

TEXAS TECH UNIVERSITY SYSTEM



CONSOLIDATED ANNUAL FINANCIAL REPORT

FISCAL YEAR 2007

ANNUAL FINANCIAL REPORT

OF

TEXAS TECH UNIVERSITY SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2007

LUBBOCK, TEXAS

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TEXAS TECH UNIVERSITY SYSTEM

Office of the Chancellor

November 16, 2007

Honorable Rick Perry
Governor, State of Texas

Honorable Susan Combs
Comptroller, State of Texas

Mr. John O'Brien
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, 2007. 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, 2007.

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 "Kent R. Hance".

Kent R. Hance
Chancellor



TEXAS TECH UNIVERSITY™

Associate Vice President & Comptroller
Office of Financial Affairs

November 16, 2006

Chancellor Kent Hance
Texas Tech University System
Lubbock, Texas 79409

Dear Chancellor Hance:

Submitted herein is the Annual Financial Report of Texas Tech University System for the fiscal year ended August 31, 2007, 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 statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR); 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,

A handwritten signature in blue ink that reads "Sharon Williamson".

Sharon Williamson, CPA
Director of Managerial Reporting

Approved:

Jim Brunjes
Texas Tech University System
Chief Financial Officer

A handwritten signature in blue ink that reads "Jim Brunjes".

Texas Tech University System

Board of Regents

Larry K. Anders..... Term Expires January 31, 2011Dallas, TX
F. Scott Dueser..... Term Expires January 31, 2009Abilene, TX
L. Frederick Francis..... Term Expires January 31, 2013 El Paso, TX
Mark Griffin Term Expires January 31, 2011 Lubbock, TX
John F. Scovell Term Expires January 31, 2013Dallas, TX
Daniel T. Serna..... Term Expires January 31, 2011 Arlington, TX
Windy Sitton..... Term Expires January 31, 2009 Lubbock, TX
Bob L. Stafford..... Term Expires January 31, 2009Amarillo, TX
Jerry E. Turner..... Term Expires January 31, 2013Blanco, TX

Student Regent

Ebtesam Attaya Islam..... Term Expires May 31, 2008 Lubbock, TX

Officers of the Board

F. Scott Dueser.....Chair
Larry K. Anders.....Vice Chair
Ben W. Lock Secretary

Fiscal Officers

Kent Hance..... Chancellor
Jim Brunjes.....Vice Chancellor and Chief Financial Officer
Jon Whitmore..... TTU President
John C. Baldwin, M.D.....TTUHSC President

FINANCIAL STATEMENTS

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2007

ASSETS

Current Assets:	
Cash and Cash Equivalents (Note 1)	\$ 255,233,909.84
Restricted:	
Cash and Cash Equivalents (Note 1)	125,869,146.23
Legislative Appropriations	52,884,710.88
Accounts Receivable, net:	
Federal Receivables	8,202,540.79
Interest and Dividends	2,387,319.37
Patient Receivables	16,162,948.60
Student Receivables	1,346,114.57
Contract Receivables	10,562,373.21
Gift Receivables	21,808,318.32
Accounts Receivable	2,928,091.78
Other Receivables	9,734,623.02
Due From Other Agencies (Note 8)	6,276,593.40
Prepaid Expenses	19,074,548.32
Consumable Inventories	769,722.74
Merchandise Inventories	2,802,960.92
Loans and Notes Receivable, net	1,727,362.28
Other Current Assets	210,825.00
Total Current Assets	<u>537,982,109.27</u>

Non-Current Assets:

Restricted:	
Cash and Cash Equivalents (Note 1)	24,092,433.01
Investments (Note 3)	175,320,108.17
Gift Receivables	40,035,895.64
Loans and Notes Receivable, net	3,486,301.02
Investments (Note 3)	768,666,546.18
Capital Assets (Note 2)	
Non-Depreciable	190,611,513.76
Depreciable	1,439,776,361.71
Accumulated Depreciation	(704,527,124.39)
Total Non-Current Assets	<u>1,937,462,035.10</u>

Total Assets	<u>\$ 2,475,444,144.37</u>
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LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 36,992,351.04
Payroll Payable	48,191,307.44
Liabilities Payable from Restricted Assets	26,882,291.63
Unclaimed Property Due to State Treasury	57,522.63
Deferred Revenues	110,747,851.93
Employees' Compensable Leave (Note 5)	7,307,885.00
Claims Payable (Note 5)	2,264,141.30
Notes and Loans Payable (Note 5)	36,599,000.00
Bonds Payable (Note 5)	18,740,000.00
Funds Held for Others	12,830,223.79
Other Current Liabilities	3,397,194.27
Total Current Liabilities	<u>304,009,769.03</u>

Texas Tech University System
Statement of Net Assets (Unaudited)
August 31, 2007

Non-Current Liabilities:

Unclaimed Property Due to State Treasury	60,939.22
Interfund Payable (Note 8)	655,573.82
Employees' Compensable Leave (Note 5)	26,350,081.02
Claims Payable (Note 5)	20,377,271.70
Bonds Payable (Note 5)	389,045,000.00
Other Non-Current Liabilities	737,847.75
Total Non-Current Liabilities	437,226,713.51

Total Liabilities \$ 741,236,482.54

NET ASSETS

Invested in Capital Assets, Net of Related Debt	499,576,374.45
Restricted:	
Nonexpendable:	
Endowments	539,694,849.79
Expendable:	
Capital Projects	34,177,157.74
Higher Education Assistance Fund	21,717,320.55
Debt Service	13,119,840.07
Other	131,834,666.89
Unrestricted (Note 1)	494,087,452.34
Total Net Assets	1,734,207,661.83

Total Liabilities and Net Assets \$ 2,475,444,144.37

See Accompanying Notes to the Financial Statements

Texas Tech University System
Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)
For the Year Ended August 31, 2007

