

**FINANCIAL REPORT**

**of**

**Texas Tech University Health Sciences Center**

**For the Year Ended August 31, 2001**

## **EXHIBITS**

EXHIBIT A  
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 BALANCE SHEET  
 August 31, 2001  
 (With Comparative Totals at August 31, 2000)

UNAUDITED

	Current Funds				Restricted
	Educational and General	Unrestricted		Total Unrestricted	
		Designated	Auxiliary Enterprises		
<b>ASSETS</b>					
Cash and Temporary Investments (Sch A-1)	\$ 4,109,131	\$ 49,224,004	\$ 364,711	\$ 53,697,846	\$ 20,484,404
Balance in State Appropriations	13,572,838			13,572,838	
Accounts Receivable (Net of Allowance for Doubtful Accounts, \$24,761,632, 8/31/01, and \$21,986,683, 8/31/00)	278,322	19,434,484	13,198	19,726,004	9,365,049
Investments (Sch A-2)	2,903,853	66,441,272	277,349	69,622,474	15,312,048
Due From Other Agencies (Note 21)		2,637,146		2,637,146	
Interest Receivable	74,339	441,663	3,363	519,365	322,366
Federal Receivable					647,051
Notes Receivable (Net of Allowance for Doubtful Accounts, \$240,765, 8/31/01 and \$229,533, 8/31/00)		1,019,148		1,019,148	
Prepaid Expenses	26,364	507,341	3,281	536,986	589,687
Deferred Charges		2,317		2,317	
Inventories	9,408	546,816		556,224	
Land					
Buildings					
Construction in Progress					
Improvements Other Than Buildings					
Equipment					
Library Books and Materials					
<b>TOTAL ASSETS</b>	<b>\$ 20,974,255</b>	<b>\$ 140,254,191</b>	<b>\$ 661,902</b>	<b>\$ 161,890,348</b>	<b>\$ 46,720,605</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 5,008,458	\$ 3,629,855	\$ 2,165	\$ 8,640,478	\$ 5,679,323
Payroll Payable	5,445,171	8,329,762	9,398	13,784,331	6,218,749
Other Accrued Liabilities					
Interest Payable					
Deposits Payable	32,705	3,075		35,780	
Unclaimed Property Due to State Treasury	142,080			142,080	
Deferred Revenue	2,800,144	1,183,962	125,557	4,109,663	954,571
Compensable Leave Payable	5,091,894	3,515,276	7,219	8,614,389	1,771,603
Claims Incurred But Not Reported		51,390,848		51,390,848	
Bonds and Notes Payable					
Funds Held in Custody for Others (Sch A-4)					
<b>TOTAL LIABILITIES</b>	<b>18,520,452</b>	<b>68,052,778</b>	<b>144,339</b>	<b>86,717,569</b>	<b>14,624,246</b>

Loan Funds	Endowment Funds	Plant Funds		Agency Funds	Component Units	Totals (Memorandum Only)		
		Unexpended	Retirement of Indebtedness			Investment in Plant	2001	2000
\$ 862,183	\$ 6,315,351	\$ 15,898,031 9,945,602	\$	\$	\$ 56,546	\$ 6,108,134	\$ 103,422,495 23,518,440	\$ 97,355,763 15,907,136
406		62,467			225	549,362	29,703,513	27,781,136
656,314	73,179,274	572,333			43,044	17,493,316	176,878,803	189,335,024
							2,637,146	1,429,349
4,461						57,670	903,862	1,087,985
							647,051	417,306
2,361,961						818,750	4,199,859	3,565,646
					56,174	112,376	1,295,223	1,284,596
							2,317	37,513
					92		556,316	699,537
							4,227,042	4,226,042
							135,765,261	133,634,274
							34,419,058	20,802,708
							5,333,038	3,883,194
							70,103,846	65,641,687
							17,543,996	15,805,694
<u>\$ 3,885,325</u>	<u>\$ 79,494,625</u>	<u>\$ 26,478,433</u>	<u>\$</u>	<u>\$</u>	<u>\$ 156,081</u>	<u>\$ 25,139,608</u>	<u>\$ 611,157,266</u>	<u>\$ 582,894,590</u>
\$ 626	\$	\$ 3,344,620	\$	\$	\$ 34,952	\$ 107,956	\$ 17,807,955	\$ 12,041,162
		139,956					20,003,080	19,799,462
	36,230	4,582					139,956	97,336
							40,812	5,278
							35,780	37,000
							142,080	211,535
					171	1,350	5,065,755	5,037,400
							10,385,992	9,687,711
						1,095,179	52,486,027	50,594,829
					27,606,353		27,606,353	21,704,418
					120,958		120,958	146,540
626	36,230	3,489,158			156,081	1,204,485	133,834,748	119,362,671

