TEXAS
GUARANTEED
TUITION
PLAN

2008 ANNUAL REPORT

For the Year Ended August 31, 2008

Texas Prepaid Higher Education Tuition Program
Comptroller Susan Combs, Chair

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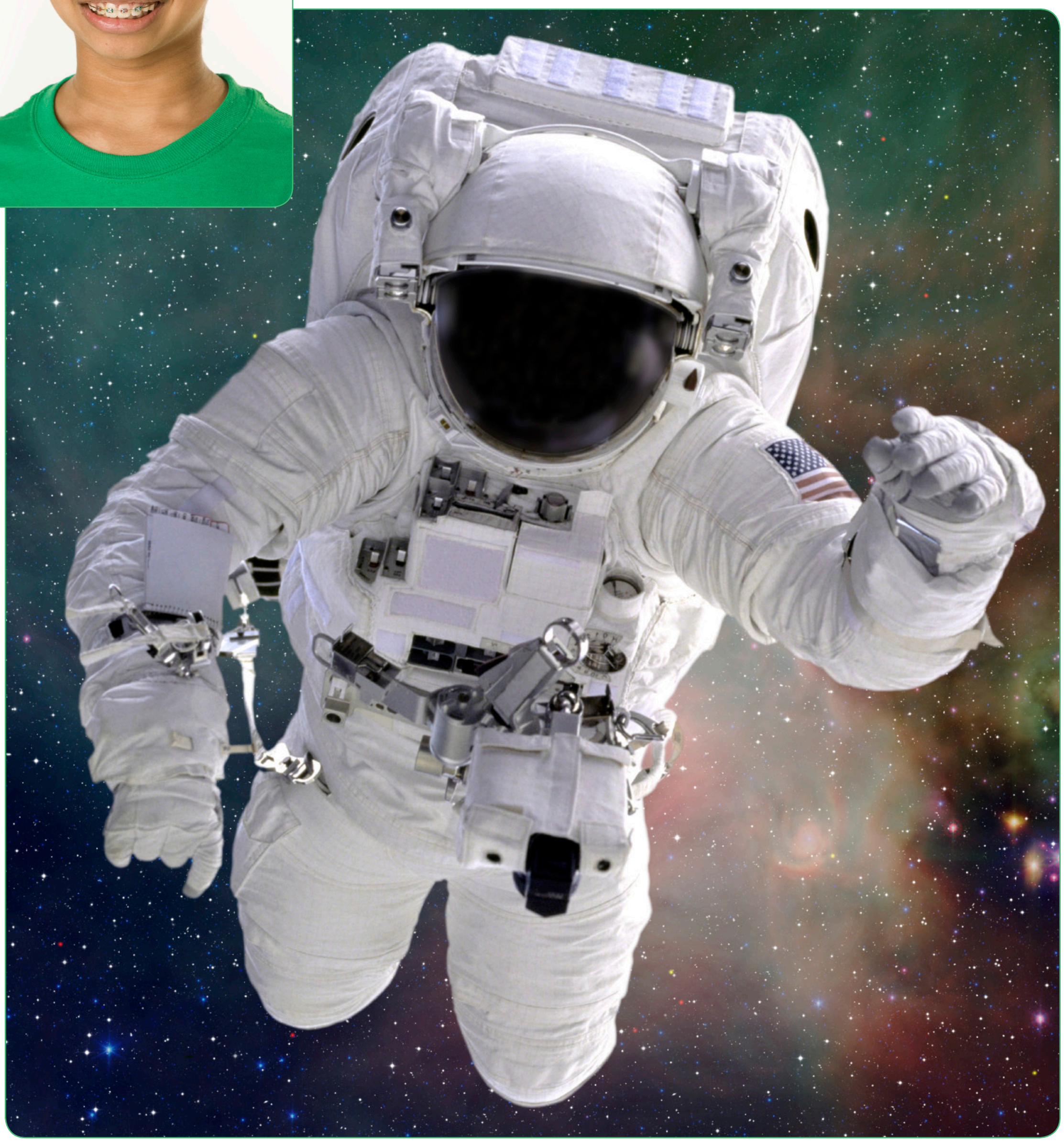
TEXAS GUARANTEED TUITION PLAN

PROGRAM SUMMARY



CUMULATIVE ENROLLMENT DATA FOR THE TEXAS GUARANTEED TUITION PLAN, 1996-2003

This annual report is designed to provide statistical information on enrollment, the latest financial audit report and the latest Actuary's Report on Program Soundness. The *Texas Guaranteed Tuition Plan* was closed to new enrollment in June 2003. Approximtely 119, 000 of the 158,442 contracts sold were active at August 31, 2008.

SUMMARY OF RESULTS

Type of College Plan Purchased

The senior college plan is the most popular tuition plan purchased, consisting of more than 84 percent of the contracts.

Senior College Plan	133,704	84.38%
Junior-Senior College Plan	14,935	9.43%
Junior College Plan	6,721	4.24%
Private College Plan	3,082	1.95%
Total	**158,442**	**100.00%**

Payment Option Selected

The payment option chosen most often is monthly until matriculation at 34 percent, followed by lump sum at 28 percent.

Monthly Until Matriculation	54,485	34.39%
Lump Sum	44,806	28.28%
Monthly for Ten Years	22,332	14.09%
Monthly for Five Years	20,338	12.84%
Annual Payments	16,481	10.40%
Total	**158,442**	**100.00%**

Monthly Payment Method Selected

The most popular monthly payment method selected is the coupon booklet at 54 percent, followed by lump sum payments at 28 percent.

Coupon Booklet	84,864	53.56%
Lump Sum Payments	44,806	28.28%
Automatic Bank Draft	12,291	7.76%
Annual Payments	16,481	10.40%
Total	**158,442**	**100.00%**

Age or Grade Level of Beneficiary

Newborns and children under one year of age represent the largest groups for whom contracts have been purchased at nearly 18 percent.

Newborn	13,903	8.78%
0 Year	14,488	9.14%
1 Year	9,846	6.21%
2 Years	8,651	5.46%
3 Years	8,215	5.18%
4 Years	8,494	5.36%
Kindergarten	10,056	6.35%
First Grade	9,762	6.16%
Second Grade	10,318	6.51%
Third Grade	9,656	6.09%
Fourth Grade	9,692	6.12%
Fifth Grade	9,787	6.18%
Sixth Grade	9,293	5.87%
Seventh Grade	8,497	5.36%
Eighth Grade	7,003	4.42%
Ninth Grade	5,035	3.18%
Tenth Grade	3,011	1.90%
Eleventh Grade	1,720	1.09%
Twelfth Grade	1,015	0.64%
Total	**158,442**	**100.00%**

Beneficiary's Relationship to Purchaser

78 percent of contracts are purchased by the parents of the child, followed by grandparents at 10 percent.

Child	124,219	78.39%
Grandchild	16,075	10.15%
Other	2,910	1.84%
Great Grandchild	399	0.25%
Not Reported by Purchaser	14,839	9.37%
Total	**158,442**	**100.00%**

Counties with Largest Volume of Contracts

The largest number of contracts (15 percent) is purchased in Harris County.

Harris	23,327	15.49%
Dallas	14,252	9.47%
Travis	11,509	7.64%
Tarrant	10,543	7.00%
Bexar	10,149	6.74%
Collin	8,037	5.34%
Denton	4,924	3.27%
Total	**82,741**	**54.95%**

OPTIONAL INFORMATION AS PROVIDED BY THE PURCHASER

At the time the applications were submitted between 1996 and 2003, the following information was requested on a voluntary basis. “Not Reported by Purchaser” indicates that the Purchaser chose not to report the information.

Annual Family Household Income

Families with incomes from $50,000 to $75,000 purchased the largest single volume of contracts by income group at 18 percent. Families with incomes from less than $20,000 up to $50,000 purchased nearly 17 percent of the contracts. Some 38 percent of respondents did not elect to report family income.

Less than $20,000	2,068	1.31%
$20,000 to $29,999	5,003	3.16%
$30,000 to $39,999	8,141	5.14%
$40,000 to $49,999	10,958	6.92%
$50,000 to $74,999	28,478	17.97%
$75,000 to $100,000	25,423	16.05%
Over $100,000	18,765	11.84%
Not Reported by Purchaser	59,606	37.61%
Total	**158,442**	**100.00%**

Beneficiary’s Ethnicity

A total of 81,766 (52 percent) of the beneficiaries are Anglo.

Anglo	81,766	51.61%
Hispanic	16,036	10.12%
African-American	5,100	3.22%
Asian-American	4,248	2.68%
Other	3,589	2.27%
Native-American	1,035	0.65%
Not Reported by Purchaser	46,668	29.45%
Total	**158,442**	**100.00%**

Education Level of Purchaser

Nearly 29 percent of those that reported information related to education levels had a bachelor’s degree, 13 percent had a master’s degree and 13% had a high school diploma.

Bachelor’s Degree	44,848	28.31%
Master’s Degree	20,569	12.98%
High School Graduate	19,834	12.52%
Associate Degree	10,375	6.55%
Other	3,596	2.27%
Doctorate Degree	9,191	5.80%
Not Reported by Purchaser	50,029	31.57%
Total	**158,442**	**100.00%**

TEXAS GUARANTEED TUITION PLAN

AUDIT REPORT

MCCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Texas Prepaid Higher Education Tuition Board:

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, each major fund, and the fiduciary fund information of the Texas Prepaid Higher Education Tuition Board (the "Board"), a Board of the State of Texas, as of and for the fiscal year ended August 31, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Texas College Savings Plan and the LoneStar 529 Plan (the "Plan"), formerly altogether known as the Tomorrow's College Investment Plan, which represent 11%, and 37%, respectively, of the assets and revenues of the Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plan, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund, and the fiduciary fund information of the Board, as of August 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McConnell & Jones LLP

Houston, Texas
December 9, 2008

TEXAS GUARANTEED TUITION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

TEXAS PREPAID HIGHER EDUCATION TUITION BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS *UNAUDITED*

This section of the Texas Prepaid Higher Education Tuition Board's (the "Board" or "Agency") annual financial report presents a discussion and analysis of the Agency's financial performance during the fiscal year ended August 31, 2008. Please read it in conjunction with the Agency's financial statements. The Board administers the Texas Guaranteed Tuition Plan, a prepaid guaranteed tuition plan, and the state's 529 college savings plans.

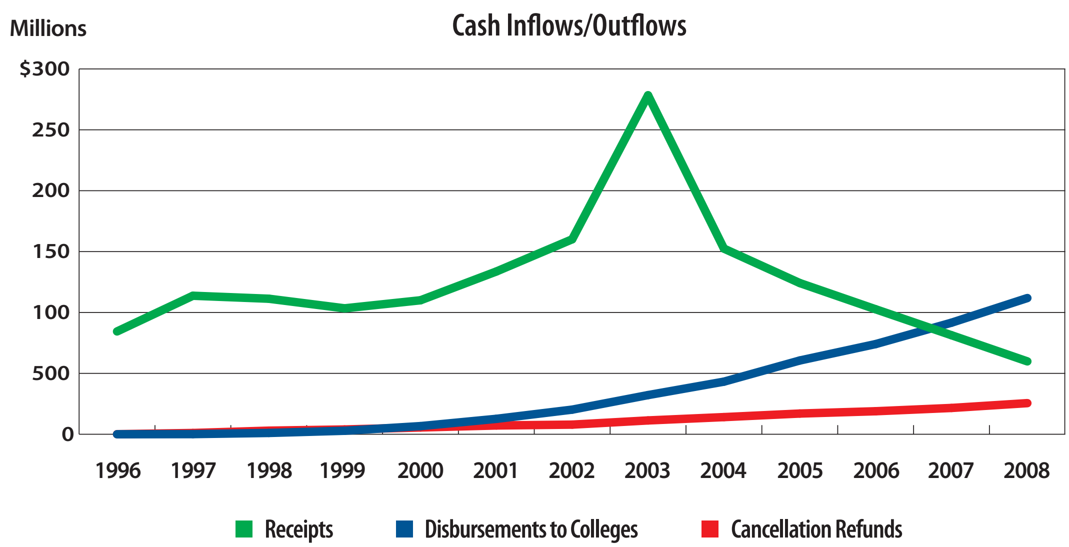
FINANCIAL HIGHLIGHTS

During the fiscal year, Total Assets of the Texas Guaranteed Tuition Plan ("Plan") decreased as follows::

Total Assets

As of August 31, 2007	$2,548,530,027.86
As of August 31, 2008	2,289,222,965.55
Decrease in Total Assets	**259,307,062.31**

The Plan is 100% guaranteed by the state of Texas. Due to the uncertain impact on the financial stability of the Plan caused by tuition deregulation in 2003, the Board suspended new enrollment in the Plan in June 2003. With the Plan closed to new enrollments, receipts from contract purchasers continue to decline each year, but disbursements to colleges and universities and account cancellation refunds increase as demonstrated in the following graph:



Significant factors contributing to the decrease in Total Assets of the Plan included:

- Payment of participant's benefits to colleges and universities of $108,630,903.67
- Decrease in the fair market value of investments of $115,612,905.10 as a result of the downturn in the market
- Account cancellation refunds of $9,966,517.19
- Investment and security lending fees of $16,060,848.24
- Decrease in annual receipts of $22,997,076.75 when compared to the prior fiscal year

Changes in assumptions related to future tuition increases and investment earnings also had a significant impact on Plan assets and liabilities. The Board reviews the actuarial assumptions each year. Based on historical increases, the Board lowered the assumption for future tuition increases from the August 31, 2007, assumption of 8.0% for all contracts to revised assumptions at August 31, 2008, of 6.3% for Public Senior College contracts, 5.2% for Junior College contracts, and 7.3% for Private University contracts. The result of the change in the assumption for tuition increases was favorable to the Plan; however, that was offset by a reduction in the assumed annual net investment yield as follows:

Year	Fiscal 2007 Assumptions	Fiscal 2008 Assumptions
2009	8.0%	6.8%
2010	8.0%	6.8%
2011	8.0%	6.8%
2012	8.0%	6.8%
2013	8.0%	6.8%
2014	8.0%	6.8%
2015	7.8%	6.8%
2016	7.5%	6.7%
2017	7.2%	6.6%
2018	5.6%	5.8%
2019+	5.0%	5.4%

The Plan's unfunded liability at August 31, 2008, was ($206,320,256.17) compared to ($164,596,458.77) at August 31, 2007, an increase in the unfunded liability of $41,723,797.40.

Net assets of the Board's 529 college saving plans, *the direct-sold Texas College Savings Plan and the advisor-sold LoneStar 529 Plan*, increased from $223,766,139.00 at August 31, 2007, to $232,991,044.00 at August 31, 2008, an increase of $9,224,905.00. Financial highlights include:

- Contributions from investors of $84,028,674.00
- Distributions from investor accounts of $55,879,004.00
- Depreciation in the fair value of investments of $22,937,456.00
- Interest and dividend income, net of investing expenses, of $4,015,887.08

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts - *management's discussion and analysis,* the *basic financial statements, required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds and enterprise funds. The basic financial statements include *government-wide* financial statements, *fund* financial statements, and *notes* to the financial statements.

Government-wide Financial Statements

Government-wide financial statements present an overall picture of the financial position of the Agency. These statements provide both long-term and short-term information about the Agency using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Agency's net assets and how the net assets increased or decreased during the fiscal year. Net assets are the difference between the Agency's assets and liabilities and represent one way to measure the Agency's financial health or position. The government-wide financial statements of the Agency are divided into two categories:

- *Business-Type Activities* – This includes activities for which a fee is charged to customers to pay most or all of the cost of services. The Texas Guaranteed Tuition Plan is reported as a business-type activity.

- *Component Units* – This includes activities of legally separate entities for which the Agency is either financially accountable or the nature and significance of their relationship with the Agency is such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (the "Foundation") is reported as a component unit.

FUND FINANCIAL STATEMENTS

Fund financial statements provide more detailed information on the Agency's most significant funds. They use a format that is more familiar to experienced users of governmental financial statements. A fund is a separate accounting entity with a self-balancing set of accounts. Governmental entities use funds to keep track of sources of funding and spending related to separate activities.

