

TEXAS TECH UNIVERSITY SYSTEM



CONSOLIDATED ANNUAL FINANCIAL REPORT

FISCAL YEAR 2005

ANNUAL FINANCIAL REPORT

OF

TEXAS TECH UNIVERSITY SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2005

LUBBOCK, TEXAS

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TEXAS TECH UNIVERSITY SYSTEM

DAVID R. SMITH, M.D.
Chancellor

Box 42013
Lubbock, Texas 79409-2013
(806) 742-0012
FAX (806) 742-8050

November 17, 2005

Honorable Rick Perry
Governor of Texas

Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts

Mr. John O'Brien
Deputy Director, Legislative Budget Board

Mr. John Keel, CPA
State Auditor

To Agency Heads Addressed:

The Financial Report of Texas Tech University System, 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, 2005. 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, 2005.

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,

A handwritten signature in black ink, appearing to read "David R. Smith".

David R. Smith, M.D.

DRS:nh



TEXAS TECH UNIVERSITY

Office of the Comptroller and
Assistant Vice President for Administration & Finance

Box 41102
Lubbock, Texas 79409-1102
(806) 742-3255
Fax (806) 742-0066

November 17, 2005

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

Dear Chancellor Smith:

Submitted herein is the Annual Financial Report of Texas Tech University System for the fiscal year ended August 31, 2005, 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 comply with all the requirements of this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

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

Sincerely,

Sharon Williamson, CPA
Director of Financial Reporting

Rebecca Hyde
Director of Student and University Financial Services

Approved:

Jim Brunjes
Chief Financial Officer

SSW:nh

Texas Tech University System

Board of Regents

Larry Anders Term Expires January 31, 2011Dallas, TX
C. Robert Black..... Term Expires January 31, 2007 Horseshoe Bay, TX
F. Scott Dueser..... Term Expires February 1, 2009Abilene, TX
L. Frederick Francis Term Expires January 31, 2007 El Paso, TX
Mark Griffin Term Expires January 31, 2011 Lubbock, TX
J. Frank Miller, III Term Expires January 31, 2009Dallas, TX
Daniel T. Serna..... Term Expires January 31, 2011 Arlington, TX
Windy Sitton..... Term Expires February 1, 2009 Lubbock, TX
Bob L. Stafford..... Term Expires February 1, 2007Amarillo, TX

Officers of the Board

L. Frederick FrancisChair
J. Frank Miller, III Vice Chair
Ben Lock..... Secretary

Fiscal Officers

David R. Smith, M.D. Chancellor
Jim Brunjes.....Senior Vice Chancellor and Chief Financial Officer
Jon Whitmore.....TTU President
M. Roy Wilson, M.D., M.S.....TTUHSC President

FINANCIAL STATEMENTS

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2005

ASSETS

Current Assets:	
Cash and Cash Equivalents (Note 1)	\$ 211,859,037
Restricted:	
Cash and Cash Equivalents (Note 1)	83,932,382
Legislative Appropriations	37,202,184
Accounts Receivable, net:	
Federal Receivables	11,911,721
Interest and Dividends	1,299,987
Patient Receivables	12,246,660
Student Receivables	794,344
Contract Receivables	8,305,153
Gift Receivables	20,870,345
Accounts Receivable	2,506,120
Other Receivables	475,212
Due From Other Agencies (Note 8)	6,923,091
Prepaid Expenses	17,482,682
Consumable Inventories	871,304
Merchandise Inventories	3,220,541
Loans and Notes Receivable, net	4,041,428
Other Current Assets	76,415
Total Current Assets	<u>424,018,606</u>
Non-Current Assets:	
Restricted:	
Cash and Cash Equivalents (Note 1)	18,990,834
Investments	139,554,933
Gift Receivables	42,446,895
Loans and Notes Receivable, net	3,159,280
Investments	562,464,773
Capital Assets (Note 2)	
Non-Depreciable	209,834,533
Depreciable	1,222,602,134
Accumulated Depreciation	<u>(628,761,095)</u>
Total Non-Current Assets	<u>1,570,292,287</u>
Total Assets	<u>\$ 1,994,310,893</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 28,674,999
Payroll Payable	39,271,377
Liabilities Payable from Restricted Assets	26,324,586
Unclaimed Property Due to State Treasury (Note 5)	14,182
Deferred Revenues	94,626,550
Due to Other Agencies (Note 8)	161,753
Employees' Compensable Leave (Note 5)	5,786,334
Claims Payable	2,420,242
Notes and Loans Payable (Note 5)	35,858,000
Bonds Payable (Note 5)	17,960,000
Funds Held for Others	10,632,490
Other Current Liabilities	786,664
Total Current Liabilities	<u>262,517,177</u>

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2005

Non-Current Liabilities:

