

**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION**



**ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2007**

**ANNUAL FINANCIAL REPORT**

**OF**

**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION**

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 of Texas

Honorable Susan Combs  
Texas Comptroller

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 Administration, with which this letter is bound, is transmitted for inclusion in the State of Texas Annual Financial Report for the fiscal year ended August 31, 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", written in a cursive style.

Kent R. Hance  
Chancellor



TEXAS TECH UNIVERSITY™

Associate Vice President & Comptroller  
Office of Financial Affairs

November 16, 2007

Chancellor Kent Hance  
Texas Tech University System Administration  
Lubbock, Texas 79409

Dear Chancellor Hance:

Submitted herein is the Annual Financial Report of Texas Tech University System Administration 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 black ink that reads "Sharon Williamson".

Sharon Williamson, CPA  
Director of Managerial Reporting

Approved:

Jim Brunjes  
Texas Tech University System Administration  
Chief Financial Officer

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

# Texas Tech University System Administration

## Board of Regents

Larry K. Anders..... Term Expires January 31, 2011 .....Dallas, TX  
F. Scott Dueser..... Term Expires January 31, 2009 .....Abilene, 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, 2013 .....Dallas, 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, 2009 .....Amarillo, TX  
Jerry E. Turner..... Term Expires January 31, 2013 .....Blanco, 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

# **FINANCIAL STATEMENTS**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents (Note 1)	\$ (622,797.39)
Restricted:	
Cash and Cash Equivalents (Note 1)	(15,434.02)
Legislative Appropriations	558,165.93
Accounts Receivable, net:	
Interest and Dividends	(207,296.42)
Other	1,520.50
Prepaid Expenses	<u>16,628.00</u>
 Total Current Assets	 <u>(269,213.40)</u>

Non-Current Assets:

Restricted:	
Cash and Cash Equivalents (Note 1)	5,214,469.84
Investments (Note 3)	(788,665.09)
Investments (Note 3)	<u>7,275,672.60</u>
Capital Assets (Note 2)	
Depreciable	2,016,968.78
Accumulated Depreciation	<u>(225,851.39)</u>
 Total Non-Current Assets	 <u>13,492,594.74</u>

Total Assets	<u>\$ 13,223,381.34</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 123,824.70
Payroll Payable	998,755.03
Liabilities Payable from Restricted Assets	11,209.00
Employees' Compensable Leave (Note 5)	117,543.38
Notes and Loans Payable (Note 5)	<u>1,650,000.00</u>
Funds Held for Others	<u>829.33</u>
 Total Current Liabilities	 <u>2,902,161.44</u>

Non-Current Liabilities:

Employees' Compensable Leave (Note 5)	<u>352,630.15</u>
 Total Non-Current Liabilities	 <u>352,630.15</u>

Total Liabilities	<u>\$ 3,254,791.59</u>
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	141,117.39
Restricted:	
Nonexpendable:	
Endowments	261,146.22
Expendable	
Capital Projects	3,573,087.75
Other	143,249.49
Unrestricted (Note 1)	<u>5,849,988.90</u>

Total Net Assets	<u>9,968,589.75</u>
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Total Liabilities and Net Assets	<u>\$ 13,223,381.34</u>
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See Accompanying Notes to the Financial Statements



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

<b>Operating Expenses</b>	
Institutional Support	\$ 13,046,432.41
Operations and Maintenance of Plant	161,729.75
Scholarships and Fellowships	5,149.00
Depreciation and Amortization	64,410.96
Total Operating Expenses	<u>13,277,722.12</u>
Operating Income (Loss)	<u>(13,277,722.12)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Legislative Revenue	1,483,267.00
Private Gifts	261,383.06
Investment Income	4,674,138.70
Interest Expense on Capital Asset Financing	(11,209.00)
Net Increase in Fair Value of Investments	40,343.85
Other Nonoperating Revenues (Expenses)	87,587.47
Total Nonoperating Revenues (Expenses)	<u>6,535,511.08</u>
Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	<u>(6,742,211.04)</u>
<b>Other Revenues, Expenses, Gains, Losses and Transfers</b>	
Legislative Transfer In (Note 8)	4,900,888.00
Transfers In from Components	4,975,551.04
Total Other Revenues, Expenses, Gains, Losses and Transfers	<u>9,876,439.04</u>
TOTAL CHANGES IN NET ASSETS	<u>\$ 3,134,228.00</u>
Beginning Net Assets (September 1, 2006)	6,336,172.54
Restatements of Beginning Net Assets (Note 18)	498,189.21
Ending Net Assets (August 31, 2007)	<u>\$ 9,968,589.75</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