The Agency has three kinds of funds:

- *Governmental Funds* – Activity of the Agency's component unit is reported as a governmental fund type. Governmental funds are accounted for using the modified accrual method of accounting, which measures cash and other assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the Texas Prepaid Higher Education Scholarship Foundation, Inc.

- *Proprietary Funds* – When a government charges for services it provides to customers, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, which are a type of proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The financial activity *of the Texas Guaranteed Tuition Plan* is reported as a proprietary fund, rather than a private purpose trust fund, because of its state of Texas constitutional guaranty that state revenues will be transferred to pay obligated college tuition costs if sufficient resources aren't available in the fund.

- *Fiduciary Funds* – The Agency is the trustee, or fiduciary, for *the direct-sold Texas College Savings Plan and the advisor-sold LoneStar 529 Savings Plan*, the state's 529 college savings plans. The college savings plan was first offered by the Board in September 2002. It is reported as a Private Purpose Trust Fund because the state of Texas does not guarantee the program. All governmental fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The fiduciary activities are excluded from government-wide financial statements because a government cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Assets

Total Assets of the Agency on August 31, 2008, were $2.29 billion, while total liabilities were $2.50 billion, resulting in a net asset balance of $(206.3) million. $19.0 thousand of its net assets, which have been reduced by related debt and depreciation, were invested in capital assets.

A summary of net assets is shown below:

Statement of Net Assets

	BUSINESS-TYPE ACTIVITIES		PERCENT CHANGE
Fiscal Year	**2007**	**2008**	**2007-2008**
ASSETS:			
Current and Other Assets	$2,548,516,542.76	$2,289,203,970.49	10.18%
Capital Assets	13,485.10	18,995.06	40.86%
TOTAL ASSETS	**$2,548,530,027.86**	**$2,289,222,965.55**	**10.17%**
LIABILITIES:			
Long-term Debt Outstanding	–	–	
Other Liabilities	$2,713,126,486.63	$2,495,543,221.72	-8.02%
TOTAL LIABILITIES	**$2,713,126,486.63**	**$2,495,543,221.72**	**-8.02%**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	$13,485.10	$18,995.06	40.86%
Restricted	–	–	
Unrestricted	(164,609,943.87)	(206,339,251.23)	25.35%
TOTAL NET ASSETS	**$(164,596,458.77)**	**$(206,320,256.17)**	**25.35%**

Changes in Net Assets

The Agency earned program revenues of $74.7 million, had a decrease in the fair value of investments of $115.6 million, and expenses of $.8 million. The excess of expenses over revenues caused the Agency's total net assets to decrease by $41.7 million. This compares with a decrease in net assets the previous fiscal year of $54.3 million. Revenues and expenses of the Agency's business-type activities are detailed below:

Changes in Net Assets

	BUSINESS-TYPE ACTIVITIES		PERCENT CHANGE
Fiscal Year	**2007**	**2008**	**2007-2008**
REVENUES			
Program Revenues:			
Charges for Services	$8,774,499.25	$312,522.54	-96.44%
Operating Grants and Contributions	–	–	–
Capital Gains and Contributions	73,213,330.69	74,397,436.20	1.62%
TOTAL REVENUES	**$81,987,829.94**	**$74,709,958.74**	**-8.88%**
Net Increase or (Decrease) in Fair Value of Investments	$152,711,253.59	$(115,612,905.10)	-175.71%
EXPENSES	288,958,468.89	820,851.04	-99.72%
Increase (Decrease) in Net Assets	**$(54,259,385.36)**	**$(41,723,797.40)**	**-23.10%**

ANALYSIS OF THE AGENCY'S FUNDS

Proprietary Funds

The Agency's decrease in net assets was primarily the result of several factors which were discussed earlier in this section under the "Financial Highlights". In addition, these other financial changes should be noted:

- Assets, net of other liabilities, were 90.3% of tuition benefits obligations at August 31, 2008, compared to 92.7% at August 31, 2007.

- Revenues for Tuition Contract Sales totaled ($.8) million in fiscal year 2008 compared to $7.4 million in fiscal year 2007. Revenue from Tuition Contracts is calculated by adding the change in future tuition contracts receivable estimated by the actuary to cash contract payments received from contract purchasers during the fiscal year. The current year's decrease was the result of actual tuition contract revenue that was less than the change in future prepaid contracts receivable.

- The fair value of investments decreased 5.6% from $1.8 billion at August 31, 2007, to $1.7 billion at August 31, 2008. This change was primarily due to the $115.6 million decrease in market value of investments, of which $36 million was an unrealized loss at August 31, 2008. Important information related to investment activity post-August 31, 2008, can be found in Note 14: Subsequent Events.

- Tuition contract benefit expenses totaled ($27.0) million at August 31, 2008, compared to $256.5 million at August 31, 2007. Tuition benefit expense is calculated by adding the change in future tuition contract benefits payable estimated by the actuary to cash tuition benefits paid by the Plan during the fiscal year. The current year's decrease in the projected future tuition benefit expense is the result of revised assumptions adopted by the Board in August 2008 that decreased future projected tuition increase assumptions from the fiscal year 2007 assumption of 8.0% for all contracts to revised assumptions at August 31, 2008, of 6.3% for Public Senior College contracts, 5.2% for Junior College contracts, and 7.3% for Private University contracts.

- Other operating expenses totaled $10.0 million in 2008, which was a 34.4% increase over 2007. The figure reflects $10.0 million refunded to contract purchasers during fiscal 2008. Since a contract purchaser who voluntarily cancels when the beneficiary has graduated from high school receives a refund based on current average tuition, the increase in earnings paid was due to higher average tuition rates in 2008 and an increase in the number of contract refunds eligible to receive earnings.

FIDUCIARY FUNDS

The financial activity of the Board's college saving plans, *the direct-sold Texas College Savings Plan and the advisor-sold LoneStar 529 Plan*, was launched on September 4, 2002, and is reported as a private-purpose trust fund. Over the first five years of the plan, AXA Enterprise served as the plan manager. During the fiscal year ending August 31, 2008, the Board selected OFI Private Investments, Inc., a subsidiary of OppenheimerFunds, Inc., as the plan manager of the college savings plans to replace AXA Enterprise whose contract expired. The transition was effective November 19, 2007.

BUDGETARY HIGHLIGHTS

The Board adopts an annual operating budget. The fiscal 2008 expenditure budget included all administrative costs of the pre-paid guaranteed tuition plan and marketing costs related to the college saving program administered by AXA Enterprise. The budget totaled $10.8 million for the fiscal year ended August 31, 2008.

- The largest component of the 2008 budget was consultant and professional fees at $9.1 million, or 84.3% of the total budget. Of that figure, $7.8 million dollars was budgeted for investment management and consulting fees and $1.0 million was budgeted for media buys to advertise the college saving plan.

- The budget reflected a 5.2% increase over the prior fiscal year due primarily to an increase in investment management fees related to anticipated growth in investments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2008, the Agency had $19 thousand in capital assets net of depreciation. The 40.9% increase in capital assets net of depreciation was due to an increase of $10.2 thousand in depreciation expense for fiscal year 2008 offset by the addition of new equipment at $15.7 thousand.

Capital Assets (Net of Depreciation)

	BUSINESS-TYPE ACTIVITIES		PERCENT CHANGE
Fiscal Year	**2007**	**2008**	**2007-2008**
Furniture and Equipment	$13,485.10	$18,995.06	40.9%
TOTAL CAPITAL ASSETS	**$13,485.10**	**$18,995.06**	**40.9%**

Debt Administration

The Agency has no debt issued.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The two main economic indicators that affected the financial position of the Agency during fiscal year 2008 were:

- The decrease in fair value of investments of $115,612,905.10.
- The change in the actuarial assumptions to reduce the projected increase in tuition rates and decrease the projected return on investments.

In accordance with Board Rule 7.42, the Board reviewed the financial stability of the Plan in November 2008 and voted not to reopen enrollment at this time.

In June 2008, the Board adopted an operating budget for fiscal 2009 of $10.1 million.

CONTACTING THE AGENCY'S FISCAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, you can contact the Comptroller's Educational Opportunities and Investment Division by sending a letter to 111 E. 17th Street, Austin, Texas 78774, calling 800-531-5441, ext. 3-4863, or sending an email to linda.fernandez@cpa.state.tx.us.

TEXAS GUARANTEED TUITION PLAN

FINANCIAL STATEMENTS

Statement of Net Assets
August 31, 2008

	PRIMARY GOVERNMENT Business-type Activities	Component Unit
ASSETS		
Current Assets:		
Cash and Temporary Investments:		
Cash in State Treasury	$2,854,772.39	$2,741.00
Securities Lending Collateral	307,192,014.42	
Restricted Assets:		
Cash in Bank	497,862.09	
Cash Equivalents	135,095,987.14	
Receivables:		
Interest and Dividends Receivable	14,978,246.88	
Investment Trades	49,588,768.72	
Tuition Contracts Receivable	43,041,543.00	
Total Current Assets	**$553,249,194.64**	**$2,741.00**
Non-Current Assets:		
Restricted Assets:		
Investments	$1,604,128,553.85	
Tuition Contracts Receivable	131,826,222.00	
Capital Assets:		
Depreciable:		
Furniture and Equipment	2,284,684.10	
Less: Accumulated Depreciation	(2,265,689.04)	
Total Non-Current Assets	**$1,735,973,770.91**	**$0.00**
TOTAL ASSETS	**$2,289,222,965.55**	**$2,741.00**
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts Payable	$1,974,052.76	
Investment Trades	61,347,809.63	
Due to Other Agencies (Note 8)	99,798.48	
Employees' Compensable Leave	59,599.06	
Liabilities Payable From Restricted Assets:		
Contract Benefits and Expenses	212,668,464.00	
Obligations Under Security Lending	307,192,014.42	
Total Current Liabilities	**$583,341,738.35**	**$0.00**
Non-Current Liabilities:		
Employees' Compensable Leave	$22,304.37	
Liabilities Payable From Restricted Assets:		
Contract Benefits and Expenses	1,912,179,179.00	
Total Non-Current Liabilities	**$1,912,201,483.37**	**$0.00**
TOTAL LIABILITIES	**$2,495,543,221.72**	**$0.00**
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$18,995.06	
Unrestricted	(206,339,251.23)	$2,741.00
TOTAL NET ASSETS	**$(206,320,256.17)**	**$2,741.00**

The accompanying notes to the financial statements are an integral part of this financial statement.

Statement of Activities
August 31, 2008

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
					PRIMARY GOVERNMENT			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
FUNCTIONS/PROGRAMS								
Primary Government:								
Business-type Activities:								
Prepaid Tuition Plan	$820,851.04	$312,522.54	$(41,215,468.90)	$0.00	$0.00	$(41,723,797.40)	$(41,723,797.40)	
Total Business-type Activities	$820,851.04	$312,522.54	$(41,215,468.90)	**$0.00**	**$0.00**	$(41,723,797.40)	$(41,723,797.40)	**$0.00**
TOTAL PRIMARY GOVERNMENT	**$820,851.04**	**$312,522.54**	**$(41,215,468.90)**	$0.00	$0.00	**$(41,723.797.40)**	**$(41,723.797.40)**	$0.00
COMPONENT UNITS:								
No Activity								
TOTAL COMPONENT UNITS	$0.00	$0.00	$0.00	$0.00				$0.00
				GENERAL REVENUES:				
				None	$0.00	$0.00	$0.00	$0.00
				Change in Net Assets	$0.00	$(41,723,797.40)	$(41,723,797.40)	$0.00
				Net Assets-Beginning	$0.00	$(164,596,458.77)	$(164,596,458.77)	$2,741.00
				Net Assets-Ending	$0.00	$(206,320,256.17)	$(206,320,256.17)	$2,741.00

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit III
Combined Balance Sheet/Statement of Net Assets – Proprietary Funds
August 31, 2008

	PROPRIETARY FUND ENTERPRISE (Fund 0892) U/F (0892)
ASSETS	
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	$2,854,772.39
Securities Lending Collateral	307,192,014.42
Restricted Assets:	
Cash in Bank (Note 3)	497,862.09
Cash Equivalents (Note 3)	135,095,987.14
Receivables from:	
Interest and Dividends	14,978,246.88
Investment Trades	49,588,768.72
Tuition Contracts	43,041,543.00
Total Current Assets	**$553,249,194.64**
Non-Current Assets:	
Restricted Assets:	
Investments (Note 3)	$1,604,128,553.85
Tuition Contracts Receivable	131,826,222.00
Capital Assets:	
Depreciable:	
Furniture and Equipment	2,284,684.10
Less: Accumulated Depreciation	(2,265,689.04)
Total Non-Current Assets	**$1,735,973,770.91**
TOTAL ASSETS	**$2,289,222,965.55**
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts Payable	$1,974,052.76
Investment Trades	61,347,809.63
Due to Other Agencies (Note 8)	99,798.48
Employees' Compensable Leave	59,599.06
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	212,668,464.00
Obligations Under Security Lending	307,192,014.42
Total Current Liabilities	**$583,341,738.35**

Exhibit III (Continued)
Combined Balance Sheet/Statement of Net Assets – Proprietary Funds
August 31, 2008

	PROPRIETARY FUND ENTERPRISE (Fund 0892) U/F (0892)
Non-Current Liabilities:	
Employees' Compensable Leave	$22,304.37
Liabilities Payable from Restricted Assets:	
Contract Benefits and Expenses	1,912,179,179.00
Total Non-Current Liabilities	**$1,912,201,483.37**
TOTAL LIABILITIES	**$2,495,543,221.72**
NET ASSETS (DEFICIT)	
Invested in Capital Assets, Net of Related Debt	$18,995.06
Unrestricted	(206,339,251.23)
TOTAL NET ASSETS (DEFICIT)	**$(206,320,256.17)**

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit IV
Combined Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds
August 31, 2008

	PROPRIETARY FUND ENTERPRISE (Fund 0892) U/F (0892)
OPERATING REVENUES:	
Sales of Goods and Services:	
Tuition Contracts	$42,282,167.21
Changes in Actuarial Future Contract Benefits	135,622,648.00
License, Fees and Permits	1,103,398.00
Other Revenues	462,828.82
TOTAL OPERATING REVENUES	**$179,471,042.03**
OPERATING EXPENSES:	
Tuition Contract Benefits and Expenses	$108,630,903.67
Changes in Future Contracts Collections	43,073,042.67
Salaries and Wages	776,678.33
Payroll Related Costs	169,588.52
Professional Fees and Services	7,232,805.13
Travel	4,354.27
Materials and Supplies	110,668.07
Communications and Utilities	49,964.88
Repairs and Maintenance	347,618.94
Rentals and Leases	23,428.15
Printing and Reproduction	44,400.20
Depreciation	10,171.44
Other Operating Expenses	10,019,711.48
TOTAL OPERATING EXPENSES	**$170,493,335.75**
OPERATING INCOME (LOSS)	**$8,977,706.28**
NONOPERATING REVENUES (EXPENSES):	
Interest and Dividend Income	$60,292,638.33
Loan Premiums/Fees on Security Lending	13,641,969.05
Net Increase in Fair Value of Investments	(115,612,905.10)
Investing Activities Expense	(18,080.18)
Borrower Rebates and Agent Fees	(9,005,125.78)
TOTAL NONOPERATING REVENUE (EXPENSE)	**$(50,701,503.68)**
NET INCOME (LOSS)	**$(41,723,797.40)**
CHANGE IN NET ASSETS	**$(41,723,797.40)**
TOTAL NET ASSETS – September 1, 2007	**$(164,596,458.77)**
TOTAL NET ASSETS – August 31, 2008	**$(206,320,256.17)**

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit V
Combined Statement of Cash Flows – All Proprietary Fund Types and Nonexpendable Trust Funds
August 31, 2008