Unclaimed Property Due to State Treasury (Note 5)	73,489
Interfund Payable (Note 8)	1,533,303
Employees' Compensable Leave (Note 5)	20,964,156
Claims Payable (Note 5)	21,782,182
Bonds Payable (Note 5)	335,570,001
Other Non-Current Liabilities	4,380
Total Non-Current Liabilities	<u>379,927,511</u>

Total Liabilities **\$ 642,444,688**

NET ASSETS

Invested in Capital Assets, Net of Related Debt	455,814,357
Restricted:	
Nonexpendable:	
Endowments	348,790,676
Expendable:	
Capital Projects	19,108,802
Higher Education Assistance Fund	15,483,660
Debt Service	7,698,129
Other	92,577,235
Unrestricted (Note 1)	412,393,346
Total Net Assets	<u>1,351,866,205</u>

Total Liabilities and Net Assets **\$ 1,994,310,893**

See Accompanying Notes To Financial Statements

Texas Tech University System
Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)
For the Year Ended August 31, 2005

Operating Revenues	
Tuition and Fees	\$ 26,445,474
Tuition and Fees - Pledged	177,801,932
Less Discounts and Allowances	(18,842,649)
Professional Fees	84,432,533
Sales and Services of Auxiliary Enterprises - Pledged	69,006,228
Other Sales and Services	5,632,741
Other Sales and Services - Pledged	6,327,108
Federal Grants and Contracts (Schedule 1A)	49,366,680
Federal Grants and Contracts - Pledged (Schedule 1A)	2,161,935
Federal Grant Pass-Throughs (Schedule 1A)	1,548,735
State Grants and Contracts	85,168,982
State Grants and Contracts - Pledged	72,899
State Grant Pass-Throughs (Schedule 1B)	10,502,559
Local Governmental Grants and Contracts	66,470,340
Local Governmental Grants and Contracts - Pledged	917,100
Nongovernmental Grants and Contracts	25,640,138
Nongovernmental Grants and Contracts - Pledged	2,562,717
Total Operating Revenues	<u>595,215,452</u>
Operating Expenses	
Instruction	320,663,878
Research	54,980,956
Public Service	110,083,804
Academic Support	113,753,882
Student Services	27,945,959
Institutional Support	58,825,634
Operations and Maintenance of Plant	50,195,270
Scholarships and Fellowships	21,273,599
Auxiliary Enterprises	72,669,691
Depreciation and Amortization	40,791,524
Total Operating Expenses	<u>871,184,197</u>
Operating Income (Loss)	<u>(275,968,745)</u>
Nonoperating Revenues (Expenses)	
Legislative Revenue	239,840,323
Federal Grants and Contracts (Schedule 1A)	769,513
Private Gifts	37,132,712
Investment Income	36,184,555
Investment Income - Pledged	13,979,065
Interest Expense on Capital Asset Financing	(15,964,099)
Loss on Sale and Disposal of Capital Assets	(4,130,434)
Net Increase in Fair Value of Investments	44,372,001
Other Nonoperating Revenues (Expenses)	(8,216,934)
Other Nonoperating Revenues (Expenses) - Pledged	16,247,365
Total Nonoperating Revenues (Expenses)	<u>360,214,067</u>
Income (Loss) before Other Revenues, Expenses, Gains, Losses, and Transfers	84,245,322
Other Revenues, Expenses, Gains, Losses, and Transfers	
Capital Appropriations (HEAF)	28,696,881
Capital Contributions	4,651,232
Lapsed Appropriations	(741,548)
Additions to Permanent Endowments	12,957,377
Legislative Transfer In (Note 8)	5,758,716
Transfers In from Other State Agencies (Note 8)	3,650,915
Transfers Out to Other State Agencies (Note 8)	(1,131,898)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	<u>53,841,675</u>
TOTAL CHANGES IN NET ASSETS	<u>\$ 138,086,997</u>
Beginning Net Assets (September 1, 2004)	1,228,074,976
Restatements of Beginning Net Assets (Note 18)	<u>(14,295,768)</u>
Ending Net Assets (August 31, 2005)	<u>\$ 1,351,866,205</u>

See Accompanying Notes to Financial Statements

UNAUDITED

Texas Tech University System
 Matrix of Operating Expenses by Natural Classification
 For the Year Ended August 31, 2005

Function	Salaries and Wages	Payroll Related Costs	Federal Sub-Contracts	Professional Fees and Services	Travel
Instruction	\$ 228,169,599	\$ 52,961,556	\$ 143,060	\$ 8,141,288	\$ 2,442,396
Research	30,867,170	5,985,192	(401,398)	1,074,937	1,807,401
Public Service	44,006,469	10,424,652	842,632	35,882,316	667,048
Academic Support	64,866,789	15,510,504		5,344,052	2,318,080
Student Services	12,229,260	2,913,685		2,579,641	954,626
Institutional Support	37,456,381	10,575,006		2,366,854	918,966
Operation and Maintenance of Plant	11,809,692	2,817,270		819,769	60,359
Scholarships and Fellowships	92,378	6,456			
Auxiliary Enterprises	24,995,693	5,738,098		3,336,126	783,139
Depreciation and Amortization					
Total Operating Expenses	\$ 454,493,431	\$ 106,932,419	\$ 584,294	\$ 59,544,983	\$ 9,952,015

