

  
 TEXAS TECH UNIVERSITY SYSTEM  
 STATEMENT OF NET ASSETS (UNAUDITED)  
 August 31, 2004

*ASSETS*

<b>Current Assets:</b>	
Cash and Cash Equivalents (Note 1)	\$ 178,048,832
Restricted:	
Cash and Cash Equivalents (Note 1)	104,234,748
Legislative Appropriations	40,678,310
<b>Accounts Receivable, net:</b>	
Federal Receivables	7,569,823
Interest and Dividends	1,486,706
Patient Receivables	15,794,109
Student Receivables	777,449
<b>Contract Receivables</b>	
Gift Receivables	18,243,333
Accounts Receivable	4,494,388
Other Receivables	529,685
Due From Other Agencies (Note 8)	4,274,299
<b>Prepaid Expenses</b>	
Consumable Inventories	832,190
Merchandise Inventories	2,676,953
Loans and Notes Receivable, net	6,860,159
Other Current Assets	52,508
<b>Total Current Assets</b>	
	<b>406,816,663</b>
 <i>NON-CURRENT ASSETS</i>	
Restricted:	
Cash and Cash Equivalents (Note 1)	32,762,468
<b>Investments</b>	
Gift Receivables	43,367,329
Loans and Notes Receivable, net	4,362,813
Investments	499,587,232
<b>Capital Assets (Note 2)</b>	
<b>Non-Depreciable</b>	
Depreciable	1,069,252,632
Accumulated Depreciation	<u>(575,617,165)</u>
Total Non-Current Assets	<u>1,449,873,992</u>
<b>Total Assets</b>	
	<b>\$1,856,690,655</b>



TEXAS TECH UNIVERSITY SYSTEM  
STATEMENT OF NET ASSETS (UNAUDITED)  
August 31, 2004

*LIABILITIES*

**Current Liabilities:**

Accounts Payable	\$ 39,115,896
<b>Payroll Payable</b>	<b>37,583,987</b>
Liabilities Payable from Restricted Assets	26,251,645
Accrued Liabilities (Note 5)	10,362
Unclaimed Property Due to State Treasury (Note 5)	28,695
Deferred Revenues	76,308,784
<b>Due to Other Agencies (Note 8)</b>	<b>224,469</b>
Employees' Compensable Leave (Note 5)	5,360,429
Claims Payable	2,937,244
Notes and Loans Payable (Note 5)	14,911,000
Bonds Payable (Note 5)	14,130,000
<b>Funds Held for Others</b>	<b>9,592,404</b>
Other Current Liabilities	798,794
Total Current Liabilities	<u>227,253,709</u>

**Non-Current Liabilities:**

<b>Unclaimed Property Due to State Treasury</b>	<b>74,617</b>
Interfund Payable (Note 8)	1,873,247
Employees' Compensable Leave (Note 5)	19,352,555
Claims Payable (Note 5)	26,435,198
Bonds Payable (Note 5)	353,530,000
<b>Other Non-Current Liabilities</b>	<b>3,480</b>
Total Non-Current Liabilities	<u>401,269,097</u>

Total Liabilities \$ 628,522,806

*NET ASSETS*

Invested in Capital Assets, Net of Related Debt	438,544,802
Restricted:	
Nonexpendable:	
<b>Endowments</b>	<b>287,793,957</b>
Expendable:	
Capital Projects	22,849,097
Higher Education Assistance Fund	13,666,955
Debt Service	5,066,528
<b>Other</b>	<b>99,167,107</b>
Unrestricted (Note 1)	<u>361,079,403</u>
Total Net Assets	<u>1,228,167,849</u>

Total Liabilities and Net Assets \$ 1,856,690,655

See Accompanying Notes To Financial Statements



TEXAS TECH UNIVERSITY SYSTEM  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (UNAUDITED)  
For Year Ended August 31, 2004

**Operating Revenues**

<b>Tuition and Fees</b>	<b>\$ 26,940,908</b>
Tuition and Fees - Pledged	147,973,554
Less Discounts and Allowances	(12,245,937)
Professional Fees	82,172,349
Sales and Services of Auxiliary Enterprises - Pledged	66,592,292
<b>Other Sales and Services</b>	<b>5,257,807</b>
Other Sales and Services - Pledged	7,082,324
Federal Grants and Contracts (Schedule 1A)	49,951,866
Federal Grants and Contracts - Pledged (Schedule 1A)	2,275,255
Federal Grant Pass-Throughs (Schedule 1A)	1,806,497
<b>State Grants and Contracts</b>	<b>84,141,872</b>
State Grants and Contracts - Pledged	58,786
State Grant Pass-Throughs (Schedule 1B)	9,857,902
Local Governmental Grants and Contracts	59,449,183
Local Governmental Grants and Contracts - Pledged	673,129
<b>Nongovernmental Grants and Contracts</b>	<b>26,512,329</b>
Nongovernmental Grants and Contracts - Pledged	3,909,063
Total Operating Revenues	<u>562,409,179</u>

**Operating Expenses**

<b>Instruction</b>	<b>294,854,046</b>
Research	54,037,408
Public Service	107,176,007
Academic Support	110,102,697
Student Services	25,198,660
<b>Institutional Support</b>	<b>63,077,444</b>
Operations and Maintenance of Plant	48,658,959
Scholarships and Fellowships	25,566,751
Auxiliary Enterprises	70,132,064
Depreciation and Amortization	29,950,125
<b>Total Operating Expenses</b>	<b>828,754,161</b>

Operating Income (Loss) (266,344,982)

TEXAS TECH UNIVERSITY SYSTEM  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (UNAUDITED)  
For Year Ended August 31, 2004

**Nonoperating Revenues (Expenses)**

Legislative Revenue	257,775,453
Federal Grant Revenues	516,263
Private Gifts	25,501,970
Private Gifts - Pledged	5,030,434
Investment Income	61,045,007
<b>Investment Income - Pledged</b>	<b>3,497,167</b>
Interest Expense on Capital Asset Financing	(14,839,218)
Loss on Sale and Disposal of Capital Assets	(2,875,250)
Net Decrease in Fair Value of Investments	(727,129)
Other Nonoperating Revenues (Expenses)	13,564,818
<b>Other Nonoperating Revenues (Expenses) - Pledged</b>	<b>516,423</b>
Total Nonoperating Revenues (Expenses)	349,005,938
Income (Loss) before Other Revenues, Expenses, Gains, Losses, and Transfers	82,660,956
<b>Other Revenues, Expenses, Gains, Losses, and Transfers</b>	
Capital Appropriations (HEAF)	28,696,881
Capital Contributions	1,706,470
Lapsed Appropriations	(653,379)
Additions to Permanent Endowments	5,883,759
<b>Legislative Transfers In (Note 8)</b>	<b>2,000,000</b>
Transfers Out to Other Agencies (Note 8)	(304,930)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	37,328,801
<i>TOTAL CHANGES IN NET ASSETS</i>	<u>\$ 119,989,757</u>
Beginning Net Assets (September 1, 2003)	1,102,120,799
Restatements of Beginning Net Assets (Note 18)	6,057,293
Ending Net Assets (August 31, 2004)	<u>\$ 1,228,167,849</u>

