Texas Tech University
System Administration

Annual Financial Report

Fiscal Year 2002
ANNUAL FINANCIAL REPORT

OF

TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION

FOR THE YEAR ENDED AUGUST 31, 2002

LUBBOCK, TEXAS
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</table>
November 12, 2002

Honorable Rick Perry
Governor of Texas

Honorable Carole Keeton Rylander
Comptroller of Public Accounts

Mr. John Keel
Director, Legislative Budget Board

Mr. Lawrence F. Alwin, CPA
State Auditor

To Agency Heads Addressed:

The Financial Report of Texas Tech University System Administration, with which this letter is bound, is transmitted for inclusion in the State of Texas Annual Financial Report for the fiscal year ended August 31, 2002. The State Auditor has not audited the accompanying annual financial report and, therefore, has not expressed an opinion on the financial statements and related information contained in this report. This report is intended to present a complete picture of the fiscal affairs of the System for the year ended August 31, 2002.

As indicated by the following letter of transmittal, this report has been prepared by the fiscal office of the System to provide a summary of the System's financial records.

Sincerely,

David R. Smith, M.D.
Chancellor

DRS:nh
November 12, 2002

Chancellor David R. Smith
Texas Tech University System Administration
Lubbock, Texas 79409

Dear Chancellor Smith:

Submitted herein is the Annual Financial Report of Texas Tech University System Administration for the fiscal year ended August 31, 2002, in compliance with TEX. GOV’T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions, please contact me at 742-3255.

Sincerely,

Sharon Williamson, CPA
Director of Tax Compliance and Reporting

Rebecca Hyde
Director of Student and University Financial Services

Approved:

Jim Brunjes
Chief Financial Officer

SSW:nh
Texas Tech University System Administration

Board Of Regents

Carin Barth ................................ Term Expires January 31, 2005 ...................... Houston
E. R. Brooks .............................. Term Expires January 31, 2005 ............ Granbury
John W. Jones ............................ Term Expires January 31, 2003 ............. Brady
Nancy E. Jones ........................... Term Expires January 31, 2003 ........... Abilene
David R. Lopez .......................... Term Expires January 31, 2007 ............... Austin
Brian C. Newby .......................... Term Expires January 31, 2005 ............ Fort Worth
J. Michael Weiss ........................ Term Expires January 31, 2003 ................. Lubbock

Officers of the Board

J. Robert Brown ........................................................................................................Chair
Nancy E. Jones........................................................................................................Vice Chair
Ben Lock................................................................................................................Secretary

Fiscal Officers

David R. Smith, M.D. .......................................................... Chancellor
Jim Brunjes .................................. Senior Vice Chancellor and Chief Financial Officer
FINANCIAL STATEMENTS
# Statement of Net Assets
## August 31, 2002

### ASSETS

#### Current Assets
- Unrestricted Cash and Cash Equivalents
  - Cash in Bank $145,261
  - Reimbursement Due From State Treasury 586,204
  - Unrestricted Short-Term Investments 2,909,039
  - Legislative Appropriations 1,075,698
  - Accounts Receivable
    - Interest Receivable 23,324
    - Other Receivables 805
  - Prepaid Expenses 1,978
- **Total Current Assets** $4,451,787

#### Noncurrent Assets
- Investments 1,537,727
- Capital Assets
  - Furniture and Equipment (net of $3,343 accumulated depreciation) 68,465
  - Vehicles (net of $660 accumulated depreciation) 19,135
- **Total Noncurrent Assets** 1,625,327

**Total Assets** $6,077,114

### LIABILITIES

#### Current Liabilities
- Accounts Payable 1,274,429
- Compensable Leave 130,862
- **Total Current Liabilities** 1,405,291

#### Noncurrent Liabilities
- Compensable Leave 392,586
- **Total Noncurrent Liabilities** 392,586

**Total Liabilities** $1,797,877

### NET ASSETS
- Invested in Capital Assets 87,600
- Unrestricted 4,191,637
- **Total Net Assets** 4,279,237

**Total Liabilities and Net Assets** $6,077,114

See Accompanying Notes To Financial Statements
UNAUDITED

Texas Tech University System Administration
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended August 31, 2002

Operating Revenues
Sales and Services of Educational Activities $ 155,096
Total Operating Revenues 155,096