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

Function	Salaries and Wages	Payroll Related Costs	Professional Fees and Services	Travel	Materials and Supplies
Institutional Support	\$ 8,082,389.82	\$ 1,635,258.12	\$ 480,691.52	\$ 285,687.37	\$ 282,348.04
Operation and Maintenance of Plant			14,070.00		52,900.72
Scholarships and Fellowships					
Depreciation and Amortization					
Total Operating Expenses	\$ 8,082,389.82	\$ 1,635,258.12	\$ 494,761.52	\$ 285,687.37	\$ 335,248.76

Function	Communications and Utilities	Repairs and Maintenance	Rentals and Leases	Printing and Reproduction	Depreciation and Amortization
Institutional Support	\$ 172,969.05	\$ 139,039.68	\$ 419,372.17	\$ 186,434.37	
Operation and Maintenance of Plant	5,328.92	83,225.61			
Scholarships and Fellowships					
Depreciation and Amortization					64,410.96
Total Operating Expenses	\$ 178,297.97	\$ 222,265.29	\$ 419,372.17	\$ 186,434.37	\$ 64,410.96

Function	Scholarships	Other Operating	Grand Total
Institutional Support	\$	\$ 1,362,242.27	\$ 13,046,432.41
Operation and Maintenance of Plant		6,204.50	161,729.75
Scholarships and Fellowships	5,149.00		5,149.00
Depreciation and Amortization			64,410.96
Total Operating Expenses	\$ 5,149.00	\$ 1,368,446.77	\$ 13,277,722.12

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

**Cash Flows from Operating Activities**

Payments to Suppliers	\$ (743,948.42)
Payments to Employees	(4,630,112.22)
Payments for Other Operating Activities	(8,225,404.76)
Net Cash Used By Operating Activities	<u>(13,599,465.40)</u>

**Cash Flows from Noncapital Financing Activities**

Proceeds from State Appropriations	1,600,135.07
Noncapital Gifts and Grants	261,383.06
Transfers In from Other Components	9,876,439.04
Payments for Agency Transactions	(638.67)
Proceeds from Other Noncapital Financing Activities	<u>87,587.47</u>
Net Cash Provided by Noncapital Financing Activities	<u>11,824,905.97</u>

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

Proceeds from Capital Debt Issuance	1,650,000.00
Purchases of Capital Assets	(1,652,114.00)
Net Cash Used by Capital and Related Financing Activities	<u>(2,114.00)</u>

**Cash Flows from Investing Activities**

Proceeds from Investment Sales and Maturities	1,812,197.61
Proceeds from Interest and Investment Income	4,543,899.28
Purchases of Investments	<u>(3,415,543.95)</u>
Net Cash Provided by Investing Activities	<u>2,940,552.94</u>

**TOTAL NET CASH FLOWS** \$ 1,163,879.51

Beginning Cash & Cash Equivalents - September 1, 2006 3,390,016.00

Restatement to Beginning Cash and Cash Equivalents (Note 18) 22,342.92

Beginning Cash & Cash Equivalents - September 1, 2006 Restated 3,412,358.92

Ending Cash & Cash Equivalents - August 31, 2007 \$ 4,576,238.43

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

Operating Loss	(13,277,722.12)
Adjustments:	
Depreciation Expense	64,410.96
(Increase) Decrease in Accounts Receivable	(1,134.50)
(Increase) Decrease in Prepaid Expenses	(14,752.00)
Increase (Decrease) in Accounts Payable	(228,387.30)
Increase (Decrease) in Payroll Payable	9,395.03
Increase (Decrease) in Compensable Leave	<u>(151,275.47)</u>
Net Cash Used for Operating Activities	<u>(13,599,465.40)</u>

## **POLICIES AND NOTES**

**TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION****Notes to the Financial Statements****Note 1: Summary of Significant Accounting Policies****Reporting Entity**

The Texas Tech University System Administration is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements for State Agencies.

**Blended Component Unit**

Texas Tech Foundation, Inc. is a component unit of the consolidated Texas Tech University System since it serves the fundraising needs of Texas Tech University, Texas Tech University Health Sciences Center and Texas Tech University System Administration. No balances or activities associated with Texas Tech Foundation, Inc. are included in this Annual Financial Report.

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

**Basis of Accounting**

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

**Cash and Cash Equivalents**

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

Texas Tech University System Administration 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.