Function	Materials and Supplies	Communications and Utilities	Repairs and Maintenance	Rentals and Leases	Printing and Reproduction
Instruction	\$ 19,721,366	\$ 2,561,736	\$ 1,048,812	\$ 1,794,727	\$ 1,207,973
Research	8,879,717	277,187	756,912	302,036	337,580
Public Service	12,941,464	1,001,979	342,133	1,058,351	349,808
Academic Support	11,604,083	2,541,755	1,890,973	1,848,193	1,242,314
Student Services	3,837,688	488,353	433,348	334,292	1,422,846
Institutional Support	3,429,730	790,401	906,397	1,180,682	657,553
Operation and Maintenance of Plant	5,340,869	18,912,136	8,329,003	592,611	36,786
Scholarships and Fellowships					
Auxiliary Enterprises	174,282	8,500,899	2,533,618	1,008,337	565,702
Depreciation and Amortization					
Total Operating Expenses	\$ 65,929,199	\$ 35,074,446	\$ 16,241,196	\$ 8,119,229	\$ 5,820,562

Function	Depreciation and Amortization	Scholarships	Bad Debt	Claims and Losses	Other Operating
Instruction	\$	\$ 3,243,444	\$	\$ 146,533	\$ (918,612)
Research		1,306,868			3,787,354
Public Service		249,755			2,317,197
Academic Support		2,077,879		62,500	4,446,760
Student Services		230,326			2,521,894
Institutional Support		316,761	(168,141)	108,954	286,090
Operation and Maintenance of Plant		3,779			1,472,996
Scholarships and Fellowships		21,167,960			6,805
Auxiliary Enterprises		3,787,924			21,245,873
Depreciation and Amortization	40,791,524				
Total Operating Expenses	\$ 40,791,524	\$ 32,384,696	\$ (168,141)	\$ 317,987	\$ 35,166,357

Function	Other Grand Total
Instruction	\$ 320,663,878
Research	54,980,956
Public Service	110,083,804
Academic Support	113,753,882
Student Services	27,945,959
Institutional Support	58,825,634
Operation and Maintenance of Plant	50,195,270
Scholarships and Fellowships	21,273,599
Auxiliary Enterprises	72,669,691
Depreciation and Amortization	40,791,524
Total Operating Expenses	\$ 871,184,197

Texas Tech University System
Statement of Cash Flows (Unaudited)
For the Year Ended August 31, 2005

Cash Flows from Operating Activities

Tuition and Fees	\$ 201,450,949
Grants and Contracts	238,686,104
Sales and Services of Auxiliary Enterprises	70,538,232
Collections from Patients and Insurers	91,254,982
Collections of Loans to Students	1,170,731
Other Sales and Services	10,672,607
Other Operating Activities	6,510,847
Payments to Suppliers	(210,804,151)
Payments to Employees	(446,781,685)
Payments for Loans Issued to Students	(1,027,096)
Payments for Auxiliary Enterprises	(351,416)
Payments for Other Operating Activities	(193,477,171)
Net Cash Used By Operating Activities	<u>(232,157,067)</u>

Cash Flows from Noncapital Financing Activities

State Appropriations	248,309,784
Noncapital Gifts and Grants	49,147,945
Payments for Direct Lending	(42,388)
Transfers In from Other State Agencies	3,650,915
Transfers Out to Other State Agencies	(1,131,898)
Proceeds from Agency Transactions	1,107,766
Other Noncapital Financing Activities	3,297,519
Net Cash Provided by Noncapital Financing Activities	<u>304,339,643</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Capital Debt Issuances	22,500,000
Capital Appropriations	28,696,881
Proceeds from Capital Gifts and Grants	4,651,232
Purchases of Capital Assets	(106,632,393)
Principal and Interest Paid on Capital Debt	(35,036,322)
Payments for Other Capital Related Activities	(62,321)
Net Cash Used by Capital and Related Financing Activities	<u>(85,882,923)</u>

Cash Flows from Investing Activities

Proceeds from Investment Sales and Maturities	121,728,806
Interest and Dividends Received	54,988,635
Purchases of Investments	(163,280,889)
Net Cash Provided by Investing Activities	<u>13,436,552</u>

TOTAL NET CASH FLOWS \$ (263,795)