EXHIBIT A  
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 BALANCE SHEET  
 August 31, 2001  
 (With Comparative Totals at August 31, 2000)

UNAUDITED

	Current Funds				
	Unrestricted				Restricted
	Educational and General	Designated	Auxiliary Enterprises	Total Unrestricted	
<b>FUND BALANCES</b>					
Unrestricted					
Reserved for					
Encumbrances	\$ 387,903	\$ 1,969,920	\$ 7,386	\$ 2,365,209	\$
Inventories	9,408	546,816		556,224	
Prepaid Expenses	26,364	507,341	3,281	536,986	
Accounts Receivable	278,322	19,434,484	13,198	19,726,004	
Working Capital	101,648	201,575	365	303,588	
Self Insured Plans		1,854,492		1,854,492	
External Investment Pool		3,317,558		3,317,558	
Fair Market Value Adjustment	98,882	8,469,510		8,568,392	
Lapsed Appropriations					
HEAF	398,900			398,900	
Unreserved					
Allocated	1,152,376	33,769,863	350,620	35,272,859	
Unallocated		2,129,854	142,713	2,272,567	
Restricted					
Encumbered					320,507
Other					31,775,852
US Government Grants Refundable					
Principal Endowments					
Funds Functioning as Endowments					
Unrestricted					
Net Investment in Plant					
<b>TOTAL FUND BALANCES (EXHIBIT B)</b>	<u>2,453,803</u>	<u>72,201,413</u>	<u>517,563</u>	<u>75,172,779</u>	<u>32,096,359</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 20,974,255</u>	<u>\$ 140,254,191</u>	<u>\$ 661,902</u>	<u>\$ 161,890,348</u>	<u>\$ 46,720,605</u>

See Accompanying Notes to the Financial Statements

Loan Funds	Endowment Funds	Plant Funds		Agency Funds	Component Units	Totals (Memorandum Only)	
		Unexpended	Retirement of Indebtedness			Investment in Plant	2001
\$	\$	\$ 752,557	\$	\$	\$	\$ 3,117,766	\$ 3,823,645
						556,224	667,128
						536,986	611,735
						19,726,004	16,887,553
						303,588	297,348
						1,854,492	7,243,294
						3,317,558	2,577,964
						8,568,392	4,284,565
							9,592
		10,181,653				10,580,553	7,094,999
		9,641,284				44,914,143	43,649,761
						2,272,567	2,564,100
		1,973,734			37,742	2,331,983	6,055,834
1,790,549		440,047			8,169,808	42,176,256	43,082,302
2,094,150						2,094,150	2,347,905
	60,023,738				15,727,573	75,751,311	79,895,353
	19,434,657					19,434,657	19,134,331
				239,785,888		239,785,888	223,304,510
3,884,699	79,458,395	22,989,275		239,785,888	23,935,123	477,322,518	463,531,919
<u>\$ 3,885,325</u>	<u>\$ 79,494,625</u>	<u>\$ 26,478,433</u>	<u>\$</u>	<u>\$ 267,392,241</u>	<u>\$ 156,081</u>	<u>\$ 611,157,266</u>	<u>\$ 582,894,590</u>

EXHIBIT B  
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 STATEMENT OF CHANGES IN FUND BALANCES  
 For the Year Ended August 31, 2001  
 (With Comparative Totals - Year Ended August 31, 2000)

