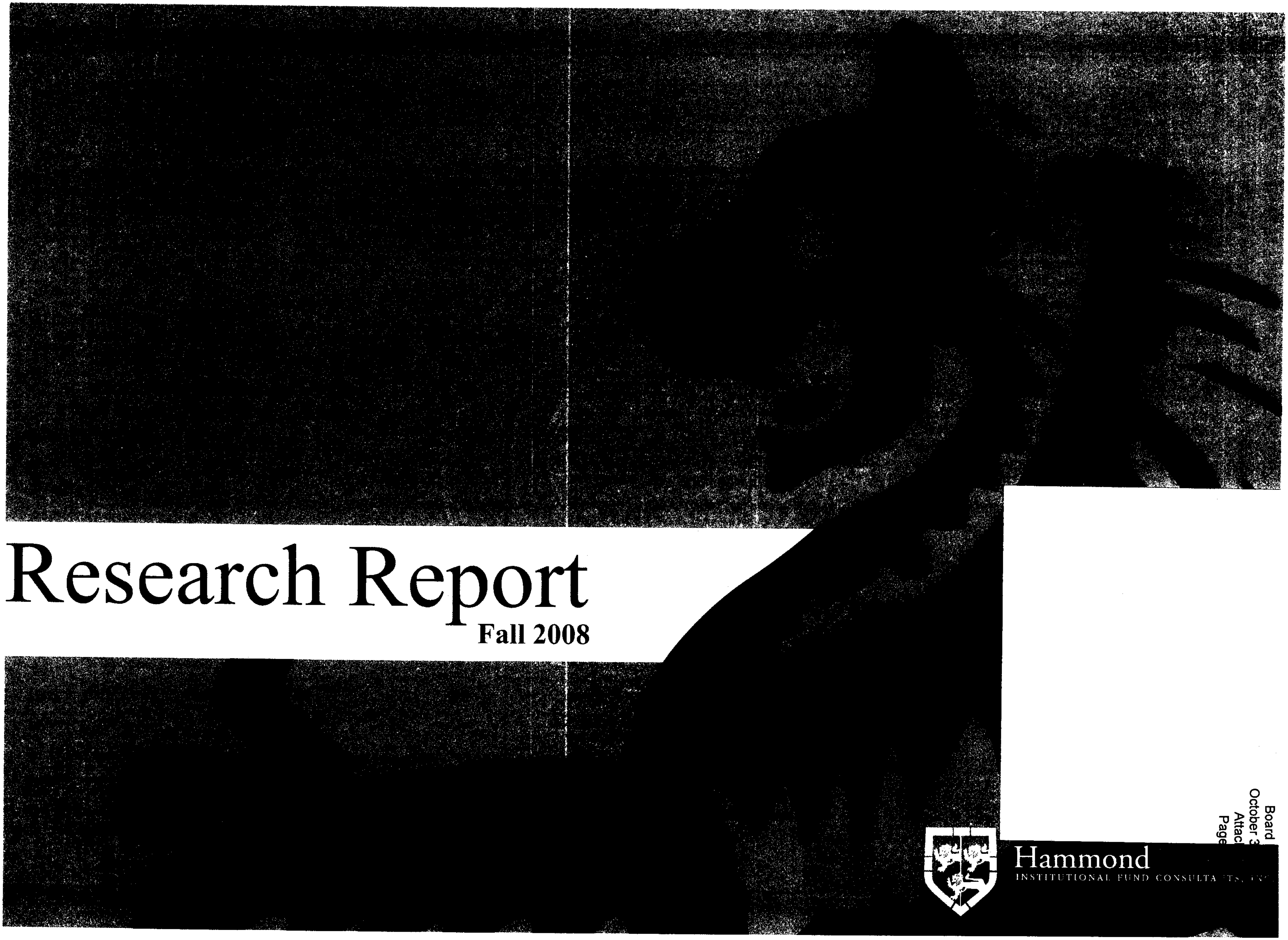
INSTITUTIONAL FUND CONSULTANTS, INC.



Research Report

Fall 2008

Hammond

INSTITUTIONAL FUND CONSULTA[illegible]TS, [illegible]

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Firm Overview:

Founded in 1985

National Practice

39 Employee / Shareholders

Proprietary Research

$59B in Assets Under Advisement

Clientele:

Higher Education Institutions

Foundations

Public Retirement Plans

Corporate Retirement Plans

Healthcare Institutions

Private Wealth

CIO Outsourcing

Staff:

121 Staff Members

84 Investment Professionals

43 Advanced Degrees

30 CFAs; 6 CAIA; 2 CPAs

6 Former Chief or Senior Investment Officers

16 Current and former Non-profit Investment Committee and Board Memberships

Teleconference Schedule:

January 27, 2009

April 21, 2009

July 21, 2009

October 20, 2009

Look for the next electronic invitation via Swiftpage emailing services.

Hammond Articles:

Alternative Investments Update

International Publicly-Traded Real Estate

Inflation and the Implications for Asset Allocation

Private Equity Investing

Not-For-Profit Healthcare Institutions: Diversifying the Investment Portfolio

Tax Reform Act, Part II

The Interest Rate Conundrum

Liabilities and Endowment Management

Timberland

Assessing Investment Risk for Not-For-Profit Healthcare Institutions

Impact of an Aging Population

Covered Call Strategies

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Hedge Funds Revisited

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Overview

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Note: Due to the significant market moves in the first two weeks of October, we provide data as of October 15 where possible throughout this report.

Executive Summary

- Global financial markets collapsed in October. The S&P has fallen 38%YTD through 10/15, while the MSCI EAFE index has dropped 40% in US$ terms. Emerging markets have been crushed, declining 49% for the year. Even many sectors of the bond market have been hit. Investment-grade corporate bonds are down more than 10%.
- The credit crisis intensified beginning in mid-September. LIBOR rates have spiked and liquidity in commercial paper markets has dried up. The inability of credit markets to function in a normal manner could have serious economic consequences and has helped send equity markets lower.
- Global governments have taken unprecedented actions to mitigate the effects of the financial crisis. These actions are probably necessary to avoid a meltdown, but come at a high cost. While there are short-term deflationary pressures, the government's actions are likely to result in higher inflation over the long-term.
- The US consumer is facing daunting conditions (falling asset prices, tightening credit conditions, and a weak job market). Additionally, US households have accumulated too much debt in recent periods and need to increase their savings rate. This recession could be worse than the last two, rivaling those experienced in 1973-75 and 1981-82. The risk of global recession is also rising. The financial crisis and the forced selling from financial institutions and other leveraged players are creating very attractive opportunities. Institutions with along time horizon and patience are in a position to capitalize on these opportunities.
- Spreads on investment grade corporate debt and GSE-backed mortgage-backed securities are at record highs. Senior bank loans also offer compelling value.
- The bear market has pushed domestic equity valuations to their lowest level since the early 1990s. Equities could continue to sell-off as earnings come under pressure, but offer attractive long-term value at current prices.
- Non-US developed markets are even more attractive. Europe is trading at just 8 times trailing 12-month earnings, and the P/E ratio on Japanese stocks is just 11. While currency exposure is a risk, we expect international equities will outperform in future periods.
- Emerging markets have been crushed during this bear market as commodity prices have cratered. Emerging markets are now trading at a discount to developed markets. We recommend investors once again overweight emerging market stocks.
- A sharp spike in volatility, a drying up of liquidity, and government actions have all contributed to hedge funds experiencing their worst period ever. However, top tier managers are well positioned to take advantage of the opportunities created by the current environment.
- Mega-cap buyouts are being hit hard by the current credit crunch. However, the dislocations are creating opportunities. This distressed debt cycle could be even more rewarding than the one at the beginning of this decade. Further, mezzanine debt now offers attractive prospective returns. Finally, recession-era buyout funds have usually been strong performers.

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October 31, 200
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INSTITUTIONAL FUND CONSULTANTS, INC.

Market Commentary
October 2008

Global financial markets were shaken to their core in the last few weeks as the worsening financial crisis claimed more casualties and led to staggering actions by governments around the globe. There was no place to hide as virtually all risky (and many not-so-risky) assets sold off significantly. Even commodities, which had been a safe haven, broke down. We estimate that the average endowment declined about 9% during the third quarter and 14% for the first nine months of 2008.

Markets have collapsed in October. As of 10/15, the S&P 500 has declined 22% for the month and dropped by 38% for the year. International equities have performed even worse with the MSCI EAFE index down 40% YTD as of the 15th. Emerging market equities, which held up relatively well in the first half of the year, succumbed in the face of falling commodity prices. The MSCI Emerging Markets index has now fallen 49% in 2008. Led by oil, commodities have slid 24% YTD. Returns from credit instruments were even more shocking. Not surprisingly, US Treasury bonds have risen more than 4% on a flight to quality. Mortgage-backed securities issued by Freddie Mac and Fannie Mae gained 2.7%, as the US Treasury put them under conservatorship. Investment-grade corporate bonds, however, have struggled, losing 11.1% for the year. High yield bonds have performed nearly as poorly as equities, shedding 22% for the year. Hedge funds have held up better than equity markets, but have suffered losses, as well. The HFR Fund of Funds index plummeted 9% during the third quarter, and is probably down around 17% year-to-date as of 10/15.

We can't predict what will happen over the next few months, but we fully expect the financial system to survive this crisis. The economy may be in for a harsh recession as the excesses of the last several years are shaken out, but it will be fundamentally sounder on the other side. The reliance on excessive debt growth for economic growth was unstable. While we continue to be very cautious for the market's short-term prospects, we are becoming increasingly optimistic for longer-term prospects.

Without doubt, the turmoil in the markets is creating opportunities. Domestic equities are trading at their lowest valuations since the early 1990s, and international equities appear even more undervalued. As a result, we recommend long-term investors consider increasing their equity allocations at the expense of Treasury bonds. We have changed our Research Portfolio's asset allocation to reflect this recommendation. It wouldn't be surprising to see equities decline further, but they are priced to provide a substantial risk premium to Treasury bonds over the next decade. The deleveraging of financial institutions is producing incredible opportunities in credit. Strong hedge funds that were not overly leveraged and have a stable client base should be able to pick up assets at very attractive prices. Commitments to distressed debt managers made over the last couple of years should also prove fruitful.

How Did We Get Here?

"Wall Street greed" is commonly cited by politicians as the genesis of this crisis. In reality, the story is much more complicated. Politicians, the Fed, US households, foreign central banks, both commercial and investment banks, rating agencies, and institutional investors were all complicit in creating a reinforcing cycle of cheap, and ultimately unsound, credit, which helped to inflate the real estate bubble. Like all bubbles, this one eventually burst.

Wall Street certainly played a key role in this crisis. And certainly, the excesses that led to the current crisis built up over a number of years. While imprudent lending occurred in many sectors of the economy, mortgage lending is at the forefront because of its scale. Mortgage originators (including "main street" banks) aggressively marketed mortgages and quickly sold them to the government-sponsored enterprises (Freddie Mac and Fannie Mae) and investment banks for securitization. Conflicted rating agencies were complicit by allowing investment banks to transform pools of subprime-loans into collateralized debt obligations (CDOs), with most of the dollar values carrying AAA ratings. The securities were eagerly gobbled up by institutional investors (insurance companies, money managers, hedge funds, etc.) to enhance returns in the face of low government bond yields. Investment banks themselves retained the most toxic tranches of the CDOs, contributing to the losses they are now experiencing. Both commercial and investment banks reaped enormous profits, and bankers enjoyed obscene bonuses, while the party raged. Regulators did little to curb the excesses, and in some cases fed them. The SEC went so far as to eliminate the big investment banks' capital requirements in 2004. Their investors and employees are now being severely punished. Note, however, Wall Street was just one player.

The laudable goal of greater home ownership, especially for those who found it difficult to qualify for traditional mortgages, also contributed. Politicians encouraged Freddie Mac and Fannie Mae to loosen restrictions on mortgages and increase volume. Most politicians looked the other way as the institutions piled on risk. Buyers of GSE paper were unconcerned by the growing risks of the institutions, because they had the implicit backing of the US government. Even as accounting irregularities were revealed, many in Congress encouraged the institutions to grow their balance sheets and blocked meaningful reform. In fact, earlier this year, Congress authorized both Freddie and Fannie to increase leverage to support the housing market. There were some critics inside of Congress and many outside that raised concerns, but they were dismissed as alarmists. The goal of greater home ownership was achieved, as the home ownership rate increased from 65% to 69% from 1995 to 2006, but at a great cost.

Federal Reserve policies also contributed to the current crisis by providing easy money. Under the leadership of Greenspan, the Fed decided it was inappropriate to prevent the inflation of asset bubbles because it was too difficult to determine whether a bubble exists. Instead, the Fed decided to be reactive, intervening only when a bubble burst, by pumping money into the system. This philosophy was applied, for instance, following the collapse of the tech bubble. The Fed lowered the Fed Funds rate to 1% and held it there for a year.

When the tightening cycle began, it was in quarter-point steps. This made the 2001 recession very mild by historical standards, but it had unintended consequences. The easy money helped to inflate the real estate bubble. Mortgage rates (especially ARMs) plunged, making homes seemingly more affordable even as prices rose. Had the Fed allowed the economy to experience a more severe recession in 2001, instead of encouraging the inflation of a new bubble, the global economy would probably be in much better shape today. Meanwhile, the "Greenspan-put" encouraged investors to take on even more risk, driving risk premiums lower.

US households bear a large share of the blame as well. Some homebuyers took on mortgages they couldn't comfortably afford with the misguided expectation that prices would continue to rise forever, and some knowingly lied on applications. Further, for many years, households increased spending more than income. This excess spending was funded by asset appreciation and debt. In the late 1990s, the booming equity market supported spending. After the bursting of the equity market, home price appreciation was the fuel. Mortgage equity withdrawals provided the marginal spending dollar in the face of weak wage growth. Despite rising home prices, owners' equity in households declined from 50% to 40% from 2000 to 2006.The household savings rate declined from 4% in 1996 to 0.5% by the end of 2007.

The overconsumption of US households led to massive debt accumulation and resulted in a reinforcing cycle. Households' overconsumption caused a high trade deficit, meaning more dollars were shipped overseas. Foreign central banks sopped up the excess dollars to keep their currencies from appreciating (which would make their goods less competitive). These were reinvested in Treasuries and mortgage-backed securities, keeping the cost of credit low.

The Financial Crisis Deepens

The bursting of the credit bubble is resulting in the worst financial crisis since the Great Depression. The steps taken by the government to counteract it and arrange the sale of troubled financial institutions are unprecedented. The crisis has resulted in the US government owning 80% of the country's largest insurance company (AIG) and backing the bulk of US mortgages. Perhaps out of necessity, rather than adopting an overall strategy to deal with problem institutions, the Fed and the Treasury have handled matters on a case-by-case basis. The markets witnessed the demise of some of the oldest and largest players in the financial world (Bear Stearns, Fannie Mae, Freddie Mac, AIG, Lehman Brothers, Washington Mutual, Merrill Lynch, and Wachovia). The purpose of the government's bailout of some of the distressed companies was to lower systemic risk. Financial firms are intricately interwoven globally through derivative contracts, portfolio insurance, and common holdings Further, hedge funds rely on financial institutions for prime brokerage and as counterparties on derivative contracts. However, the seeming arbitrariness of the government's actions has increased uncertainty. For example, in the cases of Fannie Mae, Freddie Mac, Bear Stearns and Wachovia, equity holders were mostly wiped out, but bondholders escaped unscathed. However, when the government failed to backstop the takeover of Lehman Brothers, no buyer stepped up and the firm was forced to file for bankruptcy, which resulted in the largest default in bond market history. Similarly, Washington Mutual bondholders will be facing significant losses on their holdings. At this point, the status of AIG bondholders is uncertain.

The fundamental issue facing financial institutions is the need to re-capitalize their balance sheets. It has been exceedingly difficult to raise equity capital after investors saw what happened to equity holders of other failed institutions. According to Bloomberg, global credit-related losses reported by financial institutions now total nearly $600 billion, of which only $450 billion has been replaced with new capital. And the worst may not be over for financial firms. Some analysts expect losses to eventually top $1 trillion. Banks need to de-leverage and restore capital ratios to more appropriate levels, but the process will be painful as it puts further downward pressure on commonly held assets, forces banks to reduce the availability of credit, and requires raising more equity, which dilutes existing investors. The recently-passed bailout plan will help to some extent, as the government will become a buyer of last resort for toxic assets, which will facilitate the deleveraging process. More encouraging is the move to use part of the plan to make preferred equity investments. Outright equity investments could be far more effective than asset purchases, as new capital investments can support several times the amount of assets.

The biggest threat that the problems in the financial sector pose to the broader economy is the reduction in credit availability. Credit is necessary for businesses to maintain day-to-day operations and invest in new operations. A credit lock-up could turn this from a moderate recession to one far more severe. Businesses may find it harder to access credit as banks pull back on lending. Even high credit quality businesses are feeling the pinch. Altria Group just announced that it will delay its purchase of US Tobacco because of unattractive financing costs. Smaller, less creditworthy companies will face even greater challenges. Debt issued during headier days may be tough to re-finance, and lines of credit could be pulled.

The stress in credit markets can be seen most acutely in money markets and other areas of short-term financing. Banks are uneasy lending to one another, and investors have fled riskier assets for Treasuries. Three-month LIBOR (London Interbank Offered Rate) jumped from 2.81% to 4.02% during September, while Treasury yields dropped sharply from 1.72% to 0.92%. The TED spread (the difference between three-month LIBOR and three-month T-Bills) soared to 4.33% as of 10/15. This spread typically averages less than 50 basis points. The inter-bank lending market is an important conduit for banks to maintain daily operations and indicates that banks are nervous about their competitors and lack the funds to lend at normal levels. Additionally, many consumer and corporate loans are tied to LIBOR rates, so the Fed's easy money policy is not flowing down as freely as expected. Also, most derivatives are priced using LIBOR. As money market investors fled commercial paper for short-term Treasuries, even healthy corporations were hard hit and find themselves unable to replace maturing commercial paper, which necessitated the Fed's decision to intervene in the open market for commercial paper.

The higher cost of debt makes its more costly for firms to invest, and with the economy most likely in recession, businesses are less likely to put additional capital to work, increasing the severity of any recession. The global economy has benefited from the easy credit conditions of the past few years. The return to a more normal credit environment will be painful for all parties, but over the long-term it will improve the health and stability of the US economy.

The Silver Lining

The deleveraging of the financial industry has provided and should continue to provide an ample supply of attractive investment opportunities. Institutions with long time horizons and patience are in a position to capitalize on these opportunities as they continue to unfold. These institutions can provide liquidity to markets and collect attractive risk premiums. While institutions with long time horizons have suffered negative returns this year, many remain in a position to increase risk. Nevertheless, investors should still approach these markets cautiously given the systemic risks that the global economy faces.

The most attractive short-term opportunities are in assets that are held by leveraged investors, which tend to be debt securities. Banks most often make leveraged bets on credit instruments, not equities, and it was credit securities that were packaged in securitized products (CDOs, CLOs, and CPDOs). Of course, long/short equity hedge funds are leveraged investors in equities, but their net exposure is typically below 100%. Fixed income arbitrage hedge funds, in contrast, often carried assets that were several times their capital.

The wide spreads available on many high quality credit instruments appear to be caused more by a lack of liquidity and extreme risk aversion than by concerns over defaults. The clearest cases of this are mortgage-backed securities issued by Freddie Mac and Fannie Mae. GSE mortgage-backed securities have always been thought to have the implicit backing of the US government. With the government takeovers, they now have explicit backing. Yet the option-adjusted spreads remain very wide at 1.5 percentage points above Treasuries. Government agency bonds are also trading at abnormally high spreads despite no default risk.

The spreads on investment grade corporate bonds also appear far beyond their default risk. The option-adjusted spread on investment grade bonds has risen to a record 5.1% as of October 15, compared to a historical average of slightly more than 1%. One might justify the wide spreads for financial firms (6.3%) given Lehman's default (which was investment grade) and the precarious state of other institutions, but investors seem to be very well compensated for the risk. After all, debt holders have been protected in other failures. The spread for investment grade industrial firms (4.7%) suggests a severe recession or worse. Yet equities, which are below bonds in the capital structure, are trading at valuations only slightly below their historical average. Finally, senior secured loans also present an interesting opportunity. Most of this debt is issued by junk-rated companies, but it has better asset backing and higher recovery rates in bankruptcy than traditional high yield debt.

We believe markets are in for continued short-term pain, but will eventually make it through this crisis. Given the obvious determination of policy makers to act as necessary, the risks of a global financial system collapse and another depression are remote. As a result of deleveraging, the most attractive short-term opportunities are in credit. Surviving hedge funds should find ample opportunities. The managers we have invested with tended to use low leverage and will be well-positioned to increase risk when appropriate. We continue to recommend that investors shift away from Treasury-only to investment-grade exposures to capture attractive credit spreads. With default rates picking up substantially, we are at the onset of the distressed cycle, and this one could be far more lucrative than the one at the beginning of this decade. While there is a tremendous amount of capital on the sidelines, the high level and poor quality of corporate debt issuance, coupled with a dearth of liquidity, should lead to plenty of opportunities. We are also closely watching buyouts. While it might seem counterintuitive, the best time to invest in buyouts is during recessions when purchase multiples are low on cyclically depressed profits.

While the most attractive short-term opportunities are in credit, equities are becoming increasingly attractive for long-term investors. Given the economic headwinds, we wouldn't be surprised to see equities continue on their downward path. However, the bear market has pushed domestic valuations to below fair value based on the normalized P/E (which builds in a decline in profitability). The normalized P/E is currently 15, below our fair value estimate of 20 and the cheapest since the mid-1990s. It suggests a future real return of over 6.7%, which is fairly attractive when compared to expected real returns on Treasuries (probably less than 1%).

International equities are looking even more attractive. European equities have been crushed this year, falling 37% in local currency terms and 30% in US$ terms. It is becoming clearer that international economies are following the US into a recession, but the steeper sell-off in international equities seems overdone. According to MSCI, Europe is trading at 8 times trailing twelve-month earnings, compared to 13 times for the S&P 500 Index. The P/E ratio on Europe is certain to increase as earnings come under pressure, but the cheaper valuations provide a very attractive buffer. We estimate that Europe is trading at a normalized P/E of 11, a 27% discount to the US. We also remain optimistic about Japan. While its economy is also at risk of a recession, Japanese financial institutions are in strong shape. Finally, emerging market equities, which have fallen nearly by half this year, are again trading at attractive discounts to developed markets.

For now, we recommend that investors proceed cautiously. Since we don't know when the credit markets will thaw, institutions should be certain that they have sufficient liquidity to meet spending and capital call needs over the next six to twelve months. For investors with a long-term time horizon, we suggest increasing the equity allocation at the expense of Treasury bonds. In our Research Portfolio, we are increasing the allocation to public equities from 35% to 40% and decreasing the allocation to Treasuries. In so doing, we are returning to an overweight position in emerging market stocks. Hedge funds, distressed debt managers, and active fixed income managers are in the position to capitalize on shorter-term opportunities. We are truly in historic times. Equity and credit markets are likely to remain very volatile and could continue to get worse from here. If so, we expect to recommend an additional increase to the public equity allocation. In any event, we believe institutional investors are ideally positioned to capitalize on the extreme risk aversion now apparent in markets.

Remember, investors buy low....

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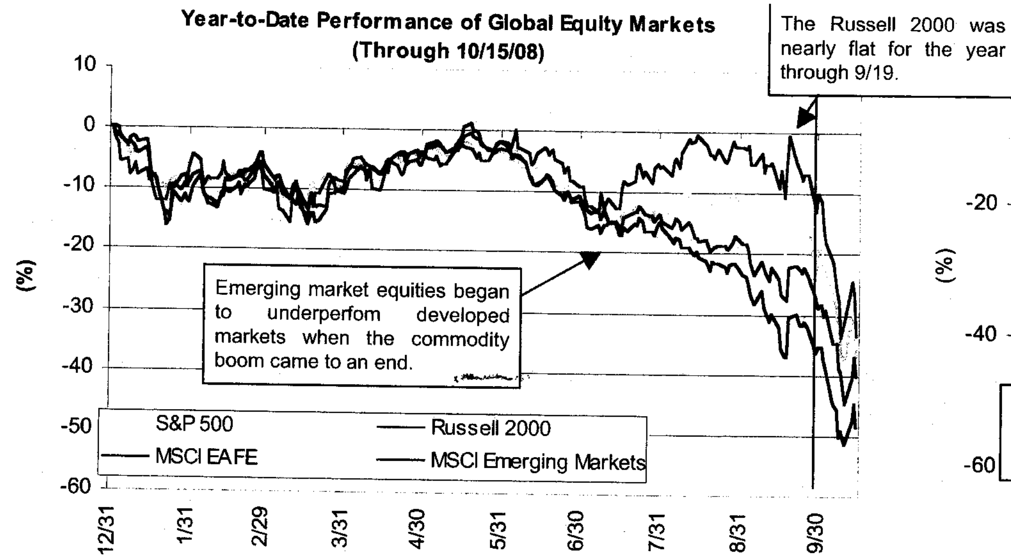
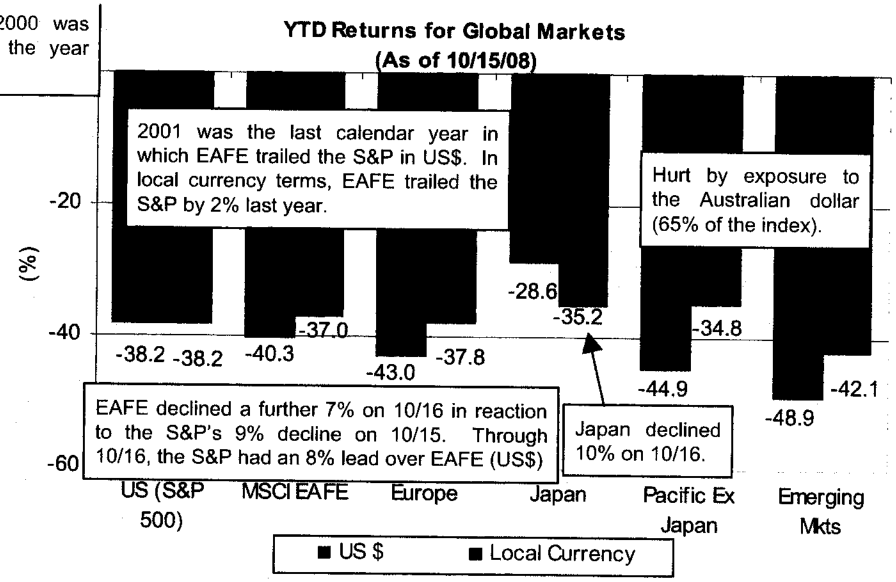
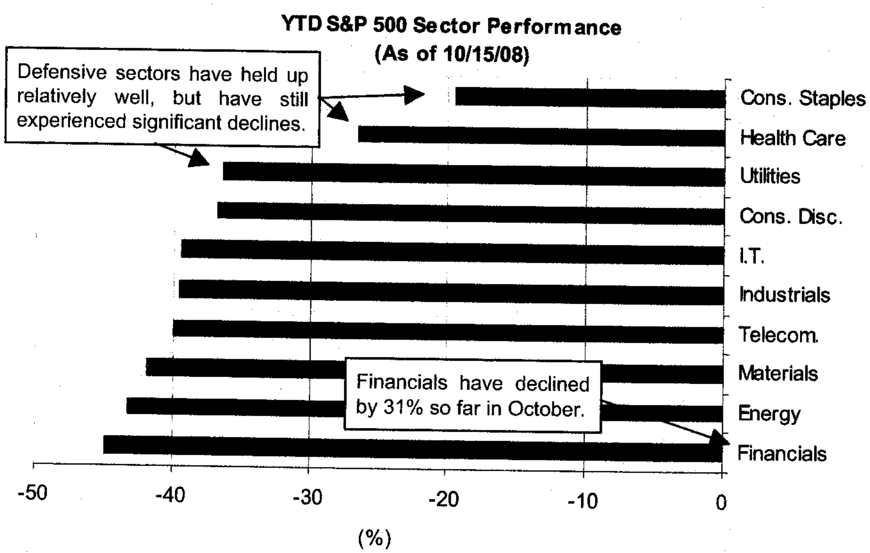
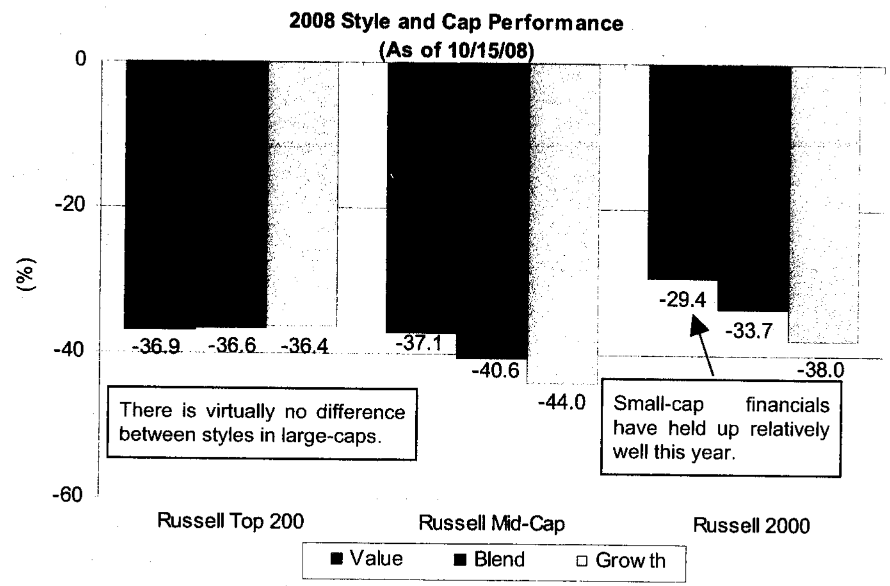
Global Equity Markets Collapsed in October









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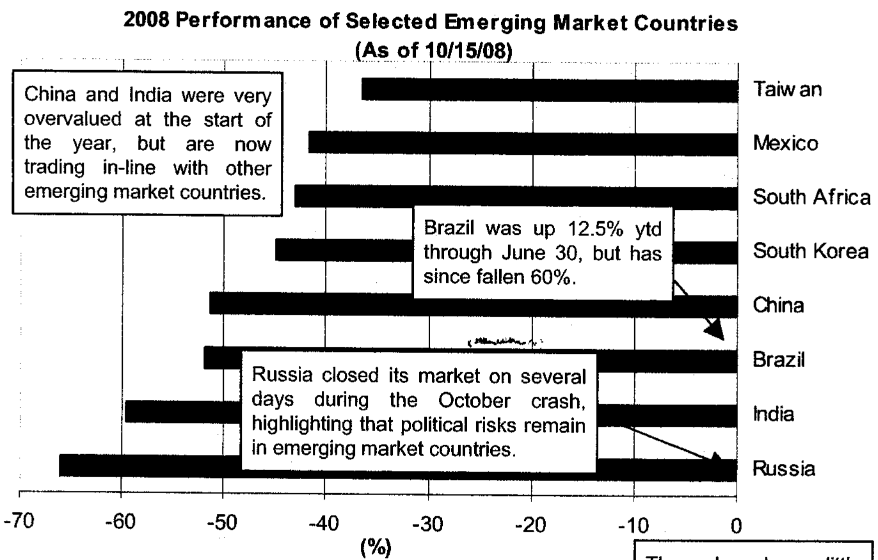
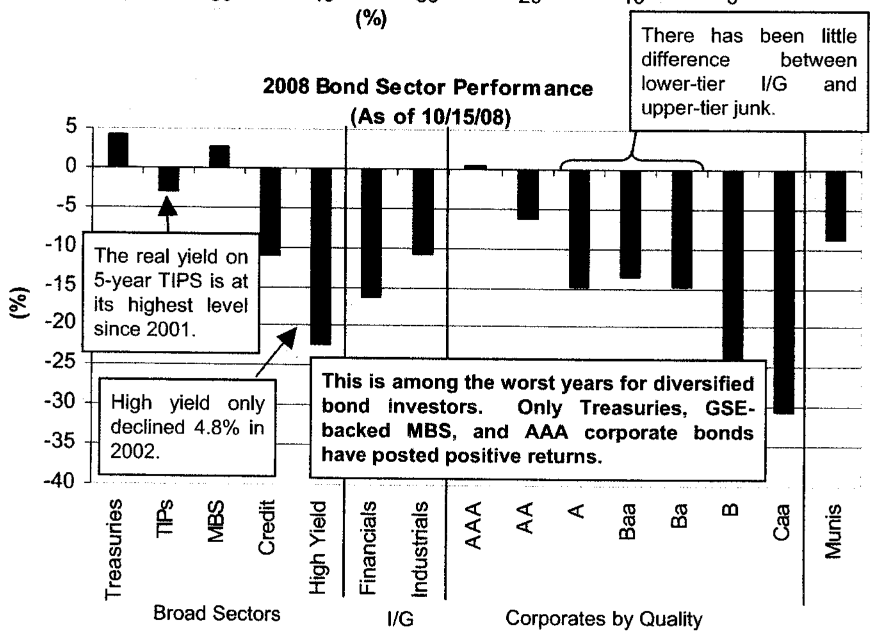
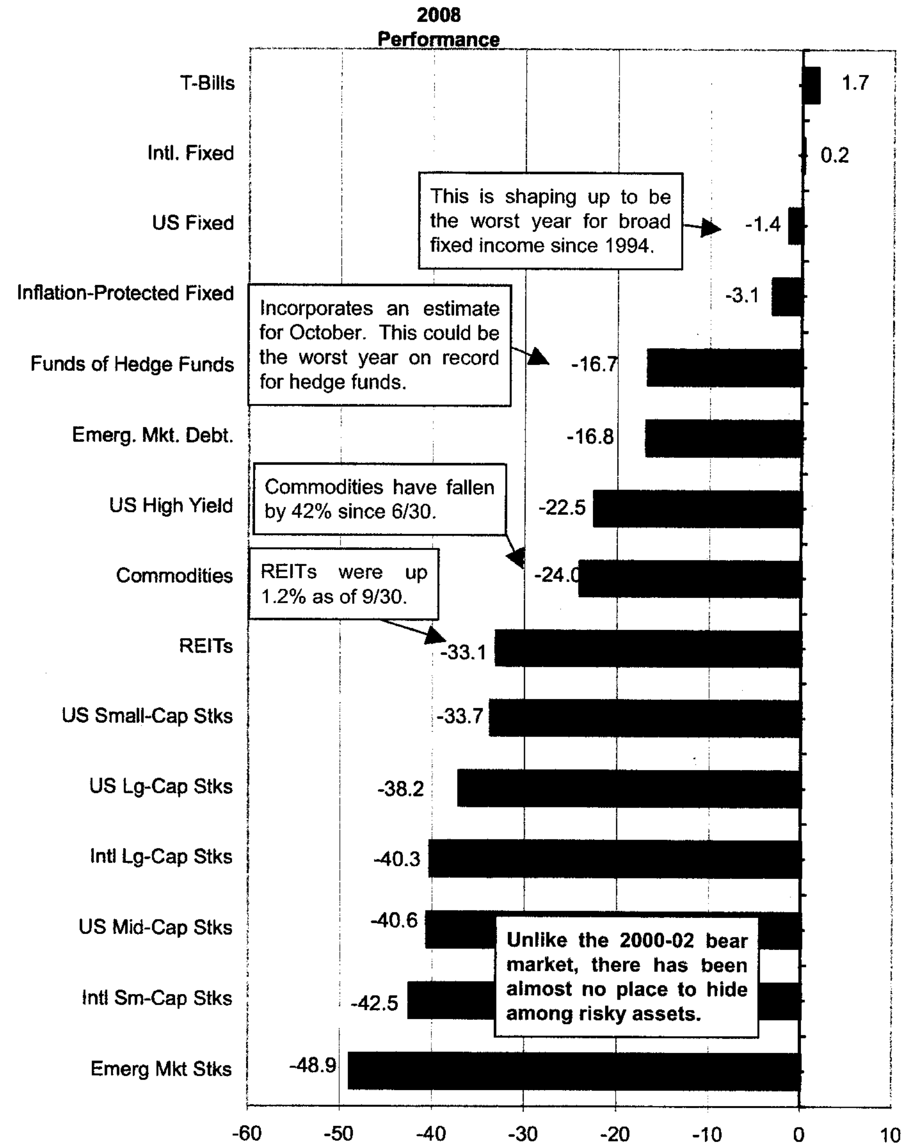
Global Equity Markets Collapsed in October (cont.)