See Accompanying Notes to Financial Statements



TEXAS TECH UNIVERSITY SYSTEM  
 MATRIX OF OPERATING EXPENSES BY NATURAL CLASSIFICATION  
 For Year Ended August 31, 2004

<i>FUNCTION</i>	<i>SALARIES AND WAGES</i>	<i>PAYROLL RELATED COSTS</i>	<i>FEDERAL SUBCONTRACT</i>	<i>PROFESSIONAL FEES AND SERVICES</i>	<i>TRAVEL</i>
Instruction	\$ 214,089,028	\$50,895,190	\$268,625	\$6,163,928	\$2,310,533
Research	31,592,409	6,281,895	(248,811)	722,696	1,710,709
Public Service	42,724,482	9,971,713	511,202	36,936,431	821,145
Academic Support	60,747,194	14,555,108	552,666	5,139,633	2,003,500
Student Services	11,514,482	2,903,263		316,511	667,886
Institutional Support	32,844,963	13,086,023		3,703,103	851,957
Operation and Maintenance of Plant	11,346,690	2,763,896		191,535	78,075
Scholarships and Fellowships	190,685	8,092			
Auxiliary Enterprises	22,861,731	5,633,825		477,249	610,046
Depreciation and Amortization					
Total Operating Expenses	\$ 427,911,664	\$106,099,005	\$ 1,083,682	\$ 53,651,086	\$ 9,053,851

<i>FUNCTION</i>	<i>MATERIALS AND SUPPLIES</i>	<i>COMMUNICATIONS AND UTILITIES</i>	<i>REPAIRS AND MAINTENANCE</i>	<i>RENTALS AND LEASES</i>	<i>PRINTING AND REPRODUCTION</i>
Instruction	\$ 17,197,061	\$ 1,484,199	\$ 1,077,598	\$ 2,548,573	\$ 1,267,801
Research	7,715,429	146,108	567,684	394,838	283,173
Public Service	11,618,237	806,134	335,145	1,035,232	311,878
Academic Support	12,020,283	1,429,699	1,384,477	3,115,156	1,159,621
Student Services	374,759	236,021	363,697	533,546	1,037,447
Institutional Support	4,134,357	549,174	484,502	984,818	736,781
Operation and Maintenance of Plant	6,696,443	17,309,096	8,274,816	614,422	40,700
Scholarships and Fellowships					
Auxiliary Enterprises	4,576,046	6,923,569	2,274,049	3,023,008	703,915
Depreciation and Amortization					
Total Operating Expenses	\$ 64,332,615	\$ 28,884,000	\$ 14,761,968	\$ 12,249,593	\$ 5,541,316

<i>FUNCTION</i>	<i>DEPRECIATION AND AMORTIZATION</i>	<i>SCHOLARSHIPS</i>	<i>BAD DEBT</i>	<i>CLAIMS AND LOSSES</i>	<i>STATE PASS THROUGH</i>
Instruction	\$	\$ 4,578,260	\$	\$ 325,000	\$
Research		1,237,075			78,919
Public Service		202,352			
Academic Support		2,283,963		345,185	
Student Services		195,291			
Institutional Support		837,179	40,226	213,137	
Operation and Maintenance of Plant		3,035			
Scholarships and Fellowships		25,366,934			
Auxiliary Enterprises		3,347,665			
Depreciation and Amortization	29,950,125				
Total Operating Expenses	\$ 29,950,125	\$ 38,051,754	\$ 40,226	\$ 883,322	\$ 78,919

TEXAS TECH UNIVERSITY SYSTEM  
 MATRIX OF OPERATING EXPENSES BY NATURAL CLASSIFICATION  
 For Year Ended August 31, 2004

<i>FUNCTION</i>	<i>OTHER OPERATING</i>	<i>GRAND TOTAL</i>
Instruction	\$ (7,351,750)	\$ 294,854,046
Research	3,555,284	54,037,408
Public Service	1,902,056	107,176,007
Academic Support	5,366,212	110,102,697
Student Services	7,055,757	25,198,660
Institutional Support	4,611,224	63,077,444
Operation and Maintenance of Plant	1,340,251	48,658,959
Scholarships and Fellowships	1,040	25,566,751
Auxiliary Enterprises	19,700,961	70,132,064
Depreciation and Amortization		<u>29,950,125</u>
Total Operating Expenses	<u>\$ 36,181,035</u>	<u>\$ 828,754,161</u>

  
 TEXAS TECH UNIVERSITY SYSTEM  
 STATEMENT OF CASH FLOWS (UNAUDITED)  
 For Year Ended August 31, 2004

**Cash Flows from Operating Activities**

<b>Tuition and Fees</b>	<b>\$ 168,313,187</b>
Grants and Contracts	245,106,950
Sales and Services of Auxiliary Enterprises	68,481,606
Collections from Patients and Insurers	81,466,913
Collections of Loans to Students	915,799
<b>Other Sales and Services</b>	<b>9,158,360</b>
Other Operating Activities	10,255,493
Payments to Suppliers	(209,316,328)
Payments to Employees	(419,886,463)
Payments for Loans Issued to Students	(1,125,843)
<b>Payments for Auxiliary Enterprises</b>	<b>(318,142)</b>
Payments for Other Operating Activities	<u>(181,194,413)</u>
Net Cash Used By Operating Activities	<u>(228,142,881)</u>

**Cash Flows from Noncapital Financing Activities**

<b>State Appropriations</b>	<b>270,494,732</b>
Noncapital Gifts and Grants	38,535,632
Payments for Direct Lending	(78,303)
Transfers Out to Other State Agencies	(304,930)
Proceeds from Agency Transactions	967,752
<b>Other Noncapital Financing Activities</b>	<b>14,081,602</b>
Net Cash Provided by Noncapital Financing Activities	<u>323,696,485</u>

**Cash Flows from Capital and Related Financing Activities**

Proceeds from Capital Debt Issuances	101,986,775
<b>Capital Appropriations</b>	<b>28,696,881</b>
Proceeds from Capital Gifts and Grants	1,706,470
Purchases of Capital Assets	(95,262,741)
Principal and Interest Paid on Capital Debt	(48,155,644)
Payments for Other Capital Related Activities	<u>(168,400)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(11,196,659)</u>

**Cash Flows from Investing Activities**

Proceeds from Investment Sales and Maturities	128,341,350
Interest and Dividends Received	53,074,186
<b>Purchases of Investments</b>	<b>(112,095,739)</b>
Net Cash Provided by Investing Activities	<u>69,319,797</u>
<i>TOTAL NET CASH FLOWS</i>	<u>\$ 153,676,742</u>