Operating Expenses
Institutional Support 17,414,041
Depreciation and Amortization 4,003
Total Operating Expenses 17,418,044

Operating Income (Loss) (17,262,948)

Nonoperating Revenues (Expenses)
Legislative Revenue 2,014,901
Interest Income 734,606
Private Gifts 950
Net Increase in Fair Value of Investments 21,365
Other Nonoperating Revenues (Expenses) 2,979,650
Total Nonoperating Revenues (Expenses) 5,751,472

Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers (11,511,476)

Other Revenues, Expenses, Gains, Losses and Transfers
Transfers from Components 15,790,713
Total Other Revenues, Expenses, Gains, Losses and Transfers 15,790,713

Total Change in Net Assets $ 4,279,237

Beginning Net Assets (September 1, 2001) 0
Ending Net Assets (August 31, 2002) $ 4,279,237

See Accompanying Notes to Financial Statements
<table>
<thead>
<tr>
<th>Function</th>
<th>Salaries And Wages</th>
<th>Professional Fees And Services</th>
<th>Travel</th>
<th>Printing and Reproduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Support</td>
<td>$11,148,040.93</td>
<td>$890,773.10</td>
<td>$343,805.90</td>
<td>$242,112.52</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$11,148,040.93</td>
<td>$890,773.10</td>
<td>$343,805.90</td>
<td>$242,112.52</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Function</th>
<th>Materials And Supplies</th>
<th>Communications And Utilities</th>
<th>Repairs And Maintenance</th>
<th>Rentals And Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Support</td>
<td>$757,366.54</td>
<td>$232,647.95</td>
<td>$181,841.37</td>
<td>$213,710.86</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$757,366.54</td>
<td>$232,647.95</td>
<td>$181,841.37</td>
<td>$213,710.86</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Function</th>
<th>Scholarships</th>
<th>Depreciation</th>
<th>Other Operating</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Support</td>
<td>$92,259.71</td>
<td></td>
<td>$3,311,482.09</td>
<td>$17,414,040.97</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>4,003.00</td>
<td></td>
<td></td>
<td>$4,003.00</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$92,259.71</td>
<td>$4,003.00</td>
<td>$3,311,482.09</td>
<td>$17,418,043.97</td>
</tr>
</tbody>
</table>
Texas Tech University System Administration  
Statement of Cash Flows  
For the Year Ended August 31, 2002

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>Cash Inflows:</th>
<th>$ 155,096</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collections of Sales and Services of Educational Activities</td>
<td>155,096</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Outflows:</th>
<th>Payments to Employees</th>
<th>11,148,041</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payments for Other Operating Activities</td>
<td>4,442,016</td>
</tr>
</tbody>
</table>

Net Cash Used for Operating Activities (15,434,961)

<table>
<thead>
<tr>
<th>Cash Flows from Noncapital Financing Activities</th>
<th>Cash Inflows:</th>
<th>2,014,901</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proceeds from State Appropriations</td>
<td>2,014,901</td>
</tr>
<tr>
<td></td>
<td>Proceeds from Transfers from Other Components</td>
<td>15,790,713</td>
</tr>
<tr>
<td></td>
<td>Proceeds from Noncapital Gifts and Grants</td>
<td>950</td>
</tr>
</tbody>
</table>

Net Cash Provided by Noncapital Financing Activities 17,806,564

<table>
<thead>
<tr>
<th>Cash Flows from Capital and Related Financing Activities</th>
<th>Cash Outflows:</th>
<th>91,603</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payments for Purchases of Capital Assets</td>
<td>91,603</td>
</tr>
</tbody>
</table>

Net Cash Used by Capital and Related Financing Activities (91,603)

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>Cash Inflows:</th>
<th>734,606</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proceeds from Interest and Dividends on Investments</td>
<td>734,606</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Outflows:</th>
<th>Payments for Purchases of Investments</th>
<th>2,573,663</th>
</tr>
</thead>
</table>

Net Cash Provided by Investing Activities (1,839,057)

TOTAL NET CASH FLOWS $ 440,943

Beginning Cash and Cash Equivalents (September 1, 2001) 0

Ending Cash and Cash Equivalents (August 31, 2002) $ 440,943

Components of Ending Cash and Cash Equivalents (August 31, 2002)