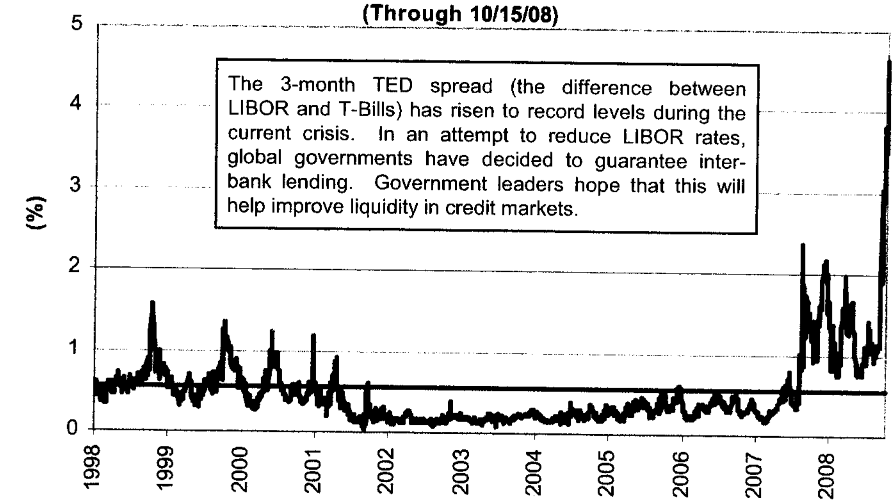




The Financial Crisis Intensified, Increasing Risk for the Global Economy

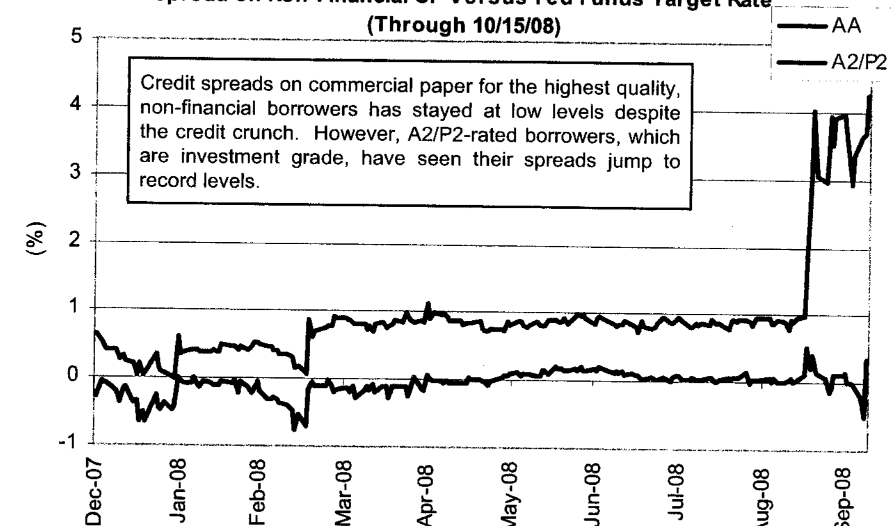
- The credit crisis intensified in September and early October as investors fled risky assets for Treasuries over concerns about the health and stability of the global financial system. The inability of credit markets to function in a normal manner could have serious consequences for the global economy.
- LIBOR (London Interbank Offered Rate) spiked after the collapse of Lehman. LIBOR is an unsecured lending rate. While it measures interbank lending, it is also an indicator of what it costs banks to get unsecured financing from other sources. Large banks require this unsecured financing to maintain lending operations.
    - To this point, the liquidity injected into the system by governments has not eased the strains nor has it tempered risk aversion. ~~The~~ TARP program in the US and similar actions by foreign banks should eventually help to ease the lockup.
    - LIBOR affects more than just banks, as it is a key reference rate for other instruments and loans. Bloomberg estimates that over $360 trillion in loans and financial contracts are tied to LIBOR, so higher LIBOR rates restrict the flow of credit and significantly increase its costs.
- The commercial paper market was hard hit after the $65 billion Reserve Primary money market fund "broke the buck" due to its exposure to $785 million in Lehman Brothers commercial paper. Commercial paper is an unsecured short-term loan. It is an important conduit for corporations and financial institutions to obtain short-term financing to meet basic operating needs. This sparked a run on money market funds.
    - Investors pulled nearly $100 billion out of money market funds in the days following Reserve Primary's collapse. Most funds flocked to T-bills in order to reduce their risk exposure and improve their liquidity. This helped push the 3-month T-bill yield close to zero. The rush of sellers coupled with a lack of demand caused spreads for many issuers to spike and volume to collapse.
    - The Treasury's money market fund guarantee program helped to end the run on funds, but money market fund managers still appear to be very risk averse. The Fed's purchase of commercial paper has filled some of this funding gap.
- The actions by global governments and central banks will eventually help to ease the short-term strains and free up credit (see page 10), but it is likely to be a slow process. Financial institutions still face more write-downs on mortgage assets. Further, with the odds of a global recession rising, more problems are likely to surface in business and consumer loans (including credit cards). Institutions must deleverage and raise capital to return capital ratios to appropriate levels. This process will take time and could continue to put pressure on credit markets. Equity markets globally appear to be taking their cue from credit markets. Some signs of improvements could be necessary for markets to stabilize and improve.

TED Spread - 3-Month LIBOR Minus 3-Month T-Bill (Through 10/15/08)



Source: Bloomberg

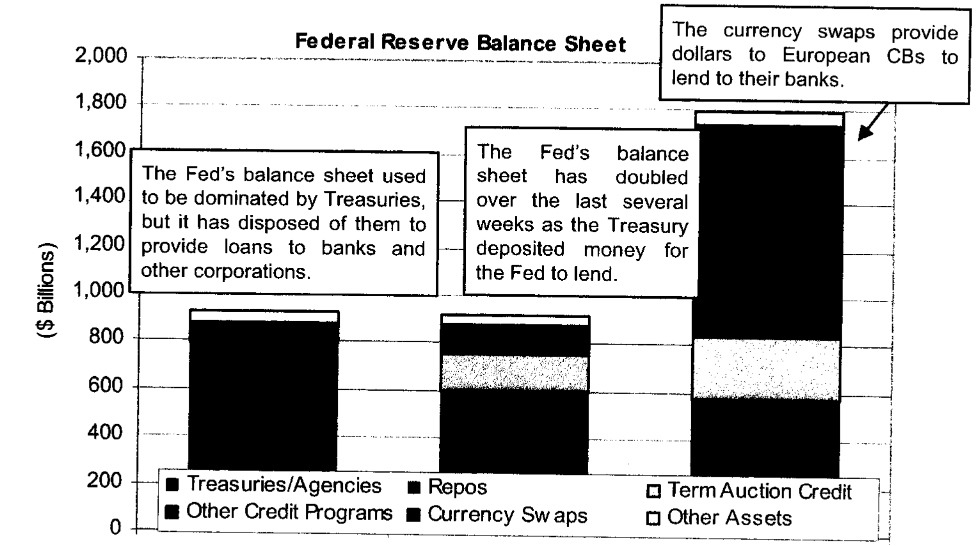
Spread on Non-Financial CP Versus Fed Funds Target Rate (Through 10/15/08)



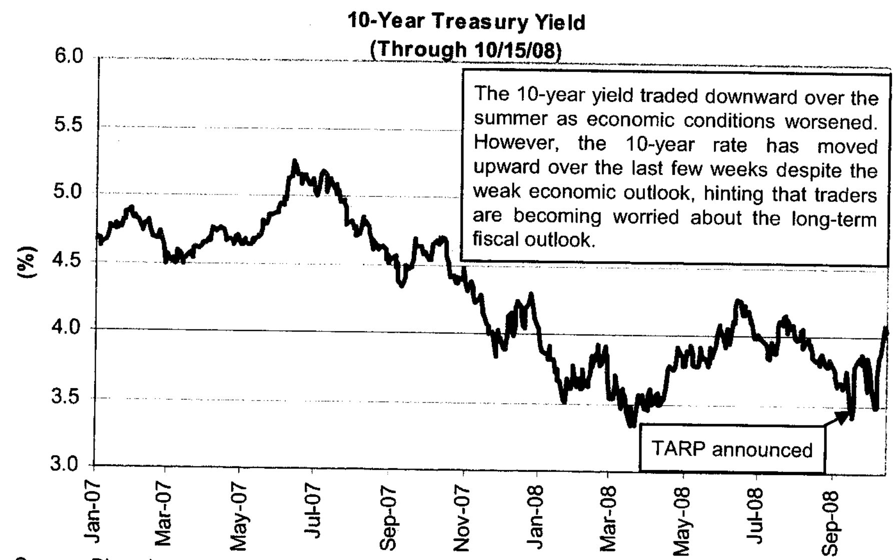
Source: Federal Reserve

Global Governments Intervened to Ease Strains

- Global governments and central banks are pouring money into the financial system to mitigate the effects of the financial crisis on the global economy. Several European governments have moved to inject capital into banks and guarantee bank deposits. The US government has been particularly active.
  - Through its various lending programs, the Federal Reserve has injected about $1 trillion into the banking system. At the Fed's behest, the Treasury issued extra T-bills and deposited the proceeds with the Federal Reserve to further expand the amount the Fed could lend to financial institutions. Congress granted the Fed permission to pay interest on bank reserves held at the Fed, which will give the Fed more flexibility in increasing the amount it can lend. Also, the Fed expanded its lender of last resort function by stepping into the commercial paper market. In so doing, it is lending directly to corporations. Further, to stem a run on money market funds, the government agreed to insure money market investments for a temporary period.
  - The bailout of Freddie Mac and Fannie Mae ensures that mortgages are available for prime borrowers, but it means that the government is now the backer of most US mortgage obligations and could eventually realize hundreds of billions in losses. The bailout of AIG, which prevented a nightmare scenario of a major derivative counter party failure, also has a highly uncertain cost. The government has provided more than $123 billion in loans, but it is conceivable that losses from credit default swaps will blow through this.
  - In an attempt to thaw the interbank lending market, the FDIC is guaranteeing interbank loans. Further, it will back newly issued senior secured debt of banks for a period of three years. The FDIC also lifted the cap on guaranteed bank deposits from $100k to $250k.
  - The $700 billion Troubled Asset Relief Program (TARP) was expanded from a program to purchase assets from banks to one that also allows for equity investment. Initially, $250 billion is slated to be invested in preferred securities with equity warrants. This can be far more effective in healing the financial system than purchasing assets because a dollar of equity can support about ten times that amount in loans and other assets. It also reduces the need for institutions to deleverage and provides room to make new loans. In addition, it could be a better deal for taxpayers as there will be greater upside possibility to go along with the downside risk (although the capital is very cheap).
- While the appropriateness of some of these actions is subject to debate, the interventions are probably necessary to increase confidence and minimize the probability of a meltdown. However, they are not without consequence. The government is issuing Treasuries to fund many of these programs. Further, it is taking on enormous, uncertain future liabilities. Coupled with rising entitlement costs for retiring baby-boomers, the fiscal outlook is bleak for the foreseeable future. These liabilities will either have to be covered by future taxpayers or by running the printing press. It could also mean much higher interest rates down the road.

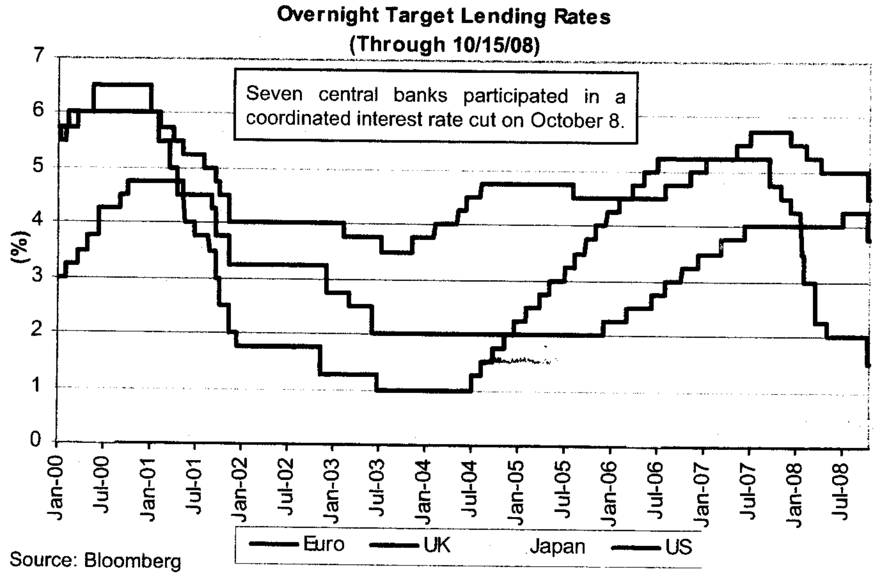


Source: Federal Reserve



Source: Bloomberg

Global Governments Intervened to Ease Strains (cont.)



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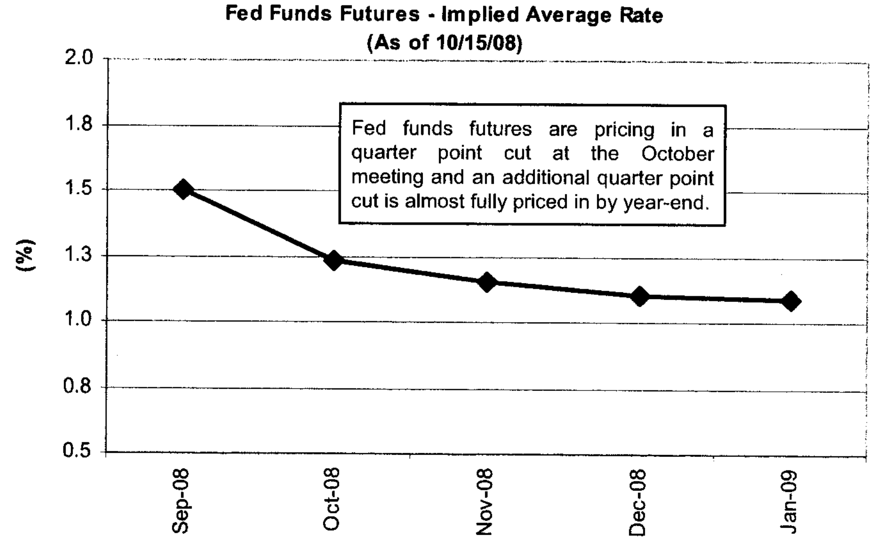

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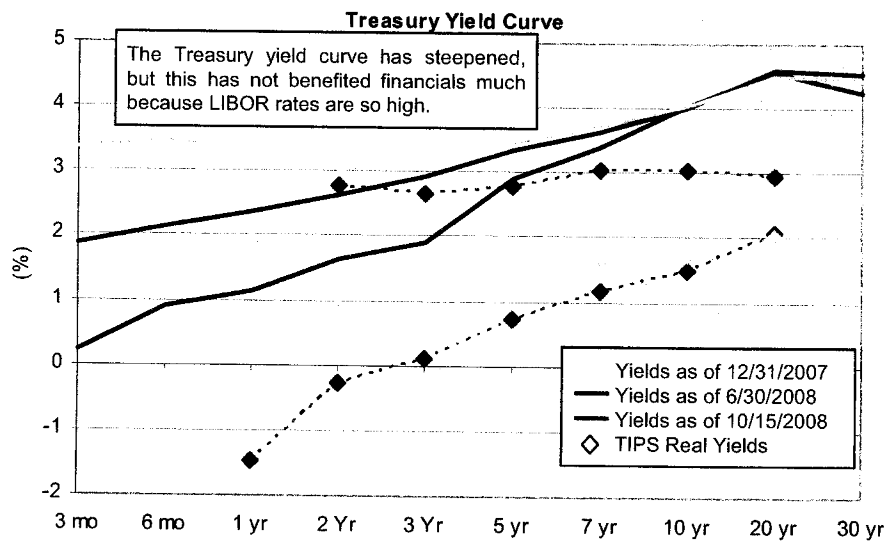

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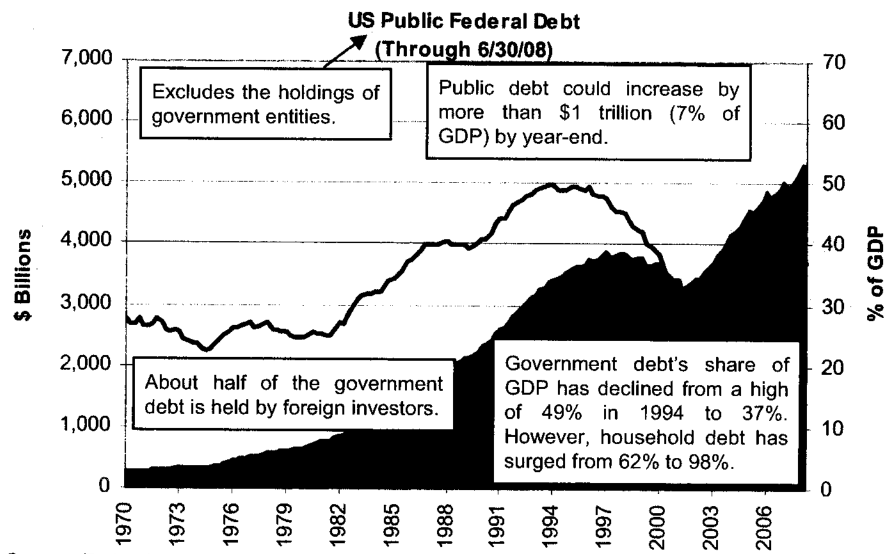
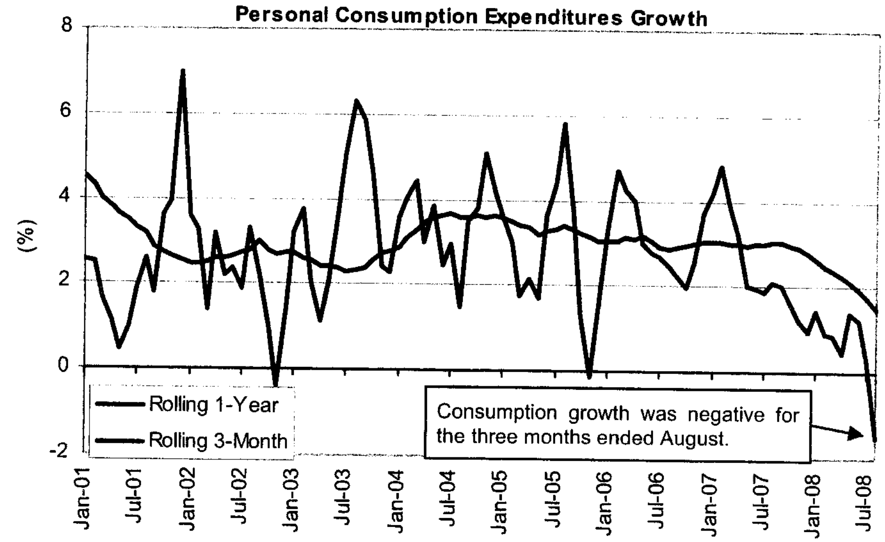


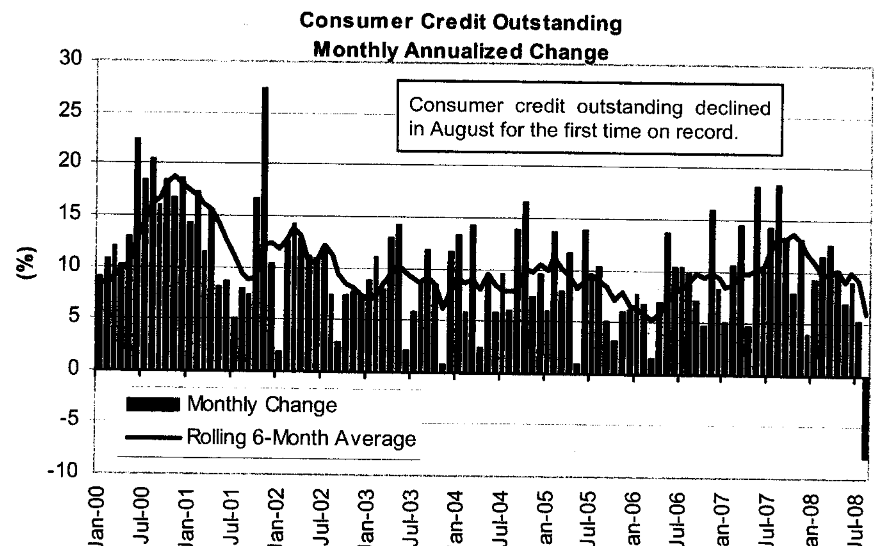
Source: Federal Reserve

US Households to Deleverage, Too

- The credit crunch has placed further strains on the economy. GDP expanded at a 2.8% annualized rate in the second quarter as the tax rebate checks and an improving trade balance supported growth. The economy probably contracted in the third quarter. Even before the recent intensification of the financial crisis, the economy was probably in a recession. The outlook for the fourth quarter is worsening given credit conditions. This recession has the potential to be as, or more, severe than the 1973-75 and 1981-82 recessions.
- Personal consumption expenditures probably contracted in the third quarter for the first time in 18 years. Through the first two months of the quarter, spending declined at a 2.3% annualized pace. The short-term outlook for consumption is bleak, as overly indebted households will be buffeted by falling asset prices, a weak job market, and tighter credit.
  - The employment situation remains very ~~weak.~~ The economy has lost jobs for nine consecutive months and the unemployment rate has increased to 6.1%. Initial jobless claims are accelerating and are near the peaks from the last two recessions.
  - Even before the worsening of the problems in the credit markets over the last few weeks, the credit crunch was being felt by households. Total mortgage debt increased only 0.8% in the second quarter. Consumer credit contracted 8% in August, the largest one-month decline on record. With credit conditions deteriorating in the last half of September, the final quarter of 2008 could bring further credit contraction.
  - Household net worth is under intense pressure from the simultaneous collapse of housing prices and equity markets. Through the second quarter (the latest available data), household net worth declined by 5% from the peak. Net worth has probably declined another 6% since the end of the second quarter.
  - The fall in energy prices was one piece of good news. Gasoline prices have declined by a third from their high, and the futures market suggests they will fall further. Natural gas and heating oil prices have also declined substantially, which will make winter heating bills smaller than feared a few months ago.
- For too long, households have used debt to subsidize consumption. This has resulted in a heavy debt burden and a household savings rate close to zero. The bursting of the housing bubble and the credit crunch will force households to save more. The savings rate needs to move towards the historical average of 8% (and arguably even higher given the demographics). This will have the beneficial impacts of reducing our current account deficit and our reliance on foreign inflows. Ideally, this process will occur gradually over five years or more. In this case, the economy would grow 1% to 2% below the long-term trend. However, the credit crunch could accelerate this process, concentrating the pain in the shorter-term.



Source: Bureau of Economic Analysis



Source: Federal Reserve

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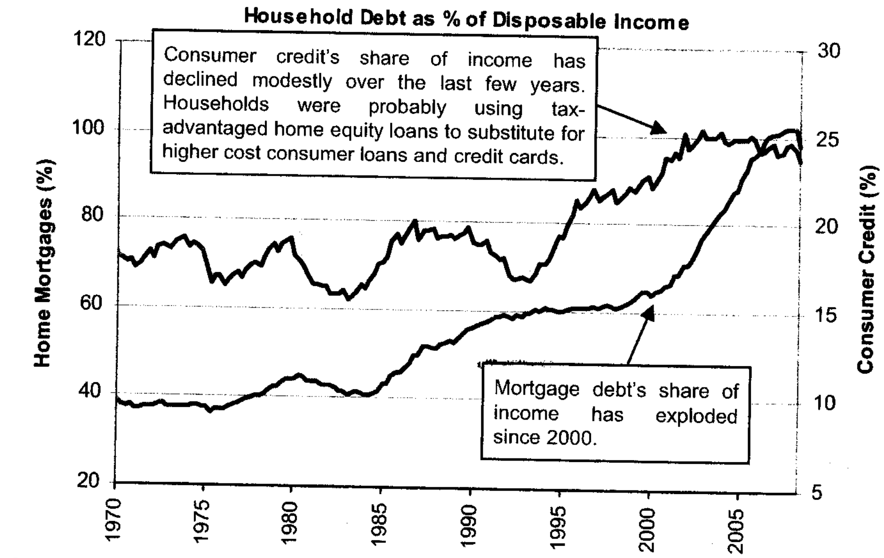
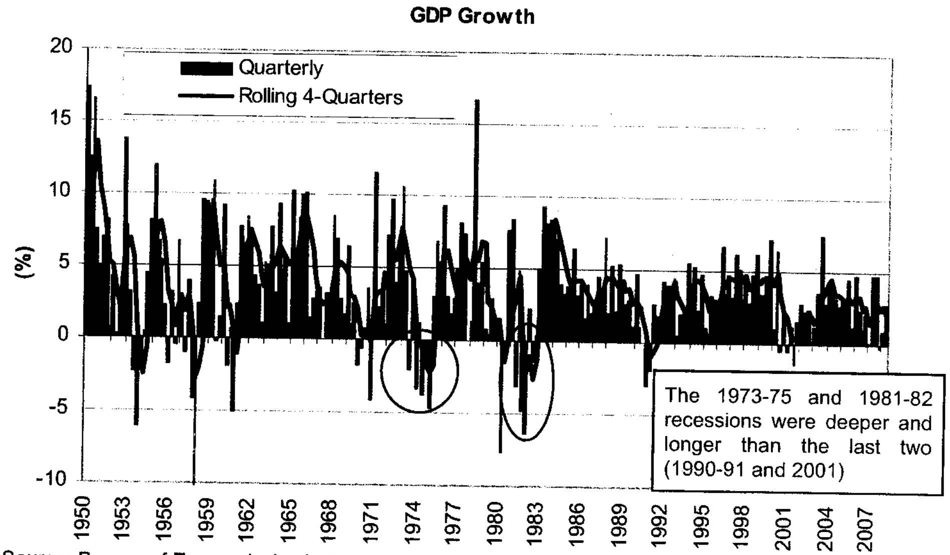
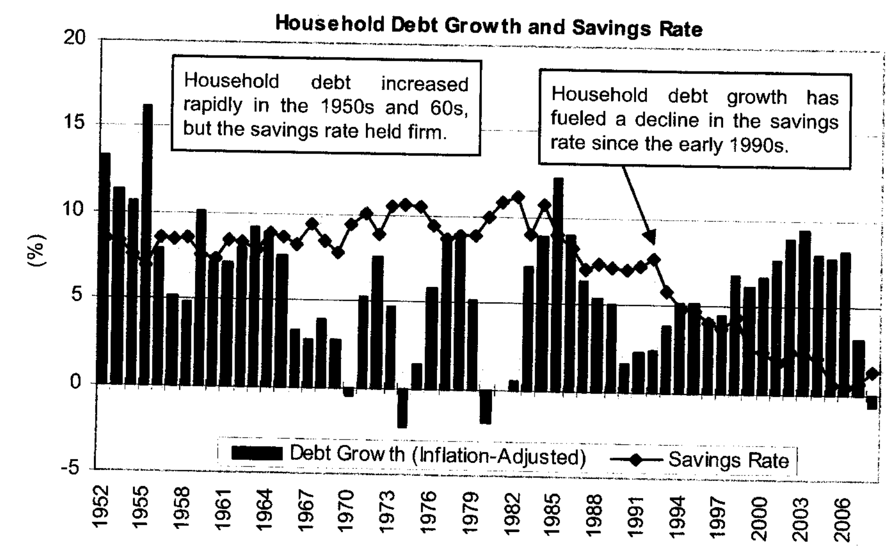
US Households to Deleverage, Too (cont.)



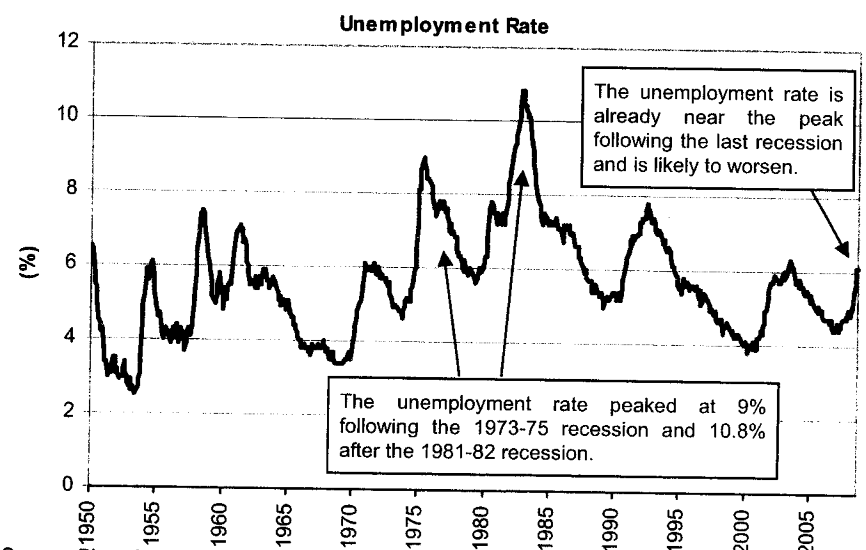
Source: Federal Reserve



Source: Bureau of Economic Analysis



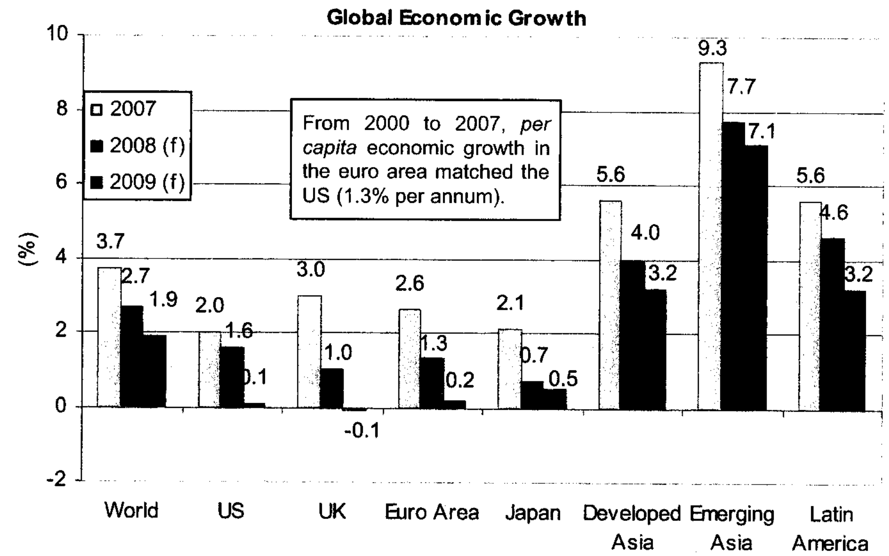
Source: Federal Reserve



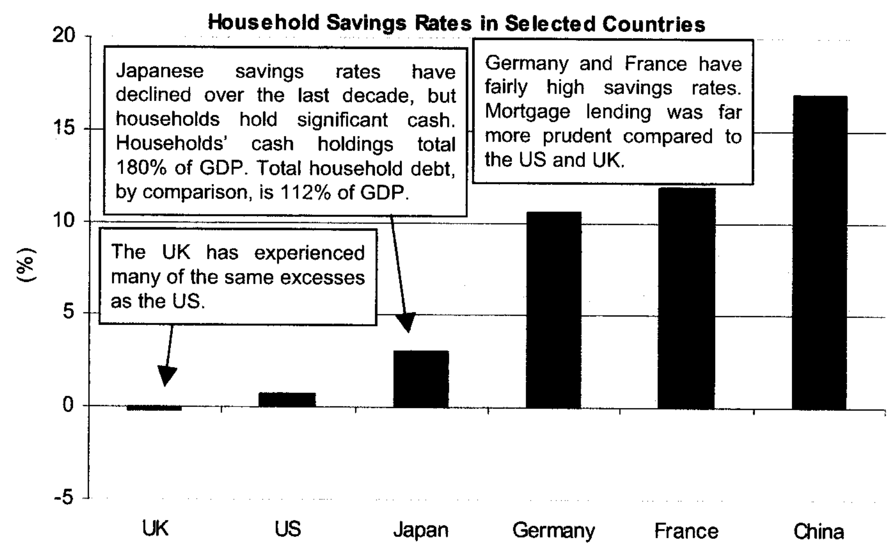
Source: Bloomberg

The Risk of a Global Recession is Rising

- The US financial crisis and recession have spilled over to the rest of the world, squashing hopes for global decoupling. All regions are feeling the effects of the credit crisis and the popping of the US housing bubble. The IMF expects global credit losses to top $1.4 trillion with the US and Europe exposed to the bulk of these losses. Much of the developed world will likely slip into recession (if it has not already) and emerging market countries could see a significant slowing in growth. The IMF expects that the global economy will grow just 1.9% in 2009 based on market exchange rates, about half the rate of 2007.
- Western European economies are expected to grind to a halt in 2009. Much of Europe also experienced housing bubbles. The good news for Europe is that excesses in lending were not as widespread. While the UK, Ireland, and Spain are suffering from many of the same problems as the US, subprime lending and home equity withdrawals were much less prevalent in the rest of Europe. Further, continental European households are less indebted and save more. According to the OECD, personal savings rates average about 9% in the Euro area (Germany and France have savings rates that exceed 10%) and consumer debt levels are about a third lower than the US. While Europe may not be able to avoid a recession, it may be able to return to trend growth faster than the US because households are in stronger financial shape.
- Japan may also be in a recession. Japan is much more export-dependent than other developed economies. The US purchases about 20% of Japanese exports, so the US consumer spending recession will hurt Japan. However, 60% of Japanese exports flow to emerging market countries (for the US that number is 50% and for Europe it is 25%). While emerging markets are likely to slow, their imports should continue to grow strongly, so Japanese exporters could fare better than US and European exporters. Another piece of good news for Japan is that its financial institutions are in better shape than its US and European counterparts because they largely avoided US mortgages. While economic growth is expected to slow in 2009 to 0.5%, Japan could still be one of the better performing developed economies.
- A recession in the developed world will place a strain on developing nations. A key question is how well domestic demand growth will hold up while exports to developed nations come under pressure. The IMF expects emerging market countries to post strong, albeit slower, growth in 2009. China's economic growth rate is expected to slow from 11.7% in 2007 to 9.3% in 2009. India's GDP growth rate is expected to slow to 6.9% in 2009. China and India were in danger of overheating so a slower degree of growth is beneficial from an inflation standpoint. However, a 2 to 3 percentage point unexpected slowdown in GDP growth rates for those countries can be as painful from a macroeconomic standpoint as a recession in the developed world. The recent plunge in commodity prices will put strains on commodity exporting Latin American nations. While emerging market countries will face short-term challenges, their long-term outlook, especially for Asia, generally remains bright because of rising labor productivity.



Source: IMF

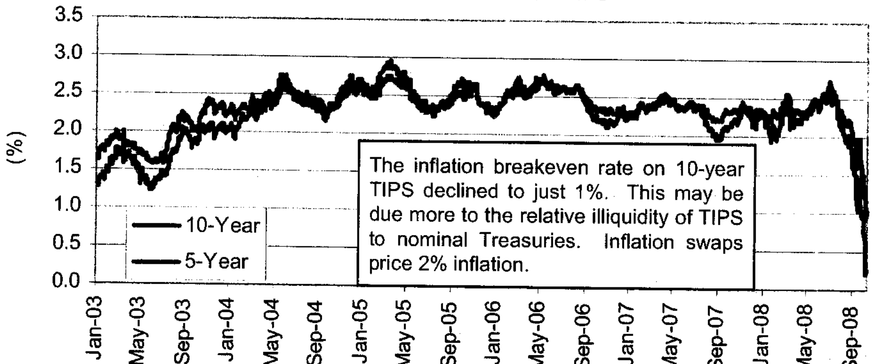


Source: OECD

Is Deflation on the Horizon?

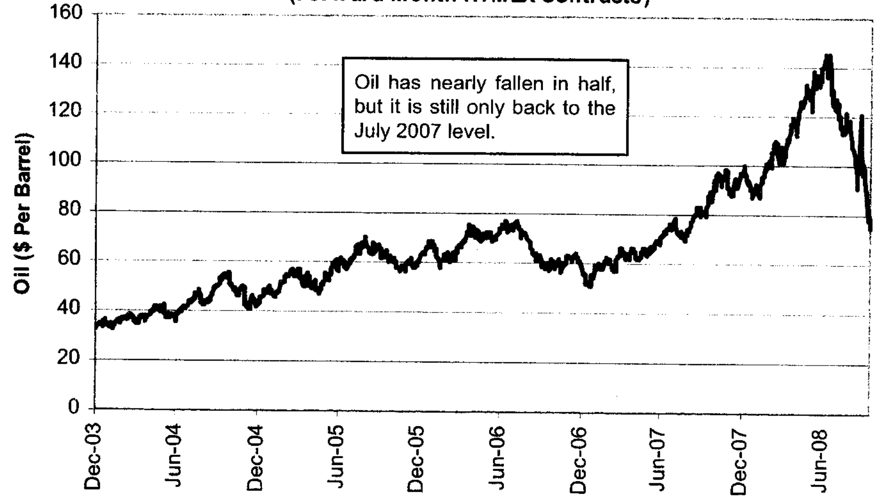
- The short-term inflation outlook improved considerably during the quarter, as energy prices collapsed and the financial crisis intensified. The rebounding dollar also reduced inflationary pressures. Over the short-term, we might even see deflation.
- The slowing global economy and a shakeout of speculative investors have helped to cut oil prices nearly in half in just three months. After hitting a high of $145 in July, oil has tumbled to $74 (as of 10/15). Nevertheless, the intermediate-to long-term fundamentals have not eased.
  - We may be in a global recession, which could put further short-term pressure on commodity prices. However, the global economy will eventually return to health, and growth will probably be led by emerging market countries. These countries will continue to demand energy to support growth.
  - The supply and demand balance is still tight. The decline in prices will dampen supply growth. In recent years, an increasing level of supply was coming from non-conventional oil sources as conventional production has stagnated. The cost of the marginal barrel for many non-conventional sources ($90 to $100) is now above market prices. This will discourage investment, depressing supply growth.
- Collapsing credit bubbles tend to be deflationary. This was evident during several crises in the 19th century, during the Great Depression, and in Japan in the 1990s. The resulting decline in credit reduces money supply and increases savings, meaning there are fewer dollars chasing goods. Corporations also lose pricing power. The decline in commodity prices adds to these pressures.
- If the economy experiences deflation, we suspect it will only be over the short-term. The long-term impact of the government's actions to heal the financial system will likely be higher inflation. We continue to recommend that investors maintain significant allocations to inflation protection assets.