Beginning Cash & Cash Equivalents - September 1, 2004 315,046,048

Ending Cash & Cash Equivalents - August 31, 2005 \$ 314,782,253

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities

Operating Loss	(275,968,745)
Adjustments:	
Depreciation Expense	40,791,524
Bad Debt Expense	(168,141)
(Increase) Decrease in Accounts Receivables	(1,297,804)
(Increase) Decrease in Loans and Notes Receivable	4,022,264
(Increase) Decrease in Inventory	(582,702)
(Increase) Decrease in Prepaid Expenses	(5,388,491)
(Increase) Decrease in Other Assets	(23,907)
Increase (Decrease) in Accounts Payables	(8,491,299)
Increase (Decrease) in Payroll Payables	(401,177)
Increase (Decrease) in Accrued Liabilities	(8,137)
Increase (Decrease) in Deferred Revenue	18,341,599
Increase (Decrease) in Compensable Leave	2,037,506
Increase (Decrease) in Claims Payable	(5,170,018)
Increase (Decrease) in Other Liabilities	150,461
Net Cash Used for Operating Activities	<u>(232,157,067)</u>

POLICIES AND NOTES

TEXAS TECH UNIVERSITY SYSTEM

Notes to the Financial Statements

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,

Texas Tech University System– Notes to the Financial Statements (continued)

local funds held by the state, state reimbursements in transit, repurchase agreements, Texpool and TexSTAR 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

	Current Unrestricted	Current Restricted	Non-Current Restricted	Total
Cash on Hand	\$94,876	\$2,569	\$0	\$97,445
Cash in Bank	(17,594,426)	(4,787,216)	(760,135)	(23,141,777)
Cash in Transit/Reimburse from Treasury	14,933,637	119,789		15,053,426
Cash in State Treasury	23,473,238			23,473,238
Repurchase Agreements	57,445,670	15,808,337	2,464,991	75,718,998
Texpool & TexSTAR Investments	133,506,042	72,788,903	17,285,978	223,580,923
Total Cash and Cash Equivalents	\$211,859,037	\$83,932,382	\$18,990,834	\$314,782,253

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.

Texas Tech University System – Notes to the Financial Statements (continued)**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.

Texas Tech University System – Notes to the Financial Statements (continued)**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	\$ 19,547,230
Accounts Receivable	16,571,886
Inventory	4,002,039
Prepaid Expenses	7,821,559
Imprest Funds	216,563
Working Capital	52,673
Self-Insured Plans	43,266,118
External Investment Pool	173,198
Fair Market Value Adjustment	2,638,621
Future Operating Budgets	108,898,708
Service Department Operating Funds	19,902,513
Student Service Fees	2,276,078
Funds Functioning as Endowments	69,285,291
Unreserved	117,740,869
	<hr/>
Total Unrestricted Net Assets	\$412,393,346
	<hr/>

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.

Texas Tech University System - Notes to the Financial Statements (continued)

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.

Business-type Activities:	Balance 09/01/04	Adjustments	Completed CIP	Increase Int'agy Transfers	Decrease Int'agy Transfers	Additions	Deletions	Balance 08/31/05
Non-depreciable Assets:								
Land and Land Improvements	\$ 8,233,679					1,798,200		\$10,031,879
Construction In Progress	111,666,864		(17,614,301)			61,653,176		155,705,739
Other Capital Assets	134,823,604	(103,152,303)				12,425,614		44,096,915
Total Non-depreciable Assets	254,724,147	(103,152,303)	(17,614,301)			75,876,990		209,834,533
Depreciable Assets:								
Buildings and Building Improvements	759,150,434	2,897	15,599,412			19,596,800		794,349,543
Infrastructure	27,351,783	(734)	1,514,889			1,052,978		29,918,916
Facilities and Other Improvements	128,173,677	(55,000)	500,000			6,365,702		134,984,379
Furniture and Equipment	144,119,822	162,154		690,973	(672,574)	13,668,563	(5,203,976)	152,764,962
Vehicles, Boats and Aircraft	9,975,569					1,160,109	(588,798)	10,546,880
Other Capital Assets	388,474	92,974,719				6,736,692	(62,431)	100,037,454
Total depreciable assets at historical costs	1,069,159,759	93,084,036	17,614,301	690,973	(672,574)	48,580,844	(5,855,205)	1,222,602,134
Less Accumulated Depreciation for:								
Buildings and Improvements	(456,375,215)					(16,394,208)		(472,769,423)
Infrastructure	(2,854,823)					(1,063,220)		(3,918,043)
Facilities and Other Improvements	(14,810,027)					(5,511,055)		(20,321,082)
Furniture and Equipment	(94,296,532)	(249,976)		(79,390)	63,083	(13,041,248)	4,509,597	(103,094,466)
Vehicles, Boats and Aircraft	(6,979,350)	(670)				(771,980)	555,025	(7,196,975)
Other Capital Assets	(301,218)	(14,295,098)				(6,864,790)		(21,461,106)
Total Accumulated Depreciation	(575,617,165)	(14,545,744)		(79,390)	63,083	(43,646,501)	5,064,622	(628,761,095)
Depreciable Assets, Net	493,542,594	78,538,292	17,614,301	611,583	(609,491)	4,934,343	(790,583)	593,841,039
Business-type Activities Capital Assets, net:	\$748,266,741	\$(24,614,011)	\$0	\$611,583	\$(609,491)	\$80,811,333	\$(790,583)	\$803,675,572

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.