UNAUDITED

	Current Funds				
	Unrestricted				Restricted
	Educational and General	Designated	Auxiliary Enterprises	Total Unrestricted	
FUND BALANCES, September 1, 2000	\$ 3,379,309	\$ 73,060,358	\$ 906,599	\$ 77,346,266	\$ 33,718,810
Restatements (Prior Period Adjustment)					104,700
FUND BALANCES, September 1, 2000	3,379,309	73,060,358	906,599	77,346,266	33,823,510
REVENUES AND OTHER ADDITIONS					
Current Funds Revenues (Exhibit C)	105,761,735	142,927,354	454,455	249,143,544	
State Appropriations - General Revenue					6,222,743
Federal Grants and Contracts					5,865,609
Federal Pass-Through Grants from Other State Agencies (Note 22)					173,952
State Grants and Contracts					85,207,171
State Pass-Through Grants from Other State Agencies (Note 23)					3,096,543
Local Grants and Contracts					27,343,193
Private Gifts, Grants and Contracts					16,227,910
Pledged Gifts					2,305,944
Investment Income					1,057,185
Endowment Income					1,183,937
Net Increase (Decrease) in Fair Value of Investments					510,655
Sales and Services					1,404,774
Miscellaneous Income					221,174
Component Units					
Bond and Note Proceeds					
Decrease in Bonds Payable					
Expended for Plant Facilities (Including \$6,974,178 Charged to Current Funds) Adjustments to Plant Investment Other Additions					
TOTAL REVENUES AND OTHER ADDITIONS	105,761,735	142,927,354	454,455	249,143,544	150,820,790
EXPENDITURES AND OTHER DEDUCTIONS					
Current Funds Expenditures (Exhibit C)	95,440,677	145,059,314	344,600	240,844,591	145,571,450
Expended for Plant Facilities Adjustments to Plant Investment Disposal of Plant Facilities Retirement of Indebtedness					
Interest on Indebtedness					
Increase in Notes Payable					
Increase in Bonds Payable					
Refund to Grantor					2,025
Lapsed Appropriations					
Loan Cancellations and Write-offs Administrative Costs Facilities and Administrative Cost Recovered Component Units					1,847,497

Loan Funds	Endowment Funds	Plant Funds		Component Units	Totals (Memorandum Only)		
		Unexpended	Retirement of Indebtedness		Investment in Plant	2001	2000
\$ 4,035,692	\$ 83,631,678	\$ 18,008,067	\$	\$ 223,304,510	\$ 23,486,896	\$ 463,531,919	\$ 438,230,013
		46,642			134,961	286,303	
4,035,692	83,631,678	18,054,709		223,304,510	23,621,857	463,818,222	438,230,013
						249,143,544	240,099,347
						6,222,743	5,967,403
36,594						5,902,203	5,149,120
						173,952	157,337
						85,207,171	74,285,070
		243,285			16,537	3,096,543	2,989,976
15,485	368,406	113,690			9,167,440	27,603,015	30,767,199
		(14,529)				25,892,931	19,670,998
38,541		749,217			19,699	2,311,114	
748	2,481,601				744,433	2,589,376	3,512,839
21,884	(6,282,274)	19,579			475,036	4,141,322	3,013,905
					(564,946)	(6,295,102)	4,205,661
64,331						1,404,774	1,113,198
						285,505	223,832
					21,611,875	21,611,875	15,036,873
		11,000,000				11,000,000	2,575,000
		1,015,329		2,092,736		3,108,065	3,785,892
				26,422,258		26,422,258	17,813,987
5,524				2,340,282		2,340,282	2,989,605
						5,524	
183,107	(3,432,267)	13,126,571		30,855,276	31,470,074	472,167,095	433,357,242
		19,448,080				386,416,041	356,735,405
				2,898,281		19,448,080	12,534,720
				1,424,475		2,898,281	1,462,734
				5,098,065		1,424,475	2,960,276
						5,098,065	4,872,264
						935,999	1,063,873
				9,010,000		9,010,000	605,000
326,390							883,628
						328,415	10,887
							9,592
							62,598
13,786						13,786	21,360
						1,847,497	1,627,700
					30,184,561	30,184,561	19,017,659



EXHIBIT B  
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 STATEMENT OF CHANGES IN FUND BALANCES  
 For the Year Ended August 31, 2001  
 (With Comparative Totals - Year Ended August 31, 2000)