Inflation Breakeven Rate on TIPS



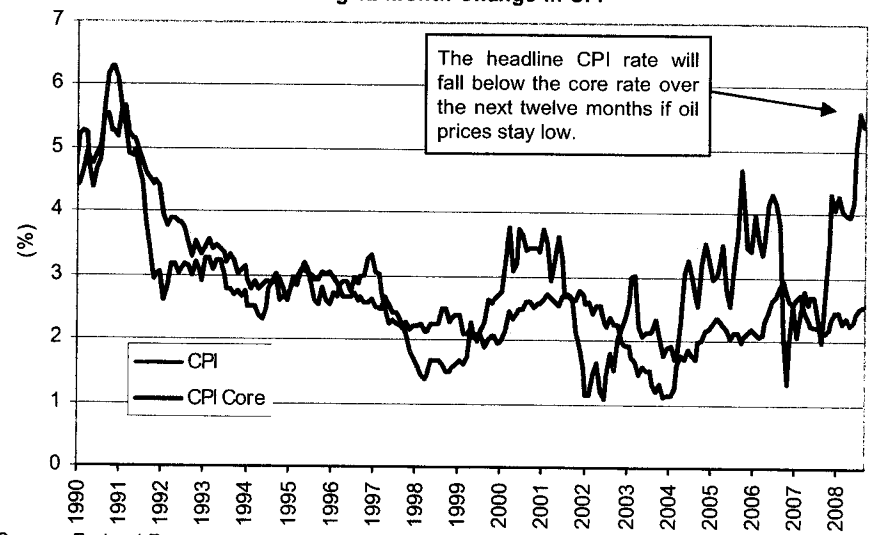
Source: Federal Reserve

Oil Price Per Barrel
(Forward Month NYMEX Contracts)



Source: Bloomberg

Rolling 12-Month Change in CPI



Source: Federal Reserve

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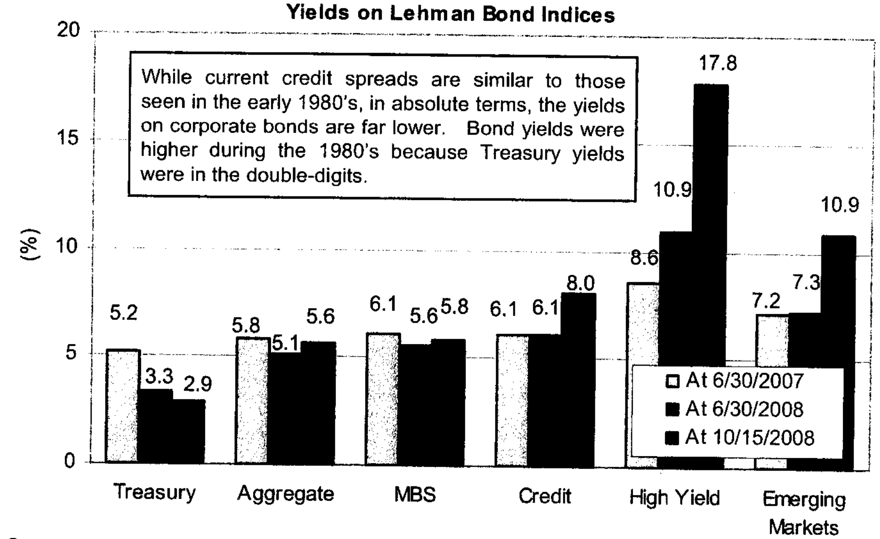
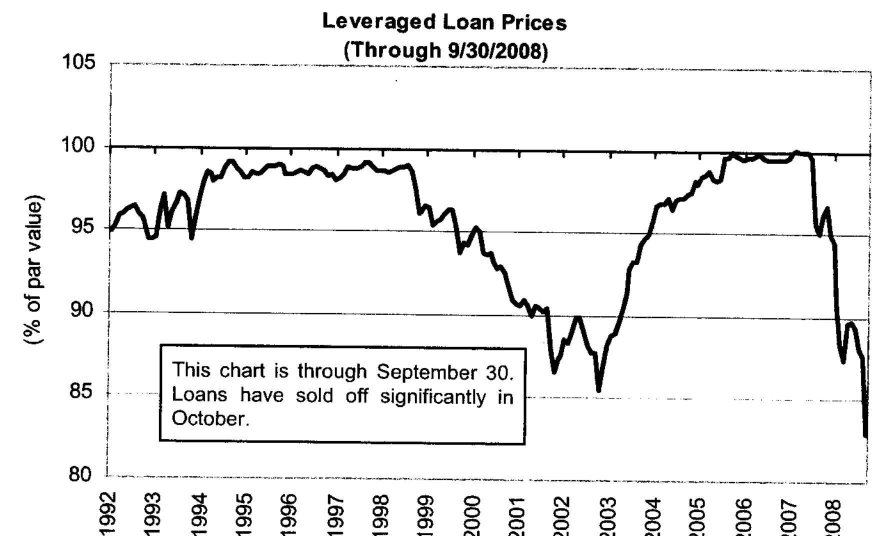
Opportunities in Credit Abound

- The forced selling by leveraged financial institutions and some hedge funds is creating compelling values in credit as institutions sell quality assets at distressed prices. Coupled with low liquidity and extreme risk aversion, various types of credit securities offer compelling spreads. This is creating very attractive opportunities for long-term investors. Nominal Treasury bonds, in contrast, are probably among the most overvalued assets, especially given the prospect for higher long-term inflation.
- Despite the government takeover of Fannie Mae and Freddie Mac, the option-adjusted-spread on GSE mortgage-backed bonds has risen to 1.47%. The fact that the government backs this debt means that it should no longer provide a credit premium to investors. The current high spread seems to be a function of a lack of liquidity and deleveraging.
- Investment grade corporate bonds are yielding 8% and offer a 5% premium to Treasuries. Investment grade financial bonds offer a yield of 9.6% and a 6.3% option-adjusted spread to Treasuries. With the US Treasury planning to purchase large equity stakes in banks, default risk is declining. Spreads are also above average outside the financial sector. The option-adjusted spread on non-financial investment grade bonds is at 4.7%.
  - A severe recession certainly could result in higher than normal default rates. We have already had one investment grade default in Lehman, which made up less than 1% of the Lehman Credit index. Investors appear to be well-compensated for the risk of rising default rates.
  - Historically, only 3.4% of investment-grade corporate bonds have defaulted over their lifetimes, and actual default losses were probably less than 2% after recovery. A doubling of the lifetime default rates to 7% with a below-average 30% recovery rate could be covered by a single year's spread to Treasuries (on ten-year average maturity bonds).
- Senior bank loans, which are usually below investment grade, also offer tremendous opportunities. According to S&P, leveraged loans are trading at LIBOR plus 14%. High yield debt spreads have spiked to over 14%, which is higher than the levels seen during the early 1990s and in 2002. Defaults for both senior loans and high yield bonds will spike as economic conditions worsen. Senior loans appear to offer a better reward-to-risk ratio than high yield bonds because senior loans tend to have higher recovery rates in default due to better asset backing.
- Deleveraging will probably be a protracted process, so spreads could widen from here and take some time to revert to more normal levels, particularly if this recession proves to be severe. Nevertheless, long-term investors willing to provide liquidity to forced sellers should be well rewarded.
- Finally, the upcoming wave of defaults should make this distressed debt cycle extremely rewarding.



Source: Lehman



Source: Bloomberg

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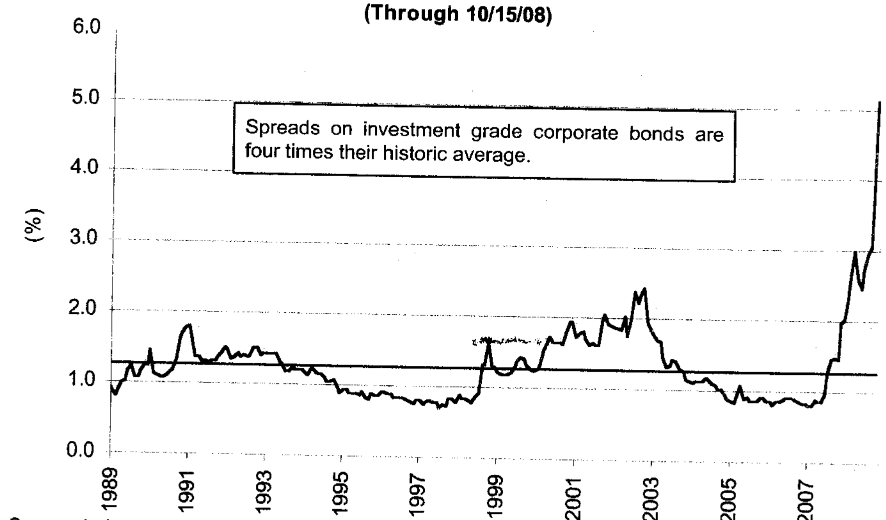
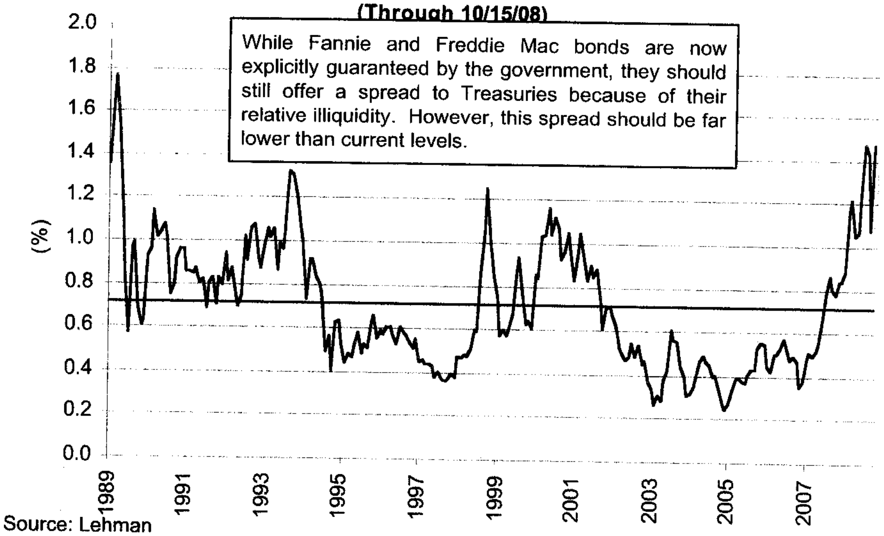
Opportunities in Credit Abound (cont.)

Spread on Lehman Credit
(Through 10/15/08)



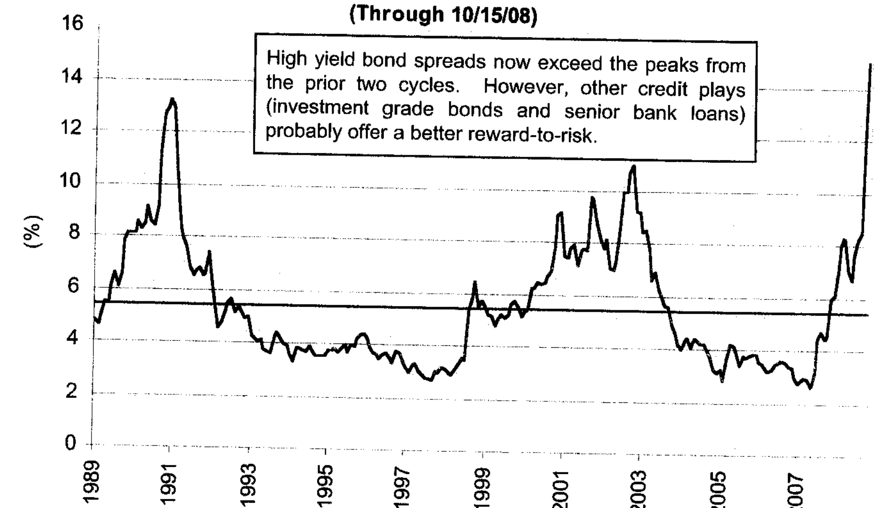
Source: Lehman

Option-Adusted Spread on Mortgage-Backed Securities
(Through 10/15/08)



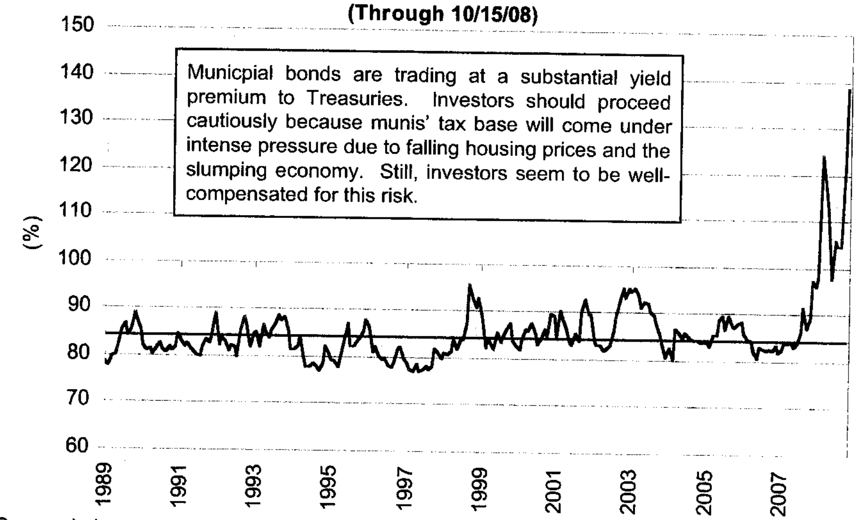
Source: Lehman

High Yield Bond Credit Spread
(Through 10/15/08)



Source: Lehman

10-Yr Municipal Bond Yields as % of Treasury Yield
(Through 10/15/08)

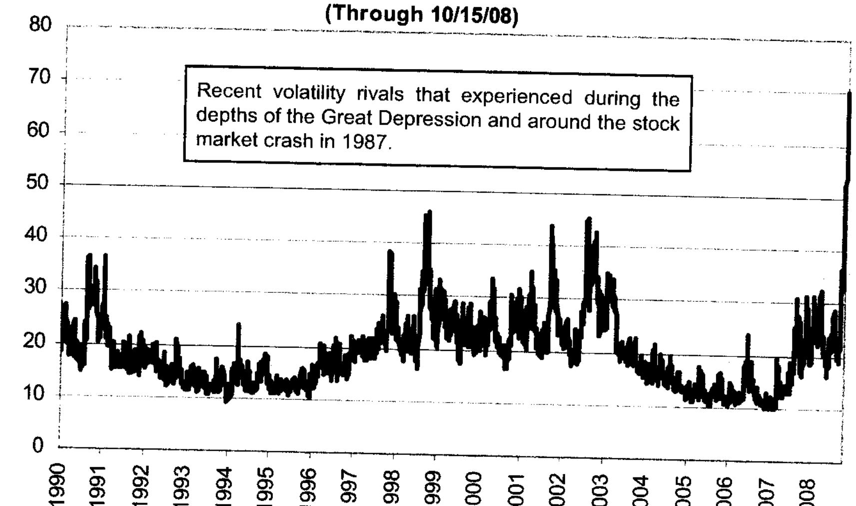


Source: Lehman

Domestic Equities Now Offer Good Value

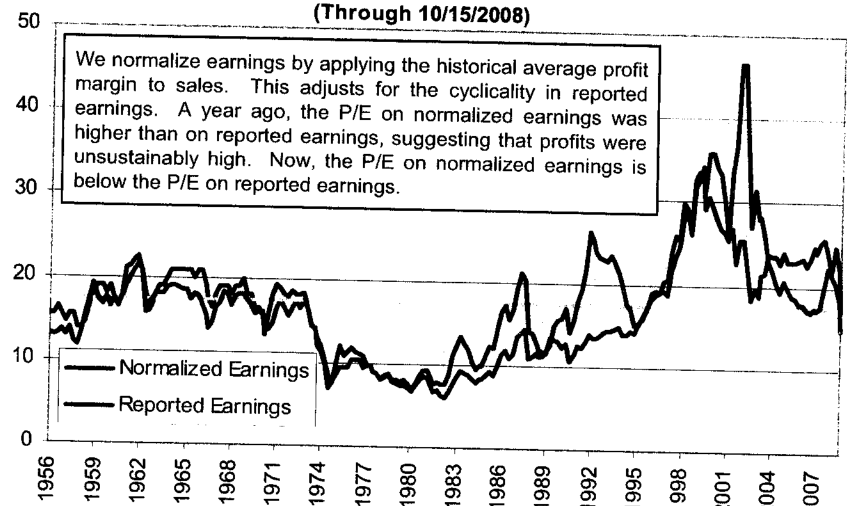
- The collapse of equities in the last month has made this bear market among the worst in US history. Volatility has reached unimaginable levels. The VIX index, which measures the implied volatility in S&P 500 options, has topped 70. This suggests average daily volatility of 4.4% and monthly volatility of 20%. The bear market has sent equity valuations to very attractive levels.
- Based on our measure of normalized earnings, the P/E ratio is less than 15 (as of October 15), which is the lowest since 1993. (Shiller's P/E on trailing 10-year real earnings, also at 15, is at its lowest point since 1988.) Stocks are currently priced to provide a long-term real return of 6.7%. This is attractive in light of expected real returns on Treasuries. The real yield on long-term TIPS stands at 3%, and nominal Treasuries are likely to yield far less net of inflation.
- Inexpensive valuations do not necessarily suggest we're close to the bottom. Bear markets, especially those accompanied by economic stress, tend to overshoot. Several bear markets have sent P/Es to the single digits (see page 20).
  - While corporate balance sheets have improved, this recession could be more severe than the downturns in 1990 and 2001, which would put immense pressure on profit margins. The next few quarters will likely bring depressing earnings news. Since investors tend to project recent events too far into the future, a significant earnings decline could put further downward pressure on equities. Nevertheless, even if this recession is worse than usual, corporations will adjust and profitability will eventually revert to the mean.
  - The credit crunch adds to risk because the cost of rolling debt will be significantly higher. While credit conditions will thaw at some point, the cost of debt is unlikely to return to the ridiculous levels seen in early 2007. The good news is that outside of the financial sector corporate balance sheets are in better shape than at the beginning of the last recession, as companies have paid down debt. Further, companies have not overinvested during the last few years.
- Despite the potential for a further decline, investors with long-term time horizons might consider modestly increasing their equity allocation (including international developed and emerging market equities, see pages 22-23) at the expense of Treasury bonds. At current valuations, we believe equities are highly likely to outperform Treasury bonds over the next decade. But it is wise to retain some dry powder, as further declines could present an even more compelling entry point.
- We continue to recommend that investors overweight large-cap growth stocks with a particular emphasis on high quality stocks (which tend to carry less debt). Small-cap stocks look particularly unattractive. They continue to trade at elevated valuations relative to large-caps. Further, they are likely to feel the brunt of the credit crisis. Outside the financial sector, small-cap stocks tend to carry more debt than their large-cap counterparts. A recession will tend to hurt small-caps more than large-caps, as small-caps' relatively weak profitability provides less cushion for profit margin squeezes.

CBOE S&P Volatility Index
(Through 10/15/08)



Source: Bloomberg

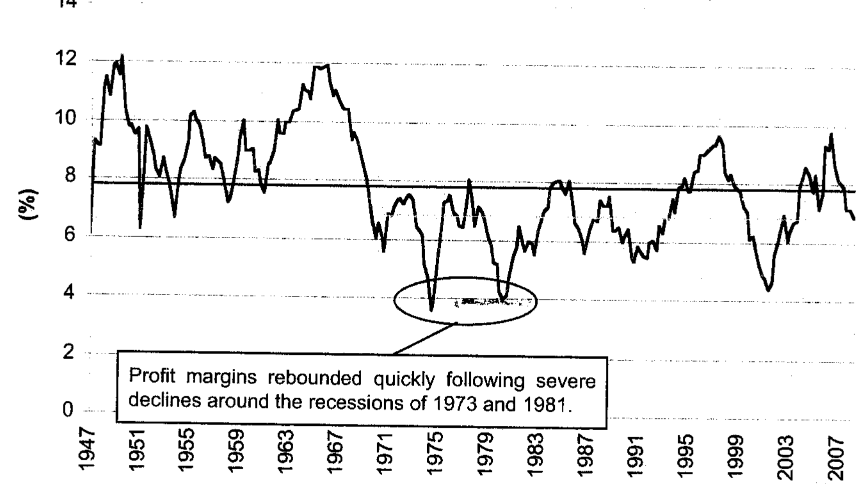
P/E History for the S&P 500
(Through 10/15/2008)



Source: S&P, Bloomberg, Hammond Associates

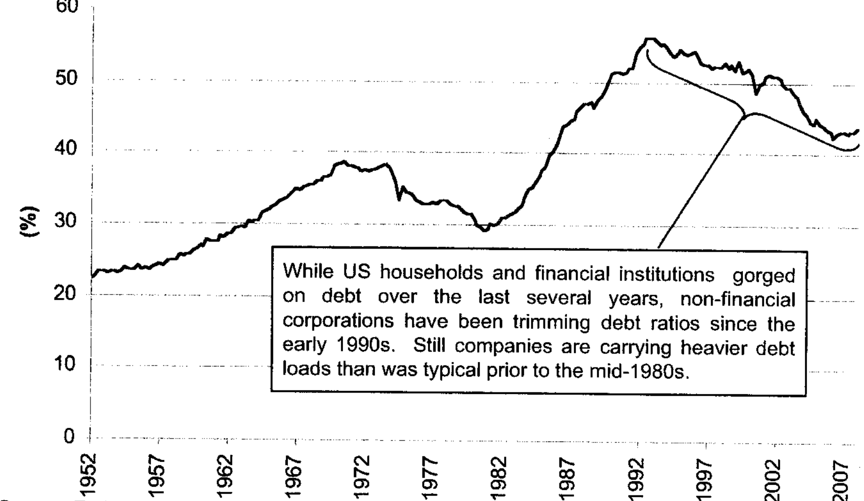
Domestic Equities Now Offer Good Value (cont.)

Non-Financial Corporate Profit Margins (Profits as % Non-Financial Corporate Value-Added)



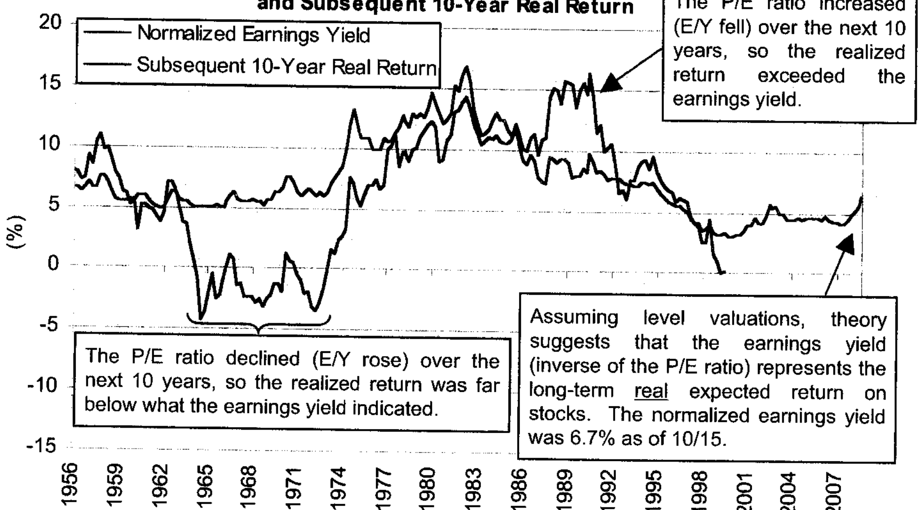
Source: Federal Reserve

Non-Financial Corporate Business Debt as a % of Net Worth



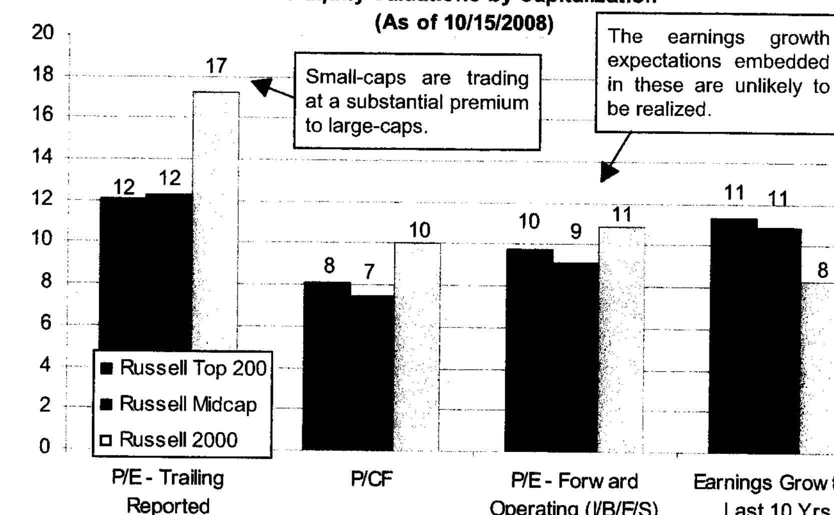
Source: Federal Reserve

Normalized Earnings Yield on the S&P 500 and Subsequent 10-Year Real Return



Source: S&P, Bloomberg, Hammond Associates

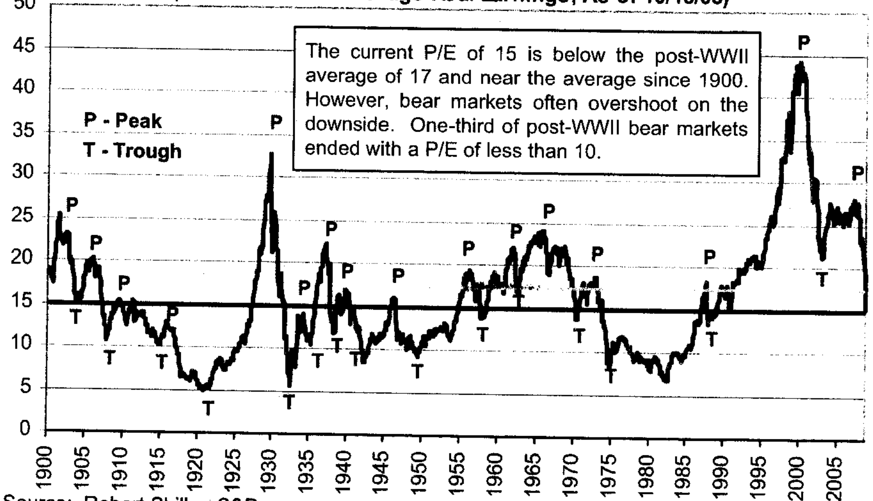
US Equity Valuations by Capitalization (As of 10/15/2008)



Source: Russell, HA mid-month estimates

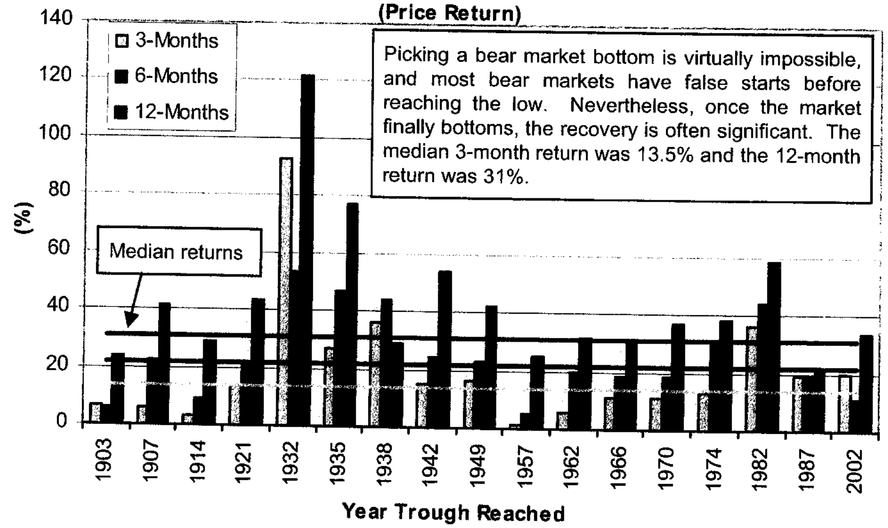
S&P 500 Bear Markets –A Historical Perspective

Shiller's S&P 500 P/E Ratio
(Based on 10-Yr Average Real Earnings, As of 10/15/08)



Source: Robert Shiller, S&P

S&P 500 Returns Post Bear Market Troughs
(Price Return)



S&P 500 Bear Markets Since 1900
(Excludes Dividends)

Peak	Trough	Recovery	Peak to Trough Decline	# of Months: Peak to Trough	# of Months: Trough to Peak	Shiller's P/E: At Peak	Shiller's P/E: At Trough
9/1902	10/1903	3/1905	-29.3	13	17	23	15
9/1906	11/1907	8/1909	-37.7	14	21	19	11
12/1909	12/1914	11/1916	-28.6	61	23	15	10
11/1916	8/1921	12/1924	-38.7	58	40	12	5
9/7/29	6/1/32	9/22/54	-86.2	33	272	33	6
7/18/33	3/14/35	10/22/35	-34.0	20	7	14	10
3/10/37	3/31/38	2/2/46	-54.5	13	96	22	12
11/9/38	4/28/42	2/13/45	-45.8	42	34	16	9
6/15/48	6/13/49	1/7/50	-20.6	12	7	12	9
8/2/56	10/23/57	9/24/58	-21.6	15	11	19	14
12/13/61	6/27/62	6/17/63	-28.0	7	12	22	17
2/10/66	10/10/66	5/4/67	-22.2	8	7	24	19
12/2/68	5/27/70	3/3/72	-36.1	18	22	22	14
1/12/73	10/4/74	7/17/80	-48.2	21	70	19	9
12/1/80	8/12/82	11/3/82	-27.1	21	3	9	7
8/26/87	12/4/87	7/25/89	-33.5	3	20	18	13
3/24/00	10/9/02	5/30/07	-49.1	31	56	43	22
Median Since 1926			**-34.0**	**18**	**21**	**19**	**11**
Median Since WWII			**-28.0**	**15**	**12**	**19**	**14**
10/9/07	**10/10/08 (?)**	-	**-42.5**	**12**	-	**27**	**15 (?)**

Source: Robert Shiller, S&P, Global Financial Data

This ranks among the worst bear markets in history.

This downturn is especially brutal, coming in twelve months and with most of those losses having occurred in just the last four weeks. The drawdowns in the 1973/74 and 2000/02 bear markets, which saw similar losses, were not as concentrated.

The normalized P/E ratio at the October peak was higher than all but two prior peaks (1929 and 2000).

The current P/E is slightly above the post-WWII median P/E at troughs.

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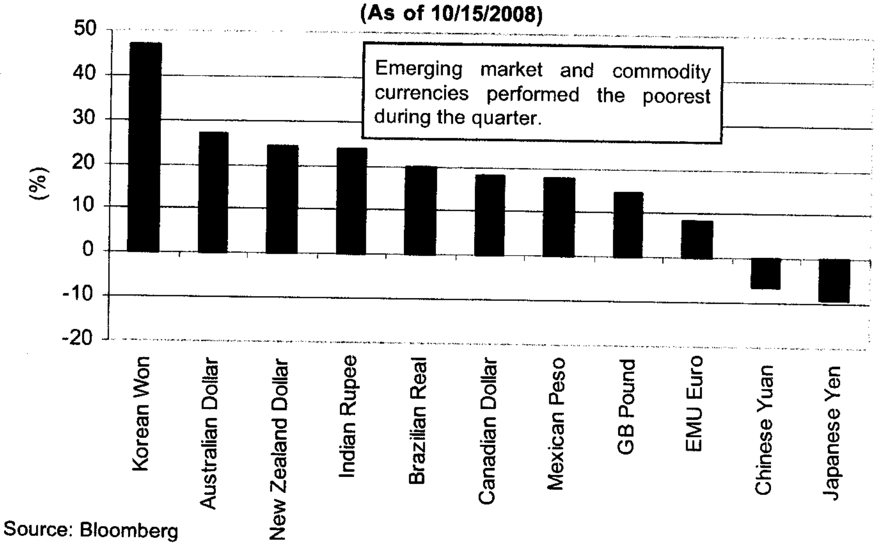
The Dollar Reclaims its Safe Haven Status

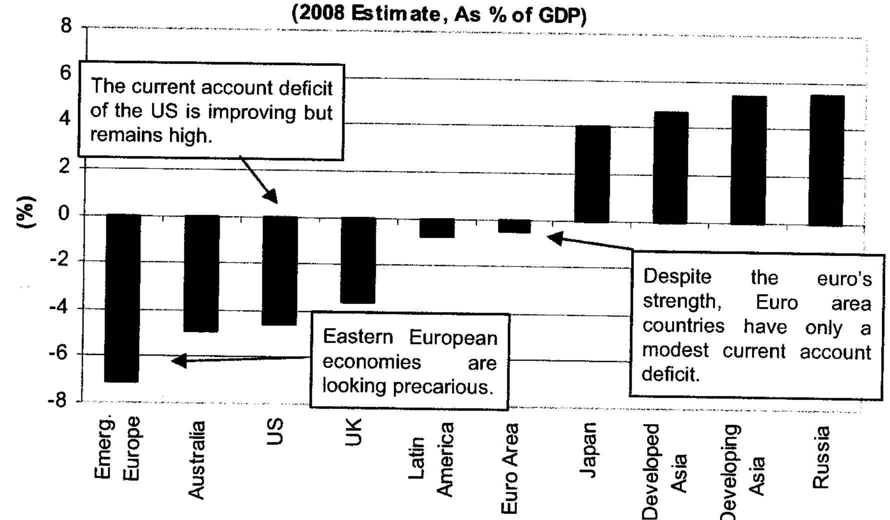
- Currency markets were especially volatile during the third quarter and the trend has persisted in October. The dollar surged against all major currencies except the yen, while commodity-based currencies and emerging market currencies plunged. The dollar has joined the yen as a safe haven in an environment of deleveraging.
    - High yielding currencies, such as the Australian dollar and New Zealand dollar, performed especially poorly. The G-10 currency carry trade (borrow in the three lowest yielding currencies and lend in the three highest yielding currencies), plummeted 20% during the quarter, eliminating all the profits for the strategy back to 2004.
    - Judging by the performance of emerging market stocks and bonds, foreign investors fled many of these markets, putting extreme downward pressure on the currencies.
- The dollar's performance against the euro and pound was especially notable. The greenback gained 12% against the euro in the third quarter and an additional 5% in the first two weeks of October. The dollar has gained 15% against the pound since the beginning of the third quarter.
    - Some analysts speculate that the weakness of the euro and pound has been driven by the struggles of European banks. European banks borrowed in dollars to invest in US mortgages and other assets. With the banks taking losses on their US activities, they must buy dollars to repay their loans.
    - European economic prospects also turned for the worse. Europe is behind the US in this economic cycle, so the US could begin its recovery earlier. European currencies have a yield advantage because central banks have been slower to cut interest rates. The yield advantage could diminish since European banks have far more room to ease.
- The dollar's rebound notwithstanding, it still faces fundamental pressures due to the current account deficit, which is expected to total $664 billion in 2008, or 4.6% of GDP. This deficit should improve significantly due to the slowing economy and lower energy prices over the next year. Still, the IMF predicts a deficit of $486 billion in 2009. The dollar, which is still undervalued on a purchasing power parity basis, needs to stay that way to continue the improvement in the deficit.
    - The outlooks for the euro and the pound are tough calls from here. The euro and the pound are expensive relative to the dollar on a purchasing power parity basis. It is easier to see the weakness in the UK pound continue because the UK economy is suffering many of the same ills as the US. Euro area economies in aggregate, however, are in better financial shape because their households are less indebted. Once European banks cover their dollar borrowings, the euro could find support.
    - Emerging market currencies, especially in Asia, could perform well once the current crisis passes. These economies have favorable current account deficits and their currencies are undervalued on a purchasing power parity basis.