**Texas Tech University System Administration - Notes to the Financial Statements (continued)****Cash and Cash Equivalents as reported on the Statement of Net Assets**

	<b>Current Unrestricted</b>	<b>Current Restricted</b>	<b>Non-Current Restricted</b>	<b>Total</b>
Cash on Hand	\$ 600.00	\$0.00	\$0.00	\$600.00
Cash In Bank	(7,960,114.82)	(186,227.31)	1,582,608.83	(6,563,733.30)
Reimbursement Due from Comptroller	36,315.49			36,315.49
Repurchase Agreements	1,390,895.59	32,540.07	(276,534.15)	1,146,901.51
TexPool & TexStar Investments	5,909,506.35	138,253.22	3,908,395.16	9,956,154.73
<b>Total Cash and Cash Equivalents</b>	<b>\$ (622,797.39)</b>	<b>\$ (15,434.02)</b>	<b>\$5,214,469.84</b>	<b>\$4,576,238.43</b>

**Investments**

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

**Receivables**

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

**Prepaid Expenses**

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

**Capital Assets**

Furniture, equipment, and vehicles with a cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities and other improvements are \$100,000. The capitalization threshold for infrastructure is \$500,000. These assets are capitalized at cost. Donated assets are reported at fair value on the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charged to operating expenses 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**

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

**Employees' Compensable Leave Balances**

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

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

**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	\$201,248.47
Accounts Receivable	1,520.50
FMV Adjustment	(121,469.31)
Prepaid Expenses	12,233.50
Imprest Funds	600.00
Service Department Operating Funds	342,758.16
Future Operating Budgets	5,047,513.39
Funds Functioning as Endowments	<u>365,584.19</u>
<b>Total Unrestricted Net Assets</b>	<b><u>\$5,849,988.90</u></b>

**Interfund Activity and Transactions**

Texas Tech University System Administration is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, 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 Administration - 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.

<b>Business-type Activities:</b>	Balance 09/01/06	Adjustments	Completed CIP	Inc- Int'agy Trans	Dec- Int'agy Trans	Additions	Deletions	Balance 08/31/07
<b>Depreciable Assets:</b>								
Buildings and Building Improvements	\$0.00					\$1,652,114.00		\$1,652,114.00
Furniture and Equipment	156,140.78							156,140.78
Vehicles, Boats and Aircraft	208,714.00							208,714.00
<b>Total Depreciable Assets at Historical Costs</b>	364,854.78					1,652,114.00		2,016,968.78
<b>Less Accumulated Depreciation for:</b>								
Buildings and Building Improvements	0.00					(5,945.10)		(5,945.10)
Furniture and Equipment	(74,722.73)					(22,414.88)		(97,137.61)
Vehicles, Boats and Aircraft	(86,717.70)					(36,050.98)		(122,768.68)
<b>Total Accumulated Depreciation</b>	(161,440.43)					(64,410.96)		(225,851.39)
<b>Depreciable Assets, Net</b>	203,414.35					1,587,703.04		1,791,117.39
<b>Business-type Activities Capital Assets, net:</b>	\$203,414.35					\$1,587,703.04		\$1,791,117.39

**Note 3: Deposits, Investments, and Repurchase Agreements**

Texas Tech University System Administration'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 Administration 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 Administration 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 Administration funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investment, Endowments, and Income Producing Lands." The majority of Texas Tech University System Administration assets are invested in two investment pools; the Short/Intermediate Term Investment Fund (SITIF) and Long Term Investment Fund (LTIF). The SITIF is the principal cash fund of the Texas Tech University System and the commingled endowment/institutional fund is the LTIF.



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

**Deposits of Cash in Bank**

As of August 31, 2007, the carrying amount of deposits was \$(6,563,733.30) as presented below.

**Enterprise Funds**

CASH IN BANK – CARRYING AMOUNT	\$ (6,563,733.30)
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>\$ (6,563,733.30)</u>

Enterprise Funds Current Assets Cash in Bank	\$ (7,960,114.82)
Enterprise Funds Current Assets Restricted Cash in Bank	(186,227.31)
Enterprise Funds Non-Current Assets Restricted Cash in Bank	1,582,608.83
Cash in Bank per AFR	<u>\$ (6,563,733.30)</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 \$0.

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 System’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	\$0		

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

**Investments**

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

<b>Type of Security</b>	<b>Fair Value</b>
<b>Enterprise Funds</b>	
U.S. Government	
U.S. Treasury Securities	\$1,291,018.39
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	3,842,420.78
Equity	100,992.81
International Equity	156,978.43
Repurchase Agreement	1,146,901.51
Fixed Income Money Market and Bond Mutual Fund	770,601.27
Other Commingled Funds	3,817,890.17
Other Commingled Funds (Texpool)	6,210,726.28
Alternative Investments	<u>252,534.11</u>
 Total Investments	 <u><u>\$17,590,063.75</u></u>
 Non-Current Investments	 \$6,487,007.51
Items in Cash and Cash Equivalents:	
Repurchase Agreements	1,146,901.51
TexPool & TexStar Investments	<u>9,956,154.73</u>
 Total	 <u><u>\$17,590,063.75</u></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 the investments or collateral securities that are in the possession of an outside party. The University'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 the securities outside of those pools.