	PROPRIETARY FUND ENTERPRISE (Fund 0892) U/F (0892)
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds Received from Customers	$43,385,565.21
Proceeds from Other Revenues	462,828.82
Payments to Suppliers for Goods and Services	(18,731,408.63)
Payments for Other Expenses (i.e. Universities/Colleges)	(108,630,903.67)
Net Cash Used by Operating Activities	**$(83,513,918.27)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net Cash Provided by Noncapital Financing Activities	**$0.00**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments to Acquire Fixed Assets	**$0.00**
Net Cash Provided by Capital and Related Financing Activities	**$0.00**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	$2,076,454,210.80
Proceeds from Interest and Investment Income	60,647,193.57
Payments to Acquire Investments, Net	(1,974,811,288.48)
Net Cash Used by Investing Activities	**$162,290,115.89**
Increase (Decrease) in Cash and Cash Equivalents	$78,776,197.62
Cash and Cash Equivalents, September 1, 2007	**$59,672,424.00**
Cash and Cash Equivalents August 31, 2008	**$138,448,621.62**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	$8,977,706.28
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Amortization and Depreciation	10,171.44
Change in Assets and Liabilities:	
(Increase) Decrease in Tuition Contracts Receivable	43,091,840.00
Increase (Decrease) Benefits and Expenses Payable	(135,650,789.37)
Increase (Decrease) in Accounts Payables	1,268.62
Increase (Decrease) in Due to Other Agencies	27,206.72
Increase (Decrease) in Accrued Compensable Leave	28,678.04
TOTAL ADJUSTMENTS	**$(92,491,624.55)**
Net Cash Used by Operating Activities	**$(83,513,918.27)**
Disclosure of Accounting Policy On Cash and Cash Equivalents: All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents.	
COMPOSITION OF ENDING BALANCE IN CASH AND CASH EQUIVALENTS	
Cash in State Treasury (Exh. III)	$2,854,772.39
Restricted Cash and Cash Equivalents (Exh. III)	$135,593,849.23
TOTAL, CASH AND CASH EQUIVALENTS	**$138,448,621.62**

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

Exhibit VI
Balance Sheet/Statement of Fiduciary Net Assets – Fiduciary Funds
August 31, 2008

	PRIVATE-PURPOSE TRUST (Fund 0892) U/F (2892 & 3892)
ASSETS	
Cash and Cash Equivalents:	
Cash in State Treasury	$145,253.37
Cash in Bank	85,902.00
Investments (Note 3)	232,636,188.00
Prepaid Expenses	6.00
Receivables From:	
Interest and Dividends	359,884.19
Other Receivables	38,415.33
Investment Trades	393,335.00
TOTAL ASSETS	**$233,658,983.89**
LIABILITIES	
Payables From:	
Accounts	$105,055.65
Investment Trades	349,468.00
Other Liabilities	38,784.00
Deferred Revenues	174,632.24
TOTAL LIABILITIES	**$667,939.89**
NET ASSETS	
Held in Trust For:	
College Saving Plan Contributors	232,991,044.00
TOTAL NET ASSETS	**$232,991,044.00**

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit VII
Combined Statement of Changes to Fiduciary Net Assets – Fiduciary Funds
August 31, 2008

	PRIVATE-PURPOSE TRUST (Fund 0892) U/F (2892 & 3892)
ADDITIONS	
Contributions:	
Account Holder Contributions	$84,028,674.00
Total Contributions	**$84,028,674.00**
Investment Income:	
From Investing Activities	
Net Appreciation (Depreciation) in Fair Value of Investments	$(22,937,456.00)
Interest and Investment Income	5,037,060.08
Total Investing Income (Loss)	**$(17,900,395.92)**
Less Investing Activities Expense	1,021,173.00
Net Income from Investing Activities	$(18,921,568.92)
Other Additions:	
Fees – Adminstrative Service	$63,012.49
Other	0.00
Total Other Additions	**$63,012.49**
TOTAL ADDITIONS	**$65,170,117.57**
DEDUCTIONS	
Distributions Made from Accounts	$55,879,004.00
Professional Fees and Services	66,101.52
Other	107.05
TOTAL DEDUCTIONS	**$55,945,212.57**
NET INCREASE (DECREASE)	**$9,224,905.00**
NET ASSETS – September 1, 2007	$223,766,139.00
NET ASSETS – August 31, 2008	$232,991,044.00

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit I
Combined Balance Sheet/Statement of Net Assets – Governmental Funds
August 31, 2008

	DISCRETE GOVERNMENTAL COMPONENT UNIT Texas Prepaid Higher Education Tuition Scholarship Foundation (Fund 0892) U/F (1892)
ASSETS	
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	$2,741.00
TOTAL ASSETS	**$2,741.00**
LIABILITIES AND FUND BALANCE	
Fund Balance (Deficits):	
Undesignated	$2,741.00
Total Fund Balance	$2,741.00
TOTAL LIABILITIES AND FUND BALANCE	**$2,741.00**

The accompanying notes to the financial statements are an integral part of this financial statement.

Exhibit II
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/ Statement of Activities – Governmental Funds
August 31, 2008

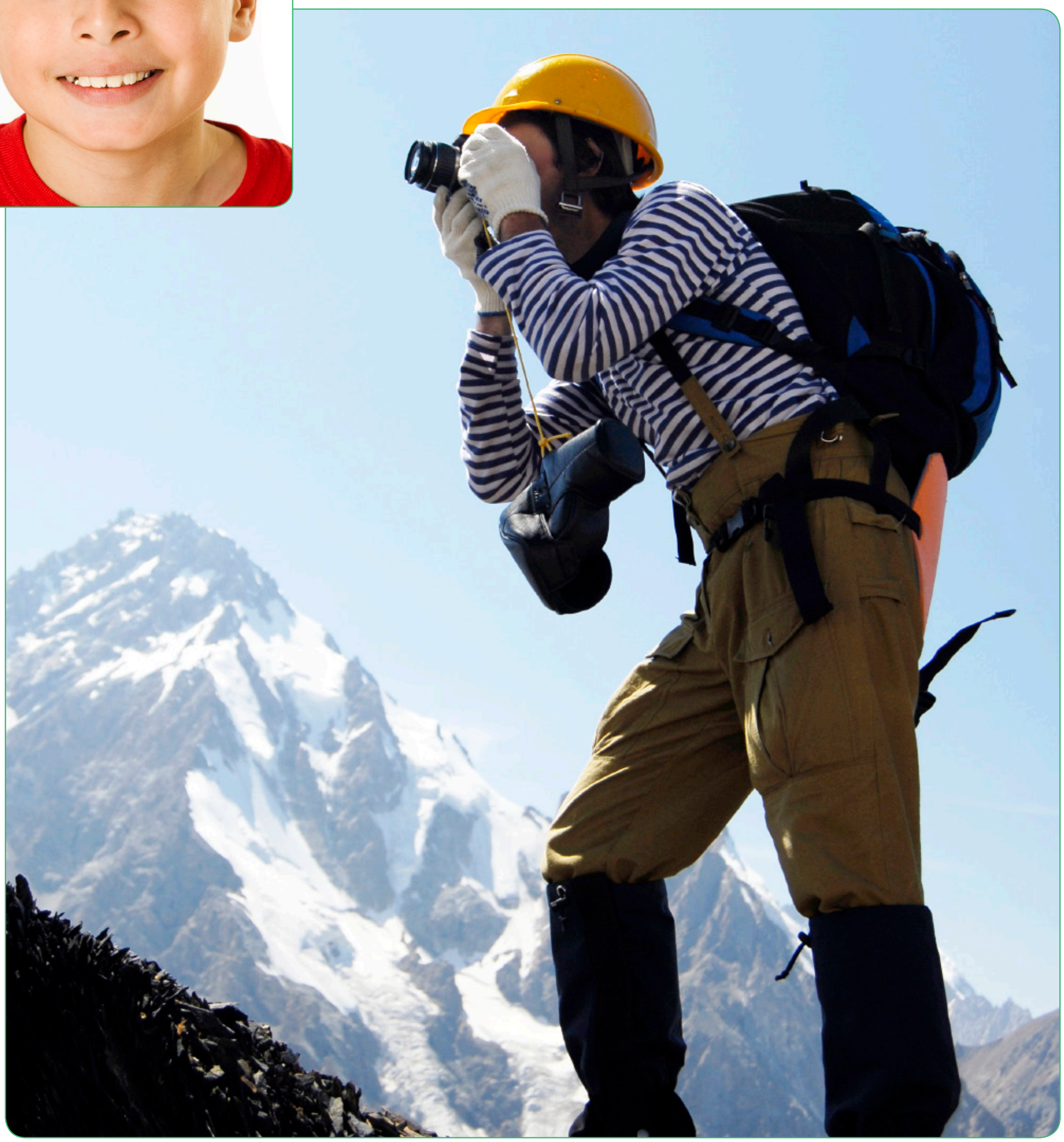
	DISCRETE GOVERNMENTAL COMPONENT UNIT Texas Prepaid Higher Education Tuition Scholarship Foundation (Fund 0892) U/F (1892)
REVENUES	
License, Fees and Permits	
Contributions and Donations	
TOTAL REVENUES	$0.00
EXPENDITURES	
Other Expenditures:	
Scholarships Purchased	
TOTAL EXPENDITURES	**$0.00**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	
Fund Balance – September 1, 2007	$2,741.00
Fund Balance – August 31, 2008	$2,741.00

The accompanying notes to the financial statements are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

TEXAS GUARANTEED TUITION PLAN

NOTES TO THE FINANCIAL STATEMENTS



TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
BASIC FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ENTITY

The Texas Prepaid Higher Education Tuition Board (Board) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements of State Agencies.

The Texas Prepaid Higher Education Tuition Board is chaired by Comptroller Susan Combs and includes two members appointed by the Governor and four members appointed by the Lt. Governor (the House Speaker submits the names of two persons to the Lt. Governor). By law, these board members must have experience in higher education, business or finance.

The agency operates the Texas Prepaid Higher Education Tuition Programs, also known as the *Texas Tomorrow Funds*, under the authority of House Bill 1214 enacted by the Legislature in May 1995 and signed by the Governor in June 1995. In May 2001, the 77th Legislature passed Senate Bill No. 555 that authorized the Texas Prepaid Higher Education Tuition Board to offer a college savings plan in addition to its prepaid tuition program. Because of this second option for saving for college, the name of the original prepaid program was changed from the *Texas Tomorrow Fund* to the *Texas Guaranteed Tuition Plan*.

The *Texas Guaranteed Tuition Plan* is a unique program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees today. The program is flexible and offers a variety of college plans and payment options. Since the program began, over 158,000 prepaid tuition contracts have been sold.

The Board selected Enterprise Capital Management as plan manager for the new college savings plan, which is named *Tomorrow's College Investment Plan*. The plan offers contributors a variety of investment options and was launched on September 4, 2002. The assets can be used for tuition and fees, certain room and board expenses, books and required supplies and equipment at any accredited post-secondary school that is eligible to participate in federal student financial aid programs. This includes most public or private universities, graduate schools, community colleges and vocational schools. As contractually required, Enterprise provided funds to the Board during the fiscal year for the marketing and reimbursement of state administrative costs to implement and oversee the new plan.

The Enterprise contract expired on August 31, 2007, but was extended to allow for transition to a new plan manager, OFI Private Investments, Inc., a subsidiary of OppenheimerFunds, Inc., effective November 19, 2007.

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

Blended Component Units

No component units have been identified which should have been blended into an appropriate fund.

Discrete Component Units

These component units are legally separate from the state, but are financially accountable to the state, or have a relationship with the state such that exclusion would cause the financial statements to be misleading. The component unit column of the financial statements includes financial data of the following entity:

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (the "Foundation") was created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54.633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member appointed by the Governor.

FUND STRUCTURE

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.

2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges.

3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Financial activity for the *Texas Guaranteed Tuition Plan* (Fund 0892) is reported as an enterprise fund.

FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

Private-Purpose Trust Funds

Private-Purpose Trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Financial activity for *Tomorrow's College Investment Plan* (Funds 2892 and 3892) is reported as a private-purpose trust fund.

COMPONENT UNITS

Governmental Component Units are used to account for discretely presented component units that follow governmental fund accounting principles. The financial activity for the Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Fund 1892) is reported as a governmental component unit.

BASIS OF ACCOUNTING

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are generally recognized when the related fund liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual method of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments and full accrual revenues and expenses. The activity will be recognized in these fund types.

Proprietary funds, pension trust funds, external investment trust funds and private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for the enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets.

Prepaid tuition contracts represent probable future economic benefits to the agency and are legally enforceable agreements. Tuition contract revenue is recognized in the year the contracts are entered into with a purchaser and are recorded at the future discounted contract payments adjusted for unearned interest and estimated cancellations. Application fees are recognized as revenue when the application is accepted.

The accounts of the Foundation are maintained in accordance with the principles of not-for-profit accounting using the Governmental accounting model.

BUDGETS AND BUDGETARY ACCOUNTING

The Board at the beginning of each fiscal year adopts an annual operating budget. This expenditure budget includes all administrative and marketing costs for both the prepaid tuition and college savings programs and totaled $10,779,123.00 for the fiscal year ended August 31, 2008.

ASSETS, LIABILITIES AND FUND BALANCES/NET ASSETS

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. For purposes of reporting cash flows, the Fund considers cash and cash equivalents as money market accounts, certificates of deposit, and Government obligations with original maturities of three months or less from the date of purchase. The Fund carrying amount of deposits and bank balances held by the state treasury was $2,854,772.39 for the Texas Guaranteed Tuition Plan, $231,155.37 for Tomorrow's College Investment Plan, and $2,741.00 for the Texas Higher Education Tuition Scholarship Foundation, Inc. at August 31, 2008, all of which were fully collateralized or insured. A total of $135,593,849.23 was invested in the investment custodian's short-term investment funds and U. S. Treasury Securities at August 31, 2008.

Investments and Securities Lending Collateral

Investments are stated at fair value in all funds in accordance with GASB Statement 31 - *Accounting and Financial Reporting for Certain Investments and for External Investment Pool*. Securities lent are reported as assets on the balance sheet. The costs of securities lending transactions are reported as expenses in the operating statement. These costs are reported at gross.

Interest and Dividends Receivables

This includes interest and dividends accrued on investments and the depository interest earned by the State Treasury at year-end that will not be deposited to the Fund until after the end of the fiscal year.

Investment Trade Receivables

This represents investment sales that occurred on or before fiscal year end for which cash payment will be received after fiscal year end.

Tuition Contracts Receivable

The prepaid tuition plan records tuition contracts receivable at the actuarial present value (APV) of future discounted contract payments adjusted for unearned interest and estimated cancellations. Any portion due within the next 12 months will be classified as short-term; otherwise, classification as a long-term receivable is appropriate.

Capital Assets

Assets with an initial, individual cost of more than $5,000.00 and an estimated useful life in excess of one year should be capitalized. Proprietary fund purchases of fixed assets are reported in those funds at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair market value on the acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method. The accumulated depreciation account records the accumulation of periodic deductions from capital assets to account for the expiration of service life of the asset.

LIABILITIES

Accounts Payable

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

Investment Trade Payables

This account represents the liability for investment purchases that occurred on or before fiscal year end for which cash payment will be made after fiscal year end.

Contract Benefits and Expenses Payable

The prepaid tuition plan records contract benefits payable at the actuarial present value (APV) of future tuition obligation, which is adjusted for the effects of projected tuition and fee increases and termination of contracts. Any portion due within the next 12 months will be classified as current; otherwise, classification as a noncurrent liability is appropriate.

Employees' Compensable Leave

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

FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is 'Net Assets' on the government-wide, proprietary and fiduciary fund statements, and 'Fund Balance' is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

Unreserved/Undesignated

This represents the unappropriated balance at year-end of special funds.

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

Unrestricted Net Assets

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

INTERFUND ACTIVITIES AND BALANCES

The Board has the following transactions between and within state funds:

(1) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

(2) Reciprocal Activities (Interfund Sales and Purchases): Charges or collections of services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures of expenses of the disbursing fund.

The composition of the agency's Interfund activities and balances are presented in Note 8.