YTD Performance of the Dollar
(As of 10/15/2008)



Source: Bloomberg

Selected Current Account Balances
(2008 Estimate, As % of GDP)



Source: IMF

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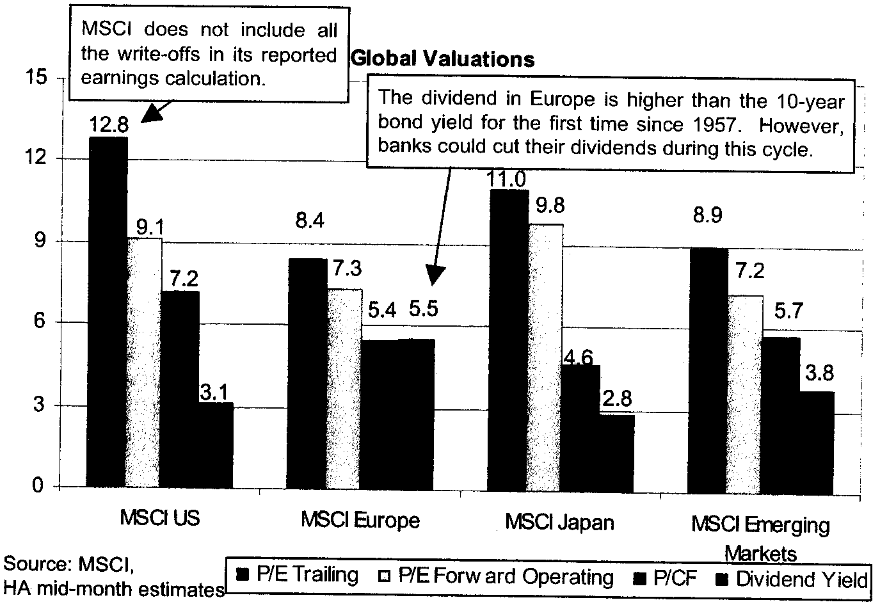
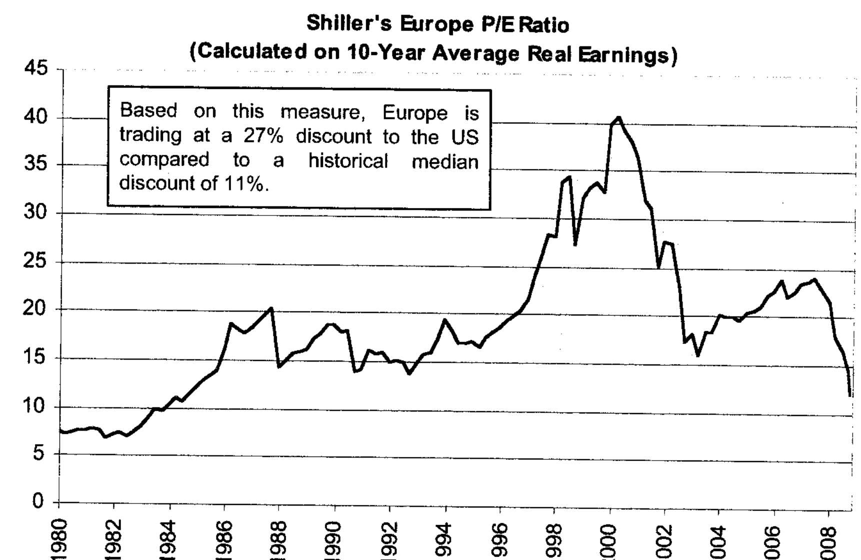
International Developed Equities Are Even More Attractive than Domestics

- International equities have fallen more sharply than US equities during the global downturn, and the underperformance has been made worse by the recent rebound in the dollar.
  - International equities also underperformed domestic equities during the last bear market, but outperformed substantially during the recovery.
- Europe is trading at just 8 times trailing 12-month earnings and offers a dividend yield of 5.5%. Gloom abounds over the prospects for European economies, as many economists believe that they are behind the US in this cycle. The gloom is already well-reflected in equity prices. While earnings are almost certain to decline from here, current valuations provide a very comfortable cushion. We estimate that Europe's P/E is around 11 on a normalized basis, which is its lowest level since the early 1980s and a 27% discount to the US.
  - A risk is that Europe has a larger weighting to financials than the US (25% vs. 15%) and European banks are very exposed to the US and UK housing markets. Additionally, European firms tend to use more leverage than the US (debt to equity ratio is 50% on European non-financials compared to 35% for US non-financials).
  - Many economists are pessimistic about the prospects for continental European economies. However, most European countries did not experience the same level of excesses as the US (and the UK). Therefore, they could experience a shallower downturn or stronger recovery.
  - Currency remains a risk. The dollar is undervalued on a purchasing power parity basis against many European currencies. However, as discussed on page 21, it probably needs to stay undervalued. We are not inclined to hedge currency risk. Hedging remains expensive because of higher European interest rates.
- Japan is also trading at very attractive valuations. Japanese equities are now trading at book value. The P/CF on the MSCI Japan index is just 4.6 and it is trading at just 11 times trailing 12-month earnings.
  - Earnings could hold up better in Japan than in Europe and the US because profit margins did not reach extremes (the ROE on MSCI Japan is 9.2% compared to 16% in Europe and 13% in the US). Additionally, Japanese banks could benefit from the global financial crisis as they have minimal exposure to the US subprime market. Further, they have the ability to increase lending at attractive spreads and provide capital to US financial institutions (see Morgan Stanley).
  - Japanese small-cap stocks are a particularly attractive area of the market. These firms are not as sensitive to the export market and could benefit from rising consumer demand. (Debt to income levels are lower in Japan than they are in the US and UK.) Further, they appear to be cheaply valued, trading at a price-to-book value of less than one, while offering a 3% dividend yield.
- We continue to recommend investors maintain significant exposure to international developed equities.



Source: MSCI,
HA mid-month estimates

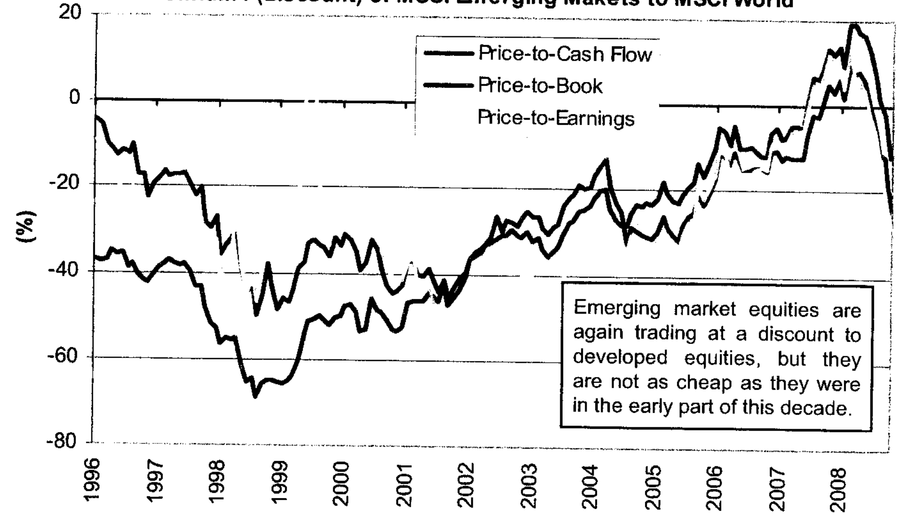


Source: Bloomberg, MSCI, Hammond Associates

Emerging Market Equities Again Trading at a Discount to Developed Markets

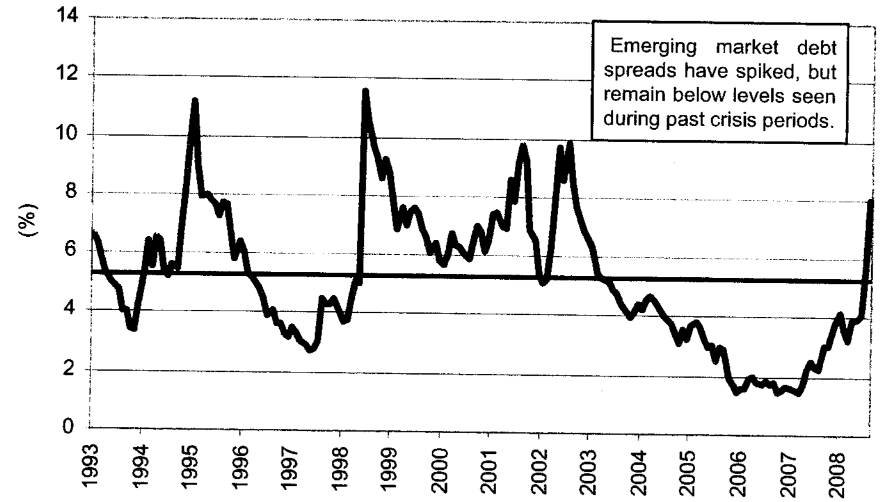
- Emerging markets were bludgeoned during the third quarter, declining 27%. The sell-off has continued into October, with stocks losing 27% month-to-date through 10/15. During the first half of the year, Asian equities were hit hard, while commodity producing areas such as Latin America and Eastern Europe held up relatively well. For example, through June, Asia was down 22%, while Latin America was up 9%. However, the sharp downturn in commodity prices during the quarter, took a toll on many countries. For example, Latin American stocks have been cut in half since June.
- Emerging market stocks are a high beta play on the global economy and investor risk tolerance levels so the sharp sell-off is not that surprising. More surprising was how well emerging equities held up through June. Their valuations were trading above developed markets, which provided no cushion for disappointments.
- Emerging market currencies, particularly in Latin American, were also hit hard. The Brazilian real has declined by 25% against the dollar since the end of July and the Mexican peso has shed 22%. Asian currencies have held up relatively well. For example, the Taiwan dollar has only fallen by 6.2% since the end of March. While emerging market currencies appear undervalued on a PPP-basis, they are susceptible to a downturn as investors cut back on exposure to risky assets. On a positive note, many emerging market countries have amassed massive foreign currency reserves over the past few years and stand ready to use them to support their currencies.
- Emerging market economies and their equities are likely to continue to face pressure as the global economy slows. Demand destruction and lower commodity prices could shift trade surpluses to trade deficits in some Latin American countries. While Asian exporters could benefit from lower energy prices, they are likely to be hurt as consumer demand in the developed world slows.
- Despite the short-term concerns, we remain optimistic for the long-term prospects of emerging market countries. They are enjoying very strong productivity growth, which will lift average incomes. As incomes grow, emerging economies will become less dependent on exports and more demand will be generated internally.
- While stocks are likely to remain very volatile over the near term, the steep downturn has left emerging market equities trading at relatively attractive valuations. Emerging markets are now trading at 9 times trailing 12-month earnings and 5.7 times cash flow. They are also yielding close to 4.0%. In 2007, we recommended investors eliminate overweight positions to emerging markets due to valuation concerns. Given their recent sharp downturn, we recommend that investors return to an overweight position in emerging markets.

Premium / (Discount) of MSCI Emerging Makets to MSCI World



Source: MSCI, HA mid-month estimates

Emerging Market Debt Credit Spread



Source: Lehman

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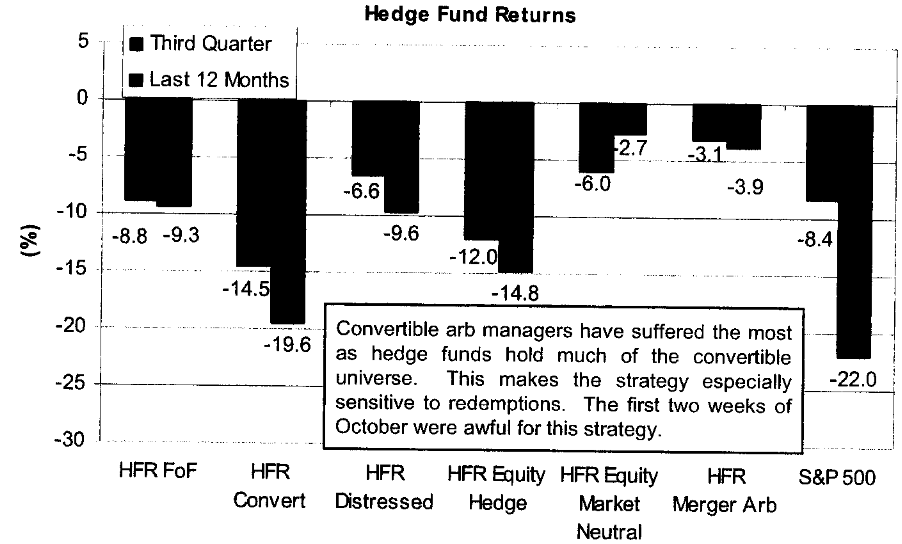
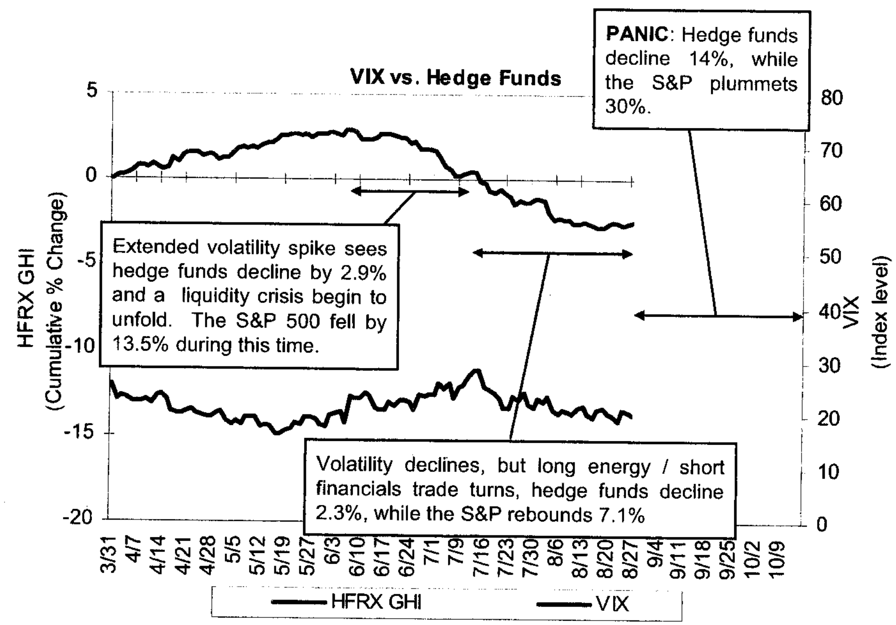
Hedge Funds: The Perfect Storm Arrives

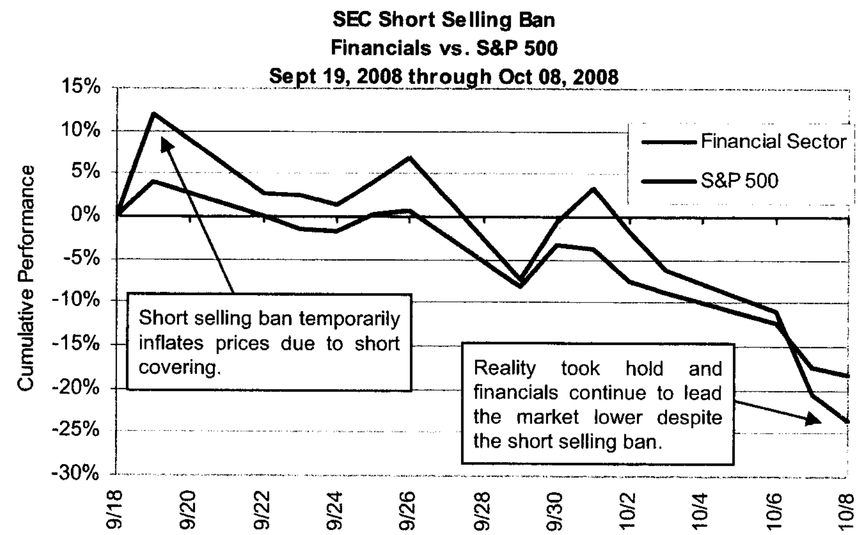
- The third quarter represented one of the toughest periods for hedge funds in history, as indicated by the negative 8.8% return for the HFRI Fund of Funds Index. The challenges have continued in October. Based on HFR's daily-priced Global Hedge Fund Index, hedge funds are down another 7% through October 15.
- We have long talked about the two largest risks to hedge funds being a liquidity shock and a volatility spike. The markets experienced both in an unprecedented fashion during the third quarter. Increased directionality also worked to hurt hedge funds during this time. Without rehashing all that occurred during the quarter, below are a few meaningful issues:
  - **Liquidity** in the credit markets once again completely dried up. Problems at global financial institutions resulted in elevated counterparty concerns that resulted in a void of liquidity. This resulted in a domino effect of compounding fear which continues to have its grip on the markets.
  - **Counterparty** risk has moved to the forefront of investors' minds, particularly following the collapse of Lehman which has left a substantial amount of hedge fund assets frozen in the bankruptcy process and possibly gone for good. The industry has moved *en masse* to diversify their prime brokerage and counterparty exposure, simultaneously increasing the risk of experiencing a counterparty default, while reducing the impact such a default is likely to have. Only time will tell the benefits of such a move.
  - For those caught up in the Lehman bankruptcy proceedings, the impact on their performance could be quite meaningful. However, all that goes into increasing diversification of prime brokers and counterparties (transactions costs, legal, regulatory, systems, daily transfer of excess capital, cash invested in T-bills vs. traditional money markets, increased cost of capital, etc). can be quite expensive.
  - **Volatility** has spiked to levels rarely seen before and demonstrated an unprecedented sustainability at these levels. The chart to the right highlights the negative impacts of both sustained volatility spikes as wellas the whipsaw effect of repeated volatility spikes. This activity has been extremely painful to hedge fund investors.
  - **Common Holdings Risk** is sure to become a more important element of investors due diligence going forward as massive hedge fund redemptions have caused common holdings risk to play a central role in hedge fund performance during this time frame. Continued redemption pressure on hedge funds for year-end promises to make this an ongoing concern.

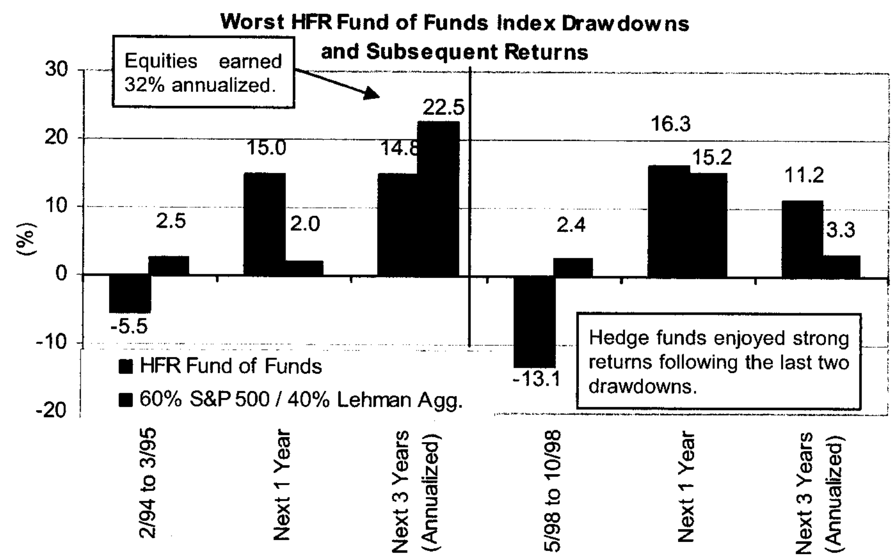




Hedge Funds: Tough Times, Great Opportunities

- The markets have witnessed an unprecedented amount of government intervention during the third quarter. Intervention tends to be extremely negative for hedge funds, as it goes against fundamentals. Generally, such activity creates substantial whipsaw effects that hit hedge funds on both sides of their balance sheet, magnifying the impact.
- The SEC introduced a **short selling ban** on financials on Sept 19. The impact on hedge funds was quite negative and the initial short-cover rally artificially increased prices on financials. Once this forced buying activity concluded, financials were able to resume their descent.
  - Convertible arbitrage was particularly hard hit by this ban. Hedge funds represent a super majority of the convertible bond market. Without the ability to hedge their long convertible bond positions, massive deleveraging ensued.
  - One unintended consequence of the ban was a further reduction in market liquidity at exactly the time the markets needed liquidity. Without an ability to hedge, market participants were forced to reduce risk further, flooding the markets with even more selling pressure.
- Government intervention is difficult to anticipate and costly if one wrongly anticipates its occurrence. For those who invested in Fannie and Freddie via equities, the experience was unpleasant to say the least. Likewise, most everyone who expected a bailout for Lehman, no matter the manner in which such a view was expressed, realized a negative outcome.
- A natural outgrowth is that intervention increases uncertainty to even greater levels and creates a situation of "Catch-22". It is too risky to position one's portfolio to capitalize on the events that are likely to unfold as the government could intervene at a fund's expense. Likewise, it is too risky to position for government intervention. Thus, the most logical course of action for a fiduciary is to drastically reduce risk. As hedge funds tend to be victims of government intervention and the marginal purchaser of investment assets, their absence and/or deleveraging results in a massive liquidity void.
- It is clear now that the government is moving in the direction of greater regulation. As government involvement often carries unintended consequences, this trend does require close monitoring.
- Despite the fact that hedge funds will have a deep pocketed competitor for distressed assets in TARP, the future looks quite positive for top tier hedge fund managers. While difficult, this environment is creating the opportunities that hedge funds will be able to profit from for several years to come. Indeed, hedge funds' best years have often followed its worst drawdowns.





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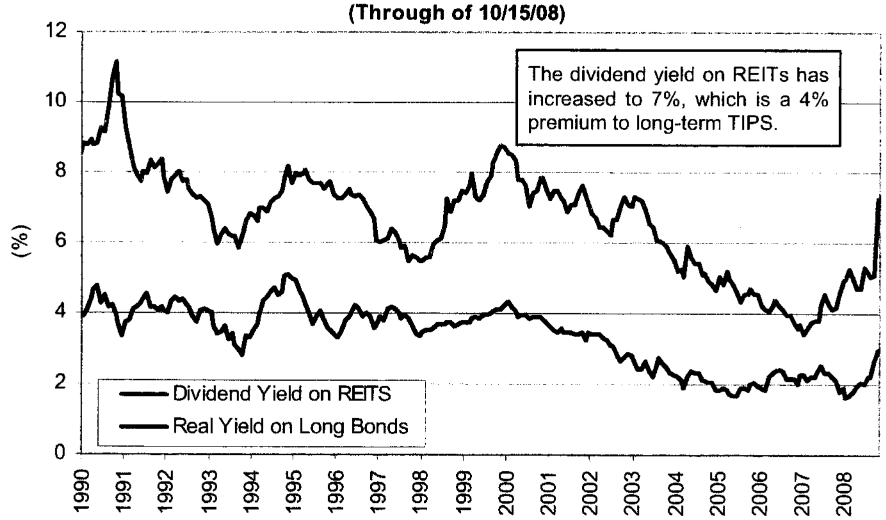
The Credit Crisis and Commodity Price Declines Pressure Real Asset Investments

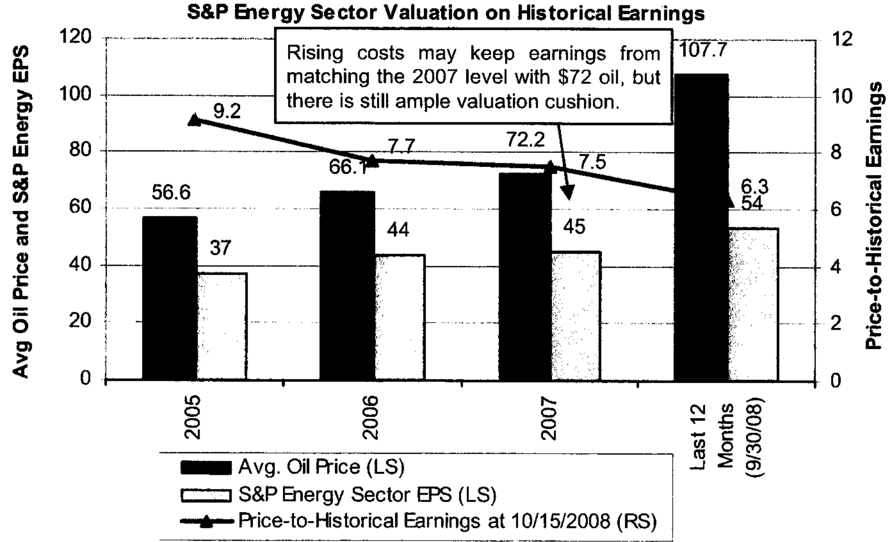
- The commercial real estate market is undergoing an adjustment process as a result of the financial crisis and the worsening economic picture. Capitalization rates (net operating income/value) are rising from unsustainably low levels, bringing prices down. While we have not experienced the overbuild evident in the mid/late 1990s, the credit crunch and a slowing economy are pressuring rent growth and vacancy rates are ticking up.
  - Publicly-traded REITS, which managed to post a gain of 1% in the first three quarters of the year, have turned sharply lower in October, losing 30% through the 15th. REITS offer a dividend yield of more than 7%, a 4% premium to the real yield on long-term TIPS compared to a historical average of 3%. Despite the fundamental headwinds, REITS appear to offer a good value (as do so many other yield-oriented investments).
  - On the private side, we are beginning to hear projections for the NCREIF index to be down 8% to 12% for 2008. Highly leveraged assets that were aggressively acquired based on rent growth prospects are likely to be challenged. Core funds that are income oriented (versus appreciation) and subject to quarterly appraisals are showing the first signs of price correction as capitalization rates (income yield to total value) expand to normalized levels.
  - We have advised clients to avoid core strategies and pursue value-added and opportunistic strategies where returns are driven more by improvements than by current income. These managers are by no means immune to current market conditions, especially for those that are highly leveraged or have short-term refinancing needs. However, existing investments should have a reasonable chance of achieving return targets due to improvements. Prospectively, these managers should be well-positioned to acquire assets from distressed sellers.
- The sell-off in energy and other commodities clobbered commodity-related investments. The DJ-AIG Commodity Index has plummeted 42% since the beginning of the third quarter. Natural resource stocks have also sold off considerably. The S&P North American Natural Resources index (85% energy) declined 55% since the beginning of the third quarter.
  - Hedge fund deleveraging may be exacerbating the sell-off in energy stocks. The performance of long-short managers in recent months suggests that long energy/short financials was a very popular trade. The unwinding of this trade could be putting undue pressure on energy stocks.
  - Energy stocks appear a good value relative to the commodity. The earnings posted in the first half year may not be sustainable. However, oil is currently trading around $74, which is near the average price in 2007. Based on the earnings posted by the energy sector in 2007, the sector is trading at a P/E of only 7.5. If oil continues to decline, energy stocks will probably follow. If prices stabilize or rebound, investors should begin to recognize the value of energy stocks.

Dividend Yield on REITS Versus Long Bond Yields (Through of 10/15/08)



Source: NAREIT, Federal Reserve

S&P Energy Sector Valuation on Historical Earnings



Source: S&P, Hammond Associates

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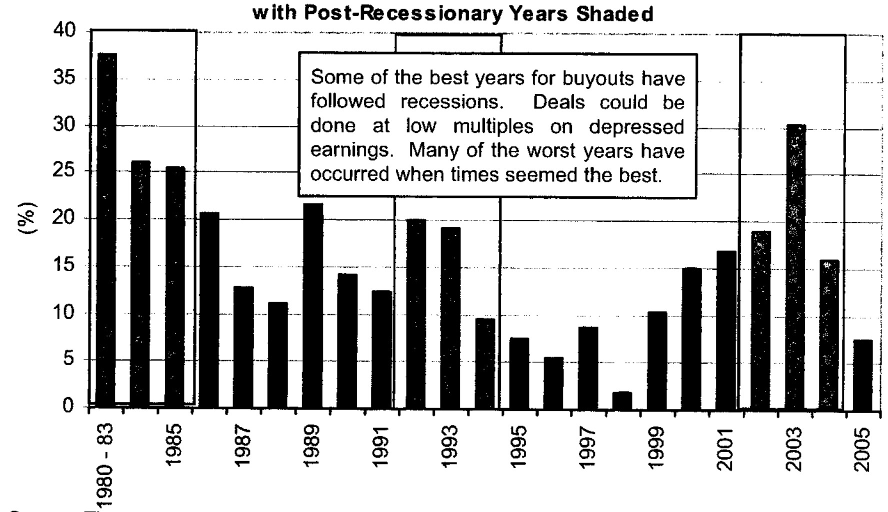
Private Equity: Dislocations Provide Attractive Prospective Returns

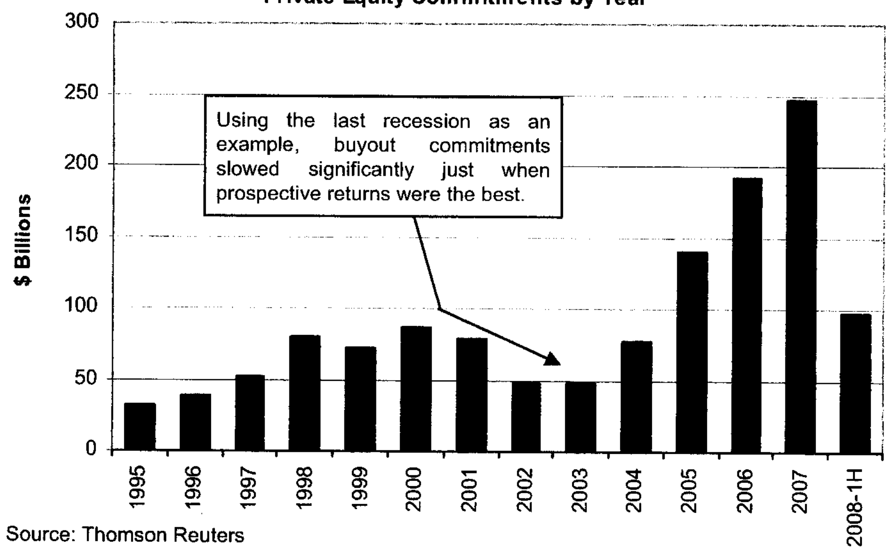
- The fallout of the credit crunch and equity market declines will present serious challenges to existing private equity investments, but the magnitude is uncertain at this point. Investors are likely to see mark to market losses driven by declining comparables versus both public company valuations and new private transactions. Even good companies will be challenged to meet expectations in the face of the credit crunch and the general economic slowdown. There will inevitably be some failures and losses. Portfolio companies that have been overleveraged or have near term debt maturities are likely to be adversely impacted as a result of current market conditions. The inability to refinance a company's debt may lead to bankruptcies of companies with relatively healthy operations but bad balance sheets.
  - The impact has been most severely felt in the mega-buyout space where deal financing had been supported by loose lending standards (covenant-lite loans) and a robust collateralized loan obligation market.
  - Small/mid-market buyout strategies, which we have favored in recent years, are more conservatively capitalized and able to generate attractive returns from operational improvements. Still, they are certainly being affected by general lender and economic malaise.
- The dislocations in the market should create excellent entry points for high quality managers. We urge private markets investors to continue to make commitments through this difficult environment.
  - The distressed debt cycle is upon us. Bloomberg estimates that there is about $580 billion of distressed company debt in the US (as measured by the number of issues trading at 1000 bps over Treasuries) dwarfing the total from the last cycle. Managers should find abundant opportunities to pick up good companies with bad balance sheets. While a lot of money has been waiting on the sidelines for this cycle, it now appears that there will be plenty of distressed debt to go around.
  - Historically, we have been cautious on mezzanine debt; however, the credit crunch is making this strategy more attractive. Mezzanine debt tends to do best when no other sources of subordinated debt are available. They should be in a position to generate very attractive returns during the current credit meltdown.
  - We are again seeing expanding discounts in the secondary market. While some part of these discounts represent expected future write downs, we would expect them to continue to widen. The deleveraging of the financial industry should result in distressed sellers dumping partnerships.
  - Finally, it will soon be time to turn our attention back to buyouts. Recession-era buyout funds have usually been strong performers. While it may be difficult to complete a transaction right now, we are placing capital with the view toward having that capital deployed over the next few years.

Pooled Average US Buyout Performance with Post-Recessionary Years Shaded



Source: Thomson Reuters

Private Equity Commitments by Year



Source: Thomson Reuters

HammondAssociates

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☐ Corporate Retirement Plans ☐ Foundations ☐ Healthcare ☐ Higher Education ☐ Private Wealth ☐ Public Pension Plans

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Please SEND ME the following Hammond Associates Research Notes:

- ☐ ***Alternative Investments Update***
- ☐ International Publicly-Traded Real Estate
- ☐ Inflation and the Implications for Asset Allocation
- ☐ Private Equity Investing
- ☐ Not-For-Profit Healthcare Institutions: Diversifying the Investment Portfolio
- ☐ Tax Reform Act, Part II
- ☐ The Interest Rate Conundrum
- ☐ Liabilities and Endowment Management
- ☐ Timberland
- ☐ Assessing Investment Risk for Not-For-Profit Healthcare Institutions
- ☐ Impact of an Aging Population
- ☐ Covered Call Strategies
- ☐ Master Limited Partnerships
- ☐ Hedge Funds Revisited

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CARR FOUNDATION

Investment Performance Summary

As of September 30, 2008

	Carr Foundation			
	Total	ETFs only	S&P 500	Lehman Aggregate
May-08	-1.3%	-1.3%	1.3%	-0.7%
Jun-08	-2.1%	-1.8%	-8.4%	-0.1%
Jul-08	0.3%	0.3%	-0.8%	-0.1%
Aug-08	0.3%	1.2%	1.4%	1.0%
Sep-08	-4.2%	-2.9%	-9.0%	-1.3%
5-Month Return	-6.8%	-4.5%	-15.1%	-1.2%
3rd Quarter 2008	**-3.6%**	**-1.5%**	**-8.5%**	**-0.4%**
Year ended 5/31/08	2.8%	N/A	-6.7%	6.9%
Year ended 8/31/08	0.6%	N/A	-11.1%	5.9%

Asset Values:

	06/30/2008	09/30/2008
SPDRs	6,898,122.00	4,688,895.75
Lehman iShares	37,680,120.00	27,750,620.25
Cash	13,215,607.32	1,820,509.48
LTIF	14,569,196.27	38,949,719.80
Total	**72,363,045.59**	**73,209,745.28**

Contributions to the LTIF:

Date	Amount
06/13/2008	15,000,000
07/01/2008	11,000,000
07/28/2008	2,817,559
08/29/2008	11,000,000
Total	**39,817,559**

TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System

Revenue Finance System Update

Jim Brunjes, Vice Chancellor and Chief Financial Officer

TEXAS TECH UNIVERSITY SYSTEM

RFS Bond Series 2008 Schedule of Events

Date	Action
August 8	Board of Regents Approval
September 9	BRB Presentation
September 12	Board of Regents Approval
	TTUS/TSUS Agreement / Note
September 16	BRB Approval
	CP Program ($150 million)
	Bond Issuance
September 1-21	Rating agency site visits and conference calls
September 23 – October 23	Ratings from Rating Agencies received
September 30	Transmittal to TSUS of TTUS / TSUS Note

TEXAS TECH UNIVERSITY SYSTEM

RFS Bond Series 2008 Schedule of Events

Date	Action
October	POS (Preliminary Official Statement) developed
October	Submit Documents for Attorney General's Approval
September 15-October 15	Credit Market Volatility and Instability
November	Obtain AG Approval
November	Print and electronically distribute POS
	Price Bonds
	Submit transcript to AG
7 days after pricing	Distribute final OS
Approximately 3 weeks after pricing	Closing and Delivery of Bonds

TEXAS TECH UNIVERSITY SYSTEM

Bond Ratings

M	Aa3
STANDARD & POOR'S	AA
FitchRatings	AA

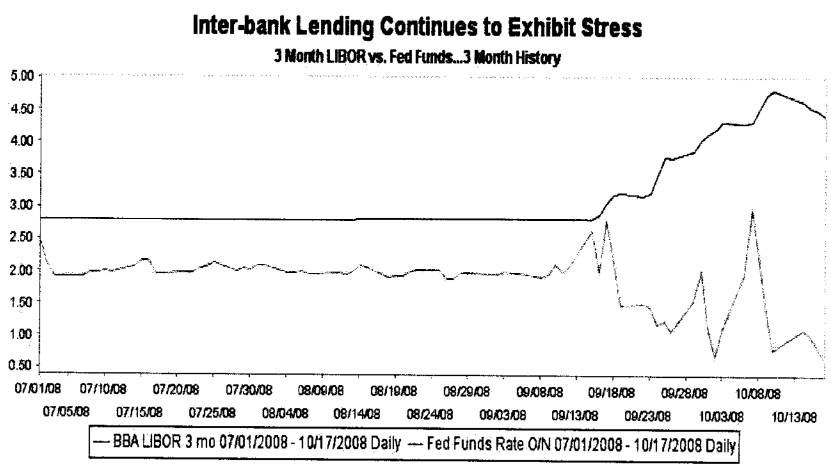
TEXAS TECH UNIVERSITY SYSTEM

Moody's Public College and University Medians

Aaa	Aa1	Aa2	Aa3	A1
Texas	Texas A&M	Missouri	Texas Tech	Oklahoma
		Nebraska	Colorado	Oklahoma State
		Kansas	Houston	North Texas
			Iowa State	
			Kansas State	

TEXAS TECH UNIVERSITY SYSTEM

Inter Bank Lending



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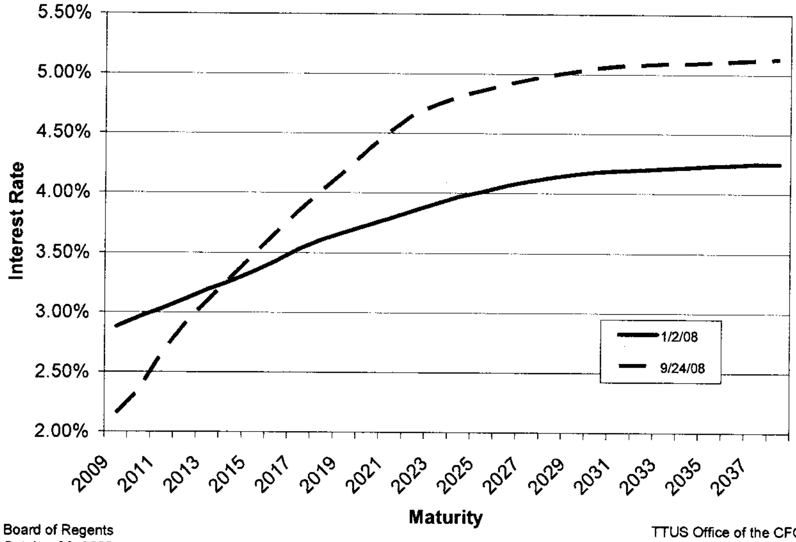
TEXAS TECH UNIVERSITY SYSTEM

MMD AAA Index



Board of Regents
October 30, 2008

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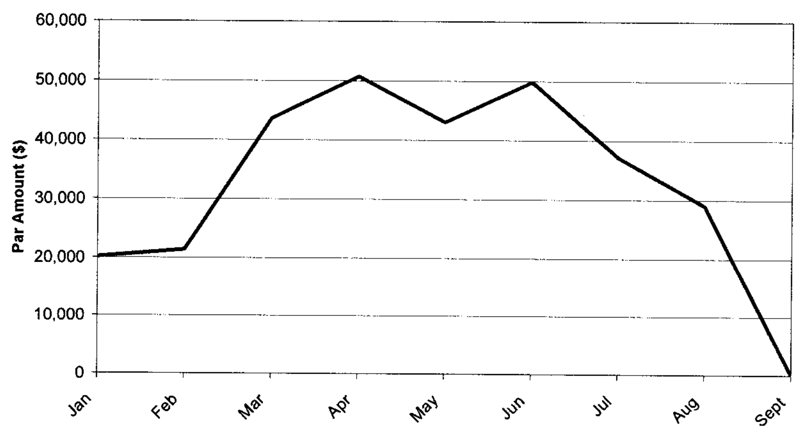
TEXAS TECH UNIVERSITY SYSTEM

Long Term Bond Issuance

Since January 1, 2008
(in Millions)



Board of Regents
October 30, 2008

TTUS Office of the CFO
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TEXAS TECH UNIVERSITY SYSTEM

Increased Importance of Credit Profile

- Credit worthiness of issuers
  - Strength of the revenues available to repay debt service
  - Reserve position, strength of the economy, diversity of revenue base, diversity of base
  - Management – stability, experience, predictable decision making process
  - Essentiality of projects being financed
  - Timely financial disclosures

TEXAS TECH UNIVERSITY SYSTEM

What Must Happen for the Market to Improve?