Texas Tech University System – Notes to the Financial Statements (continued)

The governing investment policy is Regents’ Rules Chapter 09, “Investment, Endowments, and Income Producing Lands.” The majority of Texas Tech University System 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. Other assets include securities gifted to Texas Tech University System with written donor instructions to maintain in their original form, and bond proceeds invested in external investment pools.

Deposits of Cash in Bank

As of August 31, 2005, the carrying amount of deposits was \$(23,141,777) as presented below.

Enterprise Funds

Cash in Bank -- Carrying Value	\$(23,141,777)
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	0
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	0
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	0
Cash in Bank per AFR	<u>\$(23,141,777)</u>

Enterprise Funds Current Assets Cash in Bank	\$(17,594,426)
Enterprise Funds Current Assets Restricted Cash in Bank	(4,787,216)
Enterprise Funds Non-Current Assets Restricted Cash in Bank	<u>(760,135)</u>
Cash in Bank per AFR	<u>\$(23,141,777)</u>

These amounts consist of all cash in local banks and are included on the Statement of Net Assets as part of current unrestricted and restricted “Cash and Cash Equivalents” and non-current restricted “Cash and Cash Equivalents”.

As of August 31, 2005, the total bank balance for Enterprise Funds was \$1,661,014.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits of will not be able to recover collateral securities that are in the possession of an outside party. The System’s policy is to require collateralization of bank balances in excess of FDIC protection. The balance below was transferred to the University’s primary depository, which has sufficient collateral, after fiscal year-end.

Fund Type	GAAP Fund	Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name
01	0001	\$70,852		

Texas Tech University System – Notes to the Financial Statements (continued)

Investments

As of August 31, 2005, the carrying value and fair value of investments are as presented below.

Type of Security	Carrying Value	Fair Value
Enterprise Funds		
U.S. Government		
U.S. Treasury Securities	\$ 101,124,538	\$ 101,124,538
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	84,263,823	84,263,823
Equity	137,484,820	137,484,820
International Equity	87,092,499	87,092,499
Repurchase Agreement	75,718,998	75,718,998
Fixed Income Money Market and Bond Mutual Fund	115,473,198	115,473,198
Other Commingled Funds	97,838,905	97,838,905
Other Commingled Funds (Texpool)	179,902,936	179,902,936
Real Estate	1,140,856	1,140,856
Misc (alternative investments, limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	121,279,054	121,279,054
Total	\$ 1,001,319,627	\$ 1,001,319,627

Non-current Investments \$ 702,019,706

Items in Cash and Cash Equivalents:

Repurchase Agreements 75,718,998
 Texpool & TexSTAR investments 223,580,923

Total \$1,001,319,627

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy is to require third party custody for the two investment pools, the LTIF and the STIF. The balances listed below relate to securities outside of those pools.

Fund Type	GAAP Fund	Type	Uninsured and unregistered with securities held by the counterparty	Uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the state's name
01	0001	Equity	\$1,928,955	

Texas Tech University System – Notes to the Financial Statements (continued)

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The System's policy is limit international equity investments to between 10-20% of the LTIF portfolio. The exposure to foreign currency risk as of August 31, 2005, is as follows.

Fund Type	GAAP Fund	Foreign Currency	International Obligation	International Equity
01	0001	Argentine peso		\$ 5,769
01	0001	Australian dollar		2,050,677
01	0001	Bermudan dollar		33,084
01	0001	Brazilian real		3,350,894
01	0001	Bulgarian lev		7,316
01	0001	Canadian dollar		1,194,425
01	0001	Chilean Peso		29,878
01	0001	Chinese yuan		912,851
01	0001	Cyprus pound		6,047
01	0001	Czech koruna		259,937
01	0001	Danish krone		616,904
01	0001	Egyptian pound		119,940
01	0001	Euro		19,581,457
01	0001	Hong Kong dollar		2,228,881
01	0001	Hungarian forint		677,765
01	0001	Indian rupee		1,719,030
01	0001	Indonesian rupiah		643,509
01	0001	Israeli shekel		189,648
01	0001	Japanese yen		12,148,838
01	0001	Jersey pound		19,067
01	0001	Lithuanian litas		4,735
01	0001	Malaysian ringgit		1,368,864
01	0001	Mexican peso		1,737,493
01	0001	New Zealand dollar		258,655
01	0001	Norwegian krone		1,568,859
01	0001	Phillippino peso		271,542
01	0001	Polish zloty		1,117,892
01	0001	Pound sterling		10,281,098
01	0001	Romanian leu		111,120
01	0001	Russian ruble		939,804
01	0001	Singapore dollar		711,635
01	0001	South African rand		3,025,119
01	0001	Korean won		7,802,107
01	0001	Swedish krona		1,342,373
01	0001	Swiss franc		2,908,365
01	0001	Taiwan dollar		5,852,012
01	0001	Thai baht		705,652
01	0001	Turkish lira		1,259,379
01	0001	Venezuelan bolivar		29,878
		Total		\$87,092,499

Texas Tech University System – Notes to the Financial Statements (continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System’s investment policy limits fixed income securities held by the STIF to those issued by the U.S. or its agencies and instrumentalities. Fixed income mutual funds in the STIF must hold securities that are at least rated investment grade. The fixed income portfolio of the LTIF must have an overall weighted average credit rating of “A” or better by Moody’s and/or Standard and Poor’s.