UNAUDITED

	Current Funds				
	Unrestricted				Restricted
	Educational and General	Designated	Auxiliary Enterprises	Total Unrestricted	
Incurring But Not Reported (Note 14) Other Deductions	\$	\$ 1,201,019	\$	\$ 1,201,019	\$
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	<u>95,440,677</u>	<u>146,260,333</u>	<u>344,600</u>	<u>242,045,610</u>	<u>147,420,972</u>
TRANSFERS AMONG FUNDS					
Mandatory					
Funding of Matching Grants		(17,941)		(17,941)	5,865
Funding of Retirement of Indebtedness	<u>(2,841,738)</u>			<u>(2,841,738)</u>	
Total Mandatory Transfers	(2,841,738)	(17,941)		(2,859,679)	5,865
Total Non-Mandatory Transfers	<u>(8,404,826)</u>	<u>2,491,975</u>	<u>(498,891)</u>	<u>(6,411,742)</u>	<u>(5,132,834)</u>
TOTAL TRANSFERS AMONG FUNDS	<u>(11,246,564)</u>	<u>2,474,034</u>	<u>(498,891)</u>	<u>(9,271,421)</u>	<u>(5,126,969)</u>
NET INCREASE/(DECREASE)	<u>(925,506)</u>	<u>(858,945)</u>	<u>(389,036)</u>	<u>(2,173,487)</u>	<u>(1,727,151)</u>
FUND BALANCES, August 31, 2001 (EXHIBIT A)	<u>\$ 2,453,803</u>	<u>\$ 72,201,413</u>	<u>\$ 517,563</u>	<u>\$ 75,172,779</u>	<u>\$ 32,096,359</u>

See Accompanying Notes to the Financial Statements

Loan Funds	Endowment Funds	Plant Funds		Component Units	Totals (Memorandum Only)		
		Unexpended	Retirement of Indebtedness		Investment in Plant	2001	2000
\$	\$	\$ 2,367,487	\$	\$ 1,041,142	\$ 690,179	\$ 1,891,198	\$ 5,701,413
						3,408,629	3,775,419
340,176		21,815,567	6,034,064	14,373,898	30,874,740	462,905,027	411,344,528
12,076			6,034,064			3,192,326	3,103,967
12,076			6,034,064			3,192,326	3,103,967
(6,000)	(741,016)	13,623,562			(282,068)	1,049,902	185,225
6,076	(741,016)	13,623,562	6,034,064		(282,068)	4,242,228	3,289,192
(150,993)	(4,173,283)	4,934,566		16,481,378	313,266	13,504,296	25,301,906
<u>\$ 3,884,699</u>	<u>\$ 79,458,395</u>	<u>\$ 22,989,275</u>	<u>\$</u>	<u>\$ 239,785,888</u>	<u>\$ 23,935,123</u>	<u>\$ 477,322,518</u>	<u>\$ 463,531,919</u>

EXHIBIT C  
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 STATEMENT OF CURRENT FUNDS REVENUES AND EXPENDITURES  
 For the Year Ended August 31, 2001  
 (With Comparative Totals - Year Ended August 31, 2000)

UNAUDITED

	Unrestricted		
	Educational and General	Designated	Auxiliary Enterprises
<b>REVENUES (Schedules B-1, B-2, B-3 and C-1)</b>			
Tuition	\$ 5,172,886	\$	\$
Designated Tuition		1,806,516	
Other Fees	8,652	1,527,895	302,635
Tuition Remissions and Exemptions	839,762	132,047	
State Appropriations - General Revenue (C-1, Note a)	88,770,674		
State Appropriations - HEAF (C-1, Note a)	7,735,000		
Federal Grants and Contracts	1,438,446	63,786	
Federal Pass-Through Grants from Other State Agencies (Note 22)			
State Grants and Contracts	28,071	1,743,257	
State Pass-Through Grants from Other State Agencies (Note 23)	5,035		
Local Grants and Contracts		15,717,931	
Private Gifts, Grants and Contracts	330,980	26,950,137	28,240
Endowment Income		1,357,252	
Sales and Services of Educational Activities		1,653,915	
Sales and Services of Auxiliary Enterprises			61,980
Professional Fees		81,087,614	
Other Revenues			
Net Increase (Decrease) in Fair Value of Investments	96,576	(1,730,603)	9,291
Investment Income	839,125	9,865,153	52,309
Sale of Utilities	450,256		
Sale of Capital Assets	28,180		
Miscellaneous Income	18,092	245,700	
Student Health		2,506,754	
<b>TOTAL REVENUES</b>	<b>\$ 105,761,735</b> (Exhibit B)	<b>\$ 142,927,354</b> (Exhibit B)	<b>\$ 454,455</b> (Exhibit B)
<b>EXPENDITURES (Schedules B-1, B-2, B-3, B-4 and C-2)</b>			
Instruction	\$ 44,169,686	\$ 86,173,562	\$
Research	2,408,881	2,486,690	
Public Service	75,466	2,539,459	
Academic Support	22,737,868	41,082,640	
Student Services	525,129	3,608,045	
Institutional Support	13,211,066	6,330,041	
Operation and Maintenance of Plant	11,467,785	2,005,579	
Scholarships and Fellowships	844,796	833,298	
Auxiliary Enterprises			344,600
<b>TOTAL EXPENDITURES (EXHIBIT B)</b>	<b>\$ 95,440,677</b>	<b>\$ 145,059,314</b>	<b>\$ 344,600</b>