NOTE 2: CAPITAL ASSETS

A summary of changes in Capital Assets for the year ended August 31, 2008, is presented below:

	PRIMARY GOVERNMENT							
			RECLASSIFICATIONS					
	Balance 09/01/07	Adjustments	Completed CIP	Increase-Int'agy Transfer	Decrease-Int'agy Transfer	Additions	Deletions	Balance 08/31/08
Business-type Activities:								
Depreciable Assets:								
Furniture and Equipment	$2,269,002.70					15,681.40		$2,284,684.10
Less Accumulated Depreciation for:								
Furniture and Equipment	(2,255,517.60)					(10,171.44)		(2,265,689.04)
Net Depreciable Assets	13,485.10	$ -	$ -	$ -	$ -	5,509.96	$ -	18,995.06
NET BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS	$13,485.10	$ -	$ -	$ -		$5,509.96	$ -	$18,995.06

NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

House Bill No. 9 amended Section 54.636 (e), Education Code, on May 7, 1997, to authorize the Board to make investments following the "prudent person rule". There were no significant violations of legal provisions during the period.

DEPOSITS OF CASH IN BANK

The *Texas Guaranteed Tuition Plan's* investment policy allows its investment managers to hold cash and cash equivalents for liquidity in the portfolio and to facilitate trading. They are included as "Restricted Cash in Bank" on the statement of net assets.

Business-type Activities	Proprietary Funds	Private Purpose Trust	Total
Cash in Bank – Carrying Value	$497,862.09	$85,902.00	**$583,764.09**
Cash in Bank per Annual Financial Report	$497,862.09	$85,902.00	**$583,764.09**
Proprietary Funds Current Assets Restricted Cash in Bank	$497,862.09	$85,902.00	**$583,764.09**
Cash in Bank per Annual Financial Report, as above	$497,862.09	$85,902.00	**$583,764.09**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or collateral securities that are in the possession of an outside party. The agency's investment policy requires its investment custodian to perform an annual creditworthiness review of sub-custodians and security lending borrowers in order to minimize custodial credit risk. As of August 31, 2008, the agency's bank balances that were exposed to custodial credit risk are shown below:

Fund Type	GAAP Fund	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution's Trust Department or Agent but Not in the State's Name
05	0892	$583,764.09	$ -	$ -
TOTALS		**$583,764.09**	$ -	$ -

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The agency's policy is to limit investments subject to foreign currency risk to 5.00% of total investments. The exposure to foreign currency risk for deposits as of August 31, 2008, is as follows:

Fund Type	GAAP Fund	Foreign Currency	Cash in Bank
05	0892	British Pound Sterling	$637.81
05	0892	Euro	1,783.04
05	0892	Japanese Yen	495,313.82
05	0892	Swiss Franc	(0.01)
05	0892	Singapore Dollar	127.43
TOTALS			**$497,862.09**

INVESTMENTS

The carrying value and fair values of short-term and long-term investments as of the balance sheet date are shown below:

Business-type Activities	Carrying Value	Fair Value	Percent of Total
U. S. Government:			
U. S. Treasury Securities	$86,605,646.07	$86,605,646.07	4.23%
U.S. Government Agency Obligations	140,819,975.39	140,819,975.39	6.88%
Corporate Obligations	211,929,111.51	211,929,111.51	10.36%
Corporate Asset and Mortgage Backed Securities	87,302,781.25	87,302,781.25	4.27%
Commercial Paper	9,988,317.02	9,988,317.02	0.49%
Equity	557,929,875.98	557,929,875.98	27.26%
International Obligations (Govt. and Corp)	147,876,496.88	147,876,496.88	7.23%
International Equity	241,625,685.90	241,625,685.90	11.81%
Other Commingled Funds – Cash Equivalents at International Sub-custodian Banks	19,424,968.62	19,424,968.62	0.95%
Other Commingled Funds – Short Term Investment Fund	113,510,498.91	113,510,498.91	5.55%
Other Commingled Funds – Northern Trust Co. S & P 500 Fund	122,211,183.46	122,211,183.46	5.97%
Securities Lending Collateral Investment Pool	307,192,014.42	307,192,014.42	15.01%
TOTALS	**$2,046,416,555.41**	**$2,046,416,555.41**	**100.00%**
Business-type Activities investments consists of the following:			
Proprietary Funds Current Invested Security Lending Collateral		$307,192,014.42	
Proprietary Funds Current Restricted Cash Equivalents		135,095,987.14	
Proprietary Funds Non-Current Restricted Investments		1,604,128,553.85	
TOTAL , AS ABOVE		$2,046,416,555.41	

Fiduciary Funds	Carrying Value	Fair Value	Percent of Total
Other Commingled Funds – Mutual Fund Investments	$232,636,188.00	$232,636,188.00	100.00%
TOTALS	**$232,636,188.00**	**$232,636,188.00**	**100.00%**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The agency's investment policy requires its investment custodian to perform an annual creditworthiness review of sub-custodians and security lending borrowers in order to minimize custodial credit risk.

As of August 31, 2008, none of the agency's investments were exposed to custodial credit risk.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The agency's policy is to limit investments subject to foreign currency risk to 5.00% of total investments. The exposure to foreign currency risk as of August 31, 2008, is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt. and Corp)	International Equity	Other Commingled Funds (Cash Equivalents at International Sub-custodian Banks)
05	0892	Australian Dollar	$24,975,123.37	$10,567,206.46	
05	0892	Danish Krone		5,483,708.26	
05	0892	Canadian Dollar	8,426,357.00		
05	0892	Swiss Franc		15,712,365.41	
05	0892	Euro	17,678,834.18	83,381,745.80	$39,750.75
05	0892	British Pound Sterling	13,973,187.21	40,397,861.37	1,776,527.44
05	0892	Hong Kong Dollar		4,251,834.78	
05	0892	Iceland Krona	4,151,110.24		
05	0892	Indonesian Rupiah			
05	0892	Japanese Yen		35,954,582.82	
05	0892	South Korean Won			
05	0892	Malaysian Ringgit	14,062,767.18		
05	0892	New Zealand Dollar	8,316,364.45	679,038.52	
05	0892	Norwegian Krone			
05	0892	Phillipine Peso			
05	0892	Polish Zloty	11,650,435.65		
05	0892	Swedish Krona	7,344,901.48	1,666,679.64	
05	0892	Singapore Dollar	4,470,444.72	1,836,398.09	110,305.82
05	0892	Thai Baht			
05	0892	South African Rand	8,421,652.29	1,067,178.69	
TOTAL SECURITIES SUBJECT TO FOREIGN CURRENCY RISK			123,471,177.77	200,998,599.84	1,926,584.01
International Securities Denominated in U.S. Dollars			24,405,319.11	40,627,086.06	17,498,384.61
TOTAL INTERNATIONAL SECURITIES			$147,876,496.88	$241,625,685.90	$19,424,968.62

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of the agency limits investments in debt securities so that the overall average investment grade for its fixed income portfolio is "A" or better as rated by Standard & Poor's or Moody's national statistical rating organization. As of August 31, 2008, the agency's credit quality distribution for securities with credit risk exposure was as follows:

STANDARD AND POOR'S

Investment Grade Rating	Total Debt Securities	U.S. Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations (Note B)	Corporate Asset and Mortgage Backed Securities	Commercial Paper	International Obligations (Govt and Corp)
AAA	$371,670,575.93	$86,605,646.07	$140,819,975.39		$62,244,758.12		$82,000,196.35
AA	17,137,726.76			$10,801,827.04			6,335,899.72
A	74,815,326.73			41,153,138.38	5,227,280.00		28,434,908.35
BBB	71,150,495.25			62,241,059.26	3,680,358.24		5,229,077.75
BB	47,972,768.42			41,547,893.42			6,424,875.00
B	52,830,143.30			50,517,893.30			2,312,250.00
CCC	426,250.00			426,250.00			
NR (Note A)	48,152,641.74			4,874,650.12	16,150,384.89	9,988,317.02	17,139,289.71
TOTALS	**$684,155,928.13**	**$86,605,646.07**	**$140,819,975.39**	**$211,562,711.52**	**$87,302,781.25**	**$9,988,317.02**	**$147,876,496.88**

Note A: Not Rated securities..
Note B: Excludes $366,399.99 in Corporate Obligations for Bank Loan Purchase of rental svcs Corp.

MOODY'S

Investment Grade Rating	Total Debt Securities	U.S. Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations (Note B)	Corporate Asset and Mortgage Backed Securities	Commercial Paper	International Obligations (Govt and Corp)
AAA	$356,553,178.63	$86,605,646.07	$140,819,975.39		$62,429,129.81		$66,698,427.36
AA	18,365,875.64			$10,145,957.08	3,036,837.25		5,183,081.31
A	77,910,767.57			34,287,081.99	3,309,061.01		40,314,624.57
BAA	66,249,657.01			54,515,137.83	3,680,358.24		8,054,160.94
BA	39,535,348.50			34,154,536.00			5,380,812.50
B	67,581,455.80			64,225,143.30			3,356,312.50
Caa	800,000.00			800,000.00			
NR (Note B)	57,159,644.98			13,434,855.32	14,847,394.94	$9,988,317.02	18,889,077.70
TOTALS	$684,155,928.13	$86,605,646.07	$140,819,975.39	$211,562,711.52	$87,302,781.25	$9,988,317.02	$147,876,496.88

Note A: Not Rated securities.
Note B: Excludes $366,399.99 in Corporate Obligations for Bank Loan Purchase of rental svcs Corp.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The agency's investment policy restricts each fixed income investment manager to purchases of no more than 5.00% and to holdings of no more than 10.00% of its assets in the securities of a single entity other than issues of the U.S. Government or it's agencies. Based on the investment policy, holdings of an equity investment manager are generally not to exceed 3.00% of the amount of shares outstanding for an individual issuer. As of August 31, 2008, no single issuer of the agency's investments, other than mutual funds or external investment pools, exceeded 5.00%; thus, no concentration of credit disclosure is required by GASB.

Interest rate risk s the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the agency manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its business type investment portfolio to seven years or less for domestic fixed income and ten years for global securities. The agency's interest rate risk at August 31, 2008, is as follows:

Investment Type	Fair Value	Effective Duration
U. S. Government:		
U. S. Treasury Securities	$86,605,646.07	4.97
U.S. Government Agency Obligations	140,819,975.39	12.25
Commercial Paper	9,988,317.02	0.06
Corporate Obligations	211,929,111.51	6.00
Corporate Asset and Mortgage Backed Securities	87,302,781.25	13.37
International Obligations (Govt and Corp)	147,876,496.88	6.21
TOTAL INTEREST RATE RISK DEBT SECURITIES	$684,522,328.12	
Effective Duration for Debt Security Portfolio		8.05

Note: Effective duration is weighted by fair value of each security and is expressed in years.

The agency holds $117,920,489.94 in government mortgage backed securities and $45,777,189.58 in commercial mortgage backed securities that are both highly sensitive to changes in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

SECURITIES LENDING

The Board authorized the agency to contract with its investment custodian to participate in a security-lending program for investment of the *Texas Guaranteed Tuition Plan*. Types of securities lent included domestic common stocks, foreign common stocks, government bonds, government agencies, and corporate bonds. There are no restrictions on the amount of securities that can be lent. The agency had $307,192,014.42 in market value of securities out on loan to broker/dealers at August 31, 2008. $298,440,447.03 of these securities had cash collateral pledged while $8,751,567.39 of the loaned securities had non-cash collateral pledged.

In securities lending transactions, the agency transfers its securities to broker-dealers and other entities for collateral, which may be cash or securities, and simultaneously agrees to return the collateral cash or the same securities in the future. The agency's investment custodian, Northern Trust Company, invests the cash received as collateral and, if the return on those investments exceeds the "rebate" paid to the borrowers of the securities, the security lending transactions generate income for the agency. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss on principal, part of the payment to the borrower would come from the agency's resources. The borrower will pay a "loan premium or fee" for the securities loan, thus generating income for the agency.

Collateral may include cash, U.S. government securities and irrevocable letters of credit at a value of 102% of market value plus accrued interest for U. S. securities loaned and 105% plus accrued interest for non-U.S. securities. Non-cash collateral cannot be pledged or sold unless the borrower defaults. At year-end, the agency has no credit risk exposure to borrowers because the amounts the agency owes to borrowers exceed the amounts the borrowers owe the agency. Contracts with the lending agents require them to indemnify the agency if the borrowers fail to return the securities. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

All security loans can be terminated on demand by either the lender or borrower. The average term for the Texas Prepaid Higher Education Tuition Board's overall loans was 75 days as of August 31, 2008. The maturities of the cash collateral investments are closely matched to the security loan terms in order to minimize risk and more closely match cash flows. The agency's custodian invests cash open collateral in a short-term investment pool, which had an average weighted maturity of 36 days during the year. Funds can be withdrawn from the short-term investment pool, as cash collateral needs to be returned. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term.

During fiscal year 2008 related to security lending, the agency had gross earnings of $11,780,719.92, paid rebates of $9,440,895.88 and bank fees of $564,848.96. The net income earned from security lending was $1,774,975.08.

NOTE 4: SHORT-TERM DEBT

(Not Applicable)

NOTE 5: SUMMARY OF LONG-TERM LIABILITIES

CHANGES IN LONG-TERM LIABILITIES

During the year ended August 31, 2008, the following changes occurred in liabilities:

Business-type Activities	Balance 09/01/07	Additions	Reductions	Balance 08/31/08	Amounts Due Within One Year
Employees' Compensable Leave	$53,225.39	$88,292.04	$59,614.00	$81,903.43	$59,599.06
Liabilities Payable from Restricted Assets - Contract Benefits and Expenses	2,260,477,519.00		135,629,876.00	2,124,847,643.00	212,668,464.00
TOTAL BUSINESS-TYPE ACTIVITIES	**$2,260,530,744.39**	**$88,292.04**	**$135,689,490.00**	**$2,124,929,546.43**	**$212,728,063.06**

EMPLOYEES' COMPENSABLE LEAVE

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State government, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits.

NOTE 6: CAPITAL LEASES

(Not Applicable)

NOTE 7: OPERATING LEASE OBLIGATIONS

(Not Applicable)

NOTE 8: INTERFUND BALANCES/ACTIVITIES

The agency had no interfund activity to report for fiscal 2008. Amounts Due to Other Agencies at August 31, 2008, are as follows:

Current portion	Current Interfund Receivable	Current Interfund Payable
Enterprise Fund (05)		
TOTAL INTERFUND RECEIVABLE/PAYABLE	$ -0-	$ -0-

Non-current portion	Non-current Interfund Receivable	Non-current Interfund Payable	Purpose
Enterprise Fund (05)			
TOTAL INTERFUND RECEIVABLE/PAYABLE	$ -0-	$ -0-	

Current portion	Due From Other Agencies	Due To Other Agencies	Source
Appd Fund 0892 and D23 Fund 0892		$ 96,979.07	Reimbursement
(Agency 304, D23 Fund 0001)			
Appd Fund 0892 and D23 Fund 4892		$ 2,819.41	Reimbursement
(Agency 304, D23 Fund 0001)			
TOTAL DUE FROM/TO OTHER AGENCIES (EXH. I)	$ -0-	$ 99,798.48	

	Legislative TRANSFERS IN	Legislative TRANSFERS OUT
Enterprise Fund (05)		
TOTAL LEGISLATIVE TRANSFERS	$ -0-	$ -0-

NOTE 9: CONTINGENT LIABILITY

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid to the employee only in case of illness or to the employee's estate in the event of his/her death while employed by the agency. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The agency's policy is to recognize the cost of any sick leave when paid. The liability is not recorded in the agency's funds since experience indicates the likely expenditure for sick-leave settlements to be minimal.

NOTE 10: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, this agency will be abolished effective September 1, 2019, unless continued in existence by the Legislature as provided by the Act. If abolished, this agency may continue until September 1, 2020, to close out its operations.

NOTE 11: RISK FINANCING AND RELATED INSURANCE

Presented below is the total tuition benefits obligation of the Fund based upon the actuarial present value (APV) of the future tuition obligation. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. Net assets available represent assets in the program at market value and the future discounted contract payments adjusted for estimated cancellation based upon the actuarial assumptions and evaluations.

	August 31, 2008
APV of Future Benefits Payable	
Future contract benefits and expenses	$2,124,847,643
Total Assets Available	$1,918,527,387
Total Assets as a Percentage of Tuition Benefits Obligation	**90.3%**

The following Board approved assumptions were used in the actuarial evaluations:

* Investment Rates:	The investment yield assumption ranges from 6.8% per year for 2009-2015, 6.7% for 2016; 6.6% for 2017; 5.8% for 2018; and 5.4% for the remaining life of the program.
* Tuition and Required Fees Increases:	The senior public college tuition increases were estimated as 6.3% for the 2008/2009 academic year, and thereafter.
	The junior college tuition increases were estimated as 5.2% for the 2008/2009 academic year, and thereafter.
	The private university tuition increases were estimated as 7.3% for the 2008/2009 academic year, and thereafter.
* Future New Entrants:	It was assumed that no new contracts would be sold in the future.