Operating Revenues	
Tuition and Fees	\$ 25,838,009.26
Tuition and Fees - Pledged	197,848,451.47
Less Discounts and Allowances	(23,871,705.61)
Professional Fees	212,943,165.18
Sales and Services of Auxiliary Enterprises - Pledged	70,231,250.62
Other Sales and Services	3,551,848.61
Other Sales and Services - Pledged	10,118,993.06
Federal Grants and Contracts (Schedule 1A)	51,764,646.76
Federal Grants and Contracts - Pledged (Schedule 1A)	2,386,860.85
Federal Grant Pass-Throughs (Schedule 1A)	7,219,209.63
State Grants and Contracts	7,175,896.11
State Grants and Contracts - Pledged	113,092.60
State Grant Pass-Throughs (Schedule 1B)	14,580,367.99
Local Governmental Grants and Contracts	78,871,876.81
Local Governmental Grants and Contracts - Pledged	579,152.75
Nongovernmental Grants and Contracts	31,415,772.04
Nongovernmental Grants and Contracts - Pledged	3,295,880.15
Total Operating Revenues	<u>694,062,768.28</u>
Operating Expenses	
Instruction	386,901,666.84
Research	59,768,615.85
Public Service	122,255,004.08
Academic Support	136,315,673.68
Student Services	32,080,896.50
Institutional Support	68,119,822.18
Operations and Maintenance of Plant	59,969,981.81
Scholarships and Fellowships	21,745,701.50
Auxiliary Enterprises	81,752,892.98
Depreciation and Amortization	51,133,697.78
Total Operating Expenses	<u>1,020,043,953.20</u>
Operating Income (Loss)	<u>(325,981,184.92)</u>
Nonoperating Revenues (Expenses)	
Legislative Revenue	283,644,324.74
Federal Grants and Contracts (Schedule 1A)	552,866.34
Private Gifts	114,916,725.00
Private Gifts - Pledged	13,399,212.85
Investment Income	49,720,251.04
Investment Income - Pledged	25,207,906.28
Interest Expense on Capital Asset Financing	(15,166,371.01)
Loss on Sale and Disposal of Capital Assets	(1,292,909.22)
Net Increase in Fair Value of Investments	49,182,794.20
Other Nonoperating Revenues (Expenses)	2,455,562.12
Other Nonoperating Revenues (Expenses) - Pledged	16,737,922.16
Total Nonoperating Revenues (Expenses)	<u>539,358,284.50</u>
Income (Loss) before Other Revenues, Expenses, Gains, Losses, and Transfers	213,377,099.58
Other Revenues, Expenses, Gains, Losses, and Transfers	
Capital Appropriations (HEAF)	29,785,945.00
Capital Contributions	1,363,916.28
Additions to Permanent Endowments	947,407.49
Transfers Out to Other State Agencies (Note 8)	(5,797,430.39)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	<u>26,299,838.38</u>
TOTAL CHANGES IN NET ASSETS	<u>\$ 239,676,937.96</u>
Beginning Net Assets (September 1, 2006)	1,494,530,723.87
Ending Net Assets (August 31, 2007)	<u>\$ 1,734,207,661.83</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

Texas Tech University System
 Matrix of Operating Expenses by Natural Classification
 For the Year Ended August 31, 2007

Function	Salaries and Wages	Payroll Related Costs	Federal Sub-Contracts	Professional Fees and Services	Travel
Instruction	\$ 271,814,456.91	\$ 62,255,060.83	158,244.44	\$ 12,108,698.64	\$ 3,163,454.41
Research	31,196,241.04	7,171,381.99	476,893.13	1,229,358.73	1,905,373.87
Public Service	46,541,823.76	11,438,959.16	725,153.53	41,500,365.41	781,306.50
Academic Support	74,850,809.88	17,764,723.84	29,204.76	4,493,642.41	2,923,243.01
Student Services	14,165,716.83	3,422,619.12		666,422.00	1,106,289.75
Institutional Support	43,078,608.15	12,069,324.46		2,508,192.15	1,017,030.94
Operation and Maintenance of Plant	12,493,441.08	3,000,098.28		211,971.93	62,882.09
Scholarships and Fellowships	168,205.87	3,550.65			
Auxiliary Enterprises	28,838,042.87	6,594,978.81		225,266.54	766,485.68
Depreciation and Amortization					
Total Operating Expenses	\$ 523,147,346.39	\$ 123,720,697.14	\$ 1,389,495.86	\$ 62,943,917.81	\$ 11,726,066.25

Function	Materials and Supplies	Communications and Utilities	Repairs and Maintenance	Rentals and Leases	Printing and Reproduction
Instruction	\$ 19,829,069.90	\$ 3,146,162.68	\$ 1,400,605.52	\$ 1,869,130.71	\$ 1,482,198.26
Research	9,256,687.07	274,097.95	660,579.19	364,455.42	720,310.28
Public Service	15,438,778.39	948,340.60	537,766.39	1,094,706.77	376,224.55
Academic Support	18,387,666.57	4,055,871.24	2,359,445.07	2,110,345.30	1,318,441.56
Student Services	3,720,484.51	723,844.56	688,610.97	458,915.63	1,435,783.06
Institutional Support	2,713,412.03	829,582.19	1,997,717.01	2,197,885.52	909,878.46
Operation and Maintenance of Plant	8,280,899.77	21,357,071.45	11,684,283.64	561,486.76	37,332.99
Scholarships and Fellowships					
Auxiliary Enterprises	5,833,952.11	8,192,629.97	3,810,160.20	979,145.80	649,670.81
Depreciation and Amortization					
Total Operating Expenses	\$ 83,460,950.35	\$ 39,527,600.64	\$ 23,139,167.99	\$ 9,636,071.91	\$ 6,929,839.97

Function	Depreciation and Amortization	Scholarships	Bad Debt	Claims and Losses	Other Operating
Instruction	\$	\$ 3,958,579.25	\$ (167.53)	\$	\$ 5,716,172.82
Research		1,679,276.62			4,833,960.56
Public Service		286,355.40		65,182.00	2,520,041.62
Academic Support		3,866,465.20	(270,441.28)		4,426,256.12
Student Services		275,739.01			5,416,471.06
Institutional Support		436,145.04		(50,851.33)	412,897.56
Operation and Maintenance of Plant		686.59			2,279,827.23
Scholarships and Fellowships		21,565,750.98			8,194.00
Auxiliary Enterprises		4,149,464.93			21,713,095.26
Depreciation and Amortization	51,133,697.78				
Total Operating Expenses	\$ 51,133,697.78	\$ 36,218,463.02	\$ (270,608.81)	\$ 14,330.67	\$ 47,326,916.23