<b>Fund Type</b>	<b>GAAP Fund</b>	<b>Type</b>	<b>Uninsured and unregistered with securities held by the counterparty</b>	<b>Uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the state's name</b>
01	0001	Equity	\$0	

**Texas Tech University System Administration – 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 to 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.

<b>Fund Type</b>	<b>GAAP Fund</b>	<b>Foreign Currency</b>	<b>International Obligation</b>	<b>International Equity</b>
01	0001	Argentine peso		90.10
01	0001	Australian dollar		3,517.00
01	0001	Bermudan dollar		30.50
01	0001	Brazilian real		5,632.90
01	0001	Bulgarian lev		332.06
01	0001	Canadian dollar		1,426.19
01	0001	Cayman dollar		30.50
01	0001	Chilean peso		104.51
01	0001	Chinese yuan		3,459.15
01	0001	Colombian peso		12.66
01	0001	Czech koruna		407.50
01	0001	Danish krone		697.52
01	0001	Egyptian pound		38.45
01	0001	Euro		47,648.55
01	0001	Hong Kong dollar		2,435.21
01	0001	Hungarian forint		1,431.57
01	0001	Indian rupee		1,081.36
01	0001	Indonesian rupiah		254.49
01	0001	Israeli shekel		659.20
01	0001	Japanese yen		24,664.34
01	0001	Jordanian dinar		4.87
01	0001	Malaysian ringgit		1,862.40
01	0001	Mexican peso		1,814.88
01	0001	Moroccan dirham		15.09
01	0001	New Zealand dollar		262.25
01	0001	Norwegian krone		2,528.16
01	0001	Pakistani rupee		9.73
01	0001	Peruvian nuevo sol		31.64
01	0001	Phillippino peso		971.54
01	0001	Polish zloty		2,409.56
01	0001	Pound sterling		21,326.22
01	0001	Romanian leu		731.44
01	0001	Russian ruble		1,399.51
01	0001	Singapore dollar		1,639.44
01	0001	South African rand		1,027.17
01	0001	Korean won		8,718.92
01	0001	Swedish krona		2,597.66
01	0001	Swiss franc		5,889.77
01	0001	Taiwan dollar		7,716.63
01	0001	Thai baht		1,377.74
01	0001	Turkish lira		690.05
		<b>Total</b>		<b>\$156,978.43</b>

**Texas Tech University System Administration – 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 Administration’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 is presented below.

Standard & Poor’s

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB	Unrated
01	0001	U.S. Government Agency Obligations	\$3,842,420.78				
01	0001	Repurchase Agreement	1,146,901.51				
			<b>AAAf</b>	<b>AAf</b>	<b>Af</b>		<b>Unrated</b>
01	0001	Fixed Income Money Market and Bond Mutual Fund					\$770,601.27

**Derivative Investing**

Texas Tech University System Administration 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 Texas Tech University System Administration, will provide future cash inflows on a time schedule that approximately matches the outflows associated with the System Administration’s liabilities. These securities are rated AAA by the major rating agencies.

**Note 4: Short-Term Debt**

Texas Tech University System Administration has no short-term debt outstanding 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
Notes and Loan	\$0.00	\$1,650,000.00	\$0.00	\$1,650,000.00	\$1,650,000.00
Compensable Leave	621,449.00		151,275.47	470,173.53	117,543.38
<b>Total</b>	<b>\$621,449.00</b>	<b>\$1,650,000.00</b>	<b>\$151,275.47</b>	<b>\$2,120,173.53</b>	<b>\$1,767,543.38</b>

**Employees’ Compensable Leave**

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee’s resignation, dismissal, or separation from State employment provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. 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.

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

**Notes and Loans Payable**

Commercial paper was issued during the fiscal year to finance various construction and equipment 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 ranging from 3.45% to 3.75%.

*Summary of Debt Service Requirements for Notes Payable*

Fiscal Year	Principal	Interest	Total
2008	\$1,650,000.00	\$11,209.00	\$1,661,209.00
2009			
2010			
2011			
2012			
All Other Years			
Total Requirements	<u>\$1,650,000.00</u>	<u>\$11,209.00</u>	<u>\$1,661,209.00</u>

**Note 6: Capital Leases**

The Texas Tech University System Administration has no capital leases.