Moody's

Fund Type	GAAP Fund	Investment Type	Aaa	Aa	A	Baa	Unrated
01	0001	U.S. Government Agency Obligations	\$84,263,823				
01	0001	Repurchase Agreement	\$75,718,998				
01	0001	Fixed Income Money Market and Bond Mutual Fund					\$115,473,198

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB	Unrated
01	0001	U.S. Government Agency Obligations	\$84,263,823				
01	0001	Repurchase Agreement	\$75,718,998				
			AAAf	AAf	Af		Unrated
01	0001	Fixed Income Money Market and Bond Mutual Fund					\$115,473,198

Fitch

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	Unrated
01	0001	U.S. Government Agency Obligations	\$84,263,823				
01	0001	Repurchase Agreement	\$75,718,998				
			F1	F2	F3		Unrated
01	0001	Fixed Income Money Market and Bond Mutual Fund					\$115,473,198

Derivative Investing

The System holds collateralized mortgage obligations. These securities were purchased to provide an incremental yield above that available on corporate securities with similar terms. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. It is estimated these securities, along with other securities held by the System, will provide future cash inflows on a time schedule that approximately matches the outflows associated with the System’s liabilities. These securities are rated AAA by the major rating agencies.

Note 4: Short-Term Debt

Texas Tech University System has no outstanding short-term debt as of August 31, 2005.

Texas Tech University System – Notes to the Financial Statements (continued)**Note 5: Summary of Long-Term Liabilities****Changes in Long-Term Liabilities**

During the year ended August 31, 2005, the following changes occurred in liabilities.

Long-Term Liability Category	Balance 09/01/04	Increases	Decreases	Balance 08/31/05	Current Portion
Claims Payable	\$29,372,442	\$0	\$5,170,018	\$24,202,424	\$2,420,242
Notes and Loans	14,911,000	22,500,000	1,553,000	35,858,000	35,858,000
Revenue Bonds	367,660,000		14,129,999	353,530,001	17,960,000
Compensable Leave	24,712,984	5,157,739	3,120,233	26,750,490	5,786,334
Other Liabilities	78,097	77,613	62,239	93,471	15,602
Total	\$436,734,523	\$27,735,352	\$24,035,489	\$440,434,386	\$62,040,178

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 8/31/05 will be retired in fiscal year 2006.

Commercial paper has short maturities up to 270 days with interest rates ranging from 2.45% to 2.60%.

Texas Tech University System– Notes to the Financial Statements (continued)

Summary of Debt Service Requirements for Notes Payable

Fiscal Year	Principal	Interest	Total
2006	\$35,858,000	\$101,057	\$35,959,057
2007			
2008			
2009			
2010			
All Other Years			
Total Requirements	\$35,858,000	\$101,057	\$35,959,057

Note 6: Capital Leases

As of August 31, 2005, 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:

<u>Fiscal Year</u>	
2006	\$3,523,449
2007	3,109,836
2008	3,050,778
2009	3,053,530
2010	3,145,136
Total Minimum Future Lease Rental Payments	\$15,882,729

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, 2005, follows:

<u>Interfund Payable</u>	<u>Non-Current Interfund Payable</u>	<u>Purpose</u>
Agency 907, D23 Fund 0515	\$1,533,303	Lone Star
Total Interfund Payable	\$1,533,303	

Texas Tech University System – Notes to the Financial Statements (continued)

<u>Due from Other Agencies</u>	<u>Current Due from Other Agencies</u>
Texas Education Agency (Agency 701)	\$ 72,864
Texas School for the Blind (Agency 771)	83,533
Texas Water Development Board (Agency 580)	276,260
Texas Higher Education Coordinating Board (Agency 781)	161,062
Texas Commission on Environmental Quality (Agency 582)	10,229
Texas Department of Transportation (Agency 601)	77,768
Texas Technology Workforce Development Grant (Agency 781)	387,731
Texas Comptroller's Office (Agency 902)	1,771,484
University of Texas System (Agency 720)	4,082,160

Total Due from Other Agencies	\$6,923,091
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<u>Due to Other Agencies</u>	<u>Amount</u>
West Texas A&M University (Agency 757)	\$62,775
Employees Retirement System (Agency 327)	98,529
Texas Higher Education Coordinating Board (Agency 781)	449

Total Due to Other Agencies	\$161,753
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<u>Legislative Transfer In</u>	<u>Amount</u>
Texas Comptroller's Office (Agency 902)	\$5,758,716

Total Legislative Transfer In	\$5,758,716
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<u>Transfers Out to Other State Agencies</u>	<u>Amount</u>
Texas Higher Education Coordinating Board (Agency 781)	\$1,131,898

Total Transfers Out to Other State Agencies	\$1,131,898
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<u>Transfer In from Other State Agencies</u>	<u>Amount</u>
Texas Comptroller's Office (Agency 902)	\$3,650,915

Total Transfer In from Other State Agencies	\$3,650,915
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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

At August 31, 2005, 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.