Function	Other Grand Total
Instruction	\$ 386,901,666.84
Research	59,768,615.85
Public Service	122,255,004.08
Academic Support	136,315,673.68
Student Services	32,080,896.50
Institutional Support	68,119,822.18
Operation and Maintenance of Plant	59,969,981.81
Scholarships and Fellowships	21,745,701.50
Auxiliary Enterprises	81,752,892.98
Depreciation and Amortization	51,133,697.78
Total Operating Expenses	\$ 1,020,043,953.20

Texas Tech University System
Statement of Cash Flows (Unaudited)
For the Year Ended August 31, 2007

Cash Flows from Operating Activities

Tuition and Fees	\$ 209,346,198.27
Grants and Contracts	196,541,909.80
Sales and Services of Auxiliary Enterprises	71,048,630.84
Collections from Patients and Insurers	217,125,008.08
Collections of Loans to Students	1,165,695.14
Other Sales and Services	7,670,466.37
Other Operating Activities	4,299,422.73
Payments to Suppliers	(256,754,231.76)
Payments to Employees	(515,655,169.20)
Payments for Loans Issued to Students	(1,397,136.67)
Payments for Auxiliary Enterprises	(356,587.60)
Payments for Other Operating Activities	(187,779,357.58)
Net Cash Used By Operating Activities	<u>(254,745,151.58)</u>

Cash Flows from Noncapital Financing Activities

State Appropriations	281,983,661.86
Noncapital Gifts and Grants	128,409,899.53
Proceeds from Direct Lending	35,290,652.70
Payments for Direct Lending	(35,135,099.00)
Transfers Out to Other State Agencies	(5,797,430.39)
Proceeds from Agency Transactions	1,314,945.80
Other Noncapital Financing Activities	16,091,963.27
Net Cash Provided by Noncapital Financing Activities	<u>422,158,593.77</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from Capital Debt Issuances	25,281,000.00
Capital Appropriations	29,785,945.00
Proceeds from Capital Gifts and Grants	1,363,916.28
Purchases of Capital Assets	(95,193,524.77)
Principal Paid on Capital Debt	(23,358,303.18)
Interest Paid on Capital Debt	(21,215,638.88)
Payments for Other Capital Related Activities	(44,759.49)
Net Cash Used by Capital and Related Financing Activities	<u>(83,381,365.04)</u>

Cash Flows from Investing Activities

Proceeds from Investment Sales and Maturities	90,569,878.16
Interest and Dividends Received	112,055,205.38
Purchases of Investments	(237,996,495.25)
Net Cash Provided by Investing Activities	<u>(35,371,411.71)</u>

TOTAL NET CASH FLOWS \$ 48,660,665.44

Beginning Cash & Cash Equivalents - September 1, 2006 356,534,823.64

Ending Cash & Cash Equivalents - August 31, 2007 \$ 405,195,489.08

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities

Operating Loss	(325,981,184.92)
Adjustments:	
Depreciation Expense	51,133,697.78
Bad Debt Expense	(270,608.81)
(Increase) Decrease in Accounts Receivables	(2,785,435.47)
(Increase) Decrease in Loans and Notes Receivable	1,738,329.70
(Increase) Decrease in Inventory	(121,617.66)
(Increase) Decrease in Due From Other Agencies	(651,979.36)
(Increase) Decrease in Prepaid Expenses	(6,783,216.32)
(Increase) Decrease in Other Assets	698,498.00
Increase (Decrease) in Accounts Payables	14,637,292.14
Increase (Decrease) in Payroll Payables	936,936.62
Increase (Decrease) in Deferred Revenue	10,541,072.53
Increase (Decrease) in Compensable Leave	2,144,228.02
Increase (Decrease) in Claims Payable	(903,120.00)
Increase (Decrease) in Other Liabilities	921,956.17
Net Cash Used for Operating Activities	<u>(254,745,151.58)</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	\$156,608.50	\$2,620.00	\$0.00	\$159,228.50
Cash in Bank	10,858,196.45	654,727.28	1,032,602.80	12,545,526.53
Reimburse from Treasury	4,402,389.58	125,352.19		4,527,741.77
Cash in State Treasury	41,503,317.27			41,503,317.27
Repurchase Agreements	37,783,293.43	13,402,389.72	1,824,714.74	53,010,397.89
TexPool & TexStar Investments	160,530,104.61	111,684,057.04	21,235,115.47	293,449,277.12
Total Cash and Cash Equivalents	\$255,233,909.84	\$125,869,146.23	\$24,092,433.01	\$405,195,489.08