See Accompanying Notes to the Financial Statements

Total Unrestricted	Restricted	Totals (Memorandum Only)	
		2001	2000
\$ 5,172,886	\$	\$ 5,172,886	\$ 5,003,816
1,806,516		1,806,516	1,636,980
1,839,182		1,839,182	1,705,917
971,809		971,809	764,227
88,770,674	6,222,743	94,993,417	93,055,860
7,735,000		7,735,000	7,735,000
1,502,232	5,865,609	7,367,841	5,090,034
	173,952	173,952	157,337
1,771,328	81,720,523	83,491,851	75,514,390
5,035	3,096,543	3,101,578	3,061,629
15,717,931	26,227,321	41,945,252	43,079,237
27,309,357	17,887,034	45,196,391	34,022,199
1,357,252	1,183,937	2,541,189	2,885,046
1,653,915	1,404,774	3,058,689	2,438,616
61,980		61,980	99,642
81,087,614		81,087,614	82,878,265
(1,624,736)	510,655	(1,114,081)	1,479,332
10,756,587	1,057,185	11,813,772	9,837,598
450,256		450,256	377,505
28,180		28,180	23,830
263,792	221,174	484,966	546,667
2,506,754		2,506,754	2,566,194
<u>\$ 249,143,544</u>	<u>\$ 145,571,450</u>	<u>\$ 394,714,994</u>	<u>\$ 373,959,321</u>
(Exhibit B)			
\$ 130,343,248	\$ 24,170,396	\$ 154,513,644	\$ 142,131,616
4,895,571	7,672,591	12,568,162	9,340,063
2,614,925	98,659,759	101,274,684	93,777,771
63,820,508	11,942,393	75,762,901	73,788,958
4,133,174		4,133,174	3,896,450
19,541,107	2,191,252	21,732,359	18,526,756
13,473,364	71,506	13,544,870	13,071,202
1,678,094	863,553	2,541,647	1,851,639
344,600		344,600	350,950
<u>\$ 240,844,591</u>	<u>\$ 145,571,450</u>	<u>\$ 386,416,041</u>	<u>\$ 356,735,405</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements  
August 31, 2001

**NOTE 1****Summary of Significant Accounting Policies****BASIS OF PRESENTATION**

The significant accounting policies followed by Texas Tech University Health Sciences Center in maintaining accounts and in the preparation of the preceding statements are in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the AICPA Industry Audit Guide, Audits of Colleges and Universities, 1996 Edition, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989 and as modified by all applicable GASB pronouncements cited Codification Section Co5, "Colleges and Universities". The requirements are also in substantial conformity with the Financial Accounting and Reporting Manual for Higher Education published by the National Association of College and University Business Officers (NACUBO).

**FUND STRUCTURE**

The accounts of the Health Sciences Center are organized and maintained on the basis of fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The financial position and results of operation of each fund are accounted for in a separate set of self-balancing accounts which comprise each fund's assets, liabilities, equity, revenues, expenditures or expenses, and transfers. Government resources are allocated to and accounted for in the individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of

the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes. The reported funds were established administratively, constitutionally, or by statute enacted by the Legislature.

The following is a summary of the different fund groups used by the Health Sciences Center:

**Current Funds**

Current Funds are those that include the resources for current operations and maintenance of the Health Sciences Center. This fund is divided into the following subgroups:

**Unrestricted Current Funds** includes all funds received for which no stipulation by an external agency has been made as to the purpose for which they should be expended. Included in these funds are the following groups of accounts:

*Educational and General Funds* include funds for administration, institutional expense, instruction, departmental research, physical plant operation, libraries, and other items related to instruction.

*Designated Funds* are from sources that have been internally designated by the Board of Regents to be used for special purposes.