Texas Tech University System – Notes to the Financial Statements (continued)**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 state funds and 100% of the claims paid from non-educational and general funds. The Texas Tech University System Unemployment Compensation Fund which is currently funded by interest earnings on the fund pays the UCI claims for employees paid from institutional funds.

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, 2005 which are summarized in the paragraphs that follow.

Revenue Financing System Bonds, Series 1995

Purpose:	Financing of Southwest Collection Library for Texas Tech University, the library/conference center project for Texas Tech Health Sciences Center and other capital improvements and the cost of issuing the bonds.
Original Issue Amount:	\$25,000,000
Issue Date:	March 17, 1995
Interest Rates:	4.30% to 6.00%
Maturity Date Range:	1996 through 2015
Type of Bond:	Revenue
Unissued Amounts:	\$0
Changes in Debt:	\$0 issued; \$1,130,000 retired

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; \$3,995,000 retired

Texas Tech University System – Notes to the Financial Statements (continued)**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; \$820,000 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; \$1,480,000 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; \$3,510,000 retired

Texas Tech University System – Notes to the Financial Statements (continued)**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; \$1,735,000 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:	\$0 issued; \$1,460,000 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 intends to issue revenue financing system bonds during fiscal year 2006 in the amount of approximately \$100 million of which \$30 million of this amount has already been issued as commercial paper as of August 31, 2005. In addition, another \$100 million of existing bonds may be re-financed in this issuance.

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.

Texas Tech University System – Notes to the Financial Statements (continued)

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 \$222,230 during the 2005 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.

Texas Tech University System – Notes to the Financial Statements (continued)

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 accumulated depreciation for library books which were reclassified in the current fiscal year from non-depreciable other capital assets to depreciable other capital assets as required by the Comptroller’s office.

Net Assets as Reported at 8/31/04 \$1,228,074,976

Restatements

Accumulated depreciation for depreciable library books (14,295,768)

Restated Net Assets at 8/31/04 \$1,213,779,208

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:

<u>Donor-Restricted Endowment</u>	<u>Amount of Net Appreciation</u>	<u>Reported in Net Assets</u>
True Endowments	\$32,080,257	Restricted Nonexpendable
True Endowments	11,105,636	Restricted Expendable
Term Endowments	<u>45,301</u>	Restricted Nonexpendable
Total	<u>\$43,231,194</u>	

Note 22: Management Discussion and Analysis

Financial Highlights

- Net assets increased by \$136 million for the year ended August 31, 2005, primarily due to increased tuition and fees revenues and increased unrealized net changes in fair value of investments.
- Capital asset additions totaled \$119 million for the year ended August 31, 2005.

Note 23: Post Employment Health Care and Life Insurance Benefits (UT and A&M only)

Not applicable

Texas Tech University System – Notes to the Financial Statements (continued)**Note 24: Special or Extraordinary Items**

The Texas Tech University System has no special or extraordinary items to report for the fiscal year ended August 31, 2005.

Note 25: Disaggregation of Receivable and Payable Balances**Receivables**

Components of receivables as of August 31, 2005 are summarized below.

Type	Net Amount
Federal Receivables	\$11,911,721
Interest and Dividends Receivable	1,299,987
Patient Receivables	12,246,660
Student Receivables	794,344
Contract Receivables	8,305,153
Gift Receivables Current & Noncurrent	63,317,240
Accounts Receivables	2,506,120
Loans & Notes Receivable Current & Noncurrent	7,200,708
Other Receivables	475,212
Total Receivables	<u>\$108,057,145</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.

Type	Gross Amount
Medicare	\$4,653,464
Medicaid	7,414,890
Managed Care, including Blue Cross	5,363,822
Commercial	4,210,188
Self Pay and Medically Indigent	15,921,089
Other	129,667
Total Gross Patient Accounts Receivable	<u>\$37,693,120</u>

Payables

Components of payables as of August 31, 2005 are summarized below.

Type	Net Amount
Accounts Payable	\$28,674,999
Payroll Payable	39,271,377
Liabilities Payable from Restricted Assets	26,324,586
Total Payables	<u>\$94,270,962</u>

SCHEDULES

UNAUDITED

Texas Tech University System
 Schedule 1A - Schedule of Expenditures of Federal Awards
 For The Year Ended August 31, 2005

Note 1: Non-Monetary Assistance:

The "Donation Of Federal Surplus Personal Property" is presented at 23.3 percent of the original federal acquisition cost of \$13,366. 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 value for fiscal year 2005 is \$3,114.