<table>
<thead>
<tr>
<th>Cash in Bank</th>
<th>(145,261)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursements Due from State Treasury</td>
<td>586,204</td>
</tr>
</tbody>
</table>

Ending Cash and Cash Equivalents (August 31, 2002) $ 440,943

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th>Operating Loss (17,262,948)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments:</td>
</tr>
<tr>
<td>Depreciation Expense</td>
</tr>
<tr>
<td>(Increase) Decrease in Receivables</td>
</tr>
<tr>
<td>(Increase) Decrease in Prepaid Expenses</td>
</tr>
<tr>
<td>Increase (Decrease) in Payables</td>
</tr>
</tbody>
</table>

Net Cash Used for Operating Activities (15,434,961)
POLICIES AND NOTES
NOTE 1: Summary of Significant Accounting Policies

Entity
The Texas Tech University System Administration 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 for State Agencies.

The Texas Tech University System Administration is the executive arm of the Texas Tech University System.

The Texas Tech University System Administration has no component units which should be included within this report.

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.

Fund Structure
For financial reporting purposes, the Texas Tech University System Administration is considered a special-purpose government engaged only in business-type activities.

Basis of Accounting
The accounting records of the Texas Tech University System Administration are maintained using a modified accrual basis. Accounting data for most external reports, including this Annual Financial Report, are converted to full accrual basis of accounting in compliance with GASB 34/35.

Budget and Budgetary Accounting
Budgets are used at the Texas Tech University System Administration. Many of these budgets are based on legislative appropriations.

Assets, Liabilities, and Fund Balances/Net Assets

Assets
Cash and Cash Equivalents
Cash equivalents are short-term highly liquid investments with an original maturity of three months or less. Also included in this category are demand deposits in banks, local funds held by the state, and state reimbursements in transit.

Investments
The Texas Tech University System Administration accounts for its investments at fair 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.
NOTE 1: Summary of Significant Accounting Policies (continued)

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. Assets held in reserve for guaranteed student loan defaults are also included.

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

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 value on the acquisition date. 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.

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

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.

Other Payables
Other payables are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions.

Employees’ Compensable Leave Balances
Employees’ Compensable Leave 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.

Net Assets
The difference between fund assets and liabilities is ‘Net 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.
NOTE 1: Summary of Significant Accounting Policies (continued)

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

Interfund Transactions and Balances
The Texas Tech University System Administration is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds. Interfund transactions are defined as financial interactions 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. Several categories changed recently. In prior years, fixed assets were reported as either (1) Land, (2) Buildings, (3) Construction in Progress, (4) Improvements Other Than Buildings, (5) Equipment, or (6) Library Books and Materials. The changes to fixed asset balances are summarized below.

<table>
<thead>
<tr>
<th>Texas Tech University System Administration</th>
<th>Balance 09/01/01</th>
<th>Adjustments</th>
<th>Reclassifications</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance 08/31/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business-type Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciable Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td></td>
<td></td>
<td>$71,808</td>
<td></td>
<td>$71,808</td>
<td></td>
</tr>
<tr>
<td>Vehicle, Boats, and Aircraft</td>
<td></td>
<td></td>
<td>19,795</td>
<td></td>
<td>19,795</td>
<td></td>
</tr>
<tr>
<td>Total depreciable assets at historical costs</td>
<td>91,603</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>91,603</td>
</tr>
<tr>
<td>Less Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td></td>
<td></td>
<td>(3,343)</td>
<td></td>
<td>(3,343)</td>
<td></td>
</tr>
<tr>
<td>Vehicle, Boats, and Aircraft</td>
<td></td>
<td></td>
<td>(660)</td>
<td></td>
<td>(660)</td>
<td></td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td></td>
<td></td>
<td>(4,003)</td>
<td></td>
<td>(4,003)</td>
<td></td>
</tr>
<tr>
<td>Depreciable Assets, Net</td>
<td></td>
<td></td>
<td></td>
<td>87,600</td>
<td></td>
<td>87,600</td>
</tr>
<tr>
<td>Business-type Activities Capital Assets, net</td>
<td>$87,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$87,600</td>
</tr>
</tbody>
</table>
NOTE 3: Deposits, Investments, and Repurchase Agreements

The Texas Tech University System Administration is authorized by statute to make investments following the “prudent person rule.” There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

A. The carrying amount of $(145,260.88) for Cash in Bank (including restricted assets) is presented below.

B. The bank balance of the Texas Tech University System Administration 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).