- Fear needs to subside and confidence restored
- Retail buyer interest continues to be strong
- Cash from Auction Rate Buybacks (estimated at $40 billion) in Oct-Nov redirected towards short and long-term debt
- New issue volume and/or secondary market portfolio unwinding (e.g., market supply) needs to be absorbed

TEXAS TECH UNIVERSITY SYSTEM

What Must Happen for the Market to Improve (cont)?

- Traditional buyers need to return to the market
- Broker-Dealers need to re-commit capital to improve liquidity in the marketplace
- For larger issuers: Go Global – articulate investments for international buyers:
  - Strong credits and provide asset diversification
  - Attractive absolute yields relative to treasuries

Board of Regents
October 30, 2008

TTUS Office of the CFO
Page 11

TEXAS TECH UNIVERSITY SYSTEM

Issuers Planning to Borrow in the Next 30-Days

- Determine the most appropriate course of action in the current market
- Commercial Banks and Investment Banking firms are under pressure to protect their capital
- Many issuers nationwide are delaying their bond sales and going to a day-to-day or week-to-week debt financing
- Verify that your projected revenue sources will be sufficient to meet those increased costs

Board of Regents
October 30, 2008

TTUS Office of the CFO
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TEXAS TECH UNIVERSITY SYSTEM

Debt Projects

Project	Total Estimated Financing	Current Commercial Paper Outstanding	Funding Source
TTU- New COBA Building	$ 25,000,000	$ 1,280,500	Tuition Revenue Bonds
TTU- COBA Renovation	$ 25,000,000	$ 1,500	Tuition Revenue Bonds
TTU- Lanier Professional Development Center	$ 7,500,000	$ 2,505,000	Tuition Revenue Bonds
TTU- Student Leisure Pool	$ 6,000,000	$ 1,699,500	Student Fees
TTU- Utility Infrastructure	$ 5,000,000	$ 1,277,000	Utility Revenues
TTU- Gordon/Sneed/Bledsoe Life Safety	$ 11,015,000	$ 5,170,500	Residence Hall Revenues
TTU- NCAA Soccer Complex	$ 1,387,000	$ 1,387,000	Athletic Revenues
TTU- Softball Team Facility	$ 731,000	$ 674,500	Athletic Revenues
HSC- El Paso Medical School	$ 6,300,000		Tuition Revenue Bonds
HSC- Amarillo Pharmacy Expansion	$ 8,010,000		Tuition Revenue Bonds
HSC- Amarillo Research	$ 18,000,000	$ 3,193,000	Tuition Revenue Bonds
ASU- Centennial Village	$ 28,215,000	$ 25,712,000	Res Hall Revenues
TOTAL	**$ 142,158,000**	**$ 42,900,500**	

TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System

Revenue Finance System Update

Jim Brunjes, Vice Chancellor and Chief Financial Officer

TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System

Ratings Update

Jim Brunjes, Vice Chancellor and Chief Financial Officer

TEXAS TECH UNIVERSITY SYSTEM

Moody's Public College and University Medians

Aaa	Aa1	Aa2	Aa3	A1
Texas	Texas A&M	Missouri	Texas Tech	Oklahoma
		Nebraska	Colorado	Oklahoma State
		Kansas	Houston	North Texas
			Iowa State	
			Kansas State	

TEXAS TECH UNIVERSITY SYSTEM

Bond Ratings

M	Aa3
STANDARD & POOR'S	AA
FitchRatings KNOW YOUR RISK	AA

TEXAS TECH UNIVERSITY SYSTEM

Moody's

Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, New York 10007

September 30, 2008

Mr. Jim C. Brunjes
Senior Vice Chancellor
Texas Tech University System
MS 2016
Texas Tech University
Lubbock, TX 79409

Dear Mr. Brunjes:

I wish to inform you that Moody's Investors Service has assigned a rating of **Aa3** with a **stable** outlook to Texas Tech University System's Revenue Financing System Refunding and Improvement Bonds, Series 2008 issued by the Board of Regents of Texas Tech University System.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right to revise or withdraw it at any time in the future.

This rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

Laura Sander

Laura Sander

LS/dr

cc: Ms. Mary Williams
First Southwest Company
325 N. St. Paul, Suite 800
Dallas, TX 75201

Moody's Investors Service

Global Credit Research
New Issue
26 SEP 2008

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New Issue: Texas Tech University System Board of Regents

MOODY'S ASSIGNS Aa3 RATING TO TEXAS TECH UNIVERSITY SYSTEM'S $183.3 MILLION OF REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, SERIES 2008 AND AFFIRMS P-1 RATING ON COMMERCIAL PAPER NOTES; OUTLOOK IS STABLE

SYSTEM HAS $728.8 MILLION OF RATED DEBT OUTSTANDING, INCLUDING CURRENT OFFERING AND COMMERCIAL PAPER NOTES AT MAXIMUM AUTHORIZED AMOUNT

Texas Tech University System Board of Regents
Higher Education
TX

Moody's Rating

ISSUE		RATING
Revenue Financing System Refunding and Improvement Bonds, Series 2008		Aa3
Sale Amount	$183,335,000	
Expected Sale Date	09/30/08	
Rating Description	Public University Revenue Bonds	

Moody's Outlook Stable

Opinion

NEW YORK, Sep 26, 2008 -- Moody's Investors Service has assigned a Aa3 rating to Texas Tech University System's $183.3 million of Revenue Financing System Refunding and Improvement Bonds, Series 2008 issued by the Board of Regents of Texas Tech University System. In addition, Moody's is affirming the P-1 rating on the System's Revenue Financing System Tax Exempt and Taxable Commercial Paper Notes, Series A with an increase in the program size to $150 million from $100 million and an amendment to allow issuance on both a tax-exempt and taxable basis. The CP program is supported by the System's own liquidity. At this time we are also affirming the Aa3 underlying rating on outstanding parity debt (see RATED DEBT below). The outlook for the long-term rating remains stable.

USE OF PROCEEDS: Bond proceeds will be used to refund debt previously issued by the System and by the Texas State University System on behalf of Angelo State University; refinance a portion of outstanding commercial paper; construct and renovate multiple projects including a research facility and pharmacy expansion at the Health Sciences Center's Amarillo campus, Texas Tech University's College of Business Administration, and a new housing facility at Angelo State University, and pay costs of issuance.

LEGAL SECURITY: The debt is secured by a broad pledge of revenues, including tuition, fees, and auxiliary revenues, but excluding state appropriations, practice plan funds, and other restricted funds. Pledged Revenues in FY 2008 totaled $469.4 million, which provides 8.6 times coverage of maximum annual debt service following this issue.

INTEREST RATE DERIVATIVES: None.

DEBT STRUCTURE: Of the total amount of debt outstanding following the current transaction, all long-term bonds ($578.8 million) are in the fixed rate mode, while the CP ($150 million now authorized and $23.6 million outstanding after this transaction) in variable rate.

STRENGTHS

*Healthy operating margins provide strong debt service coverage, with the System producing an average 7.5% operating margin and 3.9 times debt service coverage over the past three years.

*Good diversity of revenue sources supports operating stability and is a credit strength of the System. The largest shares of operating revenues, as measured by Moody's, are represented by appropriations from the Aa1-rated State of Texas (25%), professional fees generated by the Medical Practices Income Plan and the Texas Tech Physician Associates at the Health Sciences Center (19%), net tuition and fees (17%), and grants and contracts (16%).

*Growth in financial resources, driven by operating surpluses and improved investment returns in recent years, provides adequate coverage of debt and operations. Expendable financial resources of $690.3 million cover proforma direct debt including the CP program at the full authorized size and operations by 0.9 and 0.65 times, respectively.

CHALLENGES

*Plans to increase enrollment by 45% on a headcount basis by 2020 and to boost research enterprise to $100 million from current $60 million may be difficult to achieve given projected demographics of West Texas and slowdown in growth of federal research budget.

*Exposure to health care market increases as professional fees generated by the Medical Practices Income Plan and the Texas Tech Physician Associates at the Health Sciences Center become a larger share of operating revenues, increasing to 19% in FY 2007 from 10% in recent years.

*Accreditation probation of Texas Tech University from the Southern Association of Colleges and Schools (SACS) remains unresolved until at least December 2008. Management expects that the University will be removed from probationary status, after having increased staffing and reporting capabilities to provide data required by SACS.

MARKET/COMPETITIVE STRATEGY: IMPORTANT PROVIDER OF EDUCATION AND HEALTH SERVICES IN WEST TEXAS WITH AMBITIOUS GROWTH PLANS; ACCREDITATION ISSUE LIKELY TO BE RESOLVED BY END OF THE CALENDAR YEAR

Concentrated in West Texas, the Texas Tech University System consists of three components: Texas Tech University (TTU), Texas Tech University Health Sciences Center (HSC), and Angelo State University (ASU). On September 1, 2007, the System incorporated Angelo State University (ASU), which had previously been part of the Texas State University System. The addition of ASU boosted headcount enrollment by 6,185 students, to 37,061 in fall 2007. Full-time equivalent (FTE) students as of fall 2007 was 32,425 including Angelo State. The boost in enrollment from incorporating Angelo State masks a modest enrollment decline at Texas Tech University (TTU), which represented 76% of FTE enrollment in fall 2007 and at which FTE enrollment declined over 4% between 2006 and 2007. The size of the entering freshman class grew again in 2007 to its highest level of 4,515, which bodes well for stabilization in enrollment. Enrollment at HSC rebounded to 2,363 FTE in fall 2007, but remains below the recent high of 2,409 in fall 2005.

The System has ambitious growth targets that will be challenging to meet. TTU aims to grow its headcount enrollment from 28,260 in fall 2008 to 40,000 by 2020, with the fastest pace of growth targeted for graduate students. ASU plans to increase headcount to 10,000 from the current 6,200, and HSC aims to increase its headcount to 4,000 from the current 2,900 by that time. The University's student population is relatively highly geographically concentrated, with 64% of all students from within 300 miles of Lubbock. Given the weak demographic projections for the West Texas region, this goal may be a challenge for the System. In addition, Moody's notes the ongoing competition from other prominent public universities in the state, such as the University of Texas System and the Texas A&M University System, as well as from typically lower-cost community colleges.

Slowing growth of federal research budget also increases competitive pressure for sponsored research activities at a time when the System is seeking to grow its research activities. The System aims to boost its annual research expenditures to $100 million, which represents an increase of 33% over the $60 million in expenditures during 2007. The state has demonstrated the importance of bolstering research at the System by recognizing Texas Tech University as one of seven "Emerging Research Universities" and by providing funding, such as the recent $2 million contribution toward the overall $9 million package for the College of Engineering to enhance nanophotonics research. Texas Tech is competing with other public universities in the state to be named a Tier 1 research university, which would likely make it eligible for additional state funding of some form. The state legislature has not announced a specific timetable for when it would make any such designation.

In December 2007, the Commission on Colleges of the Southern Association of Colleges and Schools (SACS), the regional accrediting body for overall school and college effectiveness in the southern states and Latin America, placed Texas Tech University on probation. This action was the result of the University's inability to provide evidence that graduates had attained college-level competencies within a general education core. Accreditation is crucial to the University's ability to receive federal financial aid dollars and continue functioning. According to the System, the University has boosted staffing to provide for better oversight and reporting capabilities and reported additional data to SACS in September 2008. SACS is scheduled to meet again in December 2008, and System management expects SACS to remove the University from probation at that time. If accreditation were lost, we would expect a negative effect on the University's market and financial positions. At this time, management reports no negative impact on the University's student market position from the probationary status.

OPERATING PERFORMANCE: STRONG OPERATING PERFORMANCE PRODUCES SOLID DEBT SERVICE COVERAGE

Healthy operating margins provide strong debt service coverage, with the System producing an average 7.5% operating margin and 3.9 times debt service coverage over the three fiscal years ended August 31, 2007. The operating margin for 2007 of 10.8% was bolstered by record gift receipts of over $128 million, including $50 million earmarked for the Texas Tech University Health Sciences Center El Paso School of Medicine. Coverage of debt service by Pledged Revenues, which includes certain fund balances, averaged over 16 times from FY 2005 to 2007. Moody's anticipates that the System will continue to post strong operating performance with the inclusion of Angelo State in financial results beginning with FY 2008.

Good diversity of revenue sources supports operating stability and is a credit strength of the System. The largest shares of operating revenues in FY 2007, as measured by Moody's, are represented by appropriations from the Aa1-rated State of Texas (25%), professional fees generated by the Medical Practices Income Plan and the Texas Tech Physician Associates at the Health Sciences Center (19%), net tuition and fees (17%), and grants and contracts (16%). The System has experienced increased state appropriations for operations, with a 17% increase from $242 million in 2003 to $284 million in 2007. Appropriations for operations continue to increase. For FY 2008, state appropriations for operations across all three components totaled $387.4 million, including $33 for Angelo State, and approximately $45 million for buildings at the new medical school in El Paso. Operating appropriations for FY 2009 total $361.8 million, which represents an increase of nearly 6% over the FY 2008 amount excluding the El Paso medical school buildings. Moody's maintains a Aa1 general obligation rating for the State of Texas with a stable outlook. The Texas economy continues to grow strongly, driven by robust energy markets, the state's important position in trade and transportation routes and solid population growth. For more information on the State of Texas, please refer to Moody's report dated September 22, 2008.

Professional fees provided by the Medical Practices Income Plan and the Texas Tech Physician Associates reflect the activity of clinical faculty and numerous hospital affiliations of the Health Sciences Center. While HSC does not own or operate any hospitals, it maintains major affiliations with six hospitals and less significant relationships with 14 other hospitals located through West Texas at which its medical school students receive in-patient teaching experience and operates regional health care centers in Amarillo, Odessa, and El Paso) at which the students receive training on out-patient services. The affiliated hospitals pay HSC for medical services provided by HSC faculty and resident physicians as well as salaries and benefits of residents. Payment amounts for the respective services are negotiated on an annual basis. Revenue from these payments has increased in recent years with growth in the number of clinical faculty and is expected to climb from $179.6 million in FY 2008 to an estimated $208.2 million in FY 2009. While Moody's views the System's medical-related revenues as providing positive diversification, we also recognize the vulnerabilities posed by exposure to the health care market.

BALANCE SHEET POSITION: GROWING FINANCIAL RESOURCES PROVIDE SATISFACTORY CUSHION FOR DEBT AND OPERATIONS

The System has experienced growth in financial resources in recent years that supports the increased amount of debt and operations by adequate margins at the current rating level. From 2003 to 2007, the System increased its total financial resources by 75% to $1.2 billion, with the addition of ASU's financial resources bringing the total to $1.3 billion. Expendable financial resources of $690.3 million cover proforma direct debt of $602.5 million by 1.1 times. This figure includes $75 million of ASU debt. ASU will be consolidated into the System's financials beginning with FY 2008, which ended August 31, 2008. The System receives a significant portion of debt service reimbursement from the state, with approximately 50% of the proforma debt supported by the state's Tuition Revenue Bond program. While this debt remains an obligation of the System, the state has consistently funded the program, and Moody's expects it will continue to do so in the future. The System has not specified additional borrowing plans, but has recognized the need to build further housing capacity at Texas Tech University and Angelo State University. Moody's anticipates that additional debt for housing needs could be absorbed at the Aa3 rating level.

Growth in financial resources has been aided by investment returns and fundraising. The System invests most of its funds in its own Long-Term Investment Fund and Short/Intermediate Term Fund. A portion of funds must be held with the State Treasury. In 2007, the System reported an 11% return on investments, and the Texas Tech University Foundation reported a return of 17%. The System's $685 million in the Long-Term Investment Fund is allocated across equities (41%), hedge funds (23%), private equity (14%), real assets (9%), cash (6%), and fixed income (6%). Nearly two-thirds of the $745 million in the Short/Intermediate Term Fund is invested in the TexPool, a Texas Local Government Investment Pool managed by the Texas Comptroller of Public Accounts that invests primarily in repurchase agreements and US Agency securities. The largest remaining share is allocated to fixed income (39%). Through July 31, 2008, the System's returns for the first 11 months of the fiscal year were negative 4.7% for the Long-Term Fund and positive 5.2% for the Short/Intermediate Term Fund. At this same date, the return for the Foundation was down 4.7%. Fundraising results have also bolstered resources. In 2007, the System raised a record $130.6 million in gifts, following a three-year average of $54 million. Officials report that $116 million was raised in 2008. The System anticipates launching a large capital campaign in upcoming years.

On September 1, 2007, the System incorporated Angelo State University (ASU), which had previously been part of the Texas State University System. ASU's financial results will be consolidated in the System's annual financial report beginning with the current year. ASU represents approximately 16% of the System's combined FTE enrollment and about 10% of the System's combined financial resources. Debt previously issued by ASU totals $75 million, which includes $53 million of fixed rate bonds and $22 million of commercial paper. The ASU commercial paper is being refinanced with the current bonds issue. While the System does not plan to refinance the debt of ASU to bring it under the Revenue Financing System immediately, management reports that the System will continue to evaluate refunding opportunities. Through a resolution passed in September 2007, the System assumed responsibility for paying debt service on the ASU obligations. Under a resolution passed on September 12, 2008, the System issued a note to the Texas State University System to formalize the payment responsibility.

SHORT-TERM RATING RATIONALE: ADEQUATE LIQUID INVESTMENTS SUPPORT SELF-LIQUIDITY FOR TENDER FEATURE ON THE CP PROGRAM MATURITIES

Moody's believes the System's liquid resources provide good support for its Revenue Financing System Tax Exempt and Taxable Commercial Paper Notes, Series A. The System is increasing the authorized level of the program to $150 million from $100 million, and providing for issuance on both a tax-exempt and taxable basis under the overall limit. As of September 10, 2008, liquid resources, which include government treasuries, agencies, and TexPool funds cover the fully authorized $150 million of demand debt by nearly 3.5 times and cover the $24 million estimated to be outstanding following the upcoming bond issuance by over 20 times. The System expects to ramp up its CP usage to the full authorized amount over an approximately four year period.

Outlook

The stable outlook reflects our expectation that the System will succeed in stabilizing enrollment while continuing its positive operating performance and growing its financial resources.

What could change the rating-UP

Significant growth of the System's financial resources base through fundraising and positive operating results, coupled with manageable debt increases and enrollment growth.

What could change the rating-DOWN

Significant and sustained declines in enrollment and operating performance; accelerated pace of borrowing without compensating growth of financial resources or offsetting state support for debt service responsibilities; loss of accreditation by the Southern Association of Colleges and Schools.

KEY INDICATORS (FY 2007 financial data and fall 2007 enrollment data)

Total Full-Time Equivalent Students (FTE): 32,425 students (including Angelo State University)

Freshman Acceptance Rate: 77.0%

Freshman Matriculation Rate: 42.0%

Proforma Direct Debt: $602.5 million (including Angelo State University)

Expendable Resources to Proforma Direct Debt: 1.1 times (including Angelo State University)

Expendable Resources to Operations: 0.65 times

Three-year Average Operating Margin: 7.5%

Three-Year Average Debt Service Coverage: 3.9 times

Reliance on Student Charges: 16.7%

Reliance on State Appropriations: 25.0%

State GO Rating: Aa1

RATED DEBT

Revenue Financing System Refunding and Improvement Bonds, Series 2008: Aa3

Revenue Financing System Refunding and Improvement Bonds, Series 2006: Aa3 underlying; Ambac insured (Ambac's current financial strength rating is Aaa on review for downgrade)

Revenue Financing System Refunding and Improvement Bonds, Series 2003: Aa3 underlying; Ambac insured (Ambac's current financial strength rating is Aaa on review for downgrade)

Revenue Financing System Bonds, Series 2001: Aa3; MBIA insured (MBIA's current financial strength rating is A2 on review for downgrade)

Revenue Financing System Bonds, Series 2001 Taxable: Aa3; MBIA insured (MBIA's current financial strength rating is A2 on review for downgrade)

Revenue Financing System Bonds, Series 1999: Aa3 underlying; Ambac insured (Ambac's current financial strength rating is Aaa on review for downgrade)

Revenue Financing System Tax Exempt and Taxable Commercial Paper Notes, Series A: P-1 (supported by self-liquidity)

Texas State University System Revenue Financing System Revenue Bonds Series 1998A, 1998B, 2002, 2004, 2005, 2006: Aa3 underlying; Financial Security Assurance (FSA) insured (FSA's current financial strength rating is Aaa on review for downgrade) - debt service on $53 million of debt utilized by Angelo State University is an obligation of the Texas State University System, but supported by a Note Agreement with the Texas Tech University System as described above

CONTACTS

Texas Tech University System: Jim Brunjes, Vice Chancellor and Chief Financial Officer, 806-742-9000

Financial Advisor: Mary Williams, First Southwest, 214-953-4021

Analysts

Laura C. Sander
Analyst

Public Finance Group
Moody's Investors Service

Karen Kedem
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

TEXAS TECH UNIVERSITY SYSTEM

Standard and Poor's

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STANDARD & POOR'S

500 North Akard Street
Lincoln Plaza, Suite 3200
Dallas, TX 75201
tel 214 871-1402
reference no.: 1029599

September 23, 2008

Texas Tech University System
P.O. Box 41098
Lubbock, TX 79409-1098
Attention: Mr. Jim Brunjes, Vice Chancellor and Chief Financial Officer

Re: ***US$184,000,000 Texas Tech University Board of Regents, Texas, Revenue Financing System Refunding and Improvement Bonds, Twelfth Series 2008***

Dear Ms. Gilbert:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions,* have assigned a rating of "AA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

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Sincerely yours,

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fh
enclosures
cc: Ms. Beverly Cotton
Mr. Jason L. Hughes
Ms. Mary M. Williams
Mr. Matthew Boles

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Terms and Conditions
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U.S. Public Finance Ratings

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Agreement to Accept Terms and Conditions. Standard & Poor's assigns Public Finance ratings subject to the terms and conditions stated herein and in the rating letter. The issuer/obligor's use of a Standard & Poor's public finance rating constitutes agreement to comply in all respects with the terms and conditions contained herein and in the rating letter and acknowledges the issuer/obligor's understanding of the scope and limitations of the Standard & Poor's rating as stated herein and in the rating letter.

Fees and expenses. In consideration of our analytic review and issuance of the rating, the issuer/obligor agrees to pay Standard & Poor's a rating fee. Payment of the fee is not conditioned on Standard & Poor's issuance of any particular rating. In most cases an annual surveillance fee will be charged for so long as we maintain the rating. The issuer/obligor will reimburse Standard & Poor's for reasonable travel and legal expenses if such expenses are not included in the fee. Should the rating not be issued, the issuer/obligor agrees to compensate Standard & Poor's based on the time, effort, and charges incurred through the date upon which it is determined that the rating will not be issued.

Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

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Limitation on Damages. The issuer/obligor agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the issuer/obligor or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the issuer/obligor or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The issuer/obligor acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Standard & Poor's Not an Advisor, Fiduciary, or Expert" and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

STANDARD & POOR'S

PUBLIC FINANCE

Texas Tech University System

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RatingsDirect
Publication Date
Sept. 26, 2008

Credit Profile		
US$184. mil Revenue Financing System Refunding and Improvement Bonds, Series 2008		
Long Term Rating	AA/Stable	New
Outstanding Revenue Financing System Refunding and Improvement Bonds, Series 2006		
Long Term Rating	AA/Stable	Affirmed
Outstanding Revenue Financing System Refunding and Improvement Bonds, Series 1999		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Outstanding Revenue Financing System Refunding and Improvement Bonds, Various Series		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to the Texas Tech University System's (TTUS) series 2008 revenue finance system bonds. In addition, Standard & Poor's affirmed its 'AA' rating and underlying rating (SPUR) on TTUS' outstanding bonds. In addition, Standard & Poor's affirmed its 'A-1+' short-term rating on the system's commercial paper (CP) notes.

The long-term rating reflects:

- A broad revenue pledge, including various use and tuition fees charged to more than 36,000 students enrolled at TTU, Angelo State University, and Texas Tech University Health Sciences Center;
- Historically strong funding levels from the 'AA' rated state of Texas (24% of TTUS's revenues);
- TTUS's comprehensive course offerings, including law, medicine, nursing, business administration, engineering, liberal arts, and architecture;

- Adequate liquidity, with 2007 unrestricted net assets equal to 48% of expenses and 88.2% of pro forma debt; and
- A history of stable, balanced financial operations and good fund balances.

Offsetting factors include:

- Healthcare reimbursement risk for the center;
- A moderate pro forma debt service burden 5.3% of fiscal 2007 expenses with future capital needs; and
- Average demand for the rating category, with a high 77% of freshman acceptances for fall 2007.

The series 2008 bond proceeds will be used for acquiring, purchasing, constructing, improving, renovating, enlarging and equipping property buildings, structures, or facilities related to TTU, the center and Angelo State University (ASU). About 64% of the series 2008 are tuition revenue bonds (TRB). In addition, bond proceeds will be used to refund about $54 million of commercial paper (CP), and provide $47 million of refunding for TTU and ASU.

The affirmation of the 'A-1+' short-term rating on the system's CP notes reflects the abovementioned rating factors, as well as the system's ability to cover any failed rollovers from its liquid funds. In 2008, TTUS has increased its authorized CP from $100 million to $150 million. As of Sept. 10, 2008, the system identified ample cash and investments available for same-day liquidity, providing solid coverage of authorized CP levels. There are currently $76.9 million in CP notes outstanding. The system uses its CP program to finance capital projects in the short term.

Outlook

The stable outlook reflects the expectation of continued strong demand trends, balanced financial operations, maintenance of liquidity relative to operations and debt, and manageable debt service levels.

Texas Tech University System (TTUS)

Created by the Texas Legislature in 1923 as a regional technological and liberal arts college, TTU consists of 65 academic departments offering bachelor degrees in 117 fields of study, graduate degrees in 167 fields of study, and 193 majors. With headquarters located in Lubbock, the campus consists of 1,839 acres and features 185 buildings plus some leased property. In 1969, the Texas Tech University School of Medicine was created as a separate entity from TTU, and in 1979 it was designated the Texas Tech University Health Sciences Center. The focus of the center is to address the health care needs of West Texas, especially rural health care; its reach encompasses 48% of the state's land mass and serves a population of 2.4 million. In addition to its Lubbock location, there are regional academic centers in Amarillo, Odessa, El Paso, San Angelo, Highland Lakes, Abilene, Junction, Fredricksburg, and Seville, Spain. The Center includes a School of Medicine, School of Nursing, Pharmacy School, School of Allied Health, Graduate School of Biomedical Sciences, and a Physician Assistant Program. TTU is currently in the process of converting the El Paso campus into a four-year medical school, and recently added Angelo State University to the system.

Angelo State University

During 2007, the Texas legislature approved HB3564, which moved Angelo State University to the TTUS (AA/Stable) from the Texas State University System (TSUS; 'A+/Stable'). This transfer includes all of the assets (approximately $450 million) and liabilities (approximately $56 million of long-term debt) of Angelo State University. Although a portion of the Angelo State's bonds will remain on the TSUS books for the time being, TTUS is paying TSUS for Angelo State's debt service. As of fall 2007, Angelo State had a headcount of approximately 6,200.

Accreditation

On Dec. 17, 2007, one of the system's accrediting bodies, the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) placed TTU on probation. SACS noted that this action was due to the lack of sufficient data collected by the university on one of the commission's 87 standards of accreditation. No fault was found with the quality of any academic programs. TTU is working to collect the required data and management expects the probation to be removed during the next SACS meeting in December 2008.

Enrollment And Demand

TTU enrollment has been relatively flat for the past five years at approximately 28,300 students. However, during the past two years, enrollment has been slightly increasing, with 28,260 students enrolled for fall 2007 and 28,422 students enrolled for fall 2008. Demand is good, with an increasing number of freshmen applications. TTU accepts approximately 70% of these students, with 41% choosing to matriculate each year. About 3,900 freshmen enrolled in fall 2007, an increase of 15% from the previous year. TTU also enrolls approximately 2,000 transfer students each year. SAT scores for entering students averaged about 1100, and more than 50% of the entering class ranked in the top quartile of their high school class.

Finances

Revenue Diversity

TTUS has a diverse revenue stream, as state appropriations account for 24% of revenues, followed closely by tuition and fees at 23%. TTUS received $283.7 million in state operating appropriations in fiscal 2007. After a cut in 2003, appropriations were flat for 2004/2005 and increased approximately 5% in fiscal 2006 and fiscal 2007. Appropriations for fiscal 2008 increased to more than $339 million (17%) due to the new medical school in El Paso. TTUS also has a sizable research component, as revenue from grants and contracts totaled $197 million in fiscal 2007, or 28% of revenues, although this is a decrease from a peak of $272 million in grants and contracts received the previous year.

Operations

TTUS has a history of balanced operations, influenced in part by non-operating revenues. For fiscal 2007, the system recorded a $240 million total increase in net assets to $1.734 billion. TTUS' unrestricted net assets (net of plant) for fiscal year-end 2007 totaled $494 million, equal to 48% of total operating expenses and 88% of total pro forma debt ($560.5 million). Cash and investments were a healthy $1.35 billion at the end of fiscal 2007, and the debt burden is a moderate 5.3% (of $1.035 billion) of operating expenses. At the time of this report, fiscal 2008 financial results were not available, but management reports that operations are tracking close to budget and operating results are expected to be similar to fiscal 2007. As of June 15, 2008, TTUS had $407 million in outstanding revenue bonds, of which approximately 51% were TRB. Post issuance of the series 2008 bonds, total pro forma debt will be $560.5 million.

Higher Education Assistance Fund

TTUS also benefits from the receipt of money allocated by the state through the Higher Education Assistance Fund (HEAF). The HEAF program allows Texas colleges and universities that are ineligible for permanent-university-fund distributions to receive a separate annual appropriation for capital improvements. Since fiscal 1997, TTUS has received a flat annual payment of about $29.8 million from HEAF. In fiscal 2008, the annual HEAF appropriation was increased by about 50%, to $44.7 million.

Endowment And Fundraising

The university endowment combined with the Texas Tech Foundation endowment, virtually all of which is restricted, totaled $718.6 million as of May 31, 2008. TTU has a strong history of fundraising, with more than 214,000 alumni. In 2007, the system received a record amount of gifts and pledges, including a $50 million cash naming gift for the medical school and $135 million in annual giving. TTU's last capital campaign began in 1996 with a $300 million goal, which was later revised to $500 million. This goal was achieved in 2001. TTU is now in the planning phase for its next major capital campaign.

Contacts

Obligor: Jim Brunjes, Texas Tech University System, Vice Chancellor and Chief Financial Officer, 806-742-9000.

Financial Adviser: Mary Williams, Senior Vice President, First Southwest Company, 214-953-4021.

Ratings Detail (As Of 26-Sep-2008)		
Outstanding Commercial Paper Notes, Series A		
Short Term Rating	A-1+	Affirmed
Outstanding Revenue Financing System Refunding and Improvement Bonds, Series 2001		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Outstanding Taxable Revenue Financing System Refunding and Improvement Bonds, Series 2001		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

TEXAS TECH UNIVERSITY SYSTEM

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Public Finance

Higher Education
New Issue

Texas Tech University System

Board of Regents

Ratings

New Issue

$183,335,000 Revenue Financing System Refunding and Improvement Bonds 12th Series (2008)[a]	AA

Outstanding Debt

$442,061,000 Revenue Financing System Refunding and Improvement Bonds[a]	AA
$150,000,000 Tax-Exempt and Taxable Commercial Paper Notes, Series A[b]	F1+

[a]The 'AA' rating is an unenhanced rating in the absence of credit enhancement. It includes $53,016,000 of Texas State University System RFS bonds, issued on behalf of Angelo State University, assumed by the Texas Tech University System. [b]The 'F1+' rating is based on internal liquidity provided by the Texas Tech University System.

Rating Outlook

Stable

Analysts

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New Issue Details

Sale Information: 12th series (2008) to price via negotiation on or about Oct. 23.
Security: All legally available funds.
Purpose: Fund various capital plan projects ($81.2 million), refinance outstanding commercial paper ($53.7 million), and refund outstanding revenue financing system debt ($47.8 million).
Final Maturity: Aug. 31, 2038.

Related Research

- *Texas Tech University System, Jan. 26, 2006*

Rating Rationale

- Texas Tech University System's (TTUS, or the system) consistently strong operating performance and sound balance sheet liquidity underpin the 'AA' rating.
- Stability of enrollment, despite recent management turnover within the admissions office, is also a key credit attribute, reflecting the breadth and diversity of the system's operations, which encompass academic institutions and a health sciences center.
- With none of the system's primary sources of operating support, including student tuition and fees, state appropriations, patient care revenues, and grants and contracts, providing more than 26% of total operating revenues, TTUS's financial profile is sheltered from a sudden decline in any one funding stream.
- The system's fairly aggressive plans to steadily increase the number of students served by its institutions and dramatically increase research activities will potentially face certain operational and financial challenges; however, the experience of the system's management does help mitigate this risk.
- While TTUS could experience near- to possibly intermediate-term declines in the value of its long-term investment fund, its balanced approach to money management should help prevent significant declines.
- The significant coverage of CP notes provided by the system's short- and intermediate-term fund, which consists of highly liquid, highly rated cash and securities, meets Fitch Ratings' criteria for the assignment of a short-term 'F1+' rating based on self-liquidity.