Beginning Cash & Cash Equivalents - September 1, 2003 161,369,306

**Ending Cash & Cash Equivalents - August 31, 2004** **\$ 315,046,048**

**Reconciliation of Operating Loss to Net Cash Flows from Operating Activities**

Operating Loss	(266,344,982)
Adjustments:	
Depreciation Expense	29,950,125
Bad Debt Expense	40,226
(Increase) Decrease in Accounts Receivables	(2,867,188)
(Increase) Decrease in Loans and Notes Receivable	579,998
(Increase) Decrease in Inventory	473,835
(Increase) Decrease in Prepaid Expenses	1,509,430
(Increase) Decrease in Other Assets	(41,683)
Increase (Decrease) in Accounts Payables	5,496,741
Increase (Decrease) in Payroll Payables	2,052,942
Increase (Decrease) in Accrued Liabilities	(244,704)
Increase (Decrease) in Deferred Revenue	12,412,684
Increase (Decrease) in Compensable Leave	1,440,377
Increase (Decrease) in Claims Payable	(12,552,242)
Increase (Decrease) in Other Liabilities	(48,440)
Net Cash Used for Operating Activities	<u>(228,142,881)</u>



**Note 1: Summary of Significant Accounting Policies****Reporting Entity**

Texas Tech University System 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' Annual Financial Reporting Requirements for State Agencies.

Components of the Texas Tech University System include Texas Tech University, Texas Tech University Health Sciences Center and Texas Tech University System Administration. The Texas Tech University System includes within this report all components as determined by an analysis of their relationship to the Texas Tech University System as described below for blended component units.

**Blended Component Units**

The Texas Tech University Foundation and the Texas Tech University Research Foundation are not-for-profit 501(c)(3) organizations, exempt from income taxes. The Texas Tech University Foundation was founded to financially support the Texas Tech University System. The Texas Tech University Research Foundation was founded to support the research activities of the University. Based on the application of the GASB Standard No. 14 criteria, The Texas Tech Foundation and the Texas Tech Research Foundation have been blended into these financial statements because of the significance of their financial relationship with the System.

Texas Tech Physician Associates is a certified non-profit health corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the State of Texas (the State). TTPA was created by TTUHSC for the purpose of entering into prepaid capitation agreements for physician and other medical services. TTPA is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of eight directors appointed by TTUHSC.

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

**Basis of Accounting**

The accounting records of the Texas Tech University System are maintained using a modified accrual basis of accounting. Accounting data for most external reports, including this Annual Financial Report, are converted to full accrual basis of accounting in compliance with GASB Statements 34 and 35. For financial reporting purposes, the Texas Tech University System is considered a special-purpose government engaged only in business-type activities. Accordingly, the System's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**Cash and Cash Equivalents**

For the purpose of financial statement reporting, cash equivalents are short-term highly liquid investments with an original maturity of three months or less. Included in this category are demand deposits in banks, local funds held by the state, state reimbursements in transit, repurchase agreements and Texpool investments.

The System records and reports its deposits in the general deposit account at cost. It records and reports its special deposit accounts at fair value. Investment pool cash equivalents are recorded at fair value.

**Cash and Cash Equivalents as reported on the Statement of Net Assets**

	<i>CURRENT UNRESTRICTED</i>	<i>CURRENT RESTRICTED</i>	<i>NON-CURRENT RESTRICTED</i>	<i>TOTAL</i>
Cash on Hand	\$ 84,326	\$ 2,485		\$ 86,811
Cash in Bank	(6,474,397)	(1,595,432)	(391,631)	(8,461,460)
Reimbursement Due from State Treasury	1,081,008	111,580		1,192,588
Cash in State Treasury	25,180,579			25,180,579
Repurchase Agreements	36,062,394	10,737,208	2,268,024	49,067,626
Texpool & TexSTAR Investments	<u>122,114,922</u>	<u>94,978,907</u>	<u>30,886,075</u>	<u>247,979,904</u>
Total Cash and Cash Equivalents	<u>\$ 178,048,832</u>	<u>\$ 104,234,748</u>	<u>\$ 32,762,468</u>	<u>\$ 315,046,048</u>

**Investments**

Texas Tech University System accounts for its investments at fair market value, as determined by quoted market prices, in accordance with GASB Statement No. 31 – Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

**Restricted Assets**

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

**Inventories**

Inventories include both merchandise inventories on hand for sale and consumable inventories such as maintenance supplies, housing supplies, janitorial supplies, office supplies, and telecommunications supplies. Inventories are valued at cost, generally utilizing the last-in, first-out method.

**Receivables**

Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

Federal receivable includes amounts due from the federal, state, and local governments or private sources, in connection with reimbursement of allowable expenditures disbursed by the System's grants and contracts department.

Gift receivables are accounted for at their estimated net realizable value. The estimated net realizable value consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges. Pledges vary from one to ten years and are used to support specifically identified System programs and initiatives.

Interest and income receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items.

Other receivables include year-end revenue accruals not included in any other receivable category.

**Prepaid Expenses**

Disbursements for insurances, subscriptions, prepaid postage, prepaid travel costs and similar services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

**Loans and Notes Receivable**

These receivables are student loans receivable that consist of amounts due from the Federal Perkins Loan Program, and from other loans administered by the System.

**Capital Assets**

Furniture, equipment, and vehicles with a cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities and other improvements are \$100,000. The capitalization threshold for infrastructure is \$500,000. These assets are capitalized at cost. Donated assets are reported at fair market value as of the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charges to operating expenses in the year in which the expense was incurred. Depreciation is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting System (SPA). Assets are depreciated over the estimated useful life of the asset using the straight-line method.

**Accounts Payable and Accrued Liabilities**

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

**Deferred Revenues**

Deferred Revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Employees' Compensable Leave Balances**

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

**Notes and Loans Payable**

Notes payable represents amounts owed for commercial paper that was issued during the current accounting period. Notes and loans payable are further explained in Note 5.

**Bonds Payable**

Texas Tech University System has a number of bond issues outstanding, most of which are supported either directly or indirectly by tuition revenue. Bonds payable are addressed in more detail in Note 13.

**Funds Held for Others**

Current balances in funds held for others result from the System acting as an agent or fiduciary for students and student organizations.

**Interfund Payable**

Interfund payables are resources payable to other state agencies for Lone Star that assisted the System with utility costs. This payable is further explained in Note 8.

**Net Assets**

Net Assets are the difference between fund assets and liabilities. They are presented in three separate classes: Invested in Capital Assets - Net of Related Debt, Restricted and Unrestricted.

**Invested in Capital Assets, Net of Related Debt**

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable 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 a party external to the System such as 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 restricted net assets. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be moved or modified.