Note: Assumptions for this report are preliminary and are based on unaudited numbers.

NOTE 12: SEGMENT INFORMATION

(Not Applicable)

NOTE 13: BONDED INDEBTEDNESS

(Not Applicable)

NOTE 14: SUBSEQUENT EVENTS

Due to changes in the market, the value of investment assets declined significantly after the close of the fiscal year ending August 31, 2008. The following chart compares the balances at August 31, 2008, and October 31, 2008:

Asset	Per August 31, 2008	October 31, 2008	Net Decrease
Securities Lending Collateral	$307,192,014.42	$213,041,049.63	($94,150,964.79)
Cash Equivalents	$135,095,987.14	$87,059,530.60	($48,036,456.54)
Non-Current Investment Assets	$1,604,128,553.85	$1,311,116,149.64	($293,012,404.21)
TOTALS	**$2,046,416,555.41**	**$1,611,216,729.87**	**($435,199,825.54)**

The overall portfolio declined (18.6%) between August 31, 2008, and October 31, 2008.

NOTE 15: RELATED PARTIES

The State Comptroller serves as the chairman and executive director of the seven-member board. The Comptroller of Public Accounts provides financial and staff support to conduct and administer the day-to-day operations of the program and the direct-support foundation. Program salaries and related benefit expenses/expenditures are reimbursed on a monthly basis and totaled $946,266.85 for the fiscal year; general office supply expenses are reimbursed on an annual basis and totaled $13,529.00 for the fiscal year.

NOTE 16: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Economic Growth and Tax Relief Reconciliation Act of 2001 made significant changes to Section 529 of the Internal Revenue Code. Distributions from qualified tuition programs that are used for qualified higher education expenses are currently exempt from federal income tax. This exemption was scheduled to expire on December 31, 2010. The Pension Protection Act (H. R. 4), which was signed by President Bush on August 17, 2006, made the exemption permanent.

At August 31, 2008, the *Texas Guaranteed Tuition Plan* had a projected deficit of $206,320,256.00 compared to a deficit of $164,341,863.00 at August 31, 2007. The deficit is determined by comparing estimated future contract collections and investment earnings to the projected value of future contract benefits to be paid. The significant increase in the projected deficit reflects the impact of a lower than expected return on investments. The assumption at August 31, 2007, for the FY 2008 rate of return was 8.0%; however, the actual rate of return was (3.7)%.

NOTE 17: THE FINANCIAL REPORTING ENTITY AND JOINT VENTURES

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon criteria established by GASB 14, the Board is not a component unit of the Comptroller of Public Accounts for the state of Texas. The Texas Prepaid Higher Education Tuition Scholarship Foundation is a direct-support organization of the Board, and is presented as a component unit in its financial report.

NOTE 18: RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS

(Not Applicable)

NOTE 19: EMPLOYEES RETIREMENT PLANS

(Not Applicable – Note only included by an administering Agency)

NOTE 20: DEFERRED COMPENSATION

(Not Applicable – Note only included by an administering Agency)

NOTE 21: DONOR-RESTRICTED ENDOWMENTS

(Not Applicable)

NOTE 22: MANAGEMENT DISCUSSION AND ANALYSIS

The following events occurred at the agency during fiscal year 2008:

The Texas Guaranteed Tuition Plan's net assets, which are reported in an Enterprise Fund, decreased $41.7 million due to several factors.

- Total Investments at August 31, 2008, were $1,604,147,548.91 compared to $1,810,471,512.48 at August 31, 2007. The difference is due in part to an adjustment to mark assets to market that resulted in an increase in the Unrealized Loss on Investments of $211.6 million when compared to the prior fiscal year.

- The estimated average tuition and required fee increase for fiscal 2008 for Texas public senior colleges was 8.00% for all unfunded contracts at August 31, 2007. However, actual fiscal 2008 increases were less than that projection at 6.34% for senior college contracts, 0.0% for junior college contracts, and 7.25% for private university contracts. The impact is a favorable variance of $135.6 million when comparing the projected liability of $2,124,847,643.00 at August 31, 2008, to the August 31, 2007, projected liability of $2,260,477,519.00.

The Board suspended new enrollment in the prepaid tuition plan in June 2003 when tuition rates were deregulated. The Board annually reviews the tuition rates at Texas colleges and assesses the feasibility of selling future contracts. In fiscal 2008, the Board adopted a rule 7.42 that established criteria and procedures to guide the Board in determining when and under what conditions to re-open new enrollment in the Texas Guaranteed Tuition Plan.

Net Assets of Tomorrow's College Investment Plan as reported in the fiduciary fund statements increased $9.2 million in fiscal 2008, for an ending total of $232,991,044.00 at August 31, 2008, compared to $223,766,139.00 at August 31, 2007. The agency received $63,012.49 in administrative fees. Fiscal 2008 highlights of the plan included:

- Account Holder Contributions totaled $84,028,674.00 compared to $49,625,517.00 in the prior fiscal year.
- Net Income from Investments totaled $18,921,568.92 compared to $20,711,539.54 in the prior fiscal year.
- Distributions to Account Holders totaled $55,879,004.00 compared to $21,900,684.00 in the prior fiscal year.

NOTE 23: POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

(Not Applicable)

NOTE 24: SPECIAL OR EXTRAORDINARY ITEMS

(Not Applicable)

NOTE 25: DISAGGREGATION OF RECEIVABLE AND PAYABLES BALANCES

(Not Applicable)

NOTE 26: TERMINATION BENEFITS

(Not Applicable)

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

December 9, 2008

To the Board of Directors
of the Texas Prepaid Higher Education Tuition Board

We have audited the financial statements of the Texas Prepaid Higher Education Tuition Board (the "Board") for the year ended August 31, 2008, and have issued our report thereon dated December 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our Professional Accounting Services Agreement dated July 26, 2006, as amended on August 13, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Board's compliance with those requirements.

MJ

Fraud Risk

We have performed the procedures required by the Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, including discussion with management regarding the policies and procedures to prevent fraud. Management has represented to us that they have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal control, or (c) others, where the fraud could have a material effect on the financial statements. Management has further represented to us that they have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, or others.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Board are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended August 31, 2008. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the accumulated plan benefits.

Management's estimate of the accumulated plan benefits is based on valuation performed by a consulting actuary by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements, such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. We evaluated the key factors and assumptions used to develop the accumulated plan benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Board's financial reporting process (that is, cause future financial statements to be materially misstated). No adjustments were proposed during the audit.

MJ

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of the Texas Prepaid Higher Education Tuition Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McConnell & Jones LLP

TEXAS GUARANTEED TUITION PLAN

ACTUARY'S REPORT

On Program Soundness, August 31, 2008

as Produced by

buckconsultants
an ACS company

TABLE OF CONTENTS

SECTION I – EXECUTIVE SUMMARY

ADEQUACY OF THE FUND

As of August 31, 2008, the Plan had an unfunded liability of $206,320,256. The unfunded liability represents the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present value of the expected future tuition and required fees, refunds and expenses. The unfunded liability is $41,978,393 higher than last year's unfunded liability of $164,341,863. The two primary sources of change are:

a) Investment asset performance of (2.97%), 10.97% below the assumed investment return of 8.00%. The result was an asset loss of $201.2 million.

b) Assumption Changes. Based on the 2008 Experience Study data and the projected returns as developed by the plan's investment advisor, we modified the assumed interest rate, rate of increase in tuition, community college bias, surrender rates and utilization rates. The changes in assumptions resulted in a $116.9 million increase in the unfunded liability..

The table below summarizes current balances:

	Balance
ASSETS	
Investments	$1,743,659,622
Future Contract Collections	174,867,765
TOTAL ASSETS	**$1,918,527,387**
LIABILITIES AND SURPLUS	
Future Contract Benefits and Expenses	$ 2,124,847,643
Deficit of Assets over Liabilities	(206,320,256)
TOTAL LIABILITIES AND SURPLUS (DEFICIT)	**$1,918,527,387**

The program's funded ratio is 90.3%.

The assumptions used to measure the adequacy of the Plan, which were approved by the Board, are stated in Section III. The most important assumptions are:

The investment yield;
The rate of increase in tuition/fees;
Withdrawal rates;
Future new entrants; and
Expense.

INVESTMENT YIELD

The investment yield is the expected long-term net earnings rate of return on the assets.

The actuarial valuation of the Plan was determined using the schedule of interest rates found in Section III. We also assumed the Plan is exempt from federal income tax. It is important to highlight the sensitivity of this analysis to this assumption. As pointed out subsequently, a 25-basis points shortfall in such a goal would place the Plan in a much less favorable position. Additionally, the nature of this type of program involves payment of benefits at fixed future points in time, subjecting the Plan to greater than average investment risk due to short-term fluctuation and in matching investment maturities with expected outlays.

RATE OF INCREASE IN TUITION/FEES

Under statutory changes approved in 2003 by the Texas Legislature, the amount of tuition and required fees paid for each beneficiary who uses a Public Senior College contract to attend a Public Senior College will be the lesser of: 1) actual tuition and required fees; or 2) the weighted average tuition and required fees of all Texas public colleges and universities. Under this formula, Texas colleges and universities must accept this amount as payment in full for a beneficiary who attends a Public Senior College using plan benefits.

Tuition and fee increases assume effective management of the schools as well as general inflation, the rate of increase in state support and real improvements in the quality of educational services. After careful analysis, the Board selected tuition and fee increase assumptions above an expected rate of inflation. The assumed annual increases are 6.3% for Public Senior Colleges, 5.2% for Junior Colleges and 7.3% for Private Universities.

FUTURE NEW ENTRANTS

New contracts in future years would serve: a) to expand the base for spreading fixed expenses; b) to increase the likelihood that the Plan average tuition cost will not exceed Weighted Average Tuition (WAT) by a significant amount; and c) to ensure a large enough fund balance to invest profitably.

In 2003 the Board suspended new enrollment in the Plan. For purpose of the actuarial analysis in this report, it is assumed that no future contracts will be sold.

EXPENSE

In our analysis we provide an expense provision for records administration charges and for general expenses. The provision for fiscal year 2009 is $32 per contract that we assumed will increase 3.5% per year for inflation.

BIAS AGAINST THE PROGRAM BY PURCHASERS AND BENEFICIARIES

Bias is the result of rational decisions by purchasers and beneficiaries. Bias against the Plan is expected and is intrinsic to the purpose of a prepaid tuition program. A basic reason for establishing the Texas Guaranteed Tuition Plan is that the purchase of a contract will increase the commitment of the purchaser to a belief the beneficiary will become qualified to enter college and that the ownership of a contract will cause the beneficiary to be comfortable with a commitment to academic achievement.

Bias against the Plan causes the amount the Plan pays to exceed the WAT. WAT is the average tuition/fees weighted by the number of full-time equivalent students. Bias refers to the degree to which the Texas Guaranteed Tuition Plan beneficiaries choose to attend the higher priced school and so cause the Plan to pay out more tuition/fee benefits.

According to the amendments to state law, under statutory changes approved in 2003 by the Texas Legislature, the amount of tuition and required fees paid for each beneficiary who uses a Public Senior College contract to attend a Public Senior College will be the lesser of: 1) actual tuition and required fees; or 2) the weighted average tuition and required fees of all Texas public colleges and universities. Under this formula, Texas public colleges and universities must accept this amount as payment in full for a beneficiary who attends a Public Senior College using plan benefits.

The statutory change removes the bias against the Plan by the Plan beneficiaries choosing to attend the higher priced school, because the maximum tuition/fees payout is limited by the WAT.

However, these amendments do not apply to community colleges. The assumed bias load was increased to 10.0% (previously, 8.6%) for community colleges.

USE OF REPORT

This report is prepared solely to assist the Board of the Texas Guaranteed Tuition Plan in evaluating the actuarial soundness of the Plan each year. The report is not intended and is not suitable for any other purpose. Accordingly, Buck Consultants does not intend this report or the data contained therein to be used as personal financial advice. Other readers of this report should consult with their own financial advisors regarding the application of this report to their particular circumstances.

SECTION II – SUMMARY OF CONTRACT DATA AND CURRENT ASSETS

CONTRACT DATA

A contract inventory report as of August 31, 2008 was extracted from Plan data. The contract inventory report presents the number of credit hours issued net of cancellations by contract type, number of years of tuition, grade or age of beneficiary and payment option.

The contracts issued in 1996 were for 30 credit hours. The contracts issued after 1996 were for 32 credit hours. The credit inventory as of August 31, 2008 is summarized in the following table.

The number of active contract counts (for all enrollment years combined) by plan type and projected year of matriculation is included in Appendix A.

Payment Options

Plans	Lump Sum	Five-Year Monthly	Ten-Year Monthly	Extended Monthly	Five-Year Annually	Ten-Year Annually	Extended Annually
1996 Enrollment							
Sr. College	452,243	320,755	392,394	493,297	-	-	233
Jr. College	5,631	6,828	9,475	19,780	-	-	-
Jr. & Sr. College	30,371	35,719	50,130	97,464	-	-	90
Private College	4,194	4,722	3,710	5,275	-	-	
Total 1996	**492,439**	**368,024**	**455,709**	**615,816**	**-**	**-**	**323**
1997 Enrollment							
Sr. College	421,635	233,749	276,672	276,433	-	-	338
Jr. College	3,618	4,601	4,268	8,177	-	-	-
Jr. & Sr. College	20,588	24,260	30,508	38,112	-	-	85
Private College	19,490	5,440	2,966	4,020	-	-	-
Total 1997	**465,331**	**268,050**	**314,414**	**326,742**	**-**	**-**	**423**
1998 Enrollment							
Sr. College	324,363	96,619	161,858	150,056	85,597	35,194	21,473
Jr. College	2,353	1,188	2,112	2,798	418	288	229
Jr. & Sr. College	12,972	8,009	14,064	19,090	4,424	1,798	1,913
Private College	8,229	2,213	736	1,695	2,090	1,058	353
Total 1998	**347,917**	**108,029**	**178,770**	**173,639**	**92,529**	**38,338**	**23,968**
1999 Enrollment							
Sr. College	217,593	65,714	118,243	127,971	64,939	24,802	16,729
Jr. College	1,197	808	1,981	1,995	723	128	205
Jr. & Sr. College	11,269	7,051	11,229	14,776	3,451	1,536	708
Private College	5,456	751	1,103	1,505	3,438	640	420
Total 1999	**235,515**	**74,324**	**132,556**	**146,247**	**72,551**	**27,106**	**18,062**
2000 Enrollment							
Sr. College	274,823	113,841	143,880	164,471	80,912	29,352	25,533
Jr. College	2,304	2,301	1,809	2,593	698	87	413
Jr. & Sr. College	12,841	13,098	15,787	18,365	3,481	2,454	1,680
Private College	4,570	934	1,095	1,100	3,064	716	197
Total 2000	**294,538**	**130,174**	**162,571**	**186,529**	**88,155**	**32,609**	**27,823**
2001 Enrollment							
Sr. College	291,971	133,714	119,776	222,792	119,982	41,661	40,572
Jr. College	3,513	3,326	2,621	8,520	820	652	563
Jr. & Sr. College	22,280	17,984	18,987	42,787	8,901	3,754	6,049
Private College	8,171	1,713	960	3,479	2,804	1,387	1,037
Total 2001	**325,935**	**156,737**	**142,344**	**277,578**	**132,507**	**47,454**	**48,221**

Payment Options (Continued)

Plans	Lump Sum	Five-Year Monthly	Ten-Year Monthly	Extended Monthly	Five-Year Annually	Ten-Year Annually	Extended Annually
2002 Enrollment							
Sr. College	360,428	135,572	103,286	176,436	147,189	47,371	41,011
Jr. College	5,495	5,023	3,062	7,304	654	683	870
Jr. & Sr. College	20,100	17,243	18,889	31,174	10,969	5,405	5,589
Private College	9,513	917	1,277	2,910	3,325	1,140	761
Total 2002	**395,536**	**158,755**	**126,514**	**217,824**	**162,137**	**54,599**	**48,231**
2003 Enrollment							
Sr. College	858,758	136,925	111,742	266,128	271,773	81,551	90,771
Jr. College	11,446	4,308	1,995	6,525	1,714	509	857
Jr. & Sr. College	43,825	16,792	14,184	38,210	16,816	7,039	8,861
Private College	29,638	3,127	1,068	4,020	9,731	987	1,862
Total 2003	**943,667**	**161,152**	**128,989**	**314,883**	**300,034**	**90,086**	**102,351**
TOTAL ENROLLMENT							
Sr. College	3,201,814	1,236,889	1,427,851	1,877,584	770,392	259,931	236,660
Jr. College	35,557	28,383	27,323	57,692	5,027	2,347	3,137
Jr. & Sr. College	74,246	140,156	173,778	299,978	48,042	21,986	24,975
Private College	89,261	19,817	12,915	24,004	24,452	5,928	4,630
TOTAL ENROLLMENT	**3,500,878**	**1,425,245**	**1,641,867**	**2,259,258**	**847,913**	**290,192**	**269,402**

CURRENT ASSETS

The assets are administered and invested by the State Treasury and external managers with whom the Board contracts. The value of the assets as of August 31, 2008 is $1,743,659,622. Asset totals shown below do not include securities lending collateral, investment transfers receivable, tuition contracts receivable or the related obligations for those assets.