**Note 7: Operating Leases**

The Texas Tech University System Administration has no operating leases.

**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:

Transfers In or Transfers Out  
 Legislative Transfers In or Legislative Transfers Out

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>Legislative Transfer In</u>	<u>Amount</u>
Texas Tech University (Agency 733)	\$2,514,201.00
Texas Tech University Health Sciences Center (Agency 739)	<u>2,386,687.00</u>
<b>Total Legislative Transfer In</b>	<u><u>\$4,900,888.00</u></u>

**Note 9: Contingent Liabilities**

At August 31, 2007, no material lawsuits or claims involving the Texas Tech University System Administration were pending.

**Note 10: Continuance Subject to Review**

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

**Texas Tech University System Administration - Notes to the Financial Statements (continued)****Note 11: Risk Financing and Related Insurance**

Texas Tech System Administration 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 System 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. SORM pays all WCI claims. The Worker's Compensation plan 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 for employees 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**

The Texas Tech University System Administration has no reportable segments.

**Note 13: Bonded Indebtedness**

The Texas Tech University System Administration has no bonded indebtedness.

**Note 14: Subsequent Events**

The Texas Tech University System Administration has no material subsequent events to disclose.

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

The Texas Tech University System Administration has no related parties to report.

**Note 16: Stewardship, Compliance and Accountability**

The Texas Tech University System Administration has no material stewardship, compliance, and accountability issues.

**Note 17: The Financial Reporting Entity****The Financial Reporting Entity**

Texas Tech University System Administration is the executive arm of the Texas Tech University System. As required by generally accepted accounting principles, these financial statements present the Texas Tech University System Administration. Texas Tech University System Administration has no related organizations or joint ventures or jointly governed organizations.

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

**Note 18: Restatement of Fund Balances and Net Assets**

The System Administration has a restatement of net assets and cash and cash equivalents as of August 31, 2007 for a prior period reclassification of endowment funds from the System Administration foundation fund range as shown below.

Also, the System Administration has prior period corrections to depreciation expense and loss on sale and disposal of capital assets for prior fiscal years 2003 and 2006 which have no effect on beginning of year net assets as shown below

**Restatement of Net Assets:**

<b>Net Assets as Reported at 8/31/06</b>	\$6,336,172.54
<b>Restatements</b>	
Reclass endowments funds from TTUSA foundation fund range	498,189.21
<b>Restated Net Assets at 8/31/06</b>	<b>\$6,834,361.75</b>

**Restatement of Beginning Cash and Cash Equivalents:**

<b>Cash and Cash Equivalents as Reported at 8/31/06</b>	\$3,390,016.00
<b>Restatements</b>	
Reclass endowment funds from TTUSA foundation fund range	22,342.92
<b>Restated Cash and Cash Equivalents at 8/31/06</b>	<b>\$3,412,358.92</b>

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

	Per SRECNA	Prior Period Correction	Corrected Amounts
FY06 Depreciation	\$42,873	\$17,076	\$59,949
FY06 Loss on Sale and Disposal of Capital Assets	29,038	(17,076)	11,962
FY03 Depreciation	\$26,654	\$427	\$27,081
FY03 Loss on Sale and Disposal of Capital Assets	14,847	(427)	14,420

**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 System Administration's 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.

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

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 by the System are summarized in the following table:

<b>Donor-Restricted Endowment</b>	<b>Amount of Net Appreciation</b>	<b>Reported in Net Assets</b>
True Endowments	\$26,755.49	Restricted Nonexpendable
True Endowments	18,880.12	Restricted Expendable
Total	\$45,635.61	

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

Texas Tech University System Administration has no material highlights to include for fiscal year 2007.

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

Not applicable

**Note 24: Special and Extraordinary Items**

Texas Tech University System Administration has no special or extraordinary items to disclose for the 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.

<b>Type</b>	<b>Net Amount</b>
Interest and Dividends Receivable	\$(207,296.42)
Other Receivables	1,520.50
<b>Total Receivables</b>	<b>\$(205,775.92)</b>

**Payables**

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

<b>Type</b>	<b>Net Amount</b>
Accounts Payable	\$123,824.70
Payroll Payable	998,755.03
Liabilities Payable from Restricted Assets	11,209.00
<b>Total Payables</b>	<b>\$1,133,788.73</b>

**Note 26: Termination Benefits**

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



# **SCHEDULES**

UNAUDITED

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

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration  
Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies  
For the Year Ended August 31, 2007

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable



UNAUDITED

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

Schedule Not Applicable

UNAUDITED

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

Schedule Not Applicable