**Unrestricted Net Assets as reported on the Statement of Net Assets**

Reserved for:	
Encumbrances	\$ 7,859,048
Accounts Receivable	21,903,852
Inventory	2,440,297
Prepaid Expenses	2,315,018
Imprest Funds	214,249
Working Capital	50,543
Self-Insured Plans	33,820,301
External Investment Pool	173,198
Fair Market Value Adjustment	2,948,191
Future Operating Budgets	92,206,030
Service Department Operating Funds	18,227,093
Student Service Fees	2,173,126
Funds Functioning as Endowments	60,333,874
Unreserved	<u>116,414,583</u>
Total Unrestricted Net Assets	<u>\$ 361,079,403</u>

**Interfund Activity and Transactions**

Texas Tech University System is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, including blended component units. Interfund transactions are defined as financial transactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

**NOTE 2: CAPITAL ASSETS**

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system.

Accumulated depreciation is classified by capital asset category, providing for an estimation of the net book value of each asset category.

Capital assets are categorized as either (1) Land and Land Improvements, (2) Buildings and Building Improvements, (3) Infrastructure, (4) Furniture and Equipment, (5) Vehicles, Boats and Aircraft, (6) Construction in Progress, (7) Other Capital Assets, or (8) Facilities and Other Improvements. The changes to fixed asset balances are summarized below.

	BALANCE 09/01/03	ADJUSTMENTS	COMPLETED CIP	INCREASE INT'GY TRANSFERS	DECREASE INT'GY TRANSFERS	ADDITIONS	DELETIONS	BALANCE 08/31/04
Business-type Activities:								
Non-depreciable Assets:								
Land and								
Land Improvements	\$ 8,223,739					9,940		\$8,233,679
Construction In Progress	131,987,452	(1,105,554)	(74,538,537)			55,323,503		111,666,864
Other Capital Assets	95,369,801	31,030,324				8,423,479		134,823,604
Total Non-depreciable Assets	235,580,992	29,924,770	(74,538,537)			63,756,922		254,724,147
Depreciable Assets:								
Buildings and								
Building Improvements	663,709,364	(18,859,774)	74,538,537			39,762,307		759,150,434
Infrastructure	25,935,178					1,416,605		27,351,783
Facilities and								
Other Improvements	125,128,710	(1,215,311)				4,260,278		128,173,677
Furniture and Equipment	138,833,891	(46,825)		136,331	(222,444)	10,046,271	(4,534,529)	144,212,695
Vehicles, Boats and Aircraft	9,592,713	(48,297)		133,342	(38,357)	776,200	(440,032)	9,975,569
Other Capital Assets	34,811,856	(34,423,382)						388,474
Total depreciable assets at historical costs	998,011,712	(54,593,589)	74,538,537	269,673	(260,801)	56,261,661	(4,974,561)	1,069,252,632

	BALANCE 09/01/03	ADJUSTMENTS	COMPLETED CIP	INCREASE INT'AGY TRANSFERS	DECREASE INT'AGY TRANSFERS	ADDITIONS	DELETIONS	BALANCE 08/31/04
Business-type Activities:								
Non-depreciable Assets:								
<b>Less Accumulated Depreciation for:</b>								
Buildings and Improvements	(444,842,802)	425,878			(11,958,291)			(456,375,215)
Infrastructure	(1,828,629)				(1,026,194)			(2,854,823)
Facilities and Other Improvements	(9,440,699)	(150,265)			(5,219,063)			(14,810,027)
Furniture and Equipment	(85,165,877)	(2,619)		(9,986)	42,233	(12,973,346)	3,813,063	(94,296,532)
Vehicles, Boats and Aircraft	(6,572,239)	1,350		(34,690)		(848,493)	440,032	(6,979,350)
Other Capital Assets	(7,342,235)	7,028,805				12,212		(301,218)
Total Accumulated Depreciation	(555,192,481)	7,303,149		(44,676)	76,923	(32,013,175)	4,253,095	(575,617,165)
Depreciable Assets, Net	442,819,231	(47,290,440)	74,538,537	224,997	(183,878)	24,248,486	(721,466)	493,635,467
Business-type Activities Capital Assets, net:	\$678,400,223	\$(17,365,670)	\$0	\$224,997	\$(183,878)	\$88,005,408	\$(721,466)	\$748,359,614

**NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS**

Texas Tech University System's investment portfolio is invested pursuant to the parameters of applicable Texas law and the governing board's Investment Policies. Under Texas law, Texas Tech University System investments may be "any kind of investment that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Under Texas law, Texas Tech University System is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest Texas Tech University System funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investment, Endowments, and Income Producing Lands." The majority of Texas Tech University System Administration assets are invested in two investment pools; the Long Term Investment Fund (LTIF) and the Short/Intermediate Term Investment Fund (STIF). Endowment funds and certain eligible long-term institutional funds are invested in the LTIF, which invests in equity and fixed income securities and is operated using total return philosophy. Other institutional funds not in the LTIF are invested in the STIF, which is a fixed income fund and is operated using a hold to maturity philosophy. Other assets include securities gifted to Texas Tech University System with written donor instructions to maintain in their original form.

To comply with the reporting requirements of GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, Texas Tech University System's investments are categorized below in the Investment section to give an indication of credit risk assumed by Texas Tech University System at year end.

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

**Deposits of Cash in Bank**

- A. The carrying amount of \$(8,461,460) for Cash in Bank (including restricted assets and blended component units) is presented below.
- B. The bank balance of Texas Tech University System has been classified according to the following risk categories.
  1. Category 1—Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity

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

<i>CATEGORY 1</i>	<i>CATEGORY 2</i>	<i>CATEGORY 3</i>	<i>BANK BALANCE</i>	<i>CARRYING AMOUNT</i>
\$471,958	\$9,896,391	\$0	\$10,368,349	\$(8,461,460)

Consisting of the following:

Demand Deposits	\$(8,845,192)
Imprest Funds	31,132
Imprest Funds–Travel	120,000
Cashier Accounts	<u>232,600</u>
<i>TOTAL DEPOSITS CARRYING AMOUNTS</i>	<u>\$(8,461,460)</u>

### Investments

The fair values of investments as of the balance sheet date (including both short-term and long-term) are shown below. Investments are categorized to give an indication of the level of risk assumed by the agency at year-end. The three categories are:

**Category 1:** Investments that are insured or registered, or for which the securities are held by the agency, or its agent in the agency’s name.

**Category 2:** Uninsured and unregistered investments for which the securities are held by the broker’s or dealer’s trust department or agent in the agency’s name.

**Category 3:** Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the agency’s name.

<i>TYPE OF SECURITY</i>	<i>CATEGORY:</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>FAIR VALUE</i>
U.S. Government and Agency Obligations		\$72,493,354			\$72,493,354
U.S. Government and Agency Mortgage Obligations		19,800,157			19,800,157
Collateralized Mortgage Obligations		137,721,495			137,721,495
Repurchase Agreements		49,067,626			49,067,626
Corporate Stock		<u>209,171,477</u>		<u>1,442,925</u>	<u>210,614,402</u>
Totals		<u>\$488,254,109</u>		<u>\$1,442,925</u>	<u>\$489,697,034</u>

### Uncategorized Investments:

Real Estate and Mortgages	\$1,228,356
TexPool and TexSTAR Investments	247,979,904
Other Uncategorized Investments	<u>179,164,004</u>
Total Investments	<u>\$918,069,298</u>

### Reverse Repurchase Agreements

Texas Tech University System, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the

Agency and the Agency transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the Agency arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

#### Derivative Investing

Included in the U.S. Government and Agency Securities category funds are investments in certain conservative mortgage derivative securities. A derivative security is an investment product which may be a security or contract which derives its value from another security, currency, commodity or index.