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
<th>Bank Balance</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$(145,260.88)</td>
</tr>
</tbody>
</table>

Consisting of the following:

- Demand Deposits: $(146,035.88)
- Imprest Funds: 775.00

Total Deposits Carrying Amounts: $(145,260.88)

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.
NOTE 3: Deposits, Investments, and Repurchase Agreements (continued)

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government and Agency Obligations</td>
<td>$81,982.60</td>
<td></td>
<td></td>
<td>$81,982.60</td>
</tr>
<tr>
<td>U.S. Government and Agency Mortgage Obligations</td>
<td>326,821.78</td>
<td></td>
<td></td>
<td>326,821.78</td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>2,314,460.79</td>
<td></td>
<td></td>
<td>2,314,460.79</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>407,434.84</td>
<td></td>
<td></td>
<td>407,434.84</td>
</tr>
<tr>
<td>Totals</td>
<td>$3,130,700.01</td>
<td></td>
<td></td>
<td>$3,130,700.01</td>
</tr>
</tbody>
</table>

Uncategorized Investments:

<table>
<thead>
<tr>
<th>Texpool</th>
<th>$1,316,065.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investments</td>
<td>$4,446,765.97</td>
</tr>
</tbody>
</table>

Reverse Repurchase Agreements
The Texas Tech University System Administration, 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 of these “pooled” 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 the Texas Tech University System Administration’s portfolio.

<table>
<thead>
<tr>
<th>Mortgage Derivative Securities</th>
<th>Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Amortization Class Securities</td>
<td>$2,314,460.79</td>
</tr>
<tr>
<td>Total</td>
<td>$2,314,460.79</td>
</tr>
</tbody>
</table>
NOTE 4: Summary of Long Term Liabilities

Changes in Long-Term Liabilities
During the year ended August 31, 2002, the following changes occurred in liabilities.

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. 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.

<table>
<thead>
<tr>
<th>Long Term Liability Category</th>
<th>Balance 09/01/2001</th>
<th>Increases</th>
<th>Decrease</th>
<th>Balance 08/31/2002</th>
<th>Current Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensable Leave</td>
<td>$0</td>
<td>$523,448</td>
<td>$0</td>
<td>$523,448</td>
<td>$130,862</td>
</tr>
<tr>
<td>Total</td>
<td>$0</td>
<td>$523,448</td>
<td>$0</td>
<td>$523,448</td>
<td>$130,862</td>
</tr>
</tbody>
</table>

NOTE 5: Capital Leases
The Texas Tech University System Administration has no capital leases.

NOTE 6: Operating Leases
The Texas Tech University System Administration has no operating leases.

NOTE 7: Interfund Balances/Activities
The Texas Tech University System Administration has no interfund balances or activity.

NOTE 8: Employees Retirement Plans
The State has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the Texas Tech University System Administration participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries currently provided by the State and by each participant are 6.0 percent and 6.4 percent, respectively, of annual compensation.

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

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity and custodial mutual fund contracts. The contributory percentages of participant salaries provided by the State and each
NOTE 8: Employees Retirement Plans (continued)

participant for employees hired before September 1, 1995 are 8.5% and 6.65% by the State and each participant, respectively. The State’s contribution is comprised of 6.00% from the ORP’s appropriation and 2.5% from other funding sources. The 6.00% contribution is mandatory with the other contributions being at the discretion of the governing board. The governing board has approved the additional contributions for employees of the Texas Tech University System Administration. The contributory percentages on salaries for participants entering the program after August 31, 1995, are 6.00% and 6.65% by the State and each participant, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the Texas Tech University System Administration was $411,527 for the fiscal year ended August 31, 2002. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the Texas Tech University System Administration.

NOTE 9: Deferred Compensation

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV’T. CODE ANN., §609.001. Two plans are available for employees’ deferred compensation plan. Both plans are administered by the Employees Retirement System.