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	\$31,575,570.19
Accounts Receivable	39,376,796.40
Inventory	3,572,683.66
Prepaid Expenses	8,160,249.04
Imprest Funds	219,235.00
Balances Subject to Reappropriation	431,380.03
Working Capital	51,807.50
Self-Insured Plans	46,308,845.19
Fair Market Value Adjustment	(149,407.49)
Future Operating Budgets	96,854,701.28
Service Department Operating Funds	15,437,192.08
Student Service Fees	1,546,015.14
Funds Functioning as Endowments	84,148,960.20
Unreserved	166,553,424.12
	<hr/>
Total Unrestricted Net Assets	\$494,087,452.34
	<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 09/01/06	Adjustments	Completed CIP	Increase Int'agy Trans	Decrease Int'agy Trans	Additions	Deletions	Balance 08/31/07
Non-depreciable Assets:								
Land and Land Improvements	\$10,031,878.86							\$10,031,878.86
Construction In Progress	167,250,672.39	(29,007.72)	(79,792,038.79)			46,813,045.08		134,242,670.96
Other Capital Assets	45,139,690.35					1,197,273.59		46,336,963.94
Total Non-depreciable Assets	222,422,241.60	(29,007.72)	(79,792,038.79)			48,010,318.67		190,611,513.76
Depreciable Assets:								
Building & Building Improvements	868,214,062.21	(285,989.07)	79,792,038.79			24,541,105.96		972,261,217.89
Infrastructure	29,933,462.16	(5,206.82)						29,928,255.34
Facilities & Other Improvements	139,919,129.66	(23,689.50)				4,747,797.22		144,643,237.38
Furniture and Equipment	154,395,014.92	(226,452.83)		285,777.40	(439,291.50)	19,041,737.69	(6,056,077.55)	167,000,708.13
Vehicles, Boats and Aircraft	11,529,946.62	(205,177.87)				1,304,995.75	(671,664.06)	11,958,100.44
Other Capital Assets	107,517,274.00	(286,756.68)				6,754,325.21		113,984,842.53
Total depreciable assets at historical costs	1,311,508,889.57	(1,033,272.77)	79,792,038.79	285,777.40	(439,291.50)	56,389,961.83	(6,727,741.61)	1,439,776,361.71
Less Accumulated Depreciation for:								
Buildings and Improvements	(491,373,573.76)					(22,739,640.87)		(514,113,214.63)
Infrastructure	(5,058,625.58)					(1,115,454.24)		(6,174,079.82)
Facilities & Other Improvements	(26,190,275.17)					(6,091,350.24)		(32,281,625.41)
Furniture & Equip	(101,813,775.38)	(193,871.07)		(161,263.56)	321,864.82	(13,752,158.67)	5,655,906.09	(109,943,297.77)
Vehicles, Boats And Aircraft	(7,695,919.57)					(858,455.80)	622,313.84	(7,932,061.53)
Other Capital Assets	(27,506,207.27)					(6,576,637.96)		(34,082,845.23)
Total Accumulated Depreciation	(659,638,376.73)	(193,871.07)		(161,263.56)	321,864.82	(51,133,697.78)	6,278,219.93	(704,527,124.39)
Depreciable Assets, Net	651,870,512.84	(1,227,143.84)	79,792,038.79	124,513.84	(117,426.68)	5,256,264.05	(449,521.68)	735,249,237.32
Business-type Capital Assets, net:	\$874,292,754.44	\$(1,256,151.56)	\$0	\$124,513.84	(117,426.68)	\$53,266,582.72	\$(449,521.68)	\$925,860,751.08

Texas Tech University System – Notes to the Financial Statements (continued)**Note 3: Deposits, Investments, and Repurchase Agreements**

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

The governing investment policy is Regents' Rules Chapter 09, "Investment, Endowments, and Income Producing Lands." The majority of Texas Tech University System assets are invested in two investment pools; the Short/Intermediate Term Investment Fund (SITIF) and the Long Term Investment Fund (LTIF). 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 SITIF, 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, 2007, the carrying amount of deposits was \$12,545,526.53 as presented below.

Enterprise Funds

Cash in Bank -- Carrying Amount	\$12,545,526.53
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>\$12,545,526.53</u>
Enterprise Funds Current Assets Cash in Bank	\$10,858,196.45
Enterprise Funds Current Assets Restricted Cash in Bank	654,727.28
Enterprise Funds Non-Current Assets Restricted Cash in Bank	<u>1,032,602.80</u>
Cash in Bank per AFR	<u>\$12,545,526.53</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, 2007, the total bank balance for Enterprise Funds was \$8,391,428.78.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or 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.

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

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	\$37,577.24		

Investments

As of August 31, 2007, the fair value of investments is as presented below.

Type of Security	Fair Value
Enterprise Funds	
U.S. Government	
U.S. Treasury Securities	\$ 59,691,612.95
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	177,598,734.36
Equity	157,297,280.45
International Equity	150,637,769.25
Repurchase Agreement	53,010,397.89
Fixed Income Money Market and Bond Mutual Fund	73,958,539.71
Other Commingled Funds	130,755,071.05
Other Commingled Funds (Texpool)	232,903,813.05
Real Estate	957,735.71
Alternate Investments	242,333,781.84
Misc (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	11,301,593.10
Total	<u>\$1,290,446,329.36</u>
Non-Current Investments	\$ 943,986,654.35
Items in Cash and Cash Equivalents:	
Repurchase Agreements	53,010,397.89
TexPool & TexStar investments	<u>293,449,277.12</u>
Total	<u>\$1,290,446,329.36</u>

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 SITIF. 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	\$1,981,849.85	

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 10-30% of the LTIF portfolio. The exposure to foreign currency risk as of August 31, 2007, is as follows.

Fund Type	GAAP Fund	Foreign Currency	International Obligation	International Equity
01	0001	Argentine peso		\$86,457.70
01	0001	Australian dollar		3,374,939.45
01	0001	Bermudan dollar		29,268.95
01	0001	Brazilian real		5,405,372.99
01	0001	Bulgarian lev		318,651.59
01	0001	Canadian dollar		1,368,587.22
01	0001	Cayman dollar		29,268.95
01	0001	Chilean Peso		100,285.56
01	0001	Chinese yuan		3,319,431.34
01	0001	Colombian peso		12,144.29
01	0001	Czech koruna		391,036.85
01	0001	Danish krone		669,346.46
01	0001	Egyptian pound		36,899.95
01	0001	Euro		45,723,947.25
01	0001	Hong Kong dollar		2,336,846.80
01	0001	Hungarian forint		1,373,748.39
01	0001	Indian rupee		1,037,680.16
01	0001	Indonesian rupiah		244,209.09
01	0001	Israeli shekel		632,571.64
01	0001	Japanese yen		23,668,102.28
01	0001	Jordanian dinar		4,670.88
01	0001	Malaysian ringgit		1,787,172.97
01	0001	Mexican peso		1,741,571.68
01	0001	Moroccan dirham		14,479.73
01	0001	New Zealand dollar		251,655.17
01	0001	Norwegian krone		2,426,046.50
01	0001	Pakistani rupee		9,341.76
01	0001	Peruvian Nuevo sol		30,360.72
01	0001	Phillippino peso		932,296.19
01	0001	Polish zloty		2,312,236.31
01	0001	Pound sterling		20,464,815.19
01	0001	Romanian leu		701,894.72
01	0001	Russian ruble		1,342,976.84
01	0001	Singapore dollar		1,573,215.89
01	0001	South African rand		985,676.07
01	0001	Korean won		8,366,747.23
01	0001	Swedish krona		2,492,731.91
01	0001	Swiss franc		5,651,870.76
01	0001	Taiwan dollar		7,404,944.73
01	0001	Thai baht		1,322,093.69
01	0001	Turkish lira		662,173.40
		Total		\$150,637,769.25

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 SITIF to those issued by the U.S. or its agencies and instrumentalities. Fixed income mutual funds in the SITIF must hold securities that are at least rated investment grade. As of August 31, 2007, the System's credit quality distribution for securities with credit risk exposure was as follows.