Key Rating Drivers

- Continued generation of positive operating margins and maintenance of available funds at or near currently strong levels.
- Issuance of additional debt in support of growth initiatives only to the extent that financial resources are available for its repayment.
- Continued balanced, active management of invested funds to minimize long-term market losses.

Credit Summary

Founded in 1999 by state of Texas legislation, the system was originally made up of Texas Tech University (TTU, or the university) and Texas Tech University Health Sciences Center (HSC). On Sept. 1, 2007, Angelo State University (ASU), a former member of the Texas State University System (TSUS), was transferred by the state to TTUS from TSUS, becoming its third member. In total, the component institutions of the system enrolled 37,484 students, including 29,392 undergraduates and 8,092 graduates, during fall 2007. Despite minor fluctuations in headcount at each of the component institutions over the past five fall admissions cycles, overall system enrollment is stable.

Rating History — Long-Term Rating

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/8/08
AA	Affirmed	Stable	1/18/06
AA	Assigned	Stable	12/31/01

Rating History — Short-Term Rating

Rating	Action	Outlook/ Watch	Date
F1+	Affirmed	—	10/8/08
F1+	Affirmed	—	1/18/06
F1+	Assigned	—	4/11/03

For fiscal 2007, the system generated an operating margin of 14.5%, comparing favorably with prior years and other 'AA' category credits that generally post break-even to slightly positive results. As a result of this strong level of performance, TTUS's available funds, defined as cash and investments that are not restricted, increased by 6.0%, to $608.6 million from $574.1 million. Relative to operating expenses and pro forma financial leverage, available funds provided solid coverage of 58.8% and 106.5%, respectively. Both metrics remain at or above the median for an 'AA' public university.

With TTUS planning to grow the size of its student population to 54,000 students across its three institutions by fiscal 2020 and increase externally funded research, sizable investments in facilities, infrastructure, and human resources will be likely. While additional bonding will be required to fund portions of such investments, namely those related to academic buildings, student housing, and laboratory space, Fitch expects the system's management to continue its long track record of implementing and funding capital projects in a financially prudent manner.

Security and Debt Structure

Revenue financing system (RFS) debt is secured by and payable from a lien on pledged revenues. Pledged revenues generally include all legally available funds of RFS members, including unrestricted fund and reserve balances. State appropriations, tuition assessed to exempt students, and restricted gifts are specifically excluded from pledged revenues. For fiscal 2008, pledged revenues (excluding unappropriated, available fund balances) totaled $469.4 million.

Following the issuance of the fixed-rate, 12th series (2008) new money and refunding bonds, TTU's pro forma RFS debt, all of which is in a traditional, fixed-rate mode, will total $571.3 million, including debt of ASU assumed by TTUS following its transfer. RFS maximum annual debt service (MADS) will increase to $54.4 million, occurring on Aug. 31, 2009. Thereafter, debt service will decline gradually, with average annual debt service through Aug. 31, 2033 equaling $42.0 million. TTU has no exposure to swaps or other interest rate hedges.

At June 15, 2008, approximately 52.1% of outstanding RFS bonds, based upon par value (excluding commercial paper), were classified as tuition revenue bonds (TRBs). TRBs are RFS obligations incurred to fund non-self-supporting projects, such as academic buildings. Under the TRB program, the state has historically appropriated, although is not required to appropriate, an amount sufficient to cover TRB debt service during each biennium. In the absence of such appropriation, TRB debt service is paid from pledged revenues similar to other RFS bonds. Following the issuance of the 12th series bonds, TRBs as a percentage of total RFS debt will remain at or just above 52.1%.

Texas Tech University System

Background

TTUS was founded in 1999, with TTU and HSC as its original members. On May 23, 2007, the state Legislature authorized the transfer of ASU to TTUS from TSUS on Sept. 1, 2007. As a result of this transfer, TTUS assumed outstanding ASU debt previously issued by TSUS under its RFS bond program. TTUS adopted a binding obligation to make such required debt service payments on Sept. 11, 2007. On Sept. 12, 2008, TTUS delivered an approximately $53.0 million note, equal to outstanding ASU debt balances, to TSUS evidencing this obligation. The note is a parity obligation under the TTUS RFS program and is payable from all available funds.

System governance, including the establishment and control of policy, is charged to a 10-member board of regents (the board). Nine board members are appointed by the governor, subject to state Senate confirmation, for six-year terms. A student regent serves as the 10th board member and serves a one-year term. The system's chancellor, appointed by the board, directs TTUS operations and is responsible for the implementation of board policy. The system's chancellor has served in his current role since December 2006, coming to TTUS with significant experience in academia, politics, and the private sector. Experienced vice chancellors responsible for finance and investments, capital planning, and fund raising, among other areas, assist the chancellor in the performance of his duties. The presidents of TTU component institutions also work closely with the system chancellor. While each of the current presidents is relatively new to their respective institution, the presidents of TTU and ASU each possess a strong background in education administration, while the president of the health sciences center brings depth of knowledge in academic medicine and research.

Component Institutions

Texas Tech University

Founded in 1923 by the state Legislature as a regional technological and liberal arts college, TTU is today a comprehensive public university based in Lubbock, TX, approximately 320 miles west of Dallas, TX and 320 miles southeast of Albuquerque, NM. In addition to the main Lubbock campus, extension centers are located throughout west Texas (Junction, Fredericksburg, Marble Falls, and Amarillo) and in Seville, Spain. The university is organized into 10 colleges, including agricultural sciences and natural resources, business administration, engineering, a school of law, and a graduate school. In total, TTU's 65 academic departments offer bachelors and graduate degrees in 117 and 167 fields of study, respectively. TTU colleges and departments are accredited by their various professional associations, with overall university programs accredited by the Southern Association of Colleges and Schools (SACS), the regional accrediting body for the southern region. While TTU's SACS accreditation was placed on probation in December 2007, stemming from data collection issues related to student outcomes, the university has since installed new systems and implemented proper procedures and controls to permanently correct these issues. Consequently, TTU expects to be removed from SACS probation in fall 2008. TTU's ability to maintain SACS accreditation going forward is critical for the university, as the loss of such status would negatively affect financial aid to students and, thus, enrollment levels. Additionally, its ability to fund raise from its core constituency, namely parents and alumni, would likely be impaired.

Texas Tech Health Sciences Center

The HSC was founded in 1969 as the TTU School of Medicine (the school), a Lubbock-based, multicampus health care institution separate from TTU, with regional campuses in Amarillo, El Paso, and Odessa. In 1979, the state expanded the school's charter to form the HSC, with the School of Allied Health Sciences, the School of Nursing, and the Graduate School of Biomedical Sciences opening throughout the 1980s on the Lubbock campus. In addition to the expansion at Lubbock, select schools and programs were opened in Permian Basin (nursing), Amarillo (pharmacy and allied health), Odessa (allied health), and Midland (physicians assistant) throughout the 1990s. In 2004, the state began the process of converting the El Paso campus into a four-year medical school, with four-year Liaison Committee Medication Education (LCME) accreditation received in February 2008. The LCME, sponsored by the Association of American Medical Colleges and the American Medical Association, is the nationally recognized accrediting authority leading to the M.D. degree in U.S. and Canadian Medical Schools. HSC's expansive operations makes it an important asset to west Texas, as its service area encompasses 108 of the state's 254 counties, or approximately 48% of the state's land mass. Approximately 2.6 million people live in the health sciences center service area.

Angelo State University

The newest member of TTUS, ASU is a public, coeducational university located in San Angelo, TX. Founded in 1963 and operating as a member of TSUS from 1975 through 2007, ASU offers 97 bachelors, 23 masters, and one doctoral degree program across five colleges: business, education, liberal and fine arts, nursing and allied health sciences, and graduate studies.

Student Demand and Enrollment Data

(Fall Semester)

	2003	2004	2005	2006	2007
Undergraduate					
TTU	23,595	23,329	23,002	22,851	23,021
HSC	525	497	633	653	608
ASU	5,492	5,579	5,604	5,721	5,763
Total Undergraduate	**29,612**	**29,405**	**29,239**	**29,225**	**29,392**
Graduate					
TTU	4,954	4,996	4,999	5,145	5,239
HSC	2,110	2,272	2,409	2,217	2,363
ASU	559	551	552	559	490
Total Graduate	**7,623**	**7,819**	**7,960**	**7,921**	**8,092**
Total Enrollment					
TTU	28,549	28,325	28,001	27,996	28,260
HSC	2,635	2,769	3,042	2,870	2,971
ASU	6,051	6,130	6,156	6,280	6,253
Total System Headcount Enrollment	**37,235**	**37,224**	**37,199**	**37,146**	**37,484**
Undergraduate/Graduate (%)	80	79	79	79	78
Total FTE Enrollment	24,544	24,587	24,424	25,892	24,792
TTU Admissions					
Undergraduate Applications	13,755	13,323	12,583	13,809	13,976
Acceptance Rate (%)	67.3	67.1	70.9	70.2	77.0
Matriculation Rate (%)	48.0	44.2	42.6	40.5	42.0
HSC Admissions					
Undergraduate Applications	4,414	5,429	5,133	5,658	6,790
Acceptance Rate (%)	67.3	67.1	70.9	70.2	77.0
Matriculation Rate (%)	98.1	97.9	97.6	96.6	89.5
ASU Admissions					
Undergraduate Applications	N.A.	N.A.	N.A.	N.A.	3,267
Acceptance Rate (%)	67.3	67.1	70.9	70.2	77.0
Matriculation Rate (%)	N.A.	N.A.	N.A.	N.A.	42.6

N.A. – Not available. Note: Numbers may not add due to rounding.

Student Demand

Overall demand for TTUS has been generally stable over the past five fall semesters, evidenced by total headcount across each of the component institutions increasing at an average 0.67% annually over the past five fiscal years, to 37,484 in fall 2007 from 37,235 in fall 2003. For the same period, FTE enrollment increased at a slightly higher 1.0% rate, to 24,792 from 24,544. Throughout this period, each of the component institutions experienced some year-to-year fluctuation for each of the various cohorts served (e.g. undergraduate and graduate). In the case of TTU, the largest institution within the system, sustained but still relatively minor enrollment declines at the undergraduate level between fall 2003 and fall 2006 were a function of several factors.

Declines between fall 2003 and fall 2005 were deliberate, the result of a now discontinued enrollment management strategy where student quality was improved at the expense of growth. Between fall 2005 and fall 2006, turnover in the admissions office created some instability, as new counselors were added and certain recruitment strategies were modified or enhanced; however, total enrollment did increase slightly (by less than 1%) in fall 2007. At ASU and HSC, fluctuations in enrollment over the fall 2003 through fall 2007 period mainly occurred at the undergraduate and graduate levels, respectively, which for each institution is their smallest enrollment cohort.

Demand measures for each of the component institutions are typical of their respective roles within the system. As the comprehensive, largely undergraduate (78% of total students) university within TTUS, TTU's undergraduate admission statistics compare favorably with other 'AA' rated public institutions having a similar academic profile. Declines in applications during the earlier part of the decade reflected the higher quality, limited growth strategy discussed above. However, more recently, as the system is repositioning TTU to continue its quality focus while concurrently growing its student body to approximately 40,000 students by 2020, application levels are rebounding. Although the approximately 2.5% annual rate of growth needed to achieve a population size of 40,000 will be driven by increased undergraduate enrollment, material growth in graduate headcount is also expected as the university targets increased research activity. To date, TTU's acceptance and matriculation rates remain in line with their respective 'AA' category public university median values. A trend toward higher acceptance rates is expected over the near to intermediate term, as TTU enlarges the size of its incoming freshmen class. However, importantly, recent improvements in average SAT scores and retention are expected to be maintained, if not improved, as the university pursues its growth initiative. For fall 2008, TTU achieved its goal of approximately 2.5% enrollment growth, a portion of which came from graduate students, and strengthened student quality, evidenced by an average incoming freshman SAT score of 1113, up 21 points over the prior fall's level.

The system's growth goals for ASU (10,000 students by 2020) and HSC (2,000 students by 2020) are expected to be managed with a concurrent focus on growing high demand, high quality program offerings that best serve the academic and health care needs of a large west Texas-based service area. Both ASU and HSC demonstrate demand characteristics in line with their respective market positions — a regionally focused, comprehensive public university in the case of ASU, and an allied health, research-oriented institution in the case of HSC.

Finances

TTUS's financial profile is characterized by a track record of strong operating margins and healthy balance sheet liquidity. This financial strength and stability is largely related to the system's diverse revenue streams and conservative budgeting practices.

System Funding

With none of the system's primary revenue sources, including student-generated revenues (25.9%), state appropriations (25.9%), patient care revenues related to HSC activities (17.6%), and grants and contracts (16.3%) representing a disproportionately high percentage of operating support, TTUS is less vulnerable to an unexpected reduction and/or fluctuation in any one revenue stream during a fiscal year. As a result of a reclassification of operating revenues received by the system under contract with the state for statewide prisoner medical care, grants and contracts and patient care revenues as a percentage of total operating revenues changed significantly in fiscal 2007. As this reclassification is permanent, the system expects the contribution made by both revenue categories in fiscal 2008 to resemble fiscal 2007 levels.

Financial Summary

($000, Audited Fiscal Years Ended Aug. 31)

	2003	2004	2005	2006	2007
Statement of Revenues, Expenses, and Changes in Net Assets					
Gross Tuition and Fees	143,447	174,915	204,247	214,318	223,687
Less: Student Aid	30,820	12,246	18,843	22,090	23,872
Net Tuition and Fees	**112,627**	**162,669**	**185,404**	**192,228**	**199,815**
Grants and Contracts	269,881	239,151	245,182	273,261	197,955
Patient Care Revenues (Professional Fees)	59,522	82,172	84,433	104,397	212,943
State Appropriations	270,983	286,472	274,296	311,423	313,430
Gifts and Contributions	42,653	30,532	37,133	63,245	128,316
Sales and Services of Auxiliary Enterprises	62,544	66,592	69,006	70,731	70,231
Sales and Services of Educational Departments	11,422	12,340	11,960	13,339	13,671
Interest and Dividend Income	24,297	64,542	50,163	81,245	74,928
Total Operating Revenues	**853,929**	**944,470**	**957,577**	**1,109,869**	**1,211,289**
Instruction	310,838	294,854	320,664	358,799	386,902
Research	61,490	54,037	54,981	59,142	59,769
Auxiliary Enterprises	65,354	70,132	72,670	85,030	81,753
Academic Support	97,148	110,103	113,754	124,129	136,316
Student Services	23,970	25,199	27,946	29,069	32,081
Public Service	109,936	107,176	110,084	112,941	122,255
Institutional Support	49,142	63,077	58,826	68,347	68,120
Operation and Maintenance of Plant	45,266	48,659	50,195	55,272	59,970
Student Aid	7,909	25,567	21,273	25,647	21,746
Depreciation	28,169	29,950	40,791	37,747	51,134
Interest Expense	14,163	14,839	15,964	16,113	15,166
Total Operating Expenses	**813,385**	**843,593**	**887,148**	**972,236**	**1,035,212**
Change in Net Assets from Operating Activities	**40,544**	**100,877**	**70,429**	**137,633**	**176,077**
Non-Operating Activities					
Realized and Unrealized Gains/(Loss) on Investments	27,373	(727)	44,372	779	49,183
Capital Grants and Gifts	879	1,706	4,651	3,875	1,364
Other Non-Operating Revenues	26,358	21,965	32,855	19,971	20,141
Other Non-Operating Expenses	(7,648)	(3,833)	(14,220)	(19,594)	(7,090)
Change in Net Assets	**87,506**	**119,988**	**138,087**	**142,664**	**239,675**
Change in Net Assets from Operating Activities	40,544	100,877	70,429	137,633	176,077
Plus: Depreciation	28,169	29,950	40,791	37,747	51,134
Plus: Interest Expense	14,163	14,839	15,964	16,113	15,166
Total Income Available for Debt Service	**82,876**	**145,666**	**127,184**	**191,493**	**242,377**
Annual Debt Service	29,938	38,264	35,036	36,520	44,574
Pro Forma Maximum Annual Debt Service[a]	54,403	54,403	54,403	54,403	54,403
MADS Fiscal Year[a]	2009	2009	2009	2009	2009
Statement of Financial Position					
Cash and Cash Equivalents	161,369	315,046	314,782	356,534	405,195
Investments	630,098	621,022	702,020	785,790	943,987
Total Cash and Investments	**791,467**	**936,068**	**1,016,802**	**1,142,324**	**1,349,182**
Less: Permanently Restricted Net Assets	424,594	428,544	483,659	568,255	740,544
Available Funds	**366,873**	**507,524**	**533,143**	**574,069**	**608,638**
Land, Buildings, and Equipment, Net	678,400	748,267	815,791	874,293	925,861
Fixed Rate Bonds Payable	290,350	367,660	353,530	428,760	407,785
Total Bonds Payable	**290,350**	**367,660**	**353,530**	**428,760**	**407,785**
Total Long-Term Debt	**313,954**	**382,571**	**389,388**	**441,895**	**444,384**
Total Pro Forma Debt[a]	571,261	571,261	571,261	571,261	571,261

[a]Based on debt service schedules provided by financial adviser. Note: Numbers may not add due to rounding.

Managing costs has also been a primary focus of the system's management team, evidenced by the average five-year increase in operating revenues outpacing the average increase in expenditures for the same period. The system's ability to continually increase revenues is attributable mainly to its strategic pricing policies regarding tuition and fees and the favorable reimbursement environment for patient care within the state. For fall 2008, the system held constant tuition and fees at both TTU ($3,391 per resident undergraduate, 15 semester credit hours) and HSC following several years of moderate rates of increase. At ASU, tuition is expected to increase 5.8%, as the system intends to increase financial capacity to support certain campus improvement projects at that location.

Financial Ratios

(Audited Fiscal Years Ended Aug. 31)

	2003	2004	2005	2006	2007
Revenue Diversity Ratios					
Net Tuition Revenue ($000)	112,627	162,669	185,404	192,228	199,815
% Change	N.A.	44.4	14.0	3.7	3.9
Tuition as % of Unrestricted Revenues (Revenues)	13.2	17.2	19.4	17.3	16.5
Tuition Discounting (%)	21.5	7.0	9.2	10.3	10.7
Tuition and Auxiliaries as % of Revenues	20.5	24.3	26.6	23.7	22.3
Grants and Contracts as % of Revenues	31.6	25.3	25.6	24.6	16.3
Net Patient Revenues as % of Revenues	7.0	8.7	8.8	9.4	17.6
State Appropriations as % of Revenues	31.7	30.3	28.6	28.1	25.9
Gifts and Contributions as % of Revenues	5.0	3.2	3.9	5.7	10.6
Interest and Dividend Income as % of Revenues	2.8	6.8	5.2	7.3	6.2
Operating Performance Ratios					
Operating Margin (%)	4.7	10.7	7.4	12.4	14.5
Leverage Ratios					
Historical Debt Service Coverage (x)	2.8	3.8	3.6	5.2	5.4
Historical Debt Service as % of Revenues	3.5	4.1	3.7	3.3	3.7
Pro Forma MADS Coverage (x)	1.5	2.7	2.3	3.5	4.5
Pro Forma MADS as % of Revenues	6.4	5.8	5.7	4.9	4.5
Liquidity Ratios					
Available Funds as % of Operating Expenses	45.1	60.2	60.1	59.0	58.8
Available Funds as % of Debt	116.9	132.7	136.9	129.9	137.0
Available Funds as % of Total Pro Forma Debt	64.2	88.8	93.3	100.5	106.5
Available Funds to MADS (x)	6.7	9.3	9.8	10.6	11.2

N.A. – Not applicable.

While TTUS is not significantly reliant upon the state for operating support, appropriations made to the system each year help defray costs related to instruction, student services, and operations and maintenance, among others. Over the past five fiscal years, state appropriations for operations, including higher education fund payments that can be used for equipment expenditures, increased to a high of $313.4 million in fiscal 2007 from a low of $271 million in fiscal 2003; the decline in fiscal 2005 was related to the state's deregulation of tuition and fees beginning in fiscal 2004, which resulted in a significant increase in student charges offset by a decline in appropriation levels. Thereafter, increases and decreases in an institution's appropriation levels for a given year are influenced by the health of the state economy, changes in base formula funding, receipt of special appropriations, and level of outstanding TRB debt. For fiscal 2008, HSC received additional state support for the new medical school in El Paso.

The system received a moderate increase in state appropriations during fiscal 2008 and expects the upcoming biennium (fiscal years 2009–2010) to be equally favorable. Unlike other states where weak economics are negatively affecting funding to higher education, the state is projecting a significant surplus as a result of strong oil-related tax revenues. This surplus, coupled with the state's goal to incentivize increased research activity at comprehensive, moderately sized public universities such as TTU, could potentially lead to the system receiving additional state aid to further its research activities.

Operating Margin

From fiscal years 2003–2007, the system's operating margin ranged from a low of 4.7% to a high of 14.5%, respectively. While financial statements are not yet available for fiscal 2008, TTUS expects operating performance to be slightly lower, although still strongly positive. Fitch expects public universities to at least generate a break-even level of performance, with the median for 'AA' category public institutions equaling approximately 1.0%. Going forward, the system's track record of generating significant excess revenues over annual expenditures could be challenged, as expenditures related to its planned enrollment and research growth are incurred prior to the receipt of the related revenue offset. However, importantly, Fitch recognizes that management has demonstrated over time the ability to make difficult budget decisions on both the revenue and expenditure side and, thus, should be able to manage prudently the additional costs associated with its expansion plans.

Debt Burden

Following the issuance of the 12th series (2008) bonds, the system's pro forma debt burden, calculated as maximum annual debt service as a percentage of fiscal 2007 operating revenues, is expected to increase to 4.5%. While moderately high for an 'AA' rated public university, Fitch recognizes that a portion of the debt service captured as part of the debt burden is related to TRBs that will be paid from a like amount of funds appropriated by the state. Additionally, given the system's strong operating performance, the pro forma debt burden should remain manageable.

Liquidity

Fitch calculates available funds, or cash and investments not permanently restricted, as a core measure of liquidity. Over the past five fiscal years, the system's available funds have increased an average 10.7% annually, to $608.6 million from $366.9 million, reflecting TTUS's strong operating performance and prudent investment management practices. Relative to expenditures and financial leverage (including the 12th series bonds), fiscal 2007 available funds represented a solid 58.8% and 106.5%, respectively. As additional debt is issued by the system to fund future capital projects, it is expected that a commensurate rise in liquidity will accompany any such increase in financial leverage.

TTUS principally invests accumulated fund balances in either its short/intermediate term investment fund (S/ITF) or long-term investment fund (LTF). Investments within the LTF consist principally of restricted endowment funds and funds designated by the system's management to function as endowment (quasi endowment). LTF holdings are not used by the system to meet operating expenses, nor are they relied upon as a source of debt repayment. The market value of TTU's endowment, which makes up a significant component of the LTF, equaled $690.1 million as of Aug. 31, 2008, down approximately 5.1% year to date from the prior-year period. Given the financial market turbulence of September and October, additional declines in TTU's portfolio are likely. Approximately 45% of the TTU endowment is invested in alternative assets, including hedge funds, real estate assets, and private equity. While Fitch recognizes these financial assets are not relied upon by TTUS for near-term cash needs, each class carries varying degrees of illiquidity, may have associated capital commitments, and/or may have lengthy lockout periods. Consequently, significant due diligence and active portfolio monitoring is required. To this end, the system's board of trustees elects an investment advisory committee, which meets quarterly to assess fund performance, asset allocation, and investment policies and results. The system also engages the services of an outside investment consultant and is considering additional consultants if and when it increases its exposure to nontraditional asset classes, which it views as an important source of portfolio diversification.

Liquidity Supporting Variable-Rate Debt Programs

As of May 31, 2008, the system's S/ITF holdings totaled approximately $587.8 million. This pool of funds is the internal source of liquidity supporting TTUS's taxable and tax-exempt CP program. The largest concentration of S/ITF holdings is in TexPool (48%), a high-quality investment pool used by local governments within the state. TexPool invests primarily in short-duration U.S. government securities, repurchase agreements, and money market funds. Other S/ITF holdings include U.S. agency notes (26%), cash (14%), and repurchase agreements (5%). The CP program was recently expanded to $150 million from $100 million to provide the system increased flexibility to draw on a taxable as well as tax-exempt basis and to provide increased capacity for interim financing of capital projects and equipment acquisitions. Despite this increase in maximum capacity, the size and liquidity of the S/ITF are more than sufficient to support a failed rollover of CP at the 'F1+' rating level.

Fund Raising

The system's most recent comprehensive capital campaign, a five-year effort that raised $511 million for a host of institutional priorities, concluded more than eight years ago, in fiscal 2001. While TTUS did not fully take advantage of the robust fund raising environment of the mid 2000s, largely a result of leadership changes at component institutions, the system did use the past several years to strengthen its development office, including hiring a new vice chancellor for advancement, increasing the number of field-based fund raisers, and building the infrastructure to increase major gifts and corporate support. As a result of these efforts, unrestricted gifts and contributions to TTUS have increased an average 24.6% annually, to $128.3 million in fiscal 2007. Supporting this growth is an extremely strong alumni participation rate of approximately 46%.

While the system is currently in the silent phase of a comprehensive capital campaign, the size of which is expected to greatly exceed the previous effort, campaign priorities, funding goals, and an ultimate timetable have not yet been determined. Given the current economic slowdown and financial market turmoil, the formal announcement of the public phase of this campaign could be delayed.

Capital Improvement Plan

As is the case with many large public university systems, TTUS maintains a multiyear, multicampus capital improvement program (CIP). CIP projects reflect a variety of system priorities relating to academic facilities, clinical medicine, student life, and research. The majority (approximately $50.4 million) of new money, 12th series (2008) bond proceeds (approximately $134.9 million) will be applied to fund or refinance outstanding CP draws related to the renovation and expansion of the TTU College of Business Administration building. Other projects funded from bond proceeds include the construction of new research space and the expansion of the School of Pharmacy at HSC Amarillo, the construction and/or upgrading of residence hall capacity at ASU and TTU, and the construction of student activity space at TTU.

Over the next two to three years, additional debt-financed investments will continue to be made to ready the system's three component institutions for the planned growth in students and an increased focus on research. Reflecting the goal of increasing sponsored research, the system plans to construct a new building on TTU's Lubbock campus to support College of Engineering laboratory work. The cost of this project, currently estimated at $40 million, would likely be financed through the issuance of state-approved TRBs. At ASU, additional student housing will likely be needed, as the limited supply of existing beds on its campus is already oversubscribed. Costs of this project would likely be funded from RFS bonds, as student housing is a self-supporting enterprise. Additional capital investment beyond current bond-financed projects is not planned for HSC, as research and clinical space at its main Lubbock campus and branch campuses have been sufficiently expanded in recent years.

While the full costs of TTUS's future 2020 plan are still not final, the size and scope of this undertaking are significant, requiring the system's management to carefully plan for operational and financial challenges that may arise. It is expected that management will tailor the timing and scope of forward CIP projects to available resources, which will likely include state funds, private contributions, accumulated surpluses, and long-term debt. TTUS's continued ability to manage diverse component institution needs, maintain strong operating margins, and implement debt-financed capital plan projects without diminishing liquidity levels is integral to the 'AA' rating.

TEXAS TECH UNIVERSITY SYSTEM
OFFICE OF AUDIT SERVICES
PRIORITIZED AUDIT PLAN
Fiscal Year 2009

PRIORITY	ENTITY	AUDIT AREA		BUDGETED HOURS	BUDGET ADJUSTMTS	STATUS AS OF OCT 17	ACTUAL HOURS	TIME STILL NEEDED	BUDGET vs ACTUAL
		TOTAL ENGAGEMENT HOURS AVAILABLE		18,000					
		REQUIRED AUDITS							
Required	TTUS	Texas Tech University Foundation	Financial (assist)	130					130
Required	TTUS	Regents, Chancellor, & Presidents Travel and Credit Cards	Compliance (assist)	20					20
Required	TTUS	Office of Audit Services Annual Report	Compliance	40		In Progress	11	29	0
Required	TTUS	Office of Audit Services Annual Plan	Compliance	80					80
Required	TTUS	Office of Audit Services Self-Assessment	Compliance	150					150
Required	TTUS	Office of Audit Services Peer Review	Compliance	80					80
Required	TTUS	State Auditor's Office Miscellaneous Projects	Miscellaneous (assist)	80	(10)				70
		TTU: 2008 Statewide Financial Audit	Financial (assist)		10	In Progress		10	0
Required	TTU	Texas Higher Education Coordinating Board ARP/ATP Grants	Compliance	150					150
Required	TTU	NCAA Compliance	Compliance	400					400
Required	TTU	Athletics Financial Review	Financial (assist)	240		In Progress	35	205	0
Required	TTU	Joint Admission Medical Program Grants	Compliance	60		Complete	58		2
Required	TTU	KOHM-FM	Financial (assist)	300		In Progress	3	297	0
Required	TTU	Football Attendance Certification	Compliance	10					10
Required	HSC	SACS Financial Review	Financial	400		In Progress	6	394	0
Required	HSC	State Comptroller's Office Post-Payment Audit	Compliance (assist)	10		In Progress		10	0
Required	HSC	Texas Higher Education Coordinating Board ARP/ATP Grants	Compliance	120					120
Required	HSC	Texas Higher Education Coordinating Board Residency Grants	Compliance	220		In Progress	21	199	0
Required	HSC	Correctional Managed Health Care Committee Contract	Compliance	200					200
Required	HSC	Joint Admission Medical Program Grants	Compliance	60		In Progress	55	10	(5)
Required	ASU	Joint Admission Medical Program Grants	Compliance	60		Complete	75		(15)
Required	ASU	Athletics Financial Review	Financial (assist)	10					10
Required	ASU	Texas Higher Education Coordinating Board Facilities Audit	Compliance		130	In Progress	42	88	0
		TOTALS FOR REQUIRED AUDITS		**2,820**	**130**		**306**	**1,242**	**1,402**
		AUDITS IN PROGRESS AT AUGUST 1, 2008							
Prior Year	TTUSA	Construction Management	Financial/Operational	430		In Progress	132	298	0
Prior Year	TTU & HSC	Research Infrastructure	Operational/Compliance	10		Complete	35		(25)
Prior Year	TTU	State Auditor's Office: Student Fee Audit	Compliance (assist)	5		Complete			5
Prior Year	TTU	Athletics Business Office	Controls	135		Complete	132		3
Prior Year	HSC	IT Security	IT Controls/Mgt Advisory	100		Complete	56		44
Prior Year	HSC	IDX TES Implementation	IT Controls/Mgt Advisory	20		Complete	40		(20)
Prior Year	HSC	School of Medicine--Odessa Campus	Operational/Financial	140		In Progress	66	20	54
Prior Year	HSC	School of Medicine--Amarillo Campus	Operational/Financial	20		Complete	14		6
Prior Year	ASU	NCAA Compliance	Compliance	160		Complete	127		33
Prior Year	ASU	State Auditor's Office: 2008 Statewide Financial Audit	Financial (assist)	5		In Progress		5	0
Prior Year	ASU	Construction Management	Financial/Operational	255		In Progress	285	40	(70)
Prior Year	ASU	Controller's Office	Operational/Controls	100		In Progress	97	3	0
Prior Year	TTUS	Wrap-up on Audits Included in August BOR Report		10		Complete			10
		TOTALS FOR AUDITS IN PROGRESS		**1,390**	-		**984**	**366**	**40**
		UNPLANNED SPECIAL PROJECTS AND INVESTIGATIONS							
		Total Hours Budgeted for Special Projects & Investigations		4,425	(1,060)				**3,365**
		IN PROGRESS AT AUGUST 1, 2008							
Special	TTUS	TeamMate TEC Implementation	Special		30	Complete	30		0
Special	TTU	Physical Plant Warehouse Inventory	Special		20	Complete	20		0
Special	TTU	Human Sciences Scholarships	Special		173	Complete	173		0
Special	HSC	Expenditure Review	Special		260	In Progress	249	11	0
Special	HSC	El Paso Facilities Maintenance & Operations	Special		165	In Progress	149	16	0
		BEGUN AFTER AUGUST 1, 2008							
Special	TTUS	Fund 5140	Special		72	Complete	72		0
Special	TTU	Highland Lakes Expenditures	Special		120	In Progress	94	26	0
Special	HSC	School of Nursing Wellness Center	Special		150	In Progress	99	51	0
Special	ALL	Misc. Hotline Projects	Special		70	In Progress	62	8	0
		SPECIAL PROJECTS AND INVESTIGATIONS TOTALS		**4,425**	**1,060**		**948**	**112**	**3,365**

TEXAS TECH UNIVERSITY SYSTEM
OFFICE OF AUDIT SERVICES
PRIORITIZED AUDIT PLAN
Fiscal Year 2009

PRIORITY	ENTITY	AUDIT AREA		BUDGETED HOURS	BUDGET ADJUSTMTS	STATUS AS OF OCT 17	ACTUAL HOURS	TIME STILL NEEDED	BUDGET vs ACTUAL
		HIGHEST PRIORITY							
1	TTU	Intra-Institutional Voucher Process	Controls/Operational	400		On Hold	52	348	0
1	TTU	Banner Student/Finance System Feeds	IT/Financial	450		In Progress	23	427	0
1	TTU	eProcurement Processes	Controls	350					350
1	HSC	HealthNet	IT/Operational	450		On Hold	48	402	0
1	HSC	eProcurement Processes	Controls	350		On Hold	5	345	0
1	ASU	Financial Aid Office	Operational/Compliance	400					400
1	ASU	IT General Controls Review	IT/Controls	550					550
1	ASU	One Card Office	Financial/Controls	400					400
		HIGHEST PRIORITY TOTALS		3,350	-		128	1,522	1,700
		MODERATE PRIORITY							
2	TTUS	Technology Transfer/Commercialization	Follow-Up/Compliance	350					350
2	TTU	Sponsored Programs Accounting and Reporting	Operational	400					400
2	TTU	College of Mass Communications	Financial	300		In Progress	174	126	0
2	TTU	College of Outreach & Distance Education	Financial/Operational	350	200	In Progress	220	330	0
2	HSC	El Paso Fixed Assets	Controls	350		In Progress	157	193	0
2	HSC	El Paso IT General Controls Review	IT/Controls	600					600
2	HSC	Electronic Medical Record Implementation	IT/Operational	450					450
2	ASU	Study Abroad Program	Operational/Compliance	250					250
		MODERATE PRIORITY TOTALS		3,050	200		551	649	2,050
		LOWER PRIORITY							
3	TTUS	Audit Report Follow-Up Procedures and Reporting	Follow-Up	250		In Progress	93	157	0
3	TTU	NCAA Compliance Risk Assessment	Risk Assessment	70					70
3	TTU	Student Affairs Risk Assessment	Risk Assessment	200					200
3	TTU	Enrollment Growth Efficiencies	Management Advisory	400					400
3	HSC	El Paso Pediatrics Grant Management	Operational/Controls	400		In Progress	235	165	0
3	HSC	School of Pharmacy Research Funding	Financial/Compliance	400					400
3	ASU	Division of Continuing Studies	Operational/Controls	300		In Progress	158	142	0
		LOWER PRIORITY TOTALS		2,020	-		486	464	1,070
		OTHER VALUE-ADDED WORK							
		Total Hours Budgeted for Other Value-Added Work		945	(238)			707	
Other	TTUS	Big 12 Internal Auditor Conference				Ongoing	10		
Other	TTUS	Cash Handling and Control Environment Workshops				Ongoing	35		
Other	TTUS	Fraud Awareness Training				Ongoing			
Other	TTUS	ConnecTech Steering Committee (Banner project)				Ongoing	4		
Other	TTUS	ConnecTech Security Committee (Banner project)				Ongoing	22		
Other	TTUS	ConnecTech Transition Testing (Banner project)				Ongoing	6		
Other	TTUS	ConnecTech Reporting Strategy Committee (Banner project)				Ongoing	1		
Other	TTUS	Enterprise Risk Management				Ongoing			
Other	TTUS	Compliance Hotline Maintenance				Ongoing	8		
Other	TTU	SACS Quality Enhancement Plan (QEP) Steering Committee				Ongoing			
Other	TTU	SACS QEP Ethical Institution Task Force				Ongoing			
Other	HSC	Institutional Compliance Working Committee				Ongoing	5		
Other	N/A	Professional Organizations (ACUA, TACUA, IIA, TSCPA, SAIAF, ACFE)				Ongoing	50		
Other	N/A	Misc. Conference Presentations				Ongoing	52		
Other	TTUS	Other Miscellaneous Projects				Ongoing	45		
		OTHER VALUE-ADDED WORK TOTALS		945			238	-	707
		TOTAL ENGAGEMENT HOURS		18,000	330		3,641	4,355	10,334

TEXAS TECH UNIVERSITY SYSTEM
OFFICE OF AUDIT SERVICES
PRIORITIZED AUDIT PLAN
Fiscal Year 2009

PRIORITY	ENTITY	AUDIT AREA		BUDGETED HOURS	BUDGET ADJUSTMTS	STATUS AS OF OCT 17	ACTUAL HOURS	TIME STILL NEEDED	BUDGET vs ACTUAL
		ADDITIONAL PROJECTS NOT ON PLAN							
4	TTUS	Beck IT Risk Assessment Follow-Up	IT/Follow-Up	400					
4	TTU	Scholarship Office	Operational/Controls	400					
4	TTU	Export Controls	Compliance	400					
4	HSC	El Paso Accreditation Preparation	Management Advisory	300					
4	ASU	Accreditation Preparation	Management Advisory	225					
		EXTRA AUDIT HOURS NEEDED		1,725					
		KEY							
	TTUS	Texas Tech University System and/or inclusive of multiple Texas Tech institutions							
	TTUSA	Texas Tech University System Administration							
	TTU	Texas Tech University							
	HSC	Texas Tech University Health Sciences Center							
	TTU & HSC	Areas with parallel functions or shared responsibility							
	ASU	Angelo State University							
	N/A	Work that is not attributable to a particular institution or campus							
Required	Audits that are mandated by law, Operating Policies, standards, contracts, etc. Will be performed based on timing of external deadlines.								
Prior Year	Engagements from prior year annual plan that were in progress at August 1. Goal is to complete them early in the year.								
Special	Unplanned special projects and investigations								
1	Engagements that were deemed most critical per the risk assessment at August 1.								
2	Engagements that were deemed to be moderately critical per the risk assessment at August 1.								
3	Engagements that were deemed least critical per the risk assessment at August 1.								
4	Areas of exposure that need attention, but have not been included in the official plan because of resource constraints.								
Other	Other projects, including committee service, class development and instruction, professional organizations, etc.								