It is assumed that this mix will produce a net annual investment return of 6.80% in fiscal year 2009. Assets held as of August 31, 2008:

Cash in State Treasury	$2,854,772
Investments	1,727,963,363
Interest and Dividends Receivable	14,978,247
Furniture and Equipment – Net of Depreciation	18,995
Less Accounts Payable	(2,155,755)
TOTAL ASSETS	**$1,743,659,622**

SECTION III – ACTUARIAL METHODS AND ASSUMPTIONS

ACTUARIAL METHODS

The actuarial method projects the expected future cash flows from contract payments, tuition and refund benefits and expense. These projected future cash flows are discounted to the present and compared to the market value of the assets to indicate the soundness of the Plan.

The development of the measurement of soundness has seven stages:

Develop base line average tuition and required fees from data provided by the Plan;

Project average tuition and required fees though the expected term of the contracts, based on assumptions as to future tuition increases;

Determine the nominal cost of expected future tuition and required fees, based on the contract inventory and assumptions as to mortality, disability, voluntary surrender and utilization of benefits;

Determine the nominal cost of expected future administrative expenses, based on the contract inventory and the records administration fee schedule, as well as assumptions as to inflation and utilization of benefits;

Project future contract payments based on the contracts and assumptions as to mortality, disability and voluntary surrender;

Determine the present value of expected future benefits, expenses and contract payments, based on the discount rate assumption;

As the indication of soundness, measure the surplus or deficit, which is the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present values of the expected future tuition and required fees, refunds and expenses.

ACTUARIAL ASSUMPTIONS

Necessary adjustments to reflect new information were made to this year's assumptions. The assumptions were approved by the Board. The revisions to the assumptions, if any, are noted herein.

FEDERAL INCOME TAX

We assume the income of the Plan is exempt from Federal Income Tax.

TUITION/FEE INCREASE

Tuition increases assume effective management of the schools as well as general inflation, the rate of increase in state support and real improvements in the quality of public education. After careful analysis, the Board selected tuition increase assumptions above the expected rate of inflation.

Assumed annual increases in future tuition and required fees are:

Public Senior College	Junior College	Private University
6.3%	5.2%	7.3%

INVESTMENT YIELD

The assumed annual net investment yield is illustrated in the following table:

Year	Investment Yield
2008	6.80%
2009	6.80%
2010	6.80%
2011	6.80%
2012	6.80%
2013	6.80%
2014	6.80%
2015	6.80%
2016	6.70%
2017	6.60%
2018	5.80%
2019+	5.40%

EXPENSES

In our analysis we provide an expense provision for records administration charges and for general expense. The provision for fiscal year 2009 is $32 per contract, which we assume will increase 3.50% per year for inflation.

FUTURE PARTICIPATION IN THE PROGRAM

It is assumed that no new contracts will be issued in the future.

MORTALITY AND DISABILITY

Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables.

EARLY VOLUNTARY SURRENDER OF CONTRACT

We assumed the following percentages of the public senior college contracts in effect at the beginning of the year would be surrendered during the year. We use similar estimates for the other college types, based on empirical evidence:

Years From Purchase	Lump Sum	Five-Year Payments	Ten-Year Payments	Extended Payments
1 to 2	2.50%	6.30%	8.80%	13.70%
2 to 3	1.80%	3.60%	5.30%	6.00%
3 to 4	0.40%	1.50%	2.30%	3.00%
4 to 5	0.50%	1.00%	2.00%	3.00%
5 to 6	0.50%	0.50%	1.30%	2.00%
After 6 Years	0.80%	1.30%	0.70%	2.30%

MATRICULATION PERCENT

We assumed the beneficiary of a contract not voluntarily surrendered matriculates at the date specified in the contract.

DROPOUT RATE

We assumed beneficiaries use the number of credits specified in the contract.

UTILIZATION OF CREDITS

We assumed beneficiaries use the credits specified according to the following schedule:

Type of Contract	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Five – Year Contracts	20%	20%	20%	20%	15%	5%
Four – Year Contracts	25%	24%	23%	20%	8%	0%
Three – Year Contracts	30%	30%	30%	10%	0%	0%
Two – Year Contracts	50%	40%	10%	0%	0%	0%
One – Year Contracts	80%	20%	0%	0%	0%	0%

FREQUENCY OF BENEFICIARY REPLACEMENT

We assumed no replacement of beneficiaries.

BIAS

We assumed no bias load for universities and a bias load of 10.0% for community colleges.

SECTION IV –
SOUNDNESS OF THE PLAN AS OF AUGUST 31, 2008

As a measure of the soundness of the Plan as of August 31, 2008, we determined the difference between the value of the assets and the actuarial present value of the future contract payments and the actuarial present value of future benefits and expenses.

This measurement of soundness is summarized on the following pages.

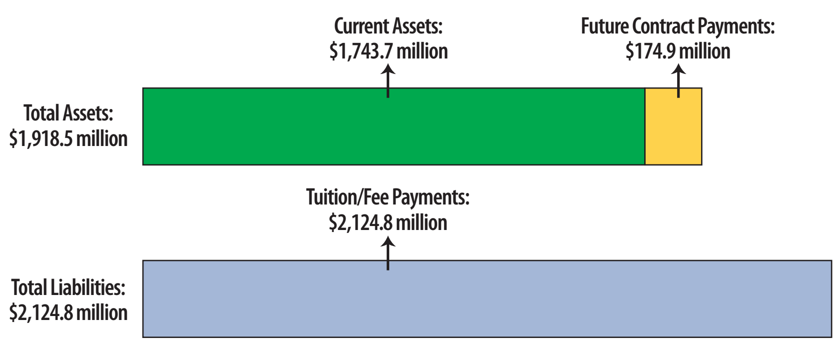
A projection of the status of the Plan at each future anniversary date through the life of these contracts is presented on page 69, labeled Present Value of Assets and Liabilities.

The projections of future benefits and expenses and contract payments are presented on page 70, labeled Expected Cash Flows.

Our measurement of the present value and projection are based on asset and contract information provided and on the assumptions chosen by the Board.

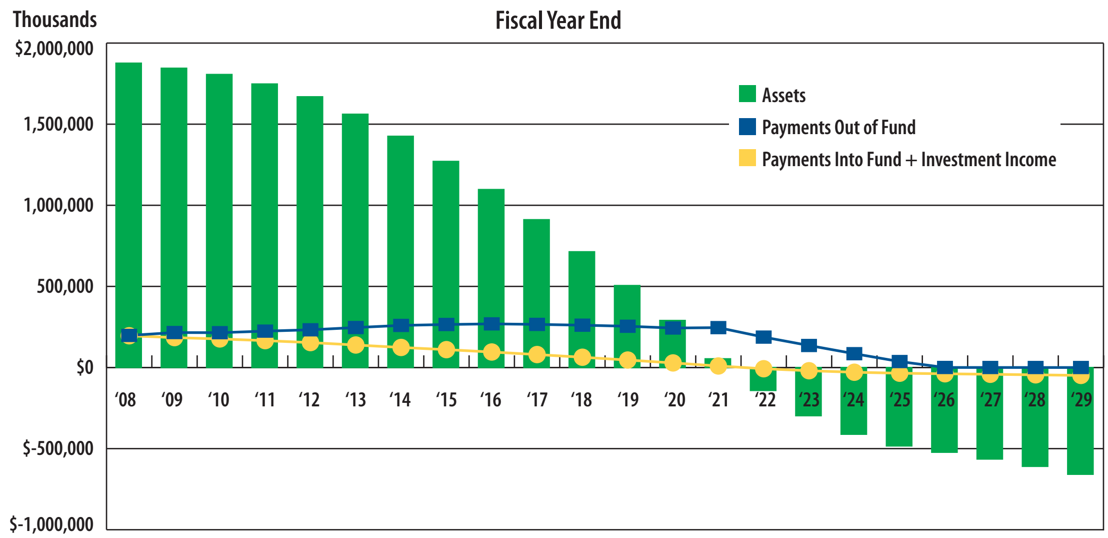
FUNDED STATUS

The liabilities of the trust fund exceed the value of assets as of August 31, 2008 (including the value of future payments by contract purchasers) by $206.32 million. The funded ratio, assets divided by liabilities, is equal to 90.3%. Asset totals shown below do not include securities lending collateral, investment transfers receivable or the related obligations for those assets. The assumptions used to perform the actuarial valuation of the fund were approved by the Board and are described in Section III.



CASH FLOW PROJECTION

The expected income and disbursements of the trust fund, based on the assumptions used in the actuarial valuation, and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



Present Value of Assets and Liabilities

8/31 of Year	Present Value of Future Benefit and Expenses	Value of Assets and Present Value of Future Collections	(Deficit) of Assets over Liabilities
2008	$2,124,847,643	$1,918,527,387	$(206,320,256)
2009	$2,030,898,561	$1,810,548,528	$(220,350,034)
2010	$1,915,876,495	$1,680,542,659	$(235,333,836)
2011	$1,804,936,256	$1,553,599,719	$(251,336,537)
2012	$1,689,007,275	$1,420,579,853	$(268,427,422)
2013	$1,560,427,550	$1,273,747,064	$(286,680,486)
2014	$1,418,198,520	$1,112,023,761	$(306,174,759)
2015	$1,266,861,630	$939,866,987	$(326,994,643)
2016	$1,109,218,119	$759,075,639	$(350,142,480)
2017	$950,504,332	$575,285,121	$(375,219,211)
2018	$792,980,414	$387,230,478	$(405,749,936)
2019	$635,474,190	$199,336,258	$(436,137,932)
2020	$479,628,466	$16,021,953	$(463,606,514)
2021	$314,748,786	$(173,164,948)	$(487,913,734)
2022	$184,896,542	$(326,134,827)	$(511,031,369)
2023	$89,365,426	$(445,046,950)	$(534,412,375)
2024	$28,868,899	$(530,645,480)	$(559,514,379)
2025	$4,704,660	$(583,145,736)	$(587,850,396)
2026	$463,151	$(618,744,072)	$(619,207,223)
2027	$208,432	$(652,410,664)	$(652,619,096)
2028	$73,142	$(687,771,955)	$(687,845,097)
2029	$19,715	$(724,962,200)	$(724,981,915)
2030	$0	$(764,128,149)	$(764,128,149)

Expected Cash Flows

Fiscal Year Ending	Expense	Payments	Cash Flow
2009	$226,525,932	$44,480,889	$(182,045,043)
2010	$240,460,205	$38,884,588	$(201,575,617)
2011	$229,144,273	$32,484,112	$(196,660,161)
2012	$226,700,061	$26,064,608	$(200,635,453)
2013	$231,205,270	$18,872,787	$(212,332,482)
2014	$235,841,633	$13,503,153	$(222,338,480)
2015	$235,287,912	$11,406,510	$(223,881,402)
2016	$231,657,988	$9,570,378	$(222,087,610)
2017	$222,430,235	$7,695,561	$(214,734,673)
2018	$211,895,225	$5,895,369	$(205,999,856)
2019	$200,360,147	$4,226,182	$(196,133,965)
2020	$186,154,148	$2,705,482	$(183,448,666)
2021	$182,254,918	$1,416,925	$(180,837,993)
2022	$137,753,965	$0	$(137,753,965)
2023	$97,164,038	$0	$(97,164,038)
2024	$59,051,896	$0	$(59,051,896)
2025	$22,871,748	$0	$(22,871,748)
2026	$3,940,835	$0	$(3,940,835)
2027	$244,173	$0	$(244,173)
2028	$125,909	$0	$(125,909)
2029	$48,640	$0	$(48,640)
2030	$17,399	$0	$(17,399)

SECTION V – SENSITIVITY TESTING

The Program operates under conditions of risk and uncertainty. For example, while it is assumed the assets of the fund will earn the annual net rate found in Section III, we also expect actual returns to vary from year to year. To accept the reasonableness of the basis for the measurement of the soundness, it is useful to know how the status of the fund may be affected by the vagaries of the markets and other factors. We have rerun the valuation under the following alternative scenarios, and the surplus as of August 31, 2008 under each of these scenarios is presented in the following table:

Scenarios	Surplus
Tuition increases are 25 basis points higher in each future year than assumed	$(430,079,868)
The investment return is 25 basis points lower than assumed	$(233,643,048)
Tuition increases are 25 basis points higher in each future year and the investment return is 25 basis points lower than assumed	$(462,136,951)
Tuition increases are 25 basis points lower in each future year than assumed	$(369,402,332)
Tuition increases are 25 basis points lower in each future year and the investment return is 25 basis points lower than assumed	$(400,303,874)
The investment return is 50 basis points lower than assumed	$(463,165,760)
The investment return is 75 basis points lower than assumed	$(496,167,734)
The investment return is 100 basis points lower than assumed	$(529,968,319)
Tuition increases are 50 basis points higher in each future year than assumed	$(461,255,287)
Tuition increases are 75 basis points higher in each future year than assumed	$(493,003,372)
Tuition increases are 100 basis points higher in each future year than assumed	$(525,335,582)

SECTION VI – CHANGES IN SURPLUS

ADEQUACY OF THE FUND

As of August 31, 2008, the Plan had an unfunded liability of $206,320,256. The unfunded liability represents the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present value of the expected future tuition and required fees, refunds and expenses. The unfunded liability is $41,978,393 higher than last year's unfunded liability of $164,341,863. The two primary sources of change are:

a) Investment asset performance of (2.97%), 10.97% below the assumed investment return of 8.00%. The result was an asset loss of $201.2 million.

b) Assumption Changes. Based on the 2008 Experience Study data and the projected returns as developed by the plan's investment advisor, we modified the assumed interest rate, rate of increase in tuition, community college bias, surrender rates and utilization rates. The changes in assumptions resulted in a $116.9 million increase in the unfunded liability.

Following is a comparison of the assumed and the actual results for the year ended August 31, 2008.

INVESTMENT RETURN

Assets performed worse than expected during the 2008 fiscal year, returning (2.97%) versus the prior year assumption of 8.00%. The result was an asset loss of $201.2 million. The extent that investment experience exceeds tuition increases will result in an actuarial gain.

TUITION AND REQUIRED FEE INCREASE

The Weighted Average Tuition (WAT) for Senior College increased from $6,529 to $6,943, an increase of 6.34% compared to the assumed 8.0% increase. The Junior College WAT increased from $1,949 to $2,051, an increase of 5.23% compared to the assumed 8.0% increase. The Private College WAT increased from $16,860 to $18,082, an increase of 7.25% compared to the assumed 8.0% increase. The tuition experience resulted in an actuarial gain of approximately $34.0 million.