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB	Unrated
01	0001	U.S. Government Agency Obligations	\$177,598,734.36				
01	0001	Repurchase Agreement	\$53,010,397.89				
			AAAf	AAf	Af		Unrated
01	0001	Fixed Income Money Market and Bond Mutual Fund					\$73,958,539.71

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, 2007.

Note 5: Summary of Long-Term Liabilities**Changes in Long-Term Liabilities**

During the year ended August 31, 2007, the following changes occurred in liabilities.

Long-Term Liability Category	Balance 09/01/06	Increases	Decreases	Balance 08/31/07	Current Portion
Claims Payable	\$23,544,533.00	\$0.00	\$903,120.00	\$22,641,413.00	\$2,264,141.30
Notes and Loans	13,135,000.00	25,281,000.00	1,817,000.00	36,599,000.00	36,599,000.00
Revenue Bonds	428,760,001.00		20,975,001.00	407,785,000.00	18,740,000.00
Compensable Leave	31,513,738.00	2,403,062.95	258,834.93	33,657,966.02	7,307,885.00
Total	\$496,953,272.00	\$27,684,062.95	\$23,953,955.93	\$500,683,379.02	\$64,911,026.30

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

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. This obligation is paid from a central vacation pool account which collects the funding from the same funding source(s) from which the employee's salary or wage compensation was paid.

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 8/31/07 will be retired in fiscal year 2008.

Commercial paper has short maturities up to 270 days with interest rates ranging from 3.45% to 3.75%.

Summary of Debt Service Requirements for Notes Payable

Fiscal Year	Principal	Interest	Total
2008	\$36,599,000.00	\$248,632.93	\$36,847,632.93
2009			
2010			
2011			
2012			
All Other Years			
Total Requirements	\$36,599,000.00	\$248,632.93	\$36,847,632.93

Note 6: Capital Leases

As of August 31, 2007, Texas Tech University System had no outstanding capital leases.

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

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>	
2008	\$4,603,342.03
2009	4,418,090.85
2010	4,508,429.32
2011	4,643,682.20
2012	4,782,992.67
Total Minimum Future Lease Rental Payments	<u><u>\$22,956,537.07</u></u>

Note 8: Interfund Balances/Activities

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

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

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

Individual balances and activity at August 31, 2007, follows:

<u>Interfund Payable</u>	<u>Non-Current Interfund Payable</u>	<u>Purpose</u>
Agency 907, D23 Fund 0515	<u>\$655,573.82</u>	Lone Star
Total Interfund Payable	<u><u>\$655,573.82</u></u>	

<u>Due from Other Agencies</u>	<u>Current Due from Other Agencies</u>
Texas Education Agency (Agency 701)	\$583,660.64
Texas School for the Blind (Agency 771)	61,620.67
Texas Water Development Board (Agency 580)	204,893.85
Texas State Energy Conservation Office (Agency 907)	44,135.44
Texas Commission on Environmental Quality (Agency 582)	8,760.50
Texas General Land Office (Agency 305)	6,692.65
Texas Department of Transportation (Agency 601)	312,054.54
Texas Higher Education Coordinating Board (Agency 781)	241,210.77
University of Texas System (Agency 720)	<u>4,813,564.34</u>
Total Due from Other Agencies	<u><u>\$6,276,593.40</u></u>

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

<u>Transfers Out to Other State Agencies</u>	<u>Amount</u>
Texas Higher Education Coordinating Board (Agency 781)	\$1,297,430.39
Texas Department of State Health Services (Agency 529)	<u>4,500,000.00</u>
Total Transfers Out to Other State Agencies	<u><u>\$5,797,430.39</u></u>

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

Note 9: Contingent Liabilities

At August 31, 2007, lawsuits and claims involving Texas Tech University System were pending. While the ultimate liability with respect to litigation and other claims asserted against the System cannot be precisely estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is in legal counsel’s opinion, not likely to have a material effect on the System.

Note 10: Continuance Subject to Review

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

Note 11: Risk Financing and Related Insurance

Texas Tech University System by state law is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). The University is assessed fees by SORM based upon claims experience, claim incidences, payroll size and FTE. SORM also determines the methodology for allocation to the major fund groups. The State Office of Risk Management pays all WCI claims. The Worker’s Compensation pool for the fiscal year was funded by a .25 percent charge on non-educational and general gross payroll for paying its proportionate share of the SORM assessment.

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-state funds. The claims for employees paid from non-state funds are funded by interest earnings on the Unemployment Compensation Fund balance and utilization of fund balance.

Note 12: Segment Information

Texas Tech University System has no reportable segments.

Texas Tech University System – Notes to the Financial Statements (continued)**Note 13: Bonded Indebtedness****Bonds Payable**

Several bond issues were outstanding as of August 31, 2007 which are summarized in the paragraphs that follow.

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
Changes in Debt:	\$0 issued; \$935,000.00 retired

Revenue Financing System Refunding and Improvement Bonds, Sixth 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
Changes in Debt:	\$0 issued; \$6,760,000.00 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
Changes in Debt:	\$0 issued; \$3,235,000.00 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
Changes in Debt:	\$0 issued; \$2,090,000.00 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 5.25%
Maturity Date Range:	2003 through 2023
Type of Bond:	Revenue
Changes in Debt:	\$0 issued; \$4,380,000.00 retired

Revenue Financing System Refunding and Improvement Bonds, Tenth Series 2006

Purpose:	For advanced refunding of Series A Notes and Series 1999 and 2001 bonds, for construction of Murray Hall, renovation of the Student Union Building, Medical Education Building project in El Paso and various dormitories and other University construction of capital improvement projects
Original Issue Amount:	\$220,915,000;
Issue Date:	February 2, 2006
Interest Rates:	4.00% to 5.00%
Maturity Date Range:	2006 through 2031
Type of Bond:	Revenue
Changes in Debt:	\$0 issued; \$3,575,000.00 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.