The schedule below provides certain information of the different types of mortgage derivatives included in Texas Tech University System's portfolio.

<i>MORTGAGE DERIVATIVE SECURITIES</i>	
<i>TYPE</i>	<i>CARRYING VALUE</i>
Planned Amortization Class Securities	\$139,265,781

#### NOTE 4: SHORT-TERM DEBT

Texas Tech University System has no outstanding short-term debt as of August 31, 2004.

#### NOTE 5: SUMMARY OF LONG-TERM LIABILITIES

##### Changes in Long-Term Liabilities

During the year ended August 31, 2004, the following changes occurred in liabilities.

<i>LONG-TERM LIABILITY CATEGORY</i>	<i>BALANCE 09/01/03</i>	<i>INCREASES</i>	<i>DECREASES</i>	<i>BALANCE 08/31/04</i>	<i>CURRENT PORTION</i>
Accrued Liabilities	\$321,967	\$2,225	\$313,830	\$10,362	\$10,362
Unclaimed Property					
Due to State Treasury	111,478	74,039	82,205	103,312	28,695
Claims Payable	41,924,684	8,152	12,560,394	29,372,442	2,937,244
Notes and Loans	23,604,000	5,800,000	14,493,000	14,911,000	14,911,000
Revenue Bonds	290,350,000	97,265,000	19,955,000	367,660,000	14,130,000
Compensable Leave	23,272,607	2,260,730	820,353	24,712,984	5,360,429
Other Liabilities	<u>17,745</u>	<u>39,464</u>	<u>51,799</u>	<u>5,410</u>	<u>1,930</u>
Total	<u>\$379,602,481</u>	<u>\$105,449,610</u>	<u>\$48,276,581</u>	<u>\$436,775,510</u>	<u>\$37,379,660</u>

#### Accrued Liabilities

Accrued liabilities represents rebatable arbitrage which is defined by the Internal Revenue Code Section 148 as earnings on investments purchased with gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. This rebatable arbitrage must be paid to the federal government. The System is generally entitled to invest its bond proceeds at an unrestricted yield for a temporary period of three years beginning on the date of delivery of the bond issue. After the temporary period, unexpended proceeds must be invested at a yield not to exceed the yield on the bond issue. The rebatable arbitrage to the federal government is payable at the end of each five-year period from the delivery date and upon final redemption of all outstanding bonds of the issue.

#### Claims Payable

Claims payable includes estimates for both known medical malpractice claims and those that have not yet been made against the participants insured. The liability is actuarially estimated to reflect the anticipated future claims for past medical services. Some of these claims are in process, while others are expected to be filed in the future. The liability estimate does not consider the probability of payment on a claim-by-claim basis, and instead considers overall probability of payment for medical malpractice claims. Claims payable reports a combined liability of the Health Sciences Center and Texas Tech Physician Associates, a blended component unit.

**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 employment, provided the employee has had continuous employment with the State for six months. Under state law, the hours accumulated are capped depending on the employees' length of service. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Bonds Payable**

See Note 13 for detailed information on bond liability balances and transactions.

**Notes and Loans Payable**

Commercial paper was issued during the fiscal year to finance various construction projects. Debt service for the obligation is provided in general appropriation for tuition revenue bonds and revenue from various projects. All commercial paper outstanding at 8/31/04 will be retired in fiscal year 2005.

Commercial paper has short maturities up to 270 days with interest rates ranging from 1.08% to 1.25%.

*Summary of Debt Service Requirements for Notes Payable*

<i>FISCAL YEAR</i>	<i>PRINCIPAL</i>	<i>INTEREST</i>	<i>TOTAL</i>
2005	\$14,911,000	\$31,740	\$14,942,740
2006			
2007			
2008			
2009			
All Other Years			
Total Requirements	<u>\$14,911,000</u>	<u>\$31,740</u>	<u>\$14,942,740</u>

**NOTE 6: CAPITAL LEASES**

As of August 31, 2004, Texas Tech University System had no outstanding capital leases.

**NOTE 7: OPERATING LEASES**

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

<i>FISCAL YEAR</i>	
2005	\$3,414,181
2006	3,372,634
2007	2,987,425
2008	2,964,592
2009	<u>3,053,530</u>
Total Minimum Future Lease Rental Payments	<u>\$15,792,362</u>

**NOTE 8: INTERFUND BALANCES/ACTIVITIES**

As explained in Note 1 on interfund activities and transactions, there are numerous transactions between funds and agencies. At year-end amounts to be received or paid are reported as:

Interfund Receivables or Interfund Payables  
Due from Other Agencies or Due to Other Agencies  
Transfers In or Transfers Out  
Legislative Transfers In or Legislative Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.



Individual balances and activity at August 31, 2004, follows:

<i>INTERFUND PAYABLE</i>	<i>NON-CURRENT INTERFUND PAYABLE</i>	<i>PURPOSE</i>
Agency 907, D23 Fund 0515	<u>\$1,873,247</u>	Lone Star
<b>Total Interfund Receivable/Payable</b>	<u><b>\$1,873,247</b></u>	
 <i>DUE FROM OTHER AGENCIES</i>		<i>CURRENT DUE FROM OTHER AGENCIES</i>
Texas Education Agency (Agency 701)		\$ 71,107.46
Texas School for the Blind (Agency 771)		101,115.42
Texas General Land Office (Agency 305)		12,618.46
Texas Commission on Environmental Quality (Agency 582)		17,000.00
Texas Department of Transportation (Agency 601)		74,534.00
Texas Tech University (Agency 733)		224,469.42
Texas Technology Workforce Development Grant (Agency 781)		203,610.45
University of Texas System (Agency 720)		<u>3,569,845</u>
<b>Total Due from Other Agencies</b>		<u><b>\$ 4,274,300.21</b></u>
 <i>DUE TO OTHER AGENCIES</i>		<i>AMOUNT</i>
Texas Tech University Health Sciences Center (Agency 739)		<u>\$224,469.42</u>
<b>Total Due to Other Agencies</b>		<u><b>\$224,469.42</b></u>
 <i>TRANSFERS OUT TO OTHER AGENCIES</i>		<i>AMOUNT</i>
Texas Higher Education Coordinating Board (Agency 781)		\$290,293.00
Texas Comptroller's Office (Agency 902)		<u>14,636.62</u>
<b>Total Transfers Out to Other Agencies</b>		<u><b>\$304,929.62</b></u>
 <i>LEGISLATIVE TRANSFER IN</i>		<i>AMOUNT</i>
El Paso 4-Year Medical School		<u>\$2,000,000.00</u>
<b>Total Legislative Transfer In</b>		<u><b>\$2,000,000.00</b></u>

The detailed State Grant Pass-Through information is listed on Schedule 1B – Schedule of State Grant Pass-Throughs from/to State Agencies.