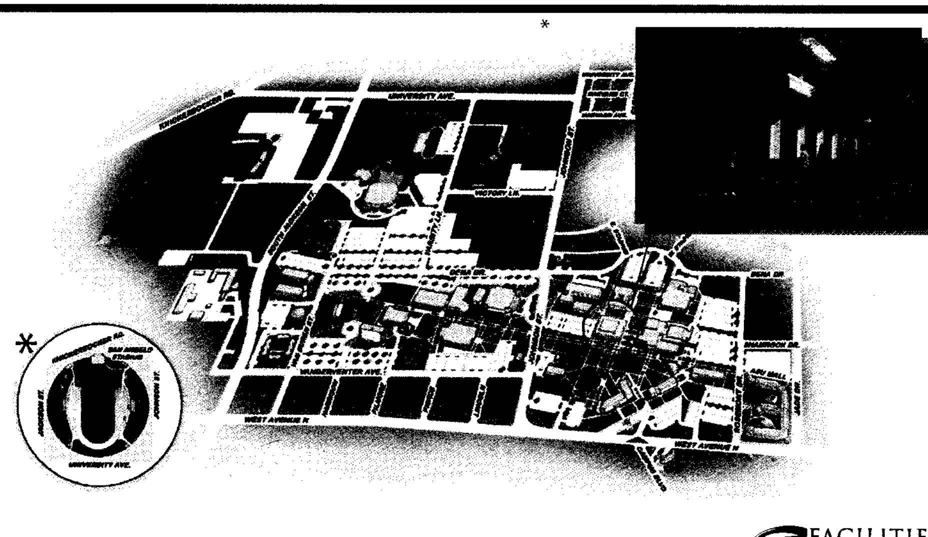
TEXAS TECH UNIVERSITY SYSTEM™

Facilities Committee

ASU
Approve Stage I Design Budget and Use of the Revenue Finance System for the Porter Henderson Library Information Commons Renovation

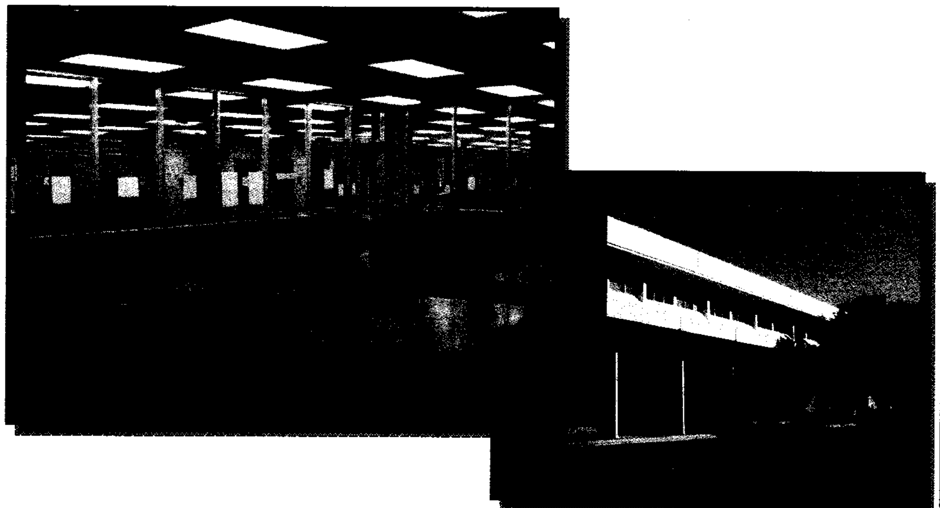
FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Porter Henderson Library Information Commons Renovation



FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Porter Henderson Library Information Commons Renovation



FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Scope of Work

- Renovate Approximately 14,800 SF of the First Floor and Additional Areas in the Building
- Create an Information Commons Area that Provides:
  - Connections to the Internet
  - Built-In Projectors and Screens
  - Comfortable Furnishings
  - Coffee/Snack Bar

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Planning Budget

Professional Services	$ 282,000
CM @ Risk Preconstruction Fee	$ 50,000
Administrative Costs	$ 15,000
BOR Directed Fees	$ 19,750
Contingency	$ 133,250
Planning Budget	**$ 500,000**

(Included in the Total Project Budget)

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Project Budget

Construction	$ 3,285,000
Professional Services	$ 352,000
FF&E	$ 246,000
Administrative Costs	$ 40,000
BOR Directed Fees	$ 260,610
Contingency	$ 196,390
Total Project Budget	**$4,380,000**

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Recommendation

- Approve Use of the Revenue Finance System to Fund the Stage I Design Budget of $500,000 in Order to Plan, Program, and Design of the Porter Henderson Library Information Commons Renovation Project with a Total Project Budget of $4,380,000
- The Design Budget and the Project will be Funded Through the Revenue Finance System Repaid with Library Fees

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

TEXAS TECH UNIVERSITY SYSTEM™

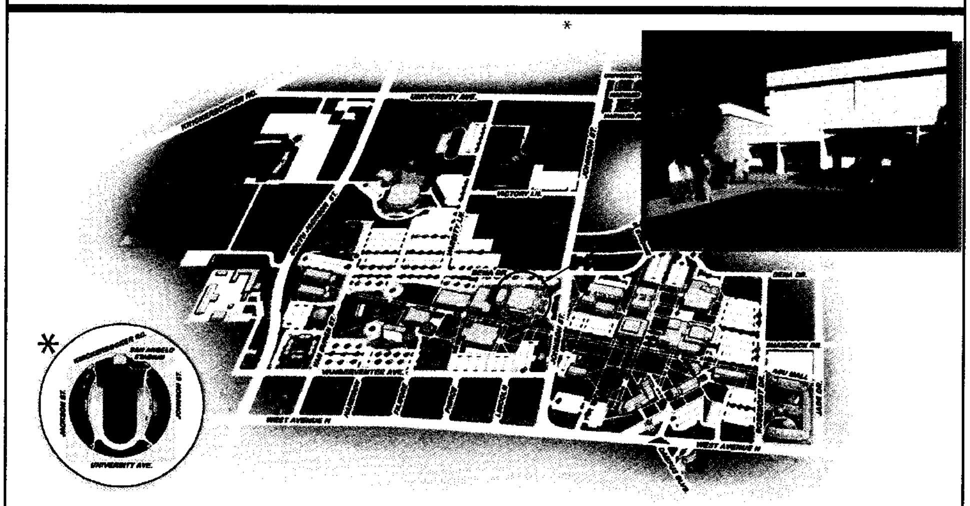
Facilities Committee

ASU

Approve Stage I Design Budget and Use of the Revenue Finance System for the Center for Human Performance Addition Project

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Center for Human Performance Addition Project



FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Scope of Work

- Construct 16,000 SF of New Space
- Renovate 11,200 SF of Existing Space
- Project to Include
  - Climbing Wall
  - Cardio Fitness Center
  - Weight Room
  - Racquetball Courts
  - Dance Studio
  - Service Facilities
- Student Referendum Approved Increase in Fees

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Planning Budget

Professional Services	$ 382,000
CM @ Risk Preconstruction Fee	$ 60,000
Administrative Costs	$ 15,000
BOR Directed Fees	$ 19,750
Contingency	$ 23,250
Planning Budget	**$ 500,000**
(Included in the Total Project Budget)	

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Project Budget

Construction	$ 5,250,000
Professional Services	$ 485,165
FF&E	$ 500,000
Administrative Costs	$ 50,000
BOR Directed Fees	$ 416,500
Contingency	$ 298,335
Total Project Budget	**$ 7,000,000**

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Recommendation

- Approve Use of the Revenue Finance System to Fund the Stage I Design Budget of $500,000 in Order to Plan, Program, and Design of the Center for Human Performance Addition Project with a Total Project Budget of $7,000,000
- The Design Budget and the Project will be Funded Through the Revenue Finance System Repaid with Student Recreation Fees

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

TEXAS TECH UNIVERSITY SYSTEM™

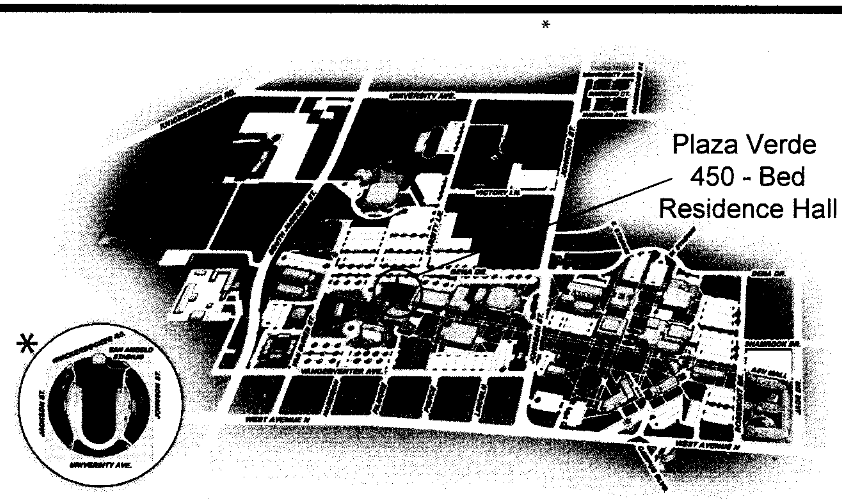
Facilities Committee

ASU

Approve Stage I Design Budget and Use of the Revenue Finance System for the New Plaza Verde Residence Hall Project

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Location of Future Residence Hall



FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Scope of Work

- Construct New 450-Bed Residence Hall with Versatile Floor Plan
- Former Site of University Hall
- Define Boundary of the Campus Green Area
- LEED Certified Project with an Energy Efficient and Sustainable Design

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Planning Budget

Professional Services	$ 2,182,000
CM @ Risk Preconstruction Fee	$ 160,000
Administrative Costs	$ 15,000
BOR Directed Fees	$ 73,750
Contingency	$ 69,250
Planning Budget	**$ 2,500,000**

(Included in the Total Project Budget)

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Project Budget

Construction	$ 28,500,000
Professional Services	$ 2,725,000
FF&E	$ 2,000,000
Administrative Costs	$ 50,000
BOR Directed Fees	$ 1,856,250
Contingency	$ 2,368,750
Total Project Budget	**$ 37,500,000**

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Recommendation

- Approve Use of the Revenue Finance System to Fund the Stage I Design Budget of $2,500,000 in Order to Plan, Program, and Design of the New Plaza Verde Residence Hall Project with a Total Project Budget of $37,500,000
- The Design Budget and the Project will be Funded Through the Revenue Finance System Repaid with Future Housing Revenues

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

TEXAS TECH UNIVERSITY SYSTEM™

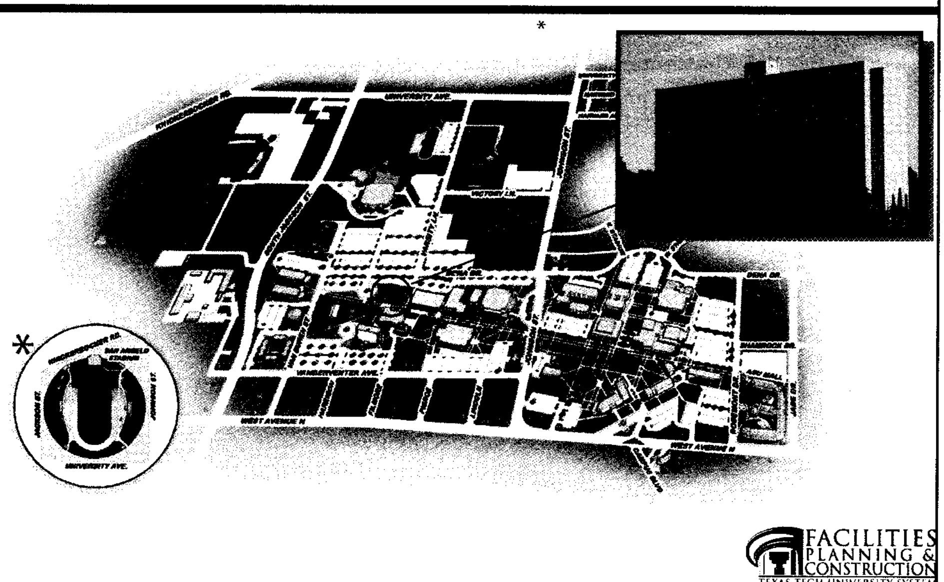
Facilities Committee

ASU

Approve a Construction Project and Use of the Revenue Finance System for the University Hall Demolition Project

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

University Hall Demolition



FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Scope of Work

- Demolition of University Hall, an Existing 10-story Former Residence Hall
- Includes Abatement of Hazardous Materials
- Site of Planned New 450-Bed Residence Hall Scheduled to Open Fall 2010

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Budget

Construction	$ 1,845,000
Professional Services	$ 277,950
FF&E	$ 0
Administrative Costs	$ 15,000
BOR Directed Fees	$ 162,000
Contingency	$ 200,000
Total Project Budget	**$ 2,500,000**

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Schedule

➢ Start Design	October 2008
➢ Complete Design	January 2009
➢ Start Demolition	March 2009
➢ Complete Demolition	August 2009

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Recommendation

- Approve a Construction Project and Use of the Revenue Finance System for the University Hall Demolition Project at Angelo State University with a Project Budget of $2,500,000 Repaid with Future Student Housing Revenues
- THECB Approval Not Required

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

TEXAS TECH UNIVERSITY SYSTEM™

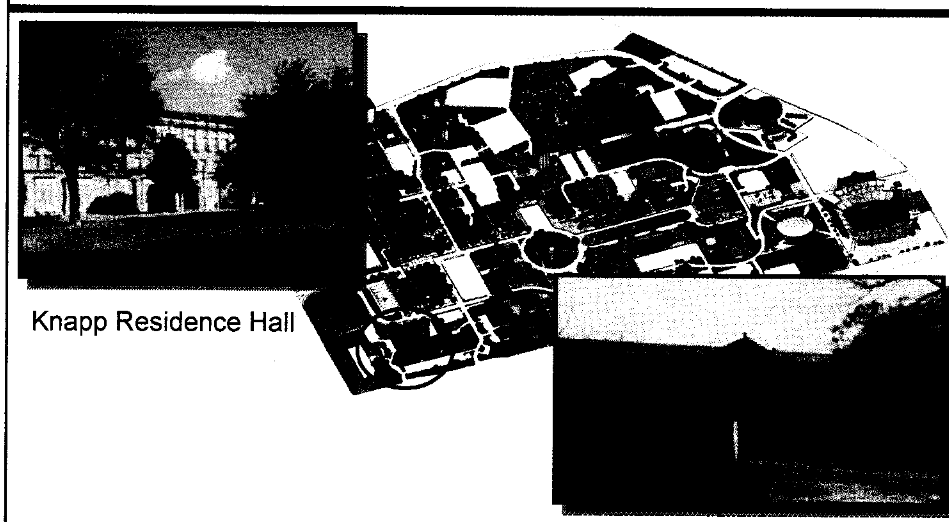
Facilities Committee

TTU

Approve a Construction Project to Replace the Windows in Horn and Knapp Halls

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Horn and Knapp Halls



Knapp Residence Hall

Horn Residence Hall

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Scope of Work

- Replace the Windows in Horn and Knapp Halls
- Includes Abatement of Hazardous Materials
- Provide Modern Energy Efficient Windows Similar to those Installed in Bledsoe Hall
- Project will also Include Landscape Enhancements and Public Art

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Budget

Asbestos Abatement	$ 280,000
Replace Windows	$ 1,583,000
Landscape/Site Work	$ 250,000
Professional Services	$ 75,000
FF&E	$ 10,000
Administration Costs	$ 15,000
BOR Directed Fees	$ 162,000
Contingency	$ 125,000
Total Project Budget	**$ 2,500,000**

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Schedule

➢ Start Construction	May 15, 2009
➢ Complete Construction	
– Student Rooms	August 15, 2009
– Common Areas	October 1, 2009

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

THECB Criteria

➢ TTU MP1 Report FY 2008	Not Listed
➢ Space Need	Meets
➢ Cost ($17.33/SF)	Meets
➢ Efficiency	N/A
➢ Deferred Maintenance	Meets
➢ Critical Deferred Maintenance	Meets
➢ Classroom Utilization*	Does Not Meet
➢ Class Lab Utilization*	Meets

* *Guidelines*

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Recommendation

- Approve a Construction Project to Replace the Windows in Horn and Knapp Halls with a Project Budget of $2,500,000, Funded with Housing Fund Balances

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Bricks and Mortar Report
Projects Under Construction
October 2008

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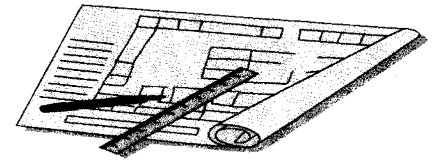

TTU

Project		Cost	Status	Completion Date
Soccer Team Facility	$	4,000,000	Field Improve. Sub Complete Team Facility Under Construction	TBD
Track Renovation/Relocation	$	4,000,000	Under Construction	TBD
High Performance Research Computer Facility	$	1,800,000	Substantially Complete	September 2008
Art 3D Annex Ceramics/Kiln Yard	$	1,100,000	Under Construction	October 2008
Student Leisure Pool	$	8,250,000	Under Construction	September 2009
Engineering Expansion/Renovation Phase I	$	10,000,000	Under Construction	January 2009
Sneed/Bledsoe HVAC Upgrade	$	6,000,000	Sneed Complete / Bledsoe Sub Complete	August 2008
Bledsoe Window Replacement	$	1,000,000	Substantially Complete	August 2008
Thompson Gaston Demolition	$	2,200,000	Abatement & Demo Underway	TBD
4th Street Sewer Upgrade	$	560,000	Under Construction	TBD
Marsha Sharp Freeway {TxDOT Project}		TBD	Under Construction	2010+
TOTAL	**$**	**38,910,000**		

ASU

Project		Cost	Status	Completion Date
UC Dining Services Expansion	$	2,500,000	Open / Under Construction	TBD
Centennial Village Residence Hall	$	28,215,000	Open / Under Construction	August 2008/October 2008
TOTAL	**$**	**30,715,000**		

HSC

Project		Cost	Status	Completion Date
El Paso Vivarium Upgrade	$	600,000	Under Construction	October 2009
International Pain Center	$	7,000,000	Under Construction	November 2008
Amarillo Family Medicine Relocation	$	7,700,000	Under Construction	July 2009
Amarillo HSC - Coulter Research Building	$	18,000,000	Under Construction	November 2008
TOTAL	**$**	**33,300,000**		
GRAND TOTAL	**$**	**102,925,000**		

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FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

$ 102,925,000

Bricks and Mortar Report

Projects In Design

October 2008

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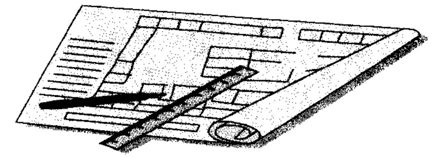

TTU

Project		Cost	Status	Completion Date
Rawls College of Business Administration	$	67,800,000	Design In Progress	TBD
CoBA Building Renovations	$	25,000,000	Design Pro Contracted	TBD
Architecture Building LifeSafety Upgrade	$	2,716,164	Design Pro Contracted	TBD
Biology Building LifeSafety Upgrade	$	3,021,321	Design Pro Contracted	TBD
Memorial Circle Utility Tunnel Replacement	$	4,500,000	Contractor Selected	TBD
Experimental Science Lab Build Out	$	6,000,000	Evaluating Alternatives	TBD
Jones AT&T Stadium East Expansion	$	25,000,000	Design In Progress	TBD
Softball Team Facility	$	3,000,000	Design In Progress	TBD
Softball Field Improvements	$	1,000,000	Dugouts Sub Complete / Design In Progress	TBD
Admin Bldg Abatement and ADA Compliance	$	4,000,000	Design Pro Qualifcations Rcv'd	TBD
System Offices Relocation	$	6,500,000	Design Pro Qualifcations Rcv'd	
Pulse Power Lab	$	1,500,000	Design In Progress	TBD
Chess Area		TBD	Design In Progress	TBD
Scholarship Walk		TBD	Design In Progress	TBD
TOTAL	**$**	**150,037,485**		

ASU

Project		Cost	Status	Completion Date
University Hall/Abatement Demolition	$	21,500,000	Design In Progress	TBD
Rec/Wellness/CHP Expansion	$	7,000,000	Design Pro Selected	TBD
Hardeman Hall Renovation	$	12,000,000	Design In Progress	TBD
New Residence Hall	$	37,500,000	Design Pro Selected	TBD
Library IT Commons Renovation	$	4,000,000	Design Pro Selected	TBD
Total	**$**	**82,000,000**		

Revised 01/20/2009

Project	Cost	Status	Completion Date
HSC			
Lubbock Simulation Center	$ 7,236,000	Preparing RFQ	TBD
Lubbock Cancer Research Labs	$ 3,700,000	Preparing RFQ	TBD
Amarillo School of Pharmacy Expansion	$ 8,010,000	Design In Progress	September 2009
HSC Memorial Garden	$ 181,000	Design Complete	TBD
TOTAL	**$ 19,127,000**		
GRAND TOTAL	**$ 251,164,485**		

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FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Bricks and Mortar Report

Future Projects

October 2008

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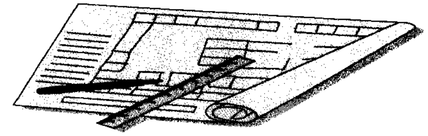

Project	Cost		Status	Completion Date
TTU				
Campus Chapel	$	3,000,000	Planned	TBD
Engineering Expansion/Renovation Phase II	$	60,000,000	Programming in Progress	TBD
Honors College	$	6,000,000	Proposed	TBD
The Rawls Course Clubhouse	$	2,500,000	Proposed	TBD
Dairy Barn Renovation	$	TBD	Proposed	TBD
Vietnam Center	$	100,000,000	Proposed	TBD
TOTAL	**$**	**171,500,000**		

Project	Cost		Status	Completion Date
HSC				
Lubbock Education and Research Expansion	$	30,000,000	Proposed	TBD
El Paso Clinical Sciences Building	$	29,000,000	Proposed	TBD
El Paso Medical Science Building II	$	95,000,000	Proposed	TBD
Amarillo Simulation Center	$	18,000,000	Proposed	TBD
Permian Basin Academic Building	$	14,000,000	Proposed	TBD
Laura W. Bush Institute Renovations	$	12,800,000	Proposed	TBD
TOTAL	**$**	**198,800,000**		
GRAND TOTAL	**$**	**370,300,000**		

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FACILITIES PLANNING & CONSTRUCTION
TEXAS TECH UNIVERSITY SYSTEM

Bricks and Mortar Report
Projects Completed
October 2008

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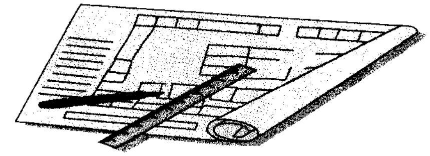


Project	Cost	Status	Completion Date
TTU			
Mark & Becky Lanier Prof. Development Center	$ 13,665,000	Complete	April 2008
NCAA Soccer Complex	$ 2,078,000	Complete	August 2007
Art 3-D Annex	$ 8,599,371	Complete	September 2007
Outreach & Extended Studies Building	$ 8,000,000	Complete	October 2007
Softball Field Repairs	$ 509,055	Complete	September 2007
Discovery Mall	$ 1,167,698	Complete	July 2007
Student Wellness Center	$ 9,229,767	Complete	March 2007
CDRC / CSAR	$ 8,126,506	Complete	October 2006
Scholarship Donor Recognition Walk	$ 225,000	Complete	November 2006
Sneed/Gordon/Bledsoe Lifesafety Upgrades	$ 5,792,000	Complete	September 2006
Jones AT&T Stadium Field Improvements	$ 2,860,000	Complete	August 2006
Student Union Building Phase II B	$ 6,034,070	Complete	November 2006
Student Union Building Phase III	$ 1,299,043	Complete	July 2006
NRHC - Christine DeVitt Wing	$ 3,278,509	Complete	June 2006
Experimental Sciences Building	$ 36,702,120	Complete	March 2006
Texas Tech Parkway	$ 9,222,073	Complete	February 2006
Grover E. Murray Residence Hall	$ 24,613,235	Complete	January 2006
Animal and Food Sciences Building	$ 16,809,505	Complete	February 2006
Wall/Gates Life Safety Upgrade	$ 3,094,012	Complete	January 2006
Student Parking Expansion	$ 660,000	Complete	October 2005
Student Union Bldg. Expansion/Renovation	$ 37,372,009	Complete	October 2003/February 2005
Museum NSRL Addition	$ 3,555,259	Complete	August 2005
Admin Building Stone Repair	$ 2,262,839	Complete	January 2005
Jones SBC Stadium Stage IIA /IIB	$ 53,578,710	Complete	May 2004/Sept 2004
Hulen Clement Fire Protection	$ 3,234,692	Complete	August 2004
Football Training Facility	$ 10,974,030	Complete	May 2004

Revised 01/20/2009

Marsha Sharp Center for Student Athletes	$	3,789,332	Complete	January 2004
The Rawls Course Support Facilities	$	1,692,000	Complete	November 2003
Admin Building Roof Repairs	$	827,901	Complete	November 2003
The Rawls Course	$	9,013,000	Complete	August 2003
Horn/Knapp Fire Suppression	$	3,026,015	Complete	December 2002
Campus Conference Bonfire Circle	$	400,000	Complete	September 2002
English-Philosophy & Education Complex	$	44,910,950	Complete	August 2002
Flint Avenue Parking Facility	$	10,670,916	Complete	August 2002
Dan Law Field	$	1,612,000	Complete	June 2002
Fuller Track Field House	$	480,000	Complete	June 2002
Pfluger Fountain	$	826,000	Complete	April 2002
Recreation Center Expansion/Renovation	$	12,070,277	Complete	November 2001
Jones SBC Stadium Stage I	$	22,000,000	Complete	September 2001
Frazier Plaza & Masked Rider Statue	$	515,000	Complete	September 2001
Tennis-Softball Complex	$	4,059,784	Complete	September 2001
Campus Fiber Optic Connection	$	1,667,000	Complete	September 2001
West Hall/Visitors Center	$	5,703,441	Complete	August 2001
Broadway Gatehouses	$	816,000	Complete	August 2001
Marquee	$	352,000	Complete	August 2001
Stangel/Murdough Fire Suppression	$	1,616,293	Complete	August 2001
Chitwood/Weymouth Fire Suppression	$	2,779,706	Complete	August 2000
TOTAL	**$**	**401,770,118**		

Project	Cost	Status	Completion Date
HSC			
El Paso Strategic Space Study	$ TBD	Complete	TBD
El Paso - Archer Building Renovations	$ 1,700,000	Complete	March 2008
Texas Tech Physicians Medical Pavilion	$ 36,462,388	Complete	June 2006/Dec 2007
El Paso Medical Education Bldg.	$ 45,000,000	Complete	November 2007
Abilene School of Pharmacy	$ 9,087,743	Complete	July 2007
El Paso Medical Science Bldg. I Build Out	$ 3,564,306	Complete	July 2006
Amarillo Campus Improvements	$ 1,424,677	Complete	September 2006
HSC Roof Replacement	$ 1,747,867	Complete	April 2006
The Larry Combest Health & Wellness Center	$ 1,551,549	Complete	January 2006
El Paso Medical Science Bldg. I	$ 36,977,869	Complete	February 2006
HSC Campus Infrastructure Improvement	$ 5,028,277	Complete	January 2006
HSC El Paso Clinic Expansion/Renov	$ 9,638,830	Complete	February 2005
HSC El Paso Hydronic Pipe Replacement	$ 1,552,209	Complete	February 2005
HSC Academic Classroom Bldg.	$ 14,963,993	Complete	October 2003
HSC Synergistic Center	$ 1,995,105	Complete	March 2003
Amarillo Academic/Clinic Facility	$ 23,636,894	Complete	April 2002
Midland Physicians Assistant Building	$ 6,000,000	Complete	August 2001
HSC Admin Relocation	$ 1,862,000	Complete	March 2001
Odessa Clinic Renovation	$ 1,200,000	Complete	September 2000
Communications Disorders Renovation	$ 2,161,000	Complete	May 2000
TOTAL	**$ 205,554,707**		
GRAND TOTAL COMPLETED	**$ 607,324,825**		
PROGRAM TOTAL	**$ 1,331,714,310**		

TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System

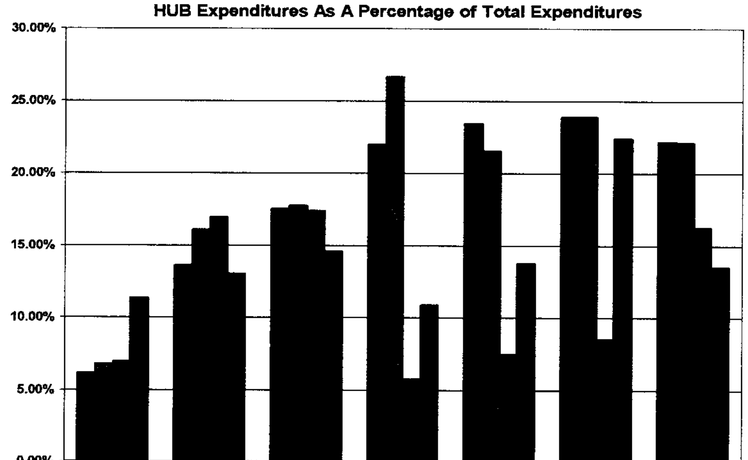
HUB Report

FY 2008

Office of the Vice Chancellor
and Chief Financial Officer

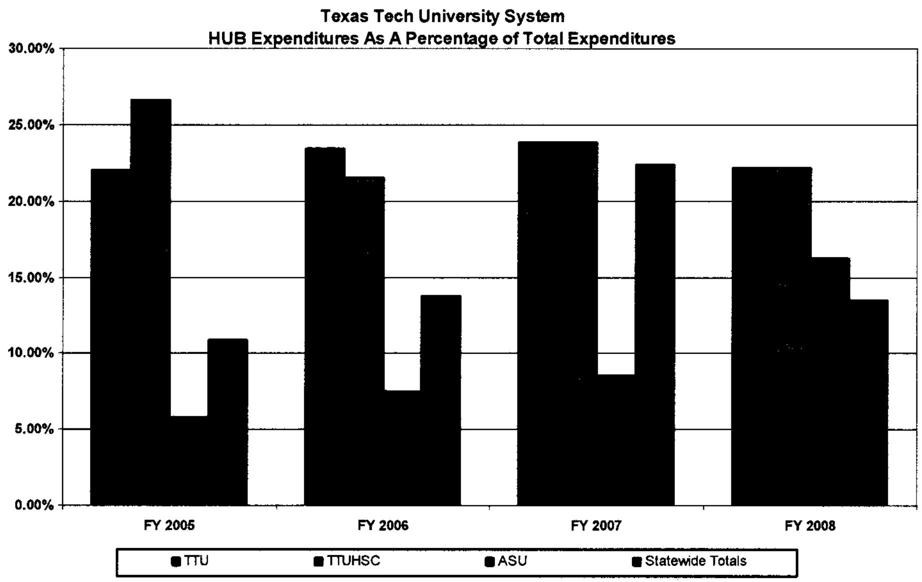
TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System
HUB Expenditures As A Percentage of Total Expenditures



	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
TTU	6.16%	13.58%	17.51%	22.02%	23.44%	23.88%	22.18%
TTUHSC	6.77%	16.04%	17.73%	26.64%	21.54%	23.88%	22.13%
ASU	6.97%	16.93%	17.37%	5.78%	7.48%	8.51%	16.25%
Statewide Totals	11.32%	13.03%	14.54%	10.86%	13.73%	22.39%	13.51%

TEXAS TECH UNIVERSITY SYSTEM



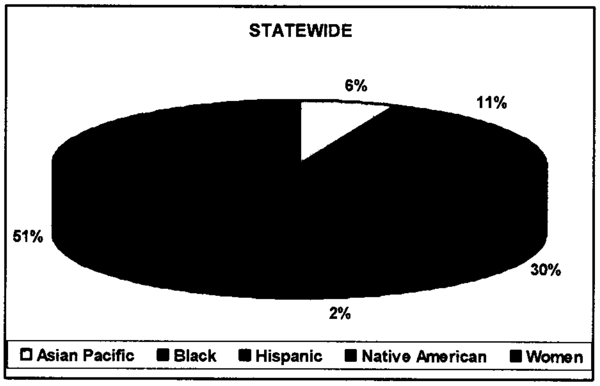
TEXAS TECH UNIVERSITY SYSTEM

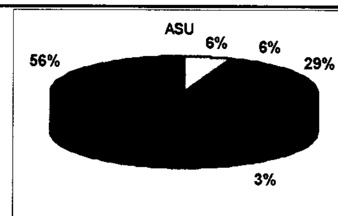
2007-2008 HUB Expenditures

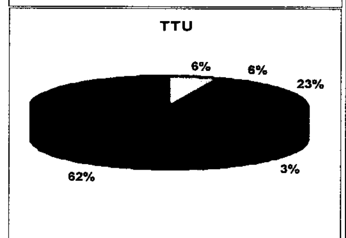
	2007 HUB Expenditures	2008 HUB Expenditures	Percent Change
Angelo State University	$ 1,432,316	$ 3,857,877	169.35%
Texas Tech University	$ 28,800,704	$ 30,208,912	4.89%
Texas Tech University Health Sciences Center	$ 24,145,461	$ 23,462,566	-2.83%

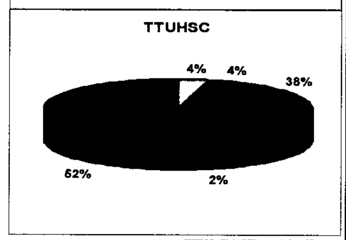
TEXAS TECH UNIVERSITY SYSTEM

HUB Expenditures by Category









Board of Regents
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TEXAS TECH UNIVERSITY SYSTEM

Texas Tech University System

HUB Report

Annual FY 2008

Office of the Vice Chancellor
and Chief Financial Officer

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Chancellor's Report
Texas Tech University System
Board of Regents Meeting
October 31, 2008

Chancellor Hance stated he had a couple of things to discuss. One relates to Dr. Baldwin. On October 21, we had a meeting of the Laura W. Bush Institute for Women's Health. The National Advisory Board in Dallas met. We have an outstanding list of individuals who are serving on that Board. That meeting went well.