Texas Tech University System – Notes to the Financial Statements (continued)**Note 14: Subsequent Events**

Effective September 1, 2007, the governance, control, management and property of Angelo State University was transferred from the Board of Regents of the Texas State System to the Board of Regents of the Texas Tech University System per H.B. No. 3564. For fiscal year 2007, the total net assets of Angelo State were approximately \$215 million.

Also, the Texas Tech University System intends to issue revenue financing system bonds during fiscal year 2008 in the amount of approximately \$188 million (including \$28 million for Angelo State University) of which \$18 million of this amount has already been issued as commercial paper as of August 31, 2007.

Note 15: Related Parties – Relationship with Texas Tech University System

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

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

Although both entities are legally separate from the Texas Tech University System, TTPA and TTFI are reported as if they were part of the System because their sole purpose is to financially support Texas Tech University System.

The Texas Tech Alumni Association provided services on behalf of Texas Tech University for which the University paid \$110,000 during the 2007 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.

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

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

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

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

Note 18: Restatement of Fund Balances and Net Assets

Texas Tech University System has no restatement of Fund Balance and Net Assets as of August 31, 2007. The System does have prior period corrections to depreciation expense and loss on sale and disposal of capital assets for prior fiscal years 2002 through 2006 which have no effect on beginning of year net assets as shown below.

Restatement of Prior Year Depreciation Expense and Loss on Sale and Disposal of Capital Assets:

	Per SRECNA	Prior Period Correction	Corrected Amounts
FY06 Depreciation	\$37,747,508	\$8,088,781	\$45,836,289
FY06 Loss on Sale and Disposal of Capital Assets	9,855,901	(8,088,781)	1,767,120
FY05 Depreciation	\$40,791,524	\$2,854,977	\$43,646,501
FY05 Loss on Sale and Disposal of Capital Assets	4,130,434	(2,854,977)	1,275,457
FY04 Depreciation	\$29,950,125	\$2,063,050	\$32,013,175
FY04 Loss on Sale and Disposal of Capital Assets	2,875,250	(2,063,050)	812,200
FY03 Depreciation	\$28,168,963	\$3,174,390	\$31,343,353
FY03 Loss on Sale and Disposal of Capital Assets	7,647,059	(3,174,390)	4,472,669

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:

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

Donor-Restricted Endowment	Amount of Net Appreciation	Reported in Net Assets
True Endowments	\$39,932,312.64	Restricted Nonexpendable
True Endowments	16,610,599.42	Restricted Expendable
Term Endowments	66,985.71	Restricted Nonexpendable
Total	<u>\$56,609,897.77</u>	

Note 22: Management Discussion and Analysis (MD&A)**Financial Highlights**

- Net assets increased by \$240 million for the year ended August 31, 2007, primarily due to increased state appropriations, tuition and fees revenues, local and private grant revenues, increased patient revenue and fair market value of investments.
- Capital asset additions totaled \$137 million for the year ended August 31, 2007.

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

Not applicable

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, 2007.

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

Components of receivables as of August 31, 2007 are summarized below.

Type	Net Amount
Federal Receivables	\$8,202,540.79
Interest and Dividends Receivable	2,387,319.37
Patient Receivables	16,162,948.60
Student Receivables	1,346,114.57
Contract Receivables	10,562,373.21
Gift Receivables Current & Non-Current	61,844,213.96
Accounts Receivables	2,928,091.78
Loans & Notes Receivable Current & Non-Current	5,213,663.30
Other Receivables (includes \$7.5 million third party billing tuition and fees)	9,734,623.02
Total Receivables	<u>\$118,381,888.60</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.

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

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	\$5,971,071.45
Medicaid	11,251,509.07
Managed Care, including Blue Cross	6,927,916.13
Commercial	5,984,629.47
Self Pay and Medically Indigent	16,876,494.17
Other	398,942.76
Total Gross Patient Accounts Receivable	\$47,410,563.05

Payables

Components of payables as of August 31, 2007 are summarized below.

Type	Net Amount
Accounts Payable	\$36,992,351.04
Payroll Payable	48,191,307.44
Liabilities Payable from Restricted Assets	26,882,291.63
Total Payables	\$112,065,950.11

Note 26: Termination Benefits

Texas Tech University System has no reportable voluntary or involuntary termination benefits as of August 31, 2007.

Note 27: Medical Patient Revenues

Patient charges for the medical practice plan are reported net of contractual adjustments and charity care. Components of gross medical patient charges for the year ended August 31, 2007 are summarized below.

Gross Medical Patient Charges	\$284,187,163.23
Less Contractual Adjustments	(99,628,288.17)
Less Charity Care	(77,161,985.94)
Net Medical Patient Charges	<u>\$107,396,889.12</u>

Certain charges processed through the medical patient accounting system (IDX) are not classified in this Annual Financial Report as professional fees and instead are reported as revenues from local and private grants and contracts. Also, some professional fees reported in this Annual Financial Report are not processed through the medical patient accounting system and include fees collected in the practice plans for allied health sciences, nursing and pharmacy.

TTU Health Sciences Center provides care to patients who meet defined criteria under the charity care policy at amounts less than established rates. A patient is classified as an eligible charity patient based on federal poverty guidelines. Because TTU Health Sciences Center does not pursue collection of amounts determined to qualify as charity care, such charges are included in gross patient charges but are not included in net patient charges.

Patient charges earned under third party contractual arrangements are primarily from fixed rate agreements which, for Medicare and Medicaid, are updated annually by the federal government and state government, respectively. Gross patient services charges under the Medicare and Medicaid programs for the year ended August 31, 2007 were \$149,932,578.94. Compliance with these programs is complex and can be subject to future government interpretation as well as potential regulatory action. For the Medicaid program in Texas, and other government programs, contractual adjustments are reported as charity care as defined in Article III of the General Appropriations Act of the 79th Texas Legislature.