**NOTE 9: CONTINGENT LIABILITIES**

The United States Department of Justice's Office of the Inspector General has issued Audit Report Number GR-80-01-017, ORI Number TX 15206U, dated August 31, 2001. This audit report questions \$356,106 of costs on Texas Tech University's Community Oriented Policing Services grant. The University believes that the questioned costs are valid and will pursue the matter until it is equitably resolved. No accrual has been made in this financial statement.

At August 31, 2004, other lawsuits and claims involving Texas Tech University System were pending. While the ultimate liability with respect to litigation and other claims asserted against the System cannot be precisely estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is in legal counsel's opinion, not likely to have a material effect on the System.

**NOTE 10: CONTINUANCE SUBJECT TO REVIEW**

Texas Tech University System is not subject to the Texas Sunset Act.

**NOTE 11: RISK FINANCING AND RELATED INSURANCE**

Texas Tech University System by state law is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). The University is assessed fees by SORM based upon claims experience, claim incidences, payroll size and FTE. SORM also determines the methodology for allocation to the major fund groups. The State Office of Risk Management pays all WCI claims. The Worker's Compensation plan for the fiscal year was funded by a 1.0 percent charge on gross payroll for non-educational and general funds.

The System has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas pays 50% of claims for employees paid from state funds. The System pays the remainder for employees paid from non-educational and general funds. The Texas Tech University System Unemployment Compensation Fund is currently funded by interest earnings on the fund.

*NOTE 12: SEGMENT INFORMATION*

Texas Tech University System has no reportable segments.

*NOTE 13: BONDED INDEBTEDNESS***Bonds Payable**

Several bond issues were outstanding as of August 31, 2004 which are summarized in the paragraphs that follow.

*REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, SERIES 1996*

Purpose:	Financing of arena complex, housing complex, and other capital projects and the advance refunding of Housing Revenue Bonds, Series 1962, 1963, 1966
Original Issue Amount:	\$71,285,000
Issue Date:	December 5, 1996
Interest Rates:	4.00% to 6.00%
Maturity Date Range:	1998 through 2017
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$4,125,000 retired

*REVENUE FINANCING SYSTEM BONDS, SECOND SERIES 1996 (TAXABLE)*

Purpose:	Financing of arena complex, other capital projects, and costs of issuance
Original Issue Amount:	\$7,380,000
Issue Date:	December 5, 1996
Interest Rates:	5.75% to 6.75%
Maturity Date Range:	1998 through 2007
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$770,000 retired

*REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, SERIES 1999*

Purpose:	Current refunding of a portion of Series A Notes, advance refunding of Revenue Bonds, Series 1995, 1996 and financing of a new English building and other projects. Also, financing for projects in Amarillo, Midland, and Lubbock.
Original Issue Amount:	\$115,100,000
Issue Date:	May 4, 1999
Interest Rates:	4.00% to 5.25%
Maturity Date Range:	1999 through 2029
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$1,430,000 retired

*REVENUE FINANCING SYSTEM BONDS, SEVENTH SERIES 2001*

Purpose:	Financing of renovation of Jones Stadium, Student Union and Student Recreational Center, and other projects, current refunding of a portion of Series A Notes, and costs of issuance. Also, financing for projects in El Paso and Lubbock.
Original Issue Amount:	\$126,865,000
Issue Date:	January 23, 2002
Interest Rates:	3.00% to 5.50%
Maturity Date Range:	2002 through 2031
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$3,365,000 retired

*REVENUE FINANCING SYSTEM BONDS, EIGHTH SERIES 2001 (TAXABLE)*

Purpose:	Financing of renovation of Jones Stadium and costs of issuance
Original Issue Amount:	\$42,810,000
Issue Date:	January 23, 2002
Interest Rates:	3.46% to 6.75%
Maturity Date Range:	2003 through 2031
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$1,670,000 retired

*REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, NINTH SERIES 2003*

Purpose:	Refunding of Series A Notes and Series 1993 bonds, construction of the Experimental Sciences Building and renovation of Horn/Knapp dormitory and other System construction of capital improvement projects and costs of issuance
Original Issue Amount:	\$97,265,000
Issue Date:	September 23, 2003
Interest Rates:	2.00% to 5.50%
Maturity Date Range:	2003 through 2023
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$97,265,000 issued; \$2,630,000 retired

**Sources of Debt-Service Revenue**

On October 21, 1993, the governing board of the Texas Tech University System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University System components. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University components. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

*NOTE 14: SUBSEQUENT EVENTS*

The Texas Tech University System is transitioning its Short/Intermediate Term Investment Funds (STIF) from investments in government agency fixed income securities, primarily mortgage backed securities and collateralized mortgage obligations, to investments in U.S. Treasury obligations and government/agency fixed income mutual funds. This transition began in July 2004. As of August 31, 2004, securities having a book value of \$54,227,811 had been sold for \$54,613,938, resulting in a net gain of \$386,127 for the year ended August 31, 2004.

The System sold numerous additional securities in the two months after the year ended August 31, 2004. Between September 1, 2004 and October 12, 2004, additional securities with a book value of \$111,546,120 were sold for \$110,066,841 which resulted in net loss of \$1,479,279.

The total sale of securities had a book value of \$165,773,931 that was sold for a total amount of \$164,680,779, or a net loss of (\$1,093,152) or (.66%). It is anticipated that this represents the total amount that will be sold from the current portfolio. This loss will be applied equally against the monthly total interest earnings in October 2004 through August 2005.

*NOTE 15: RELATED PARTIES – RELATIONSHIP WITH TEXAS TECH UNIVERSITY SYSTEM*

The Texas Tech Foundation Inc. (TTFI) and Texas Tech Physician Associates (TTPA) are reported as blended component units. TTFI is governed by a 30-member board appointed by the Texas Tech University System governing board.

TTPA is a certified non-profit health corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the State of Texas (the State). TTPA was created by the Health Sciences Center for the purpose of entering into prepaid capitation agreements for physician and other medical services. TTPA is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of eight directors appointed by the Health Sciences Center.

Although both entities are legally separate from the Texas Tech University System, TTPA and TTFI are reported as if they were part of the System because their sole purpose is to financially support Texas Tech University System. The Texas Tech Alumni Association provided services on behalf of Texas Tech University for which the University paid \$100,110 during the 2004 fiscal year. These services include public relations and general support of the University through various scholarships and awards.

**NOTE 16: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Effective September 1, 2001, the Texas Tech University System changed the basis of financial reporting from modified accrual to full accrual. This change was in response to the implementation of Governmental Accounting Standards Board statements 34 and 35. The Texas Tech University System has no other material stewardship, compliance, or accountability issues.