Note 2: Reconciliation:

Federal Grants and Contracts - Unpledged (SRECNA)	\$ 49,366,680
Federal Grants and Contracts - Pledged (SRECNA)	2,161,935
Federal Grants and Contracts Pass Throughs (SRECNA)	1,548,735
Non-Operating Federal Grant and Contracts (SRECNA)	769,513
Total Federal Revenues	<u>53,846,863</u>

Reconciling Items:

Non-Monetary Assistance:

Donation of Federal Surplus Property	3,114
New Loans Processed	124,554,686
less Nurse Faculty Loan Program Revenue	(38,674)
Federal Grant and Contract Due to Other State Agencies	48,495
Total Pass-Through and Expenditures Per Federal Schedule	<u>\$ 178,414,484</u>

Note 3: Student Loans Processed and Administrative Costs Recovered:

Federal Grantor/CFDA Number/ Program Name	New Loans Processed	Administrative Costs Recovered	Total Loans Processed and Admin Costs Recovered	Ending Balance Previous Years' Loans
U.S. Department of Health and Human Services				
93.342 Health Professions Student Loans	\$	\$	\$	\$ 90,014.00
93.364 Nursing Student Loans				56,923.00
Total U.S. Department of Health and Human Services	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 146,937.00</u>
Department of Education				
84.032 Federal Family Education Loans	\$ 123,405,624.02	\$	\$ 123,405,624.02	\$
84.038 Federal Perkins Loan Program	1,149,062.00	66,213.45	1,215,275.45	2,658,661.36
Total Department of Education	<u>\$ 124,554,686.02</u>	<u>\$ 66,213.45</u>	<u>\$ 124,620,899.47</u>	<u>\$ 2,658,661.36</u>
Total Student Loans	<u>\$ 124,554,686.02</u>	<u>\$ 66,213.45</u>	<u>\$ 124,620,899.47</u>	<u>\$ 2,805,598.36</u>

Note 4: (Comptroller's Office only)

Note 5: Depository Libraries for Government Publications

The University participates as a depository library in the government printing office's depository libraries for government publications program, CFDA #40.001. 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 6: Unemployment Insurance Funds

Does not apply to Texas Tech University System

Note 7: (Agency 501 Only)

Note 8: Federal Deferred Revenue

Federal Deferred Revenue 9/01/04	\$ 384,011.57
Increase/ (Decrease)	5,411,035.27
Federal Deferred Revenue 8/31/05	<u>\$ 5,795,046.84</u>

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Texas Tech University System
 Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies
 For the Year Ended August 31, 2005

Pass-Throughs From:

Governor's Office (Agency 300)

TIGRE - Texas Internet Grid for Research and Education \$ 16,655.75

Texas Department of Agriculture (Agency 551)

Fire Ant Survey 2005 25,146.23
 Development of Selected Ornamentals Tolerant to Recycled and Saline Irrigation 335.40

Texas Commission on Environmental Quality (Agency 582)

Design and Operation of Land Application Systems 18,359.87

Texas Water Development Board (Agency 580)

An Integrated Approach to Water Conservation 330,289.64

Texas State Energy Conservation Office (Agency 907)

Biomass Production from Recycled Waste and Water 1,471.41

Texas Agriculture Experiment Station (Agency 556)

New Cropping System 25,000.00
 Texas Cotton 118,000.00
 Fire Ant 78,755.00
 Texas Equine Research 7,300.00

Texas Higher Education Coordinating Board (Agency 781)

Family Practice Residency 1,135,872.00
 Family Practice Rural and Public Health Rotation 36,315.00
 Financial Aid Professional Nursing 8,843.00
 Graduate Medical Education 234,121.00
 Primary Care Residency Program 359,679.00
 Nursing and Allied Health 3,491.00
 Minority Health Research/Education 136,634.00
 Texas Grant Program 7,495,537.00
 Advanced Technology Program (32,302.54)
 Advanced Research Program (5,646.38)
 College Work Study Program 156,581.00
 5th Year Accounting Scholarship 20,158.00
 Texas Technology Workforce Development Grants Program 331,964.47

Total Pass-Throughs from Other Agencies

\$ 10,502,559.85

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Texas Tech University System
 Schedule 3 - Reconciliation of Cash in State Treasury
 As of August 31, 2005

Cash in State Treasury	Unrestricted	Restricted	Total
Local Revenue (Fund 0239)	\$ 3,869,617	\$	\$ 3,869,617
Local Revenue (Fund 0255)	17,750,589		17,750,589
Permanent Health Fund - El Paso Campus (Fund 0820)	1,560,055		1,560,055
Permanent Health Fund - Other Campuses (Fund 0821)	292,977		292,977
Total Cash in State Treasury (Note 1)	\$ 23,473,238	\$	\$ 23,473,238