SCHEDULES

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Texas Tech University System
 Schedule 1A - Schedule of Expenditures of Federal Awards
 For The Year Ended August 31, 2007

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 \$122,166. 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 2007 is \$28,464.60.

Note 2: Reconciliation:

Federal Grants and Contracts (SRECNA)	\$ 51,764,646.76
Federal Grants and Contracts - Pledged (SRECNA)	2,386,860.85
Federal Grants and Contracts Pass Throughs (SRECNA)	7,219,209.63
Non-Operating Federal Grant and Contracts (SRECNA)	<u>552,866.34</u>
Total Federal Revenues	61,923,583.58
Reconciling Items:	
LEAP.SLEAP.BYRD Scholarship Proceeds	16,253.00
Non-Monetary Assistance:	
Donation of Federal Surplus Property	28,464.60
New Loans Processed	151,052,662.31
less Nurse Faculty Loan Program Revenue	<u>(5,992.00)</u>
Total Pass-Through and Expenditures Per Federal Schedule	<u>\$ 213,014,971.49</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
Department of Education				
84.032 Federal Family Education Loans	\$ 150,129,191.31	\$	\$ 150,129,191.31	\$ 33,823,324.00
84.038 Federal Perkins Loan Program	923,471.00	38,521.19	961,992.19	2,247,427.25
Total Department of Education	<u>\$ 151,052,662.31</u>	<u>\$ 38,521.19</u>	<u>\$ 151,091,183.50</u>	<u>\$ 36,070,751.25</u>

Note 4: 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 5: Unemployment Insurance Funds

Does not apply to Texas Tech University System

Note 6: (Agency 501 Only)

Note 7: Federal Deferred Revenue

The deferred revenue of \$538,951.27 is federal grant prepayments that have not yet been earned.

	Balance 9/1/06	Net Change	Balance 8/31/07
10.206	\$ 20,437.65	\$ (20,437.65)	\$
10.450	23,985.60	(23,985.60)	
11.000		19,750.00	19,750.00
11.611	29,985.88	(29,985.88)	
12.000	106,074.19	62,937.44	169,011.63
12.420	41,671.14	(41,671.14)	
12.431	167,874.65	80,648.93	248,523.58
12.800	112,714.70	(33,123.93)	79,590.77
15.000	5,608.95	12,209.79	17,818.74
15.808		2,183.60	2,183.60
15.809	2,000.00		2,000.00
66.514		72.95	72.95
93.647	14,169.22	(14,169.22)	
	<u>\$ 524,521.98</u>	<u>\$ 14,429.29</u>	<u>\$ 538,951.27</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, 2007

Pass-Throughs From:

<u>Texas Emerging Technology Fund - Governor's Office (Agency 300)</u>	
The International Center of Excellence in Agriculture Genomics & Biotechnology	\$ 974,000.00
<u>Texas Department of Agriculture (Agency 551)</u>	
A Novel Method of Biological Control of Feral Hogs in Texas	417,902.71
<u>Texas Commission on Environmental Quality (Agency 582)</u>	
Design and Operation of Land Application Systems	51,500.10
<u>Texas Water Development Board (Agency 580)</u>	
An Integrated Approach to Water Conservation	676,971.42
<u>Texas State Energy Conservation Office (Agency 907)</u>	
Biomass Production from Recycled Waste and Water	10,611.02
<u>Texas Agriculture Experiment Station (Agency 556)</u>	
Texas Cotton	94,500.00
<u>Department of State Health Services (Agency 537)</u>	
DSHS Program Funding	367,835.55
<u>Employee Retirement System of Texas (Agency 327)</u>	
State Kids Insurance Program	67,741.94
<u>Texas Higher Education Coordinating Board (Agency 781)</u>	
Texas Grant Program	9,466,728.00
Advanced Technology Program	(1,881.82)
Advanced Research Program	(96,371.50)
College Work Study Program	140,345.00
5th Year Accounting Scholarship	16,943.00
Family Practice Residency	1,078,040.56
Family Practice Rural and Public Health Rotation	20,364.85
Financial Aid Professional Nursing	46,559.00
Graduate Medical Education	228,270.56
Prof Nursing Shortage Reduc	328,085.00
Primary Care Residency Program	345,000.00
Nursing and Allied Health	175,079.00
Minority Health Research/Education	172,143.60
	<hr/>
Total Pass-Throughs from Other Agencies	\$ 14,580,367.99

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Texas Tech University System
 Schedule 2A - Miscellaneous Bond Information
 For the Year Ended August 31, 2007

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Scheduled Maturities		First Call Date
				First Year	Last Year	
Revenue Bonds						
Rev Fin Sys Bds Tax 4th Ser '96	7,380,000	5.75%	6.75%	1998	2007	N/A
Rev Fin Sys Ref & Imp Bds 6th Ser '99	115,100,000	4.00%	5.25%	1999	2029	02/15/2009
Rev Fin Sys Bds 7th Ser '01	126,865,000	3.00%	5.50%	2002	2031	2/15/2012
Rev Fin Sys Bds Tax 8th Ser '01	42,810,000	3.46%	6.75%	2003	2031	8/15/2012
Rev Fin Sys Ref & Imp Bds 9th Ser '03	97,265,000	2.00%	5.25%	2004	2023	8/15/2013
Rev Fin Sys Ref & Imp Bds 10th Ser '06	<u>220,915,000</u>	4.00%	5.00%	2006	2031	2/15/2016
Total	<u>\$ 610,335,000</u>					

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Texas Tech University System
 Schedule 2B - Changes in Bonded Indebtedness
 For the Year Ended August 31, 2007