**NOTE 17: THE FINANCIAL REPORTING ENTITY AND JOINT VENTURES**

**The Financial Reporting Entity**

The Texas Tech University System is an agency of the State of Texas. As required by generally accepted accounting principles, these financial statements present the Texas Tech University System. The component units discussed below this note are included in the System's reporting entity because of the significance of their operational or financial relationships with the System.

**Individual Component Unit Disclosures**

The Texas Tech University Foundation, the Texas Tech University Research Foundation and the Texas Tech Physician Associates are blended component units of the Texas Tech University System. Although each is legally separate from the System, the Texas Tech Foundation, the Texas Tech Research Foundation and the Texas Tech Physician Associates are reported as if they were part of the primary government.

The Texas Tech University Foundation is governed by a 30-member board whose appointment is approved by the Texas Tech Board of Regents.

The Texas Tech University Research Foundation is governed by a six-member board whose appointment is approved by the Texas Tech University Board of Regents. The Texas Tech University Research Foundation is currently inactive. However, the entity has not been deactivated.

The Texas Tech Physician Associates is governed by an eight-member board appointed by Texas Tech University Health Sciences Center.

**NOTE 18: RESTATEMENT OF FUND BALANCES/NET ASSETS**

Prior-period adjustments for the Texas Tech University System that required the restatement of beginning net assets relate to capital assets and accumulated depreciation changes and reclassification of U.S. government grants refundable.

<b>Net Assets as Reported at 8/31/03</b>		\$1,102,120,799
<b>Restatements</b>		
TTU Capital Assets	\$ (3,253,638)	
TTU Accumulated Depreciation	6,841,699	
HSC Accumulated Depreciation	321,447	
HSC Reclass of U.S. Government Grants Refundable	<u>2,147,785</u>	
		<u>6,057,293</u>
<b>Restated Net Assets at 8/31/03</b>		<u>\$1,108,178,092</u>

**NOTE 19: EMPLOYEE RETIREMENT PLANS (ADMINISTERING AGENCIES ONLY)**

Not applicable

**NOTE 20: DEFERRED COMPENSATION (ADMINISTERING AGENCIES ONLY)**

Not applicable

**NOTE 21: DONOR-RESTRICTED ENDOWMENTS**

Expenditure of endowed funds is not allowed without the express consent of the donor. Most of Texas Tech University System endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF). The LTIF has experienced varying performance since its inception. The cumulative effect of valuation changes assignable to endowment fund assets are summarized in the following table:

<i>DONOR-RESTRICTED ENDOWMENT</i>	<i>AMOUNT OF NET APPRECIATION</i>	<i>REPORTED IN NET ASSETS</i>
True Endowments	\$29,480,222	Restricted Nonexpendable
True Endowments	3,471,178	Restricted Expendable
True Endowments	4,718,684	Unrestricted
Term Endowments	897	Restricted Nonexpendable
Total	<u>\$37,670,981</u>	

**NOTE 22: MANAGEMENT DISCUSSION AND ANALYSIS****Financial Highlights**

- The University and the Health Sciences Center continue to experience growth in student enrollment, totaling 3.6% for the University and 6.7% for the Health Sciences Center between the fall 2002 and the fall 2003 semesters.
- Overall net assets increased by \$126 million for the year ended August 31, 2004, primarily due to increased investment returns, increased appropriations revenues, increased tuition and fees revenues and increased professional fees.
- Capital asset additions totaled \$194 million for the year ended August 31, 2004.
- The system issued revenue financing system bonds in the amount of \$97,265,000 during the year ended August 31, 2004 primarily for the construction of the Experimental Sciences building and renovation of the Horn/Knapp dormitory.

**NOTE 23: POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (UT AND A&M ONLY)**

Not applicable

**NOTE 24: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES****Receivables**

Components of receivables as of August 31, 2004 are summarized below.

<i>TYPE</i>	<i>NET AMOUNT</i>
Federal Receivables	\$ 7,569,823
Interest and Dividends Receivable	1,486,706
Student Receivables	777,449
Contract Receivables	8,168,982
Gift Receivables Current & Noncurrent	61,610,662
Accounts Receivables	4,494,388
Loans & Notes Receivable Current & Noncurrent	11,222,972
Other Receivables	529,685
Total Receivables	<u>\$95,860,667</u>

**Contractual Arrangements and Concentrations of Credit Risk**

The TTU Health Sciences Center provides care to patients covered by various third party payers such as Medicare, Medicaid, and private insurance companies and health maintenance organizations (HMOs).

The TTU Health Sciences Center provides primary, secondary and tertiary health care services to counties in west Texas, eastern New Mexico, and the Oklahoma panhandle region, as well as border regions in southwest Texas. Patient care centers are located in the Texas cities of Amarillo, El Paso, Lubbock and Odessa.

Concentrations of gross patient accounts receivables are depicted in the table below. Management does not believe there are significant credit risks associated with the listed payors, other than the self pay and medically indigent category. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivables are reported in this Annual Financial Report net of allowances for bad debts, contractual adjustments, and charity care.

<i>TYPE</i>	<i>GROSS AMOUNT</i>
Medicare	\$ 4,638,650
Medicaid	10,969,814
Managed Care, including Blue Cross	5,880,283
Commercial	4,150,832
Self Pay and Medically Indigent	17,021,863
Other	<u>91,169</u>
<b>Total Gross Patient Accounts Receivable</b>	<u><b>\$47,752,611</b></u>

**Payables**

Components of payables as of August 31, 2004 are summarized below.

<i>TYPE</i>	<i>NET AMOUNT</i>
Accounts Payable	\$ 39,115,893
Payroll Payable	37,583,987
Liabilities Payable from Restricted Assets	<u>26,246,595</u>
<b>Total Payables</b>	<u><b>\$102,946,475</b></u>

**Schedule 1A – Schedule of Expenditures of Federal Awards**  
For the Year Ended August 31, 2004**NOTE 1: NON-MONETARY ASSISTANCE**

The “donation of federal surplus personal property” is presented at 23.3 percent of the federal acquisition cost \$135,101.29. The surplus property is passed through from the Texas Building and Procurement Commission. The federal grantor is the general services administration (GSA) and the federal CFDA number is 39.003. The estimated fair dollar value for fiscal year 2004 is \$13,596.86

**NOTE 2: RECONCILIATION**

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

Federal Revenues per Statement of Revenues, Expenses and Changes in	
Net Assets (SRECNA)	\$52,227,121.00
Federal Pass-Through Grants from Other State Agencies	1,806,496.69
Non-Operating Federal Grant Revenues	516,263
Total Federal Revenues per Statement of Revenues, Expenses and Changes	
In Net Assets (SRECNA)	\$54,549,880.69
<b>Reconciling Items:</b>	
Pass-Through to State Entities	1,887,211.57
Pass-Through to Other Entities	1,191,350.43
Non-Monetary Assistance:	
Donation of Federal Surplus Property	13,596.86
New Loans Processed	139,091,837.19
Less: Perkins Grant Revenue	(38,743.00)
Other	<u>1,570,533.25</u>
Total Pass-Through and Expenditures per Federal Schedule	<u>\$198,265,666.99</u>