We are also meeting with members of the legislature about legislative issues coming up. I had some of you attend some of those meetings. We had a group of alumni from their district go with us. Regent Anders was at the meeting with Senator Shapiro. We had a group of about seven to eight people from her district. We pointed out that there are 1,800 students from her state senate district that are students at Texas Tech. The number of alumni from her district is over 10,000. We had a great meeting. She gave us an excellent audience. We met with Dan Branch—John Scovell was at that meeting—and with Myra Crownover. We have three meetings set up next week. We are making sure that someone in a leadership position who lives in that district attends. We just tell the Tech story and what we will be doing. It is going very well. The staff has put a lot time on this. Dan Branch and Highland Park didn't realize that he had nine kids from his district at Angelo State and over 200 alumni from Angelo State in his district. So, it gives us a chance to tell our story in a more relaxed atmosphere. We are trying to meet the top committee chairmen and such people before the session begins. Once the session starts, having a 30 to 40 minute meeting is just impossible. These type of meetings have gone very well.

On the Jones AT&T Stadium expansion, we announced last week that we were within $1 million of the being at the $25 million mark. We have had some things come in this week. Things look very good and I feel confident that we will break ground at the Baylor game or right afterwards. That has gone very well. The campaign has gone well. One of the things we did—Dr. Overley and Andrea Long did—was the video that was shown to the Board. That video has been sent out to everyone. We have received donations ranging from $100 to $500 from individuals who have not given in the past. Getting these individuals involved is very important to the future of Texas Tech.

Finally, on Institutional Advancement, at the close of 2007 we had $153 million that was raised. Of that, $142 million was in cash, the other was in planned gifts. This is by far the largest amount collected. Paul Foster's gift was in that. We had been number 303 in the Chronicle of Philanthropy and the Chronicle of Higher Education. They have a report which lists the top 400—like Forbes has the 400 richest people—this lists the top 400 charities. Number one raised about $4 billion which was United Way. United Way counts every community. In that top 400, we were listed as number 303. It is only in the last ten years that we were ever on that list. We have moved up to number 137. That is because we have a 133 percent increase in our funding. That was a huge job and each of you received a copy of the article of the Chronicle of Higher Education which is the most widely read publication in higher education. They talked about Texas

Tech which was about half to two thirds of the article. We feel like fundraising is going well. Dr. Overley has briefed the Board on what is being done with the campaign. We feel that we are on target. Our biggest priority right now is to get a new person who will be working with Dr. Baldwin and the HSC. That is a top priority. We will do the hiring on that much like we did with the hiring of Clare Miers. That has worked well. We feel confident that will continue to work well and that we can increase our fundraising. So, things are going well. The economy does have an impact and people are a little nervous and we had one substantial request out but then they put us on hold. They wanted to wait and see what is happening with the market. This is an unusual time, but the approach we are taking is that we have a great product and we believe in our product and there is no better investment that anyone can make than in higher education. The return on that is a better society and a better and safe Texas. At Texas Tech, it is the forefront—accomplishing that goal. We are one of the leaders in Closing the Gaps which is what the Governor, the Coordinating Board and the Legislature set as a goal for higher education.

Thank you to everyone on the Board. All of you have helped every time asked on anything that pertains to fundraising or helping us with an individual. I greatly appreciated that you are willing to go all out to help us.

Regent Serna stated: About two weeks ago Tech was recognized nationally regarding its diversity programs. Do you recall the organization who received that recognition?

Chancellor Hance stated that it was Minority Access. They were looking at the improvements made and the trends that were set. We were down just a little this year with the African-Americans, but if you look at Texas Tech and Angelo State, we were up substantially with Hispanics. Angelo State is less than .5 away from being a Hispanic designated university which will help with additional federal funding. We had the Enrollment Task Force, the African-American Enrollment Task Force and also the Hispanic Enrollment Task Force, which Jodey Arrington oversaw, which includes a good cross section of the community represented in those committees. They got very excited about that initiative and we feel the outcome of that work will have some big results. Our applications are up for the Impact Scholars and the EASI—Equal Access Scholarship Initiative—both of those are important. We have raised about $2.2 million. That has helped us and is one of the things that has helped on the SAT scores. It got us more minorities and better SAT scores because of the ability to offer $5,000 to $6,000 scholarships.

Regent Serna stated: If I recall correctly from the announcement of that recognition, that recognition was for corporate America and municipalities as well. Texas Tech was the only institution of higher education that was recognized. If you will, please pass on our appreciation to your staff that is doing such a good job in that area.

Chancellor Hance stated: They do an excellent job and Dr. Juan Muñoz and the people that help him. He has a positive attitude—if there is a problem we can solve it.

Regent Anders stated: I would like to commend the chancellor for the legislative meetings that he has organized. I participated in one of those meetings and the chancellor was well received and did a wonderful job of selling Texas Tech and talking about our accomplishments and objectives and why we need to be recognized as a Tier 1 institution by the State of Texas. Thanks to you and your staff, Chancellor Hance. We appreciate what you are doing.

Chancellor Hance stated: This may be the best program that we have come up with since joining Tech. Like with Florence Shapiro, the quality of people who live in her district who were there was so impressive. The same thing was true with Myra Crownover and with Dan Branch. We also had a meeting with Dan Gattis, a State Representative from George Town; we met with him at the Capitol. He had people in his office who met with us. One guy who I've known for a long time had been a president of a school board in his district for 11 years. It was a Texas Tech guy who we found. We try to make sure that we get top quality people so that they know that those people are Texas Tech people, who live in their district and they want them to know what we are doing at Tech.

Regent Scovell stated: The other part of that is coming in with those facts we could state: here are the number of Texas Tech graduates who are in your district; here are the number of students who are enrolled at Tech; etc. So the database, which we have not ever had anything like that in the past, is impressive.

President's Report
Texas Tech University
Board of Regents Meeting
October 31, 2008

Dr. Bailey thanked the Board. I appreciate the opportunity to tell you about the good things that are happening at Texas Tech University. A number of them are summarized in the document which was distributed to the Board. These will not be discussed individually, except to point out the donation of the Herd family to endow the Petroleum Engineering Department. The reason I want to point this out is because it's not very usual to have a college endowed. It is very rare to have a department endowed. This is a unique and rare thing. This will help make our Petroleum Department one of the best in the country. This is a unique gift. Chancellor Hance and Dr. Overley are also to be commended for the fine work they are doing in development.

I would like to update you on a couple of issues. First, is the SACS accreditation. We had a visit from the accreditation agency. You may or may not have known that there was one issue which was still unresolved. The issue involved the assessment of our core curriculum—the assessment and effectiveness of the core curriculum. This happened before I joined Tech, but once our faculty understood that we were in trouble and there was a problem there, they really rose to the occasion. They worked very carefully with Valerie Paton and put together an excellent response to that problem. So, when we had the accreditation visit from the SACS team, again looking at the assessment of our core curriculum, the visit was extremely positive. I couldn't have been happier from the feedback we got from the visit. As you know, SACS meets December 7-8 and on the 8th, they make a decision about Tech. We won't know the final outcome until December 8. I feel very good about our possibilities. The visit was very positive. We need to congratulate our faculty because they are the ones who stepped up and really addressed the assessment issues. Having said that, there are some structural changes that will be made to the institution to ensure that this never happens again. What happens during accreditation, which occurs every ten years, is that you gear up for your accreditation for a couple of years. You get all of your assessment and everything else that needs to be done in place. You receive accreditation and then you forget about it for eight years. It is a constant cycle of wrapping up. When you do that you always run a danger of not having done exactly what is needed. We will make some changes so that we do the assessment on a continual basis. We need to get in a pattern where we do not have to wrap up and wrap down every ten years but instead we will be doing the things we need to be doing on an ongoing basis. That will be reported further in December. This situation will be changed structurally so that this never happens again. Again, I thank our faculty for stepping up and doing what needed to be done. The Committee visit was very positive and I feel very good about what will happen in San Antonio on December 8. Are there any questions?

Regent Turner stated: It was my understanding that the assessment that hasn't been reported is the deficiency that we had. Is that correct?

President Bailey stated that we didn't report the assessment we were doing, but frankly, we needed to do some additional assessment as well.

Regent Turner stated: So, it's a combination of the two. You've seen what we've done and what has been submitted to them and that is the basis for your positive feelings?

President Bailey stated that was correct. I feel good about what we have done in response. We have done a good job and worked very hard to get the data we had to them and putting some other assessment mechanisms in place. I feel very good about the feedback we got from the visiting team. The visiting team is very positive. That is why I am optimistic about this.

We also had an NCAA accreditation visit as well just a couple of weeks ago. As you may know, the NCAA accredits us as well. Our team did an excellent job. We got very positive feedback. We have not received an official report from the committee yet but that is expected to go very well. Congratulations go to Gerald Myers, our Athletic's counsel and everyone who was involved in that process. They did an excellent job in preparing. The NCAA accreditation is pretty complicated. There are a number of issues like the gender equity issue that are fairly complicated. For instance, the NCAA looks at participation not the number of scholarships. So, there is some significant roster management that must be done continuously by the Athletics Department. They do a very nice job in trying to balance that out. It's not easy, but they have done a good job with that. Again, we had very positive feedback from the committee and believe that will go very well. We are in good shape on both of those.

Regent Anders stated that the graduation rate of the football team was mentioned yesterday. Do we have similar experience across our other sports?

President Bailey stated that generally our graduation rates are pretty good. Typically, female athletes graduate at a pretty good rate at most universities. There are more problems with the male athletes. When you have a football team graduating as well as ours has done that is quite an accomplishment. So, our male athletes are doing a very good job. Certainly, you always want to improve your graduation rates. This is a measure of success—not just admitting students but graduating well prepared students. We always want those rates to improve but generally we are quite pleased. The re-ranking of institutions by the graduation rates of the top 20 to 25 is very positive for us. That came out the week before the NCAA accreditation. The timing couldn't have been better.

Regent Turner asked how the 79 percent of athletes who entered between 1999 and 2001 who gradated in six years compare to the student body.

President Bailey stated that is higher than the student body. The student body graduation rate is 58.2 percent. Typically for a university like ours a reasonable graduation rate for the student body might be about 60 percent. We'd love to get it above 60 percent for our student body as a whole. If you have 65 percent, you'd be doing very well for a public institution. So, the graduation rate is higher than for the student body as a whole. It is very impressive.

Regent Stafford asked how often the peer review with the NCAA takes place.

President Bailey replied: SACS is every ten years as well as the NCAA. That is a typical pattern. Remember, we also have accreditation for colleges: Business, Engineering, Education, the Museum. Typically those take place in ten year increments. Sometimes there will not be issues that threaten the accreditation but one that they might want to monitor so you might have to do an interim report and so you might have interim visits on occasion. Typically, it is every ten years. They are expensive to do on our end, so we want to make sure and do them right and get it done because that cuts down on the time and effort. We need to make sure that processes are in place so that the of expense is incurred at one time. That is what we will try to do with SACS. We will try to have an assessment program in place so that we have that data on an ongoing basis. We will also try to use that data to continually improve our operations.

Regent Sitton stated that the 79 percent graduation rate is phenomenal but when you think about coming from the bottom in such a short time to the top that is incredible.

President Bailey stated that we received very positive feedback about everything that is going on with Athletics. If you go back ten years or so there were some issues, but I feel very good about our program. The general excitement about the program is quite positive as well.

At the next meeting of this Board, we should have a final decision on SACS and a report in from the NCAA. Those are both expected to be positive.

Regent Scovell asked President Bailey what his biggest surprises have been since arriving at Texas Tech.

President Bailey stated that the most positive has been the overwhelming support of the community and from former graduates of the University. The support is much greater than I realized. I haven't been at any school where the community and former students are more supportive than they are right here. That is a huge positive for us. You see that in what the chancellor was talking about in our fundraising. That is really quite an improvement. I don't know if it's unprecedented but it is very rare. That speaks well of the support to the institution. It is difficult to explain that to people. It is hard to explain what a wonderful atmosphere there is on campus and in the community. There is a very nice family atmosphere. You feel like you are part of family. You can be told that but until you step on campus and are a part of it you don't really fully understand. That has been a very positive surprise. On the negative side, at an institution like Tech, we really should have never had anything happen like the SACS accreditation issues. We have the capacity to ensure that kind of thing never happens again. If we simply put the right mechanisms in place we can ensure that those types of things don't occur. That is kind of undeserved bad publicity. You get some bad publicity out of that when you really know we should be accredited and that there really are no problems there. You just need to ensure that mechanisms and processes are in place so those things don't happen. Those are easy to deal with. Most of the things that have surprised me have been very positive. It is difficult to explain to people elsewhere. Students who come on campus—we have had some people visit here who are strongly predisposed to go to other schools—have a change of attitude dramatically. That is something we need to continue to cultivate as a university and as a community. Another positive is the Board's involvement and support. This is one of the best Board's I've ever worked with. The Board handles its business in a very professional way and the support for the institution really comes through. The relationships with one another are very positive for the institution. That is not always the case. Success comes from leadership. They start with the Board and the chancellor and the president. If you have good positive leadership in all of those places then everything works out well. Those are the things that have been most impressive to me. The chancellor mentioned positive people, this is a very positive group. The chancellor probably does have a down day but not since I've been here. That type of positive approach and positive attitude about what we are doing and why it is good is very hard to duplicate. That kind of leadership trickles down very quickly.

Another thing to mention, as mentioned by the chancellor, regards Tier 1 and national research universities. Some points to remember about what the state looks at: first, of all, if you look for definitions, there are a bunch of definitions, but most people think of research expenditures at about $100 million. In 2005-2006 we were at about $59 million. We have a little ways to go there but it is possible. We have unique and outstanding programs: wind power; pulse power; food safety and security. The things we do in agriculture, engineering and science in general, you'd heard today about what we are doing in education—all of those things can help us to get to $100 million if we are focused on what we do. That is the goal—to be over $100 million. If you factor in inflation by that time, it will probably be $120 million. If you look at things that characterize national research universities—that is a broad range of Ph.D. and Ed.D. doctoral programs—we have already got doctorates in almost 60 disciplines. We have got that infrastructure in place and those programs are strong across the board. We have a lot of strength across the board in our doctoral programs. One thing that the chancellor mentioned, and this is very important, if you look at national research universities, they tend to have student bodies that are not solely local but are statewide and as you know, two thirds of our students come from more than 300 miles away. In the map that the chancellor has, which was distributed to the legislative members who he has talked with, the Dallas area—that north central area—has more than 7,000 students. If you go to the Houston area, there are 3,500 students or more. We are really a statewide institution. Our student body comes from throughout the state. That is much more like the student body at Texas A&M and the University of Texas at Austin. That is also what the student body would be at the University of Kansas, the University of Missouri or the one of the Cal campuses. That student body is characteristic of what a flagship or a national research university has—one that comes from all over. The student with the high SAT scores is important as well—11.1 is the average SAT. That is very solid and comparable to many schools. If you look at Missouri or Kansas, we'd be right up there with those schools and our SAT scores. Again, the student body provides one of the characteristics of a national research university. The philanthropic support is also important as well. In looking at the national research universities, they are characterized by very strong philanthropic support. You have heard that report from the chancellor this morning. That is a key issue. We are supported at a level that only a couple of other institutions in the State of Texas have. We are ranked at 120 something nationally. That is a phenomenal figure and a great argument of why we should be the next national research university. Lastly, national research universities have a distinctive academic infrastructure. We have a good bit of that already. Things like Phi Beta Kappa. There are only a couple of other public institutions—A&M and Austin—who have Phi Beta Kappa chapters. Another thing that is sometimes overlooked is our Library. We have a wonderful Library which is a major research tool. It has American Research Library status. Again, there are only a couple of other public institutions in this state with that designation. If you start looking at our profile, we have a lot of the distinctive academic infrastructure; we have the strong philanthropic support. What makes a university really a good university is the students and the faculty and what makes it great are all the people outside to support it and help it reach the next level. A student body that really is excellent is statewide in scope—that along with the broad range of doctoral programs provides a lot of the infrastructure for the research expenditures. If we get those research expenditures over $1 million there will be no questions asked there. Those are the talking points and the things that we can emphasize over and over. Your support in this endeavor is absolutely crucial. These are key points to remember.

Regent Turner asked what is told to people when they state that we are not in a major metropolitan city.

President Bailey stated that neither is the University of Kansa or the University of Missouri.

Regent Turned asked if Bryan College Station was a major metropolitan city.

President Bailey stated that he lived in Bryan College Station for eight years. When I moved there you had to go to Houston to go to the mall. If you start looking, at least half of the universities in the AAU (American Association of Universities) are in places like Iowa City. Generally, that is not a valid criteria that should be considered. Besides, we are in one sense Lubbock's university but we are a State of Texas university as well. Our student body demonstrates that. Texas A&M and the University of Texas can tell you the same thing—we're Austin's university. If you look at our student body, we can legitimately say the same thing. It's not a stretch; there is no stretch there at all.

SGA President's Report
Texas Tech University
Board of Regents Meeting
October 31, 2008

Lee Bobbitt began by thanking the Board for allowing her to speak before them and for their support, time and dedication to the University. I have said time and again what a unique experience this is for our students. Rick, Steph and I can't thank you enough for the experiences we have gained and will continue to have this year. Those are one in a million.

Welcome to the Student Union Building. We have over 18,000 students that come to this building every day. If you have time, I encourage you to see the student body downstairs. The Student Government Office is located on the third floor. We will be there for most of the day and would enjoy a visit.

Chairman Dueser thanked Ms. Bobbitt for the invitation to use the facilities at the SUB.

Today, I will discuss what the SGA plans to do in the future and what we have already accomplished. We have been focusing on recruitment the majority of this year. In October, we hosted a university night reception. We had over 150 parents and students attend. We selected student leaders from all over the state that were attending University Day on that Monday. They got to meet some of the student leaders from our campus. We talked with them and encouraged them to attend Tech. It was really more of a Rush Dinner. We strongly encouraged them to attend Texas Tech. That was a great success. We have also partnered with the Center for Campus Life. This past year in the State of Texas, 48,000 students started college but an overwhelming 34,000 students attended two-year institutions as opposed to four-year public institutions. Those are 34,000 transfer students who we could have. We have developed a Transfer Council which has 25 students serving. They are a highly motivated group who has great ideas. We are looking forward to their input and advice on how we can recruit more transfer students to Tech and also how to make their experience upon their arrival to Texas Tech better than it has been in the past.

Also, in regards to retention, we are proud to announce our Arts and Sciences Pilot Ambassador Program in conjunction with the College of Arts and Sciences; we have established this pilot program. A group of 25 students will act as representatives for the College throughout the campus and the community. They will help in dealing with everything from recruitment and retention to advising and being mentors to those students who need help. That is the largest college on campus and this is a great opportunity. Some students just need a little extra help in being successful. Also, in conjunction with that there is also a focus group. I have several presidential committees that I chair and I appoint over 150 students to committees all year long. This group is focused on retention and on finding what that is and how we as students can help the administration and the faculty and staff with that. Since we are the primary consumers of the University, our input is definitely needed and this is something we will look forward to doing.

Our Graduate Scholarship Campaign, with the help of Institutional Advancement, will begin. The title of it is "Step Toward Assisting Graduate Education," or STAGE. It will provide need and merit based scholarships of $1,000 each year to qualifying graduate students. The target of our program is $1 million. If you make a contribution a $1,000 brick in will be added to Memorial Circle which is already part of our Paving the Way for Success Scholarship walk. They will all be on there. This is something that will help continue our pursuit for the highest caliber students at this University and encourage more of them to attend Tech.

Finally, for the State Legislature lobbying trip we will be taking 60 students to Austin in February to lobby on behalf on higher education for Texas Tech. A few of our officers are attending the Texas Senate on Higher Education which is taking place in a couple of weeks at Bryan College Station. We will be getting together and creating an agenda for all of the Texas universities. Texas Tech will also have its own personal agenda and some of those include research funding; tax-free textbooks; and the continuation of our incentive funding. This should be a successful trip. More information will be provided to you as we get closer to making those plans.

This is a great weekend for you to be here. It's one of the biggest games that Texas Tech has ever had and we are very excited that you are here. I thank Chancellor Hance, President Bailey and Dr. Shonrock. You are my three favorite people. Their assistance along with yours helps in everything that we have been doing; it makes the student's experience here fabulous. In spirit of Halloween and the football game, I have a small gift for everyone. They are eye patches. We have purchased 4,000 eye patches for students to wear during the game this weekend.

Thank you.

President's Report
Texas Tech University Health Sciences Center
Board of Regents Meeting
October 31, 2008

Dr. Baldwin presented his report to the Board.

As many of you know, I am a first generation college student who grew up on a dirt farm in Colemen County. I am very proud to be a consecutive generation Texan and very proud to have the opportunity, as given to me by you and the chancellor, of leading and changing our far-flung University. Now well into my second year, I would say to you that we have certainly made some significant changes which I will outline briefly for you today.

I was told emphatically not to speak more than five minutes but that will be a bit tough with thousands of students and faculty who have done many great things, but I will touch on a few high points.

We have three inextricably linked missions of clinical care, education and research. None of those missions can be fulfilled without the others. In education, we are continuing to do extremely well. I am very proud of the deans, our students and our faculty. The successes are far too numerous to mention, so I'll mention just a couple. In our Medical School, for the first time in our history and coming from some not very positive results years ago, this year we achieved a 100 percent pass in the USMLE 1 examination. That is the national exam that accredits students on an individual basis for their medical education. This is the class who entered in 2004. It is a testimony to them, to the admissions committee and to the excellence of teaching in the Medical School. We are very proud of that and actually had a party to celebrate that success.

In the Allied Health School, in their various programs they have a 97 percent rate. I was very impressed to hear at their recent 25th anniversary celebration that they have a 100 percent post graduation employment rate. We are doing some very good things for the people of Texas.

The Nursing School continues to thrive. We recently celebrated the opening of the El Paso School of Nursing under a very talented new dean, Dr. Josefina Lujan. In that context, we received a gift from Thomason our partner hospital of $750,000 in cash. The School of Nursing during that same time period also received a $1 million grant from Health and Human Services for chronic disease prevention, and an $855,000 grant from the Texas Health and Human Services for a nurse-family partnership program. The education programs are all very strong. I am pleased with the work that Dr. Rial Rolfe has done. We have worked very closely together on our SACS reaccreditation process. Last summer, we submitted all of the materials that they requested. They will be here next month to discuss with us the materials that we previously submitted to raise issues they would like to discuss when they are here next spring. We respond precisely using the language that they use to answer every question that they ask. We have visited with the SACS people on their own turf. Rial has done a wonderful job in preparing us for that process. As all of you know, in an institution as complex as ours, there are many accreditations going on all the time. Today I will be meeting with people who are accrediting the School of Allied Health. The Medical School will be re-examined by the LCME in the spring. SACS will be here in the spring. We have 41 residency programs that are constantly evaluated for accreditation by 41 different residency review committees. So, if you ask me about the accreditation the answer is YES there is one going on—always.

Briefly, a note about our clinical work: the clinical faculty that we oversee takes care of 2.5 million patients a year—that is 2.5 million patient encounters. That is likely an underestimate. Moreover, we continue to attract great clinicians in this context of ever increasing emphasis on research. Be sure to understand that we are doing a great job for Texas and West Texas in terms of clinical care delivery.

We have just recruited a new chairman of medicine who is a very strong clinician but he also has an NIH grant. That is **Dr. Richard McKellem** from El Paso. He comes to us from the University of Kansas. He will be working on restructuring many of the aspects of that Department of Medicine and its clinical arena while bringing very distinguished research.

To the topic of research, let me say that our NIH funding which is always by far the most competitive of any kind of federal or other funding has increased this year by 51 percent over last year. We are well on target to reach the benchmarks that were set when I came here.

Regent Sitton asked: I know a lot of the tremendous increase comes from you but is it also partially because you made the great decision to put Dr. Stocco as head of research?

President Baldwin stated that was correct. Dr. Scocco has been indomitable, enthusiastic, resourceful, and has really taken charge of that effort. Little of this was me; it is all from the great faculty that we have and the great administrators. I'm just the reporter.

Regent Sitton stated that a 51 percent is fantastic in one year.

President Baldwin thanked Regent Sitton. Doug, as all of you know, has been through some difficult personal times, but he has never missed a beat in improving our research programs across the board. In terms of one thing that came up in the discussions yesterday, he makes it easier for our faculty to get through the bureaucratic maze of acquiring federal and other funding.

The research programs are all strong and getting stronger. Some of the recruits that you have heard about in the past are not yet in the numbers because their grants are in the process of being transferred. I anticipate at least as high an increae next year as we had this year.

Two other things to cover: one of them is barely anecdotal and the other very important. Thank you Regent Sitton for your interest in the Honors College. When you are going through the catalog, look at my course in there which is not about medicine.

On the Select Commission on Higher Education, I was very fortunate to be appointed by Lieutenant Governor Dewhurst to this Commission and to have the Board's and the chancellor's permission to serve. This Commission is meeting very frequently. We are meeting almost weekly sometimes more than that. It seems to be gaining credibility or importance in Austin. It is ably led by Mr. Woody Hunt. In open session or in any other context I would say that this committee is composed of some very influential people from around the state. Three are from academics: former Chancellor Cunningham of UT; former President Wildenthal of UT Southwestern and myself. The other people are from the private sector. We have made some progress in raising the visibility of Texas Tech within this group whereas Mike and Martha who ability stand by for me in the audience will attest. Otherwise, we are pretty much all alone in that room. We have gotten some improved visibility on the Commission. One of the substantive aspects of that is that we can all amongst ourselves preach to the choir and agree that we are a great university and we certainly are, but that view is not shared at this point with any enthusiasm by any member of the Commission other than myself. The tangible arguments that were stated earlier have been made vigorously in that Commission, but at this point there is a strong interest, Regent Turner in response to your question, in the concept of local regional service of major population areas. That is a challenge that we need to overcome. Another substantive change that I think we have been able to accomplish particularly in the last couple of meetings is really one from our point of view that has a self serving aspect to it—a competitive aspect to it. There has been, particularly from the very distinguished medical campuses of the UT System, an emphasis on changing formulated funding to recognize existing funding. I have argued—I believe successfully—that that we need to make that more nuanced or frankly change it to recognize the delta—the improvement in funding. We are going to show very dramatic improvement in funding as I have told you and as Dr. Bailey has told you. It is important for any kind of official recognition and certainly for any formula consideration to recognize that delta. Sure, MD Anderson and UT Southwestern have a lot of grants. We will get close to them but in tying them in concrete now with the formulaic approach, I believe, is not in the best interest of growing the number of research universities in Texas.

Regent Turner asked if Dr. Baldwin anticipated that the Commission will make a recommendation on who should be the designated research institution.

President Baldwin replied: Regent Turner, I would say that I am certain that they will make a recommendation. I am not certain yet if it will principally be regional or if it will be in terms of current institutions as they are now known. There is a strong thread of interest in serving heavy populated areas and then there are interests for certain university systems, one of which is in a very populated area, to be recognized. In one way or another, there will be a very specific recommendation. It's either as near unanimity that there should be two more research intensive universities at least. That is another accomplishment. We got them to stop saying Tier 1. I'm so sick of that term.

We are talking about research intensive universities. As President Faulkner said the other day—and he's not always a Tech booster—when we were all fiddling around talking about the various aspects of what a great university is, "When it walks like a duck and quacks like a duck, you know what it is." Frankly, if we could get some people to widen their horizons and understand that you're healthy on the ground with the undergraduate and graduate experiences here, I think they would see a pretty strong duck here. The chancellor's efforts with the legislators individually in getting out and showing them who their alumni are and who their constituents are will be very helpful because at the end of the day, this Commission's report is going to be noticed. Of course the Legislature is where something actually happens or not but I am getting the impression that this will get a lot of attention.

Regent Serna stated: I would like to take a moment of personal indulgence for the benefit of information for the Board. I want to thank Dr. Baldwin for taking time out of his very busy schedule with everything that we have going on. He visited the Tarrant County Hospital District a few weeks ago to talk about the possibilities of collaborative efforts or rotations or the possibility of building more programs in collaboration with John Peter Smith in Tarrant County. Dr. Baldwin was very well received by the administrative and medical staff there. He had a good dialogue. Dr. Baldwin do you have any comments on that visit?

President Baldwin replied: thank you Regent Serna for arranging that meeting. I was very pleased with the interaction, the enthusiasm that the medical staff had and particularly the leadership the medical staff had for the collaboration with Texas Tech. I was also impressed by the many Tech graduates, both undergraduate and medical, who were there to join us. It was like a homecoming right in the middle of Forth Worth. Dr. Berk, has at my request, followed up with Jay and others there at John Peter Smith and we are looking at the opportunities that would be permitted by the LCME for medical student electives and for several residency programs particularly radiology. That is a great possibility that we will want to talk about with the chancellor especially about the potential political ramifications in terms of the University of North Texas and so on. From our point of view, it looks like a great opportunity.

Regent Serna thanked Dr. Baldwin. And to tag on to Regent Turner's question earlier and your response to him, with the presence that we have in Dallas, with the Pharmacy Program, if we were to establish a programmatic footprint in Tarrant County in the potential relationship that you are now exploring, will that help with not only the expansion of our programs but also with the political dynamics of Tech having a footprint in a major urban setting?

President Baldwin replied: From my perspective, I certainly made that point a few dozen times in terms of our current presence in Dallas.

Chancellor Hance added: I visited some people in Dallas about that. There are some strong opinions both ways. That is being pursued.

Student Regent Stumbo stated: Dr. Baldwin, I wanted to thank you. I spent Tuesday and Wednesday at the Medical School and the School of Nursing, School of Allied Health and Pharmacy and the Graduate School with all of their deans learning about the programs. I thank you and your staff for that opportunity. Trying to learn about all of the very complex programs and all the accreditations going on and the wonderful things that you are achieving in 30 minutes blocks was very tight but it was an educational experience and you have staff and deans who are extremely passionate about what they are doing as well as providing the best not only classroom education but practical experience. I commend you on all the different schools within the HSC and I mirror that sentiment to the students as well who are just as active and passionate about their programs.

President Baldwin replied: I agree we have a great group and we were very honored that you came over. Thank you.

Chancellor Hance added: I would like to thank Dr. Baldwin for his work on the Commission. With those things you never know exactly what will happen if you don't have someone on the inside. The first thing you do is protect yourself. That is important. The Legislature will make the final determination but going through the process is very important. Having Dr. Baldwin serve has been very good and with him working with Mike and Martha who have a history of knowing exactly what is going on. This has been helpful and I appreciate it.

Chairman Dueser stated: It is extremely important and we are glad that you are there representing us.

SGA President's Report
Texas Tech University Health Sciences Center
Board of Regents Meeting
October 31, 2008

Rick Bliss presented his report.

I would like to thank you for allowing me to speak to you today. Also, thank you Kelli Stumbo for coming out to the HSC for the last couple of days. She spoke with us quite extensively. She spoke with our Student Government on Wednesday night and has been a real student advocate for the HSC students. We appreciate her.

The Student Government has been busy. We completed our trips to the regional campuses. One of our major goals this year is outreach to those regional campuses and making sure that we have uniform education on all of our campuses not just Lubbock. We have completed that and listened to a lot of their concerns. We are working on some of the regional issues. We want them to know that they have a place here and are tightly connected to the HSC.

We have also been active in community service. We had quite a few HSC students participate in the Race for Cure, specifically the Docs in Training group and Dean Berk. We had almost 100 students with that group alone participate in the Race for the Cure for cancer awareness this month. We have also been involved in Habitat for Humanity. We had an event out there and with the Lubbock Food Bank. Today, for Halloween the graduate students are dressing up and doing a can food drive and collecting from the faculty. I'll be dressing up as a pirate later today.

The SGA and the Alumni Relations Office hosted a reunion on the weekend of the A&M game. We hosted a tailgate event because it was on T.V. A lot of our HSC students got to watch the game in our Synergistics Center with a bunch of HSC alumni. That was very fun. We had J&M Barbeque cater the event. That provided a lot of good networking opportunities with students and just a lot of fun so see alum come together and watch the game.

The HSC received a donation from Marie Hall who gave a donation for the Synergistics Center. She gave another donation for the Simulation Center—the SimLife Center. It's going to be a 26,000 square foot simulation center. This is going to be state of the art. It will revolutionize medical care. The old adage of "see one, do one, teach one," will be history. Now we will be able to have simulation patients. If you haven't seen some of these mannequins they are ridiculously sophisticated. You can take a stethoscope and put it anywhere on the heart and listen to different heart and lung sounds. From a student perspective, it will really helps us and give us a second step to where we learn the background information and then can practice a lot of our clinical skills. It is really going to increase clinical care and education here through all the different schools at the HSC not just the Medical School. We are extremely excited about that.

The Medical Students are having the American Medical Student Association's regional conference in Lubbock this year. It will be held on December 5-7, 2008. Their focus will be on rural health and underserved people within the rural health communities. One of our keynote speakers is Dr. McCormick. He does a lot of worth with infectious disease and is most well known for his work on the Ebola virus and is the author of *The Hot Zone* which was made into the movie *Outbreak*. He will be speaking on some of his infectious disease work. The Medical School is very excited about that.

From the Graduate School, we have increased enrollment. They hit their mark of 100 enrolled students. We talk a lot about NIH funding and what that really means and why that is important. It is sometimes nice to take a step back and understand why that is so significant. That actually happened last night. I spoke with a professor in the Engineering Department at TTU. I told him about what I was doing and about some of my research. He looked me straight in the eye and said, "Young man, I have a charge for you. I lost a daughter to leukemia. That disease tears families apart. That is my charge to you. Go out there and find a cure for that devastating disease." I told him that we had just brought on board a group from Southern California that is working on that very disease at Texas Tech. He could have said leukemia or he could have said he heard Dr. Berk talk about neurological disease which is close to my heart. It could be cancer; it could be many different diseases. We are doing lots of research here. That gives me a lot of pride that I can say that. From here it is possible. I'm not sure how much money we spent on that slogan, but before long we might have to change it from "From here it is possible," to "From here it is happening." This really is a wonderful time with all that is happening at Tech from the football game to the SimLife Center.

Thank you.

President's Report
Angelo State University
Board of Regents Meeting
October 31, 2008

Dr. Rallo began by sharing some of the recognition his students have enjoyed since the last Board meeting.

Our Honors College program website won second place in the National Collegiate Honors Council small college competition. Our students competed against 250 other colleges at the 43rd annual competition in San Antonio.

Our physics students brought home four in the top six research presentation awards in the fall meeting of the Texas and Four Corners Physical Society Conference. Only six students, out of more than 100 were selected.

Our pass rate for the National Licensure Exam for RNs was 92.65 percent, up from 83 percent last year. We compare exceptionally well with other programs in Texas which were closer to 85 percent.

Finally, never forgetting the fun of being a college student, our SGA and Vice President Steve Jackson, traveled to Pamplona, Spain in July to run with the bulls. I am pleased to say he made it back. He is a physics major with a minor in math and geology. He is from Artesia, NM.

These just highlight some of the student accomplishments from our campus. Thank you.

SGA President's Report
Angelo State University
Board of Regents Meeting
October 31, 2008

Seth Chomout presented his report to the Board.

Thank you to Chairman Dueser and Kelli Stumbo for visiting us. We enjoyed having you both at Angelo State so we could show you what we are working on and what you can assist us with.

The Student Government is working on the new Center for Human Performance. You obviously know about that project as you approved the budget for it. We are working on that to be the centerpiece of our campus. It will be located in the middle of our campus and we will make it the best that it can be. My little sister starts school at Angelo State in the spring and I have already put her on that committee. She is big into sports. She will play volleyball for Angelo State. So, she has seen a lot of Recreation Centers.

We are also working on a recycling project to get recycling going all across campus. We are working with the Faculty Senate, the Student Senate and the Staff Senate to get a campus-wide recycling project established. In the past, we have had recycling done by a different organizations and in different departments, but if a point person in those organizations or departments leave the University those recycling efforts fall apart. We are working with Facilities and the Finance and Administration Departments to get something set up which will be there permanently.

The Police Department and Finance and Administration Department are working on a parking study for our campus. Right now, it is not a terrible situation. It's more of a laziness problem. The students have plenty of places to park; they just want to be able to park right next to their building. One recommendation is to establish a transit system similar to Tech's that will go to the major parking lots to pick up students and transport them near their academic buildings.

We recently ordered the calendar system which had been discussed during the last meeting. It will be a turnkey system. We will need to input the calendar dates. We had discussed if it works there that it might possibly be used here as well. That will be great.

We also just recently started our new health and wellness initiative which is called ASU Fit. That will incorporate faculty, students and staff and San Angelo as a whole to try to get everyone more active and more involved with wellness issues.

Finally, as you know some college students like to have fun on campus and play pranks. In our new Centennial Village Dorm, if you hadn't already heard, we had a little incident last weekend. I could tell you about it but you wouldn't believe me, so I brought a video to show everyone.

President Rallo stated that a father had brought their pet longhorn to visit his daughter who is living in Centennial Village.

Chairman Dueser asked Seth about the new food service at ASU.

Seth replied: They expanded the seating and also expanded the food offerings. We had a snack bar in our University Center and now we have a snack bar and a full service cafeteria. Everyone has said that it is a great addition except for some of the people who need meeting space. They got rid of a lot of that space in order to accommodate the new dining facilities. We appreciate that being done.