*Auxiliary Enterprises Funds* are used to account for activities which furnish service to students, faculty, or staff for which charges are made directly to, although not necessarily equal to the cost of the service.

**Restricted Current Funds** are available for financing operations, but which are limited by donors and other outside agencies to specific purposes, programs, departments or schools.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

**Loan Funds**

Loan funds include resources that are available for loans to students.

**Endowment Funds**

Endowment funds include the following fund types:

**Endowment Funds** account for those funds that are received from a donor with the restriction that the principal is to remain intact.

**Funds Functioning as Endowment Funds** are established internally to function like an endowment fund, but which may be totally expended at any time at the discretion of the Board of Regents.

**Plant Funds**

Plant funds are segregated into the following fund groups:

**Unexpended Plant Funds** account for the unexpended resources to finance the acquisition of long-lived plant assets and the associated liabilities.

**Retirement of Indebtedness Funds** account for the accumulation of resources for interest and principal payments and other debt service charges related to the financing of plant assets.

**Investment in Plant Funds** includes all long-lived assets and capitalized construction in progress. However, it does not include any long-lived assets held as investments in the Endowment funds.

**Agency Funds**

Agency Funds are those assets held by the Health Sciences Center as custodian or fiscal agent for students, faculty and others.

**BASIS OF ACCOUNTING**

The financial statements of Texas Tech University Health Sciences Center have been prepared on the

modified accrual basis of accounting. The Statement of Current Funds Revenues and Expenditures is a statement of financial activities of current funds related to the reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of equipment and library holdings; (2) mandatory transfers in the case of required provisions for retirement of indebtedness and renewal and replacement of institutional properties; and (3) transfers of a non-mandatory nature for all other cases.

**Total (Memorandum Only) Columns**

The total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, nor is such data comparable to consolidation.

Prior year totals are adjusted for comparative purposes as a result of changes in reporting requirements.

**Cash and Cash Equivalents**

Cash and cash equivalents for the Health Sciences Center are defined as all demand deposits in banks, local funds held by the State, and State reimbursements in transit.

**Investments**

Investments are reported at fair value in the balance sheet with the following exceptions. (Fair value is the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.) The exceptions are as follows: (1) Non-participating

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

contracts, such as non-negotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the financial institution's credit standing or other relevant factors; (2) Money market investments and participating interest-earning investment contracts that mature within one year or less of the date of their acquisition may be reported at amortized cost, assuming that the investment is not affected by the financial institution's or other relevant factors; (3) For real estate, mortgages, venture capital, limited partnerships, and future and forward contracts, etc., held by non-external pool entities, fair value is not permitted. Instead, amortized cost or historical cost should be used.

#### **Inventories**

Inventories include both consumable inventories and merchandise inventories. Consumable inventories include supplies and postage on hand at year end. Merchandise inventories include materials, supplies, equipment, and other items on hand and for sale. Inventories are valued at cost, generally utilizing the first-in, first-out method. Inventories are accounted for using the purchase method of accounting. The cost of these items is recognized as an expenditure at the time of purchase. These assets are offset by a fund balance reserve that indicates they do not constitute available spendable resources.

#### **Fixed Assets**

Fund purchases of fixed assets are reported as expenditures. They are capitalized in the Investment in Plant fund group at cost or, if not purchased, at fair market value as of the date of acquisition. There is no provision for depreciation or obsolescence of these fixed assets, since replacements are financed from current resources.

#### **Liabilities**

The compensable leave balance represents the amount of employees' unused vacation time as of the end of the fiscal year. This amount is the total

of the compensable leave hours multiplied by the salary rate for the employee.

Bond proceeds and bonds payable are initially accounted for in the Unexpended Plant Funds subgroup except for refunding issues which are initially accounted for in the Retirement of Indebtedness Funds subgroup. As the bonds are expended, the assets acquired and the related portion of the bonds payable are transferred to the Investment in Plant subgroup.

#### **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

#### **Revenues**

All gains and losses arising from the sale, collection, or disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets, except for income derived from investment of Endowment Funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the appropriate unrestricted fund. Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

**NOTE 2**  
**Deposits, Investments and**  
**Repurchase Agreements**

**Investments**

The Health Sciences Center's investment portfolio has been invested pursuant to the parameters of applicable Texas law and the Board of Regents' Investment Policies. Under Texas law, Health Sciences Center 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, the Health Sciences Center is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest Health Sciences Center funds without express written authority from the Board of Regents.