**NOTE 3: STUDENT LOANS PROCESSED AND ADMINISTRATIVE COSTS RECOVERED**

<i>FEDERAL GRANTOR/CFDA NUMBER/PROGRAM NAME</i>	<i>NEW LOANS PROCESSED</i>	<i>ADMIN. COSTS RECOVERED</i>	<i>TOTAL LOANS PROCESSED AND ADMIN. COSTS RECOVERED</i>	<i>ENDING BALANCES OF PREVIOUS YEAR'S LOANS</i>
U.S. Department of Health and Human Services 93.342 Health Professions Student Loans	\$0.00	\$0.00	\$0.00	\$117,693.00
93.364 Nursing Student Loans	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>53,615.00</u>
Total U.S. Dept. of Health and Human Services	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$171,308.00</u>
U.S. Department of Education 84.032 Federal Family Education Loans	\$138,127,812.19	\$0.00	\$138,127,812.19	\$ 0.00
84.038 Federal Perkins Loan Program	<u>964,025.00</u>	<u>28,058.28</u>	<u>992,083.28</u>	<u>3,018,977.98</u>
Total U.S. Dept. of Education	<u>\$139,091,837.19</u>	<u>\$28,058.28</u>	<u>\$139,119,895.47</u>	<u>\$3,018,977.98</u>
Total Student Loans	<u>\$139,091,837.19</u>	<u>\$28,058.28</u>	<u>\$139,119,895.47</u>	<u>\$3,190,285.98</u>

**NOTE 4: GOVERNMENTAL PUBLICATIONS**

The System participates as a depository library in the Government Printing Office's Depository libraries for Government Publications Program, CFDA #40.0001. The University is the legal custodian of government publications, which remain the property of the federal government. The publications are not assigned a value by the Government Printing Office.

*NOTE 5: UNEMPLOYMENT INSURANCE FUNDS*

Texas Tech University System does not have CFDA 17.225 awards.

*NOTE 6: PETROLEUM VIOLATIONS ESCROW (PVE) FUNDS SUBJECT TO I-133 AUDITS*

These are only reported by the Governor's Office.

Note 7: Rebates from the Special Supplemental Food Program for Women, Infant, and Children (WIC)

Does not apply to Texas Tech University System

*NOTE 8: FEDERAL DEFERRED REVENUE*

Federal Deferred Revenue 9/1/03	\$258,336.79
Increase/(Decrease)	<u>125,674.78</u>
Federal Deferred Revenue 8/31/04	<u>\$384,011.57</u>



**Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies**

For the Year Ended August 31, 2004

Pass-Throughs From:

Office of Attorney General (Agency 302)

Post-Divorce Collaborative Family Assessment & Intervention With Texas Families	\$ 5,137.50
Implementing The Parenting Through Change Program with Latina Single Mothers	888.27
Premarital Education	856.02

Texas Department of Human Services (Agency 324)

Community Based Outreach for Children's Health Insurance Program	15,890.00
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Texas Department of Agriculture (Agency 551)

Genetic Resources of Drought Resistance on Wild Emmer Wheat For Wheat Improvement	30,500.77
Development of Selected Ornamentals Tolerant To Recycled and Saline Irrigation	23,641.37

Texas Commission on Environmental Quality (Agency 582)

Teaching Environmental Science	5,715.00
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Telecommunications Infrastructure Fund Board (Agency 367)

TIF: Infrastructure for Wireless Networking	733.64
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University of Texas at El Paso (Agency 724)

MHGP Hispanic End-Of-Life Care	6,224.00
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Texas Higher Education Coordinating Board (Agency 781)

Family Practice Residency	1,136,530.00
Family Practice Rural and Public Health Rotation	31,129.00
Financial Aid Professional Nursing	(30.00)
Graduate Medical Education	230,373.00
Primary Care Residency Program	435,000.00
Nursing and Allied Health	37,800.00
Minority Health Research/ Education	55,609.00
Texas Grant Program	6,660,881.00
Advanced Technology Program	609,324.95
Developmental Education Program	(11,466.87)
College Work Study Program	176,792.36
5th Year Accounting Scholarship	17,624.00
Texas Technology Worforce Grant	168,604.18

Texas Agricultural Experiment Station (Agency 556)

TX Cotton Program	135,000.00
Imported Fire Ant Research and Management Program	85,145.00

**Total Pass-Throughs from Other Agencies** \$ 9,857,902.19

**Pass-Throughs to Other Agencies**Texas Cooperative Extension (Agency 555)

Joint Appointments for Contract MU7214	\$ (21,747.36)
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## Texas Agricultural Experiment Station (Agency 556)

Joint Appointments for Contract MU7214	(57,172.06)
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**Total Pass-Throughs to Other Agencies** \$ (78,919.42)

**Schedule 3 - Reconciliation of Cash in State Treasury**

As of August 31, 2004

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Local Revenue (Fund 0239)	\$ 3,661,988.00	\$	\$ 3,661,988.00
Local Revenue (Fund 0269)	5,953.18		5,953.18
Local Revenue (Fund 0255)	20,400,185.38		20,400,185.38
Permanent Health Fund - El Paso Campus (Fund 0820)	905,825.00		905,825.00
Permanent Health Fund - Other Campuses (Fund 0821)	206,627.00		206,627.00
Total Cash in State Treasury (Note 1)	<u>\$ 25,180,578.56</u>	<u>\$</u>	<u>\$25,180,578.56</u>

**TEXAS TECH UNIVERSITY BOARD OF REGENTS**

<b>NAME</b>	<b>HOMETOWN</b>	<b>TERM EXPIRATION</b>
L. Frederick Francis, <i>Chairman</i>	El Paso	Feb. 2007
J. Frank Miller, III, <i>Vice Chairman</i>	Dallas	Feb. 2009
Larry Anders	Dallas	Feb. 2011
C. Robert Black	Horseshoe Bay	Feb. 2007
F. Scott Dueser	Abilene	Feb. 2009
Mark Griffin	Lubbock	Feb. 2011
Dan T. Serna	Arlington	Feb. 2011
Bob L. Stafford	Amarillo	Feb. 2007
Windy Sitton	Lubbock	Feb. 2009

**TEXAS TECH FISCAL OFFICERS**

David R. Smith, M.D.	<i>Chancellor</i>
Jon Whitmore, Ph.D.	<i>TTU President</i>
M. Roy Wilson, M.D., M.S.	<i>TTUHSC President</i>
Jim Brunjes	<i>Senior Vice Chancellor and Chief Financial Officer</i>
Tom Anderes	<i>TTU Senior Vice President for Administration and Finance</i>
Elmo Cavin	<i>TTUHSC Executive Vice President for Finance and Administration</i>