BIAS AGAINST THE PROGRAM BY PURCHASERS AND BENEFICIARIES

The design of the program removed the bias relating to beneficiaries of Texas Guaranteed Tuition Plan contracts attending relatively higher priced universities. There is a 11.8% bias for liability loading on community colleges, when comparing the actual tuition and fee payment for the contract beneficiaries who attend community colleges to the expected payout based on program assumptions. This bias resulted in an actuarial loss of $0.5 million.

EXPENSE

Based on analysis, the assumption for records administration charges and general expenses remains at $32 per contract for fiscal year 2008, with an increase of 3.5% per year in each future year for inflation, compared to the 2006 assumed expense rate of $33.12, adjusted for 2008. The change in assumption resulted in an actuarial liability reduction of $0.6 million.

VOLUNTARY WITHDRAWAL AND CONTRACT REDUCTIONS

There were approximately 932 contracts surrendered during the year. This is greater than the 263 expected, creating a gain and reducing the present value of expected payments by contract holders.

GAIN/LOSS SUMMARY

During the last year, the plan experienced a $145.7 million actuarial loss. The sources of the (gain)/loss are as follows:

(Gain) / Loss	(millions)
Asset Loss (-2.97% return)	$201.2
Tuition Inflation Gain	(34.0)
Expense	(0.6)
Bias	0.5
Withdrawal and Matriculation	(21.4)
Total Loss	$145.7

ASSUMPTION CHANGE

In the prior valuation of the Plan, the assumed community college bias load was 8.60% per year and tuition inflation was 8.0% for all colleges and universities. The August 31, 2008 actuarial valuation of the Plan was determined using community college bias of 10.0% and tuition inflation of 6.3% for Public Senior Colleges, 5.2% for Junior Colleges and 7.3% for Private Universities. In addition the schedule of interest rates, surrender rates and utilization rates found in Section III were adjusted. The change in assumptions resulted in a $116.9 million increase in the unfunded liability.

If actual experience had matched our assumptions, we would have expected the trust deficit to increase from $164.3 million in 2007 to $177.5 million in 2008. However, the plan experienced a $145.7 million actuarial loss, as noted above, and the assumption change resulted in a $116.9 million increase in the unfunded liability. Hence, the actual trust deficit for 2008 was $206.3 million, $28.8 million higher than the projected deficit following the prior valuation.

Texas Guaranteed Tuition Plan
Active Contract Counts for All Enrollment Periods - Appendix A
As of August 31, 2008

Matriculation							PLAN								
Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1997	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0
1998	0	2	0	0	0	0	0	0	0	0	0	0	1	1	0
1999	31	246	7	19	4	12	3	6	0	0	0	1	4	8	0
2000	47	462	13	41	9	22	4	6	0	1	0	0	10	21	1
2001	97	777	28	57	17	27	2	14	0	2	1	1	14	26	0
2002	150	1,209	45	90	35	42	4	28	0	1	0	2	43	28	0
2003	248	1,829	57	144	67	51	7	26	1	2	1	3	136	51	0
2004	323	2,798	82	210	87	79	15	51	4	11	2	1	162	70	0
2005	462	4,036	168	319	115	92	16	77	2	8	4	4	193	80	0
2006	530	4,482	187	515	202	149	29	91	4	11	7	3	280	72	0
2007	605	4,748	199	574	216	168	49	91	5	13	14	5	281	69	0
2008	726	5,045	231	623	269	209	55	99	5	16	6	6	299	66	1
2009	602	4,890	201	611	275	262	48	103	2	11	9	4	347	76	0
2010	653	4,779	196	605	268	229	61	78	5	6	8	3	361	56	0
2011	628	4,676	149	508	212	211	36	87	1	3	6	4	368	71	0
2012	619	4,723	187	558	248	182	34	105	7	11	15	1	370	69	0
2013	612	4,763	164	520	233	201	53	75	3	10	7	5	388	70	0
2014	599	4,527	167	447	222	188	52	74	1	5	5	1	364	31	1
2015	430	3,801	116	346	185	135	34	67	2	10	5	0	484	2	0
2016	395	3,475	117	344	140	124	23	61	8	9	5	1	536	0	0
2017	361	3,102	84	269	144	118	31	58	0	4	5	0	521	0	0
2018	351	2,817	99	292	164	107	26	35	1	7	2	0	501	2	0
2019	328	2,440	75	238	137	74	18	39	1	6	1	0	453	1	0
2020	237	1,992	75	197	138	64	12	33	2	5	4	1	361	0	0
2021	269	2,367	89	225	149	72	16	32	3	3	14	0	495	0	0
2022	1	7	0	2	0	0	0	0	0	0	0	0	1	0	0
2023	0	5	2	1	0	0	1	0	0	0	0	0	2	0	0
2024	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0
2025	0	3	0	1	2	0	0	0	0	0	0	0	0	0	0
2026	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	9,304	74,010	2,738	7,756	3,538	2,818	629	1,336	57	155	121	46	6,975	870	3
% OF TOTAL	8.40%	66.85%	2.47%	7.01%	3.20%	2.55%	0.57%	1.21%	0.05%	0.14%	0.11%	0.04%	6.30%	0.79%	0.00%

Key to Plan Type:

1. Jr/Sr - 2/2
2. Sr - 4 Yr
3. Sr - 3 Yr
4. Sr - 2 Yr
5. Sr - 1 Yr
6. Jr - 2 Yr
7. Jr - 1 Yr
8. Pr - 4 Yr
9. Pr - 3 Yr
10. Pr - 2 Yr
11. Pr - 1 Yr
12. Jr/Sr - 2/2 + 4Hrs
13. Sr - 5 Yr
14. Sr - 4 Yr +8Hrs
15. Sr - 4 Yr + 6Hrs
16. Sr - 4 Yr + 4Hrs
17. Sr - 4 Yr + 2Hrs
18. Sr - 3 Yr + 6Hrs
19. Sr - 3 Yr + 4Hrs
20. Sr - 3 Yr + 2Hrs
21. Sr - 2 Yr + 4Hrs
22. Sr - 2 Yr + 2Hrs
23. Sr - 1 Yr + 2Hrs
24. Pr - 4 Yr + 8Hrs
25. Pr - 4 Yr + 6Hrs
26. Pr - 4 Yr + 4Hrs
27. Pr - 4 Yr + 2Hrs
28. Pr - 3 Yr + 6Hrs
29. Pr - 3 Yr + 4Hrs
30. Pr - 3 Yr + 2Hrs
31. Pr - 2 Yr + 4Hrs
32. Pr - 2 Yr + 2Hrs
33. Pr - 1 Yr + 2Hrs
34. Sr Add'l Year
35. Pr - 5 Yr

Texas Guaranteed Tuition Plan
Active Contract Counts for All Enrollment Periods – Appendix A (Continued)
As of August 31, 2008

Matriculation	PLAN											
Year	16	17	18	21	22	23	24	31	34	35	Total	% of Total
1996	0	0	0	0	0	0	0	0	0	0	2	0.00%
1997	0	0	0	0	0	0	0	0	0	0	4	0.00%
1998	1	0	0	0	0	0	0	0	1	0	343	0.31%
1999	1	0	0	1	0	1	2	0	2	0	644	0.58%
2000	0	0	0	1	0	0	0	0	2	0	1,066	0.96%
2001	1	1	1	0	0	0	1	0	1	0	1,682	1.52%
2002	1	0	0	2	0	0	0	0	3	3	2,632	2.38%
2003	0	0	0	1	0	0	3	0	5	3	3,907	3.53%
2004	1	0	0	1	0	2	1	0	5	5	5,591	5.05%
2005	3	1	2	5	1	2	2	0	7	5	6,590	5.95%
2006	0	0	0	4	0	1	2	0	4	10	7,058	6.37%
2007	2	0	2	3	0	3	0	0	9	12	7,687	6.94%
2008	1	0	1	1	0	1	4	0	5	7	7,461	6.74%
2009	0	0	0	2	0	1	3	0	5	18	7,337	6.63%
2010	0	0	1	3	0	2	2	2	2	10	6,982	6.31%
2011	0	0	0	2	0	2	2	0	7	14	7,156	6.46%
2012	0	0	1	5	0	2	3	2	6	9	7,132	6.44%
2013	1	0	0	1	0	1	1	0	12	6	6,706	6.06%
2014	0	0	0	0	0	0	0	0	5	10	5,632	5.09%
2015	0	0	0	0	0	0	0	0	2	7	5,247	4.74%
2016	0	0	0	0	0	0	0	0	0	12	4,709	4.25%
2017	0	0	0	0	0	0	0	0	0	14	4,418	3.99%
2018	0	0	0	1	0	0	0	0	0	8	3,820	3.45%
2019	0	0	0	0	0	0	0	0	0	10	3,131	2.83%
2020	0	0	0	0	0	0	0	0	0	12	3,746	3.38%
2021	0	0	0	0	0	0	0	0	0	0	11	0.01%
2022	0	0	0	0	0	0	0	0	0	0	11	0.01%
2023	0	0	0	0	0	0	0	0	0	0	6	0.01%
2024	0	0	0	0	0	0	0	0	0	0	6	0.01%
2025	0	0	0	0	0	0	0	0	0	0	1	0.00%
TOTAL	12	2	8	33	1	18	26	4	83	175	110,718	
% OF TOTAL	0.00%	0.01%	0.03%	0.00%	0.02%	0.02%	0.00%	0.07%	0.16%	0.15%		

Key to Plan Type:

1. Jr/Sr - 2/2	7. Jr - 1 Yr	13. Sr - 5 Yr	19. Sr - 3 Yr + 4Hrs	25. Pr - 4 Yr + 6Hrs	31. Pr - 2 Yr + 4Hrs
2. Sr - 4 Yr	8. Pr - 4 Yr	14. Sr - 4 Yr +8Hrs	20. Sr - 3 Yr + 2Hrs	26. Pr - 4 Yr + 4Hrs	32. Pr - 2 Yr + 2Hrs
3. Sr - 3 Yr	9. Pr - 3 Yr	15. Sr - 4 Yr + 6Hrs	21. Sr - 2 Yr + 4Hrs	27. Pr - 4 Yr + 2Hrs	33. Pr - 1 Yr + 2Hrs
4. Sr - 2 Yr	10. Pr - 2 Yr	16. Sr - 4 Yr + 4Hrs	22. Sr - 2 Yr + 2Hrs	28. Pr - 3 Yr + 6Hrs	34. Sr Add'l Year
5. Sr - 1 Yr	11. Pr - 1 Yr	17. Sr - 4 Yr + 2Hrs	23. Sr - 1 Yr + 2Hrs	29. Pr - 3 Yr + 4Hrs	35. Pr - 5 Yr
6. Jr - 2 Yr	12. Jr/Sr - 2/2 + 4Hrs	18. Sr - 3 Yr + 6Hrs	24. Pr - 4 Yr + 8Hrs	30. Pr - 3 Yr + 2Hrs	

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
TEXAS COMMUNITY COLLEGES				
Alvin Community College	36	321	30,924	96.48
Amarillo College	60	417	55,113	132.22
Angelina College	13	150	12,631	84.11
Austin Community College	672	4,864	786,525	161.70
Blinn College	418	4,136	708,333	171.25
Brazosport College	14	129	11,864	92.03
Brookhaven College	68	389	49,671	127.57
Cedar Valley College	15	93	13,551	146.05
Central Texas College	35	371	27,684	74.61
Cisco Junior College	37	276	41,867	151.53
Clarendon College	6	33	6,043	183.08
Coastal Bend College	15	194	28,013	144.66
College of the Mainland	17	151	12,753	84.24
Collin County Community College	170	1,221	111,591	91.41
Del Mar College	99	1,046	134,404	128.52
Eastfield College	74	599	50,178	83.84
El Centro College	19	95	11,229	117.61
El Paso Community College	59	372	51,811	139.34
Frank Phillips College	2	15	1,699	112.68
Galveston College	10	41	6,868	165.94
Grayson County College	26	264	19,183	72.72
Hill College	14	109	12,436	114.31
Houston Community College	229	1,495	238,683	159.62
Howard College	24	124	20,052	161.74
Kilgore College	54	739	78,173	105.82
Lamar State College Orange	15	181	38,291	211.98
Lamar State College Port Arthur	17	215	43,866	204.03
Laredo Community College	32	217	32,617	150.00
Lee College	22	176	18,247	103.51
Lone Star College System District	302	2,129	241,264	113.32
McLennan Community College	62	613	70,585	115.20
Midland College	47	268	33,158	123.66
Mountain View College	33	241	21,981	91.38
Navarro College	49	475	62,804	132.08
North Central Texas College	90	640	91,818	143.53
North Lake College	55	299	43,905	146.84
Northeast Texas Community College	19	244	31,152	127.46

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
TEXAS COMMUNITY COLLEGES (CONTINUED)				
Northwest Vista College	117	945	129,735	137.23
Odessa College	18	153	15,504	101.61
Palo Alto College	44	473	59,700	126.10
Panola College	12	57	10,037	177.19
Paris Junior College	42	360	46,825	130.24
Ranger College	8	97	10,960	112.97
Richland College	105	850	77,592	91.33
San Antonio College	182	1,151	167,077	145.11
San Jacinto College Central	114	628	71,873	114.38
San Jacinto Community College District	114	648	78,070	120.51
South Plains College	142	1,366	221,024	161.74
South Texas College	50	310	56,700	182.98
Southwest Texas Junior College	19	191	25,286	132.68
St. Philips College	38	310	44,257	142.96
Tarrant County College Ft. Worth (NW)	60	504	46,035	91.27
Tarrant County College Hurst	115	625	79,815	127.74
Tarrant County College SE Campus	65	473	54,053	114.23
Tarrant County College South Campus	56	288	34,609	120.16
Temple College	49	612	87,585	143.09
Texarkana College	15	80	10,960	136.41
Texas State Technical College Harlingen	14	119	21,096	177.37
Texas State Technical College Marshall	4	46	6,082	131.90
Texas State Technical College Sweetwater	3	22	4,419	204.03
Texas State Technical College Waco	49	598	93,310	156.06
Trinity Valley Community College	28	185	18,245	98.37
Tyler Junior College	91	1,126	149,244	132.57
UTB & Texas Southmost College	43	521	97,921	187.87
Vernon College	18	158	18,864	119.53
Victoria College	59	569	58,775	103.24
Weatherford College	32	355	42,591	119.93
Western Texas College	34	193	24,656	128.04
Wharton County Junior College	65	772	105,650	136.92
TOTAL	**4,734**	**38,127**	**$5,219,515**	**$136.90**

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
TEXAS PROPRIETARY INSTITUTIONS				
Academy of Health Care Professions NL	1	56	9,336	167.42
Academy of Health Care Professions-San Antonio	1	61	12,374	204.03
Allied Health Careers	1	58	11,834	204.03
Alvin Community College Continuing Education	1	22	4,500	204.03
American Intercontinental University - Houston	1	4	816	204.03
Art Institute of Austin	7	91	16,172	177.03
Art Institute of Dallas	12	391	77,495	198.35
Art Institute of Houston	27	624	125,148	200.65
ATI Technical Training Center	2	88	18,052	204.03
Austin Business College	1	20	3,979	204.03
Austin Community College Continuing Education	4	10	2,006	204.04
Bradford School of Business	1	47	7,340	155.40
Brookhaven College Continuing Education	2	7	555	81.47
Court Reporting Institute of Dallas	3	85	17,425	204.03
Court Reporting Institute of Houston	1	28	5,685	204.03
Dallas County Community College LeCroy Center	6	11	2,171	204.02
Dallas Institute of Funeral Service	1	67	5,600	83.00
DeVry University Houston	3	88	13,616	154.73
DeVry University Irving	4	54	11,018	204.03
Eastfield College Continuing Education	1	6	432	76.43
Everest College Dallas	1	20	4,081	204.03
Everest College Fort Worth	1	8	611	76.43
Hallmark Institute of Aeronautics	2	167	33,134	198.82
Hallmark Institute of Technology	2	123	21,488	174.94
ITT Technical Institute Austin	5	275	56,012	204.03
ITT Technical Institute Houston West	1	1	204	204.03
ITT Technical Institute Richardson	1	20	4,081	204.03
ITT Technical Institute San Antonio	1	81	16,593	204.03
ITT Technical Institute Webster	1	8	1,632	204.03
KD Studio	2	111	22,195	200.17
Le Cordon Bleu-Dallas	2	157	32,033	204.03
Lincoln College of Technology	2	60	12,630	210.50
Lone Star College System District Continuing Education	1	2	486	204.03