Description of Issue	Bonds Outstanding 9/1/06	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/07	Amounts Due Within One Year
Revenue Bonds						
Rev Fin Sys Bds Tax 4th Ser '96	\$ 935,000.00	\$	\$ 935,000.00	\$	\$	\$
Rev Fin Sys Ref & Imp Bds Ser '99	57,885,000.00		6,760,000.00		51,125,000.00	5,810,000.00
Rev Fin Sys Bds Ser '01	26,240,000.00		3,235,000.00		23,005,000.00	3,435,000.00
Rev Fin Sys Bds Tax Ser '01	36,895,000.00		2,090,000.00		34,805,000.00	2,190,000.00
Rev Fin Sys Ref & Imp Bds Ser '03	88,480,000.00		4,380,000.00		84,100,000.00	4,145,000.00
Rev Fin Sys Ref & Imp Bds Ser '06	218,325,000.00		3,575,000.00		214,750,000.00	3,160,000.00
Total	<u>\$ 428,760,000.00</u>	<u>\$</u>	<u>\$ 20,975,000.00</u>	<u>\$</u>	<u>\$ 407,785,000.00</u>	<u>\$ 18,740,000.00</u>

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Texas Tech University System
 Schedule 2C - Debt Service Requirements
 For the Year Ended August 31, 2007

Description of Issue	Fiscal Year	Principal	Interest
Revenue Bonds			
Rev Fin Sys Ref & Imp Bds 6th Ser '99	2008	5,810,000.00	2,394,637.52
	2009	6,070,000.00	2,138,393.75
	2010	6,030,000.00	1,869,937.50
	2011	4,955,000.00	1,604,193.75
	2012	5,110,000.00	1,339,987.50
	2013 - 2017	23,150,000.00	2,786,100.00
Rev Fin Sys Bds 7th Ser '01	2008	3,435,000.00	1,219,700.00
	2009	3,605,000.00	1,047,950.00
	2010	3,795,000.00	858,687.50
	2011	3,960,000.00	659,450.00
	2012	3,995,000.00	451,550.00
	2013 - 2017	4,215,000.00	231,825.00
Rev Fin Sys Bds Tax 8th Ser '01	2008	2,190,000.00	2,252,748.50
	2009	2,315,000.00	2,130,765.50
	2010	2,345,000.00	1,995,801.00
	2011	245,000.00	1,857,915.00
	2012	260,000.00	1,843,215.00
	2013 - 2017	2,960,000.00	8,759,775.00
	2018 - 2022	6,350,000.00	7,327,762.50
	2023 - 2027	8,785,000.00	4,900,830.00
2028 - 2031	9,355,000.00	1,592,580.00	
Rev Fin Sys Ref & Imp Bds 9th Ser '03	2008	4,145,000.00	4,069,325.00
	2009	4,320,000.00	3,900,025.00
	2010	4,500,000.00	3,723,625.00
	2011	4,700,000.00	3,516,125.00
	2012	4,495,000.00	3,286,250.00
	2013 - 2017	24,140,000.00	12,833,281.25
	2018 - 2022	30,680,000.00	5,798,981.25
	2023 - 2027	7,120,000.00	178,000.00
Rev Fin Sys Ref & Imp Bds 10th Ser '06	2008	3,160,000.00	10,068,495.00
	2009	3,290,000.01	9,939,495.00
	2010	3,425,000.01	9,805,195.00
	2011	4,925,000.00	9,638,195.00
	2012	5,160,000.00	9,410,695.00
	2013 - 2017	49,380,000.00	40,911,225.00
	2018 - 2022	73,084,999.98	25,961,722.48
	2023 - 2027	56,320,000.00	10,512,125.00
	2028 - 2032	16,005,000.00	1,233,312.50
Total Principal and Interest		<u>\$ 407,785,000.00</u>	<u>\$ 214,049,877.50</u>

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Texas Tech University System
 Schedule 2D - Analysis of Funds Available for Debt Service
 For the Year Ended August 31, 2007

Description of Issue	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
Revenue Bonds:				
RFS Bds Tax 4th Series 1996			\$ 935,000.00	\$ 31,556.25
RFS Ref & Imp Bds 6th Series 1999			6,760,000.00	2,661,749.98
RFS Bds 7th Series 2001			3,235,000.00	1,381,450.00
RFS Bds Tax 8th Series 2001			2,090,000.00	2,363,936.50
RFS Ref & Imp Bds 9th Series 2003			4,380,000.00	4,217,925.00
RFS Ref & Imp Bds 10th Series 2006			3,575,000.00	10,203,195.00
Total	\$ 427,172,532.11	\$ 323,813,591.55	\$ 20,975,000.00	\$ 20,859,812.73

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Texas Tech University System
 Schedule 2E - Defeased Bonds Outstanding
 For the Year Ended August 31, 2007

Description of Issue	Year Refunded	Par Value Outstanding
Revenue Bonds		
Texas Tech University Housing System Revenue Bonds, Series 1962-E	1996	\$ 2,045,000.00
Texas Tech University Housing System Revenue Bonds, Series 1963-A	1996	333,000.00
Revenue Financing System Bonds, Series 1995	1999	7,487,200.00
Revenue Financing System Refunding & Improvement Bonds, Series 1996	1999	33,455,000.00
Revenue Financing System Refunding & Improvement Bonds, Series 1999	2006	43,150,000.00
Revenue Financing System Bonds, Series 2001	2006	81,985,000.00
		\$ 168,455,200.00

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Texas Tech University System
 Schedule 2F - Early Extinguishment and Refunding
 For the Year Ended August 31, 2007

Description of Issue	Category	Amount Extinguished or Refunded	Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Revenue Bonds		\$			
		\$ 0	\$ 0	\$ 0	0

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Texas Tech University System
 Schedule 3 - Reconciliation of Cash in State Treasury
 For the Year Ended August 31, 2007

Cash in State Treasury	Unrestricted	Restricted	Total
Local Revenue (Fund 0239)	\$ 3,897,068.04	\$	\$ 3,897,068.04
Local Revenue (Fund 0255)	32,798,022.78		32,798,022.78
Permanent Health Fund - El Paso Campus (Fund 0820)	3,169,595.04		3,169,595.04
Permanent Health Fund - Other Campuses (Fund 0821)	1,638,631.41		1,638,631.41
Total Cash in State Treasury (Note 1)	\$ 41,503,317.27	\$	\$ 41,503,317.27