The State’s 457 plan complies with the Internal Revenue Code Section 457, GASB Statement Number 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB Statement Number 2 and amends GASB Statement Number 31. GASB Statement Number 2, Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of the Internal Revenue Code Section 457, establishing reporting requirements for IRC Section 457 plans. Based on the laws in effect at the time of its passage, that statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans “unless all assets and income of the plan described in subsection (B)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries.” Existing plans are also required to comply with this requirement by January 1, 1999. There is currently one Texas Tech University System Administration participant in this plan.

NOTE 10: Contingent Liabilities

At August 31, 2002, no lawsuits or claims involving the Texas Tech University System Administration were pending.

NOTE 11: Continuance Subject to Review

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

NOTE 12: Risk Financing and Related Insurance

The Texas Tech University System Administration has self-insured arrangements for coverage in the areas of worker’s compensation and unemployment compensation. The Worker’s Compensation plan for the fiscal year was funded
NOTE 12: Risk Financing and Related Insurance (continued)
by a 1.0 percent charge on gross payroll for non-educational and general funds. The Unemployment Compensation Fund is funded by interest earnings on the fund.

NOTE 13: Segment Information
The Texas Tech University System Administration has no reportable segments.

NOTE 14: Bonded Indebtedness
The Texas Tech University System Administration has no bonded indebtedness.

NOTE 15: Subsequent Events
The Texas Tech University System Administration experienced no material subsequent events.

NOTE 16: Related Parties – Relationship with Texas Tech University System Administration
The Texas Tech University System Administration has no related parties to report.

NOTE 17: Stewardship, Compliance and Accountability
The Texas Tech University System Administration has no material stewardship, compliance, and accountability issues.

NOTE 18: The Financial Reporting Entity and Joint Ventures
The Financial Reporting Entity
The Texas Tech University System Administration is the executive arm of the Texas Tech University System. As required by generally accepted accounting principles, these financial statements present the Texas Tech University System Administration. The Texas Tech University System Administration has no component units to disclose.

NOTE 19: Restatement of Net Assets
The Texas Tech University System Administration began reporting separately in fiscal year 2002 and therefore has no beginning balance.

NOTE 20: Donor-Restricted Endowments
The Texas Tech University System Administration has no endowments.
NOTE 21: Pledged/Non-Pledged Revenues and Discounts and Allowances

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Gross Receipts Pledged</th>
<th>Gross Receipts Non-Pledged</th>
<th>Discounts/ Allowances</th>
<th>Net Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Sales of Goods and Services</td>
<td>$155,096</td>
<td></td>
<td></td>
<td>$155,096</td>
</tr>
<tr>
<td>Total</td>
<td>$155,096</td>
<td></td>
<td></td>
<td>$155,096</td>
</tr>
</tbody>
</table>

NOTE 22: Management Discussion and Analysis (Material Changes to AFR)

The Texas Tech University System is composed of three independent State Institutions/Agencies: the Texas Tech University System Administration, Texas Tech University and Texas Tech University Health Sciences Center. A composite financial report for the Texas Tech University System has now been reported for three fiscal years, 2000, 2001, and 2002.

Prior to fiscal year 2001, the System Offices were funded jointly by Texas Tech University and Texas Tech University Health Sciences Center. All revenues and expenditures were reflected within the Texas Tech University Annual Financial Report.

For fiscal year 2002, an independent identity, i.e. State of Texas Agency, was established for the Texas Tech University System Administration. Thus, this is the initial financial report for the Texas Tech University System Administration. The Texas Tech University System Administration is funded by direct appropriations, directly recorded revenues, and transfers from Texas Tech University and Texas Tech University Health Sciences Center.
SCHEDULES
Texas Tech University System Administration
Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 1B - Schedule of State Grant Pass-Throughs from/to State Agencies
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 2A - Miscellaneous Bond Information
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 2B - Changes in Bond Indebtedness
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 2C - Debt Service Requirements
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 2D - Analysis of Funds Available for Debt Service
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 2E - Defeased Bonds Outstanding
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 3 - Reconciliation of Cash in State Treasury
For the Year Ended August 31, 2002

Schedule Not Applicable
Texas Tech University System Administration
Schedule 4 - Higher Education Assistance Fund
For the Year Ended August 31, 2002

Schedule Not Applicable