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
North Lake College Continuing Education	1	12	2,513	216.97
Remington College	1	111	22,612	204.03
Sam Houston State University Correspondence Dept.	1	1	240	190.17
Sanford-Brown Institute Dallas	1	47	9,657	204.03
Sanford-Brown Institute Houston North	1	41	8,263	204.03
Texas A&M University Commerce Graduate Students	8	79	16,122	204.03
Texas A&M University Corpus Christi Studies Abroad	1	12	2,448	204.03
Texas A&M University Health Science Center	13	152	31,429	206.61
Texas A&M University Study Abroad Programs	10	89	18,159	204.03
Texas Culinary Academy	12	899	186,578	207.63
Texas Engineering Extension Service	2	16	3,194	204.03
Texas State University Continuing Education	1	27	2,100	76.43
Texas State University Office of Correspondence	31	104	21,284	205.12
Texas Tech Outreach & Extended Studies	41	157	31,629	200.85
Texas Tech Study Abroad	2	32	11,028	342.51
Texas Tech University-Rawls College of Business	5	30	6,121	204.03
Universal Technical Institute	5	373	76,181	204.03
University Extension UT Austin	79	244	51,630	211.46
University of North Texas for Studies Abroad	1	15	3,060	204.03
University of North Texas Health Science Center	4	33	6,995	213.08
University of Texas at Dallas Study Abroad	1	13	2,652	204.03
University of Texas Center for Lifelong Engineering Ed	1	6	1,224	204.03
University of Texas Health Science Center at Houston	7	144	29,358	203.84
University of Texas Health Science San Antonio	21	371	76,657	206.68
University of Texas Pan American Office of	1	6	1,224	204.03
University of Texas Permian Basin Graduate Studies	1	6	1,178	204.04
UT in DC	1	15	3,000	204.03
UT McCombs School of Business CIBER	6	36	7,345	204.03
UT Study Abroad Office / International Office	23	321	75,035	233.64
Virginia College at Austin	4	100	20,420	204.03
Wade College	2	108	22,033	204.03
Total	**390**	**6,449**	**1,302,101**	**201.89**

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
TEXAS FOUR-YEAR PUBLIC UNIVERSITY				
Angelo State University	150	3,613	608,128	168.30
Lamar Institute of Technology	18	336	42,839	127.51
Lamar University	132	2,761	514,058	186.19
Midwestern State University	93	2,189	368,352	168.30
Prairie View A&M University	36	971	179,857	185.24
Sam Houston State University	433	11,054	1,962,107	177.50
Stephen F. Austin State University	356	9,776	1,887,422	193.07
Sul Ross State University Alpine	23	646	102,384	158.45
Tarleton State University	206	5,170	863,884	167.08
Texas A&M International University	37	858	139,567	162.63
Texas A&M University College Station	3,084	81,553	16,515,527	202.51
Texas A&M University Commerce	65	1,588	265,767	167.35
Texas A&M University Corpus Christi	203	4,840	871,038	179.97
Texas A&M University Galveston	81	2,098	422,263	201.27
Texas A&M University Kingsville	57	1,554	226,251	145.55
Texas A&M University Texarkana	4	102	12,283	119.84
Texas Southern University	13	264	50,460	191.13
Texas State University San Marcos	1,247	31,317	6,182,327	197.41
Texas Tech University	1,698	44,900	9,026,914	201.04
Texas Tech University Health Sciences Center	52	1,174	193,860	165.07
Texas Woman's University	125	3,092	519,593	168.02
University of Houston	530	11,888	2,402,974	202.13
University of Houston Clear Lake	42	770	139,488	181.21
University of Houston Downtown	86	1,552	255,798	164.82
University of Houston Victoria	20	367	58,818	160.27
University of North Texas	1,047	24,579	4,811,221	195.75
University of Texas at Arlington	407	9,531	1,862,587	195.42
University of Texas at Austin	2,859	72,396	14,924,576	206.15
University of Texas at Brownsville	7	143	21,538	150.61
University of Texas at Dallas	283	6,866	1,426,215	207.71
University of Texas at El Paso	135	3,015	555,714	184.32
University of Texas at San Antonio	836	19,569	3,907,454	199.67
University of Texas at Tyler	134	3,027	510,200	168.53
University of Texas of the Permian Basin	34	784	125,101	159.64
University of Texas Pan American	140	3,008	480,914	159.87
West Texas A&M University	114	2,577	428,112	166.11
Total	**14,787**	**369,933**	**72,865,592**	**196.97**

Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

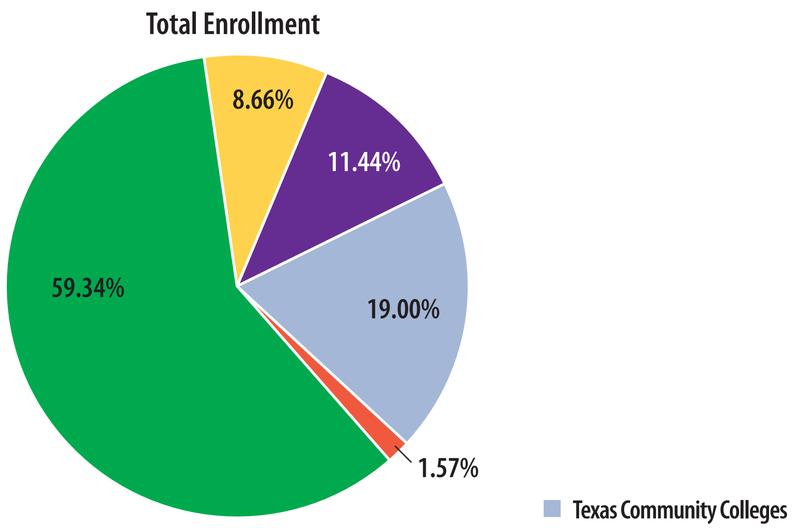
	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
TEXAS PRIVATE INSTITUTIONS				
Abilene Christian University	76	2,203	547,792	248.65
Austin College	61	1,867	415,771	222.73
Baylor College of Dentistry	6	187	38,321	204.83
Baylor College of Medicine	2	11	2,244	204.03
Baylor University	470	13,219	3,025,569	228.88
Concordia University Austin	22	510	98,194	192.60
Criswell College	3	70	14,383	204.03
Dallas Baptist University	36	1,085	227,869	210.07
Dallas Christian College	1	33	6,733	204.03
Dallas Theological Seminary	1	3	612	204.03
East Texas Baptist University	16	450	80,584	179.08
Hardin-Simmons University	50	1,310	264,040	201.50
Houston Baptist University	25	480	96,778	201.64
Howard Payne University	28	688	140,915	204.74
Huston-Tillotson University	1	32	6,529	204.03
Le Tourneau University	10	245	49,863	203.52
LeTourneau University School of Graduate	1	12	2,448	204.03
Lon Morris College	7	175	28,800	164.64
Lubbock Christian University	33	772	170,818	221.30
McMurry University	17	408	79,191	194.32
Northwood University Texas	11	293	52,641	179.93
Our Lady of the Lake University	4	102	16,217	158.99
Rice University	78	2,161	542,976	251.26
Sanford-Brown Institute Houston	1	6	1,224	204.03
Schreiner University	25	567	126,928	224.01
South Texas College of Law	7	125	25,601	204.03
Southern Methodist University	142	4,106	971,894	236.72
Southwestern Assemblies of God University	4	107	14,813	138.44
Southwestern Baptist Theological Seminary	1	57	4,357	76.43
Southwestern University	101	2,759	640,370	232.10
St. Edwards University	152	4,127	863,299	209.17
St. Mary's University	48	1,335	318,205	238.39
Texas Chiropractic College	1	71	14,486	204.03
Texas Christian University	301	8,709	1,962,257	225.32
Texas Lutheran University	43	1,151	216,203	187.84
Texas Wesleyan School of Law	3	55	18,002	327.30
Texas Wesleyan University	17	388	92,508	238.17

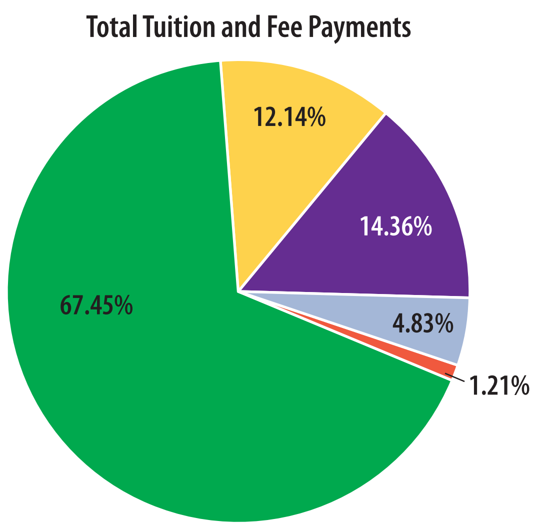
Texas Guaranteed Tuition Plan Contracts Matriculation Information
Appendix B (Continued)

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Trinity University	126	3,706	792,397	213.84
University of Dallas	26	715	147,883	206.69
University of Mary Hardin-Baylor	80	2,103	419,254	199.33
University of St. Thomas	28	792	152,149	192.11
University of Texas Medical Branch at Galveston	17	332	67,785	204.03
University of Texas Southwestern Medical	8	138	28,056	204.03
University of the Incarnate Word	52	1,267	258,997	204.43
Wayland Baptist University	16	352	70,989	201.55
Total	**2,158**	**59,284**	**13,116,943**	**221.26**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
MATRICULATION INFORMATION: EXECUTIVE SUMMARY				
TEXAS UNIVERSITIES				
Texas Community Colleges	4,734	38,127	5,219,515	136.90
Texas Proprietary Institutions	390	6,449	1,302,101	201.89
Texas Four-Year Public Universities	14,787	369,933	72,865,592	196.97
Texas Private Institutions	2,158	59,284	13,116,943	221.26
TOTAL TEXAS INSTITUTIONS	**22,069**	**473,793**	**92,504,151**	**195.24**
OUT-OF-STATE INSTITUTIONS				
Out-of-State Community Colleges	148	1,744	304,207	174.39
Out-of-State Proprietary Institutions	9	141	25,561	181.82
Out-of-State Universities	1,580	38,668	8,048,392	208.14
Out-of-State Private Universities	1,113	31,367	7,139,049	227.60
Total Out-Of-State Institutions	2,850	71,920	15,517,208	215.76
GRAND TOTAL*	24,919	545,713	108,021,359	197.95

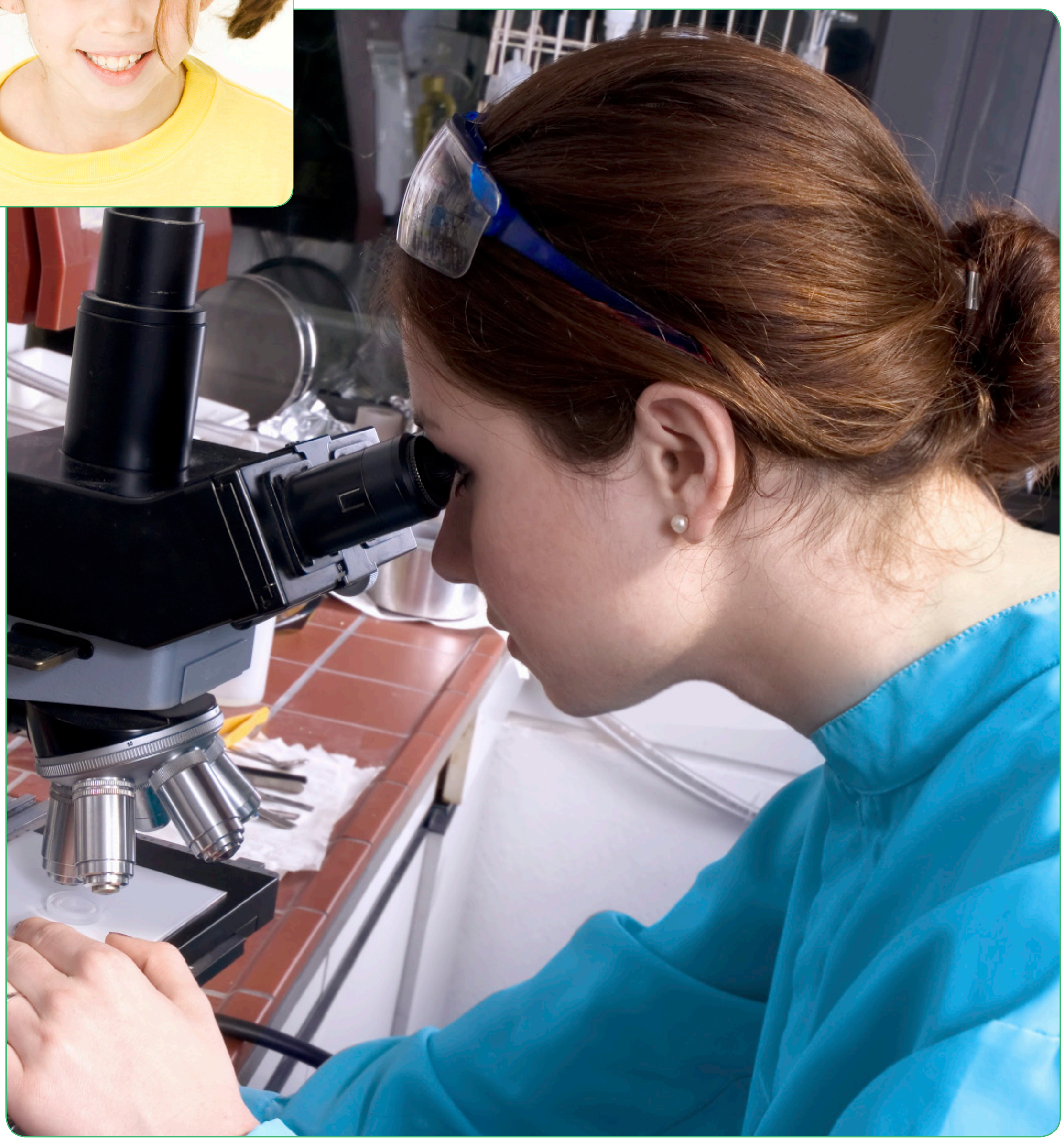
**There are a total of 22,976 contracts in matriculation status on August 31, 2008. This is different than the total seen in the chart above due to 1,943 students attending multiple schools in the same semester.*


Total Enrollment
8.66%
11.44%
59.34%
19.00%
1.57%
Texas Community Colleges
Texas Proprietary Institutions
Texas Four-Year Universities
Texas Private Universities
Total Out-of-State Institutions


Total Tuition and Fee Payments
12.14%
14.36%
67.45%
4.83%
1.21%

TEXAS GUARANTEED TUITION PLAN

FUND INVESTMENT INFORMATION



Texas Guaranteed Tuition Plan Fund Investment Information

	Market Value of Fund Year Ending August 31, 2008 (Amounts in millions)
Total Fund	$1,739

	Fiscal Year 2008 Time Weighted Gross Fund Return
Total Fund	(3.3%)
Total Fund Benchmark	(4.3%)

	Fiscal Year 2008	Fiscal Year 2007
Gross Return - Total Fund	(3.3%)	8.7%
Gross Return - Equity	(7.6%)	16.4%
Gross Return - Fixed Income	6.1%	5.4%
Gross Return - Cash and Short-term	4.6%	5.0%
Gross Return - All Other	N/A	N/A

Portfolio Diversification	Market Value of Fund Year Ending August 31, 2008 (Amounts in millions)		Market Value of Fund Year Ending August 31, 2007 (Amounts in millions)	
Equity	$940	54%	$1,232	66%
Fixed Income	$756	43%	$579	31%
Cash and Short-term Securities	$43	3%	$52	3%
Other Investments	$0	0%	$0	0%
TOTAL, ALL INVESTMENTS	**$1,739**	**100%**	**$1,863**	**100%**

Note: GASB Statement No. 31 requires investments to be reported at fair value so Market and Book values are the same.

Investment Asset Allocation, August 31, 2008