Certain eligible institutional funds, which include eligible endowment funds, are invested in the Long Term Investment Fund (LTIF). The LTIF is governed by the Uniform Management of Institutional Funds Act (UMIFA) (codified in Texas law as Property Code Ch. 163) and Board of Regents' Policy "Investment Policy Statement for Endowment and Other Institutional Funds". The LTIF is operated using a total return philosophy, with the financial goal of preserving the real purchasing power of the funds' principal and income after accounting for spending, inflation, and costs of investment management. The assets of the LTIF are held by a custodian bank and are managed by external investment management organizations appointed by the Board of Regents.

To achieve the goals of the LTIF, its assets are invested into two categories: an equity component and a fixed-income component. The equity component is restricted to investments in readily marketable, domestic and international common stocks, convertible and preferred stocks, and established equity mutual funds. The investment

purpose for the equity component is to provide real total rates of return and to provide both long-term capital appreciation and growth in current income that exceeds the rate of inflation. The fixed-income component is restricted to investments in marketable domestic and international government and corporate obligations. The fixed-income portfolio must have an overall weighted average credit ratio of "A+" or better by Moody's and/or Standard and Poor's rating services. In addition, no more than 10% of the portfolio may be invested in bonds rated below investment grade ("BBB/Baa"). The use of established bond mutual funds is also allowed. The investment purpose for the fixed-income component is to provide a hedge against deflation or stock market downturns, a high level of current income, a stable source of revenue, and diversification of LTIF assets.

Other institutional funds not invested in the LTIF are invested in the Short/Intermediate Term Investment Fund (STIF), which is governed by Board of Regents' Policy "Investments of Institutional Funds of Texas Tech University Health Sciences Center". The objectives of the STIF, in order of priority, are preservation and safety of principal, liquidity, and yield. To achieve its objectives, the STIF employs a hold to maturity concept, which also provides stability of yield. In order to employ such a concept, the STIF must maintain an adequate liquidity position. Because the STIF maintains both the ability and intent to hold securities to maturity, unrealized gains and losses are not recorded. The STIF is managed as an internal investment pool.

Under Board of Regents' policy, the STIF is authorized to invest in (1) obligations of the United States or its instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its instrumentalities, (5) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

provided by law for Health Sciences Center deposits, (6) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clauses (1), (2), or (3), and are placed through primary government securities dealers or a bank domiciled in the State of Texas, (7) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar-weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (8) eligible bankers' acceptances, (9) eligible commercial papers rated not less than A-1 or B-1 by two nationally recognized credit rating agencies, (10) eligible cash management and fixed income funds, and (11) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment firm in one of the two highest long-term rating categories. The Health Sciences Center is also allowed to invest in cooperative government investment pools that invest solely in the aforementioned obligations. All cash instruments must be fully collateralized as required in Section 51.003(c) of the Texas Education Code and in accordance with the provisions of the Public Funds Investment Act, as amended, except that surety bonds are not authorized as collateral.

Neither policy precludes the acceptance and retention of securities as gifts to the Health Sciences Center. Such securities are managed and safeguarded in their original form in accordance with the donor's written instructions. However, upon the partial or total disposition of the original investment, the proceeds are invested in accordance with the policies described above. Also, the Health Sciences Center maintains a cash balance with the State Treasury.

Also separate from the two pools described above, guaranteed investment contracts are used as investment vehicles for bond proceeds. A guaranteed investment contract is an authorized investment provided it has a defined termination date, is secured by obligations described in clauses (1), (2), or (3) above in an amount at least equal to the contracted amount of bond proceeds, is pledged to the Health Sciences Center and

deposited with a third party selected and approved by the Health Sciences Center, has a term less than five years from the date of issuance of the bonds, and bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received are obtained during the award process.

The bank balance of the Health Sciences Center has been classified according to the following risk categories:

Category 1

Insured or collateralized with securities held by the Health Sciences Center or by its agent in the name of the Health Sciences Center.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Health Sciences Center.

At August 31, 2001, the carrying amount of deposits in the cash pool and other accounts was:

Carrying Amount	\$ (5,383,049)
Bank Balance	581,824
Category 1	330,492
Category 2	251,332

Reconciliation of deposits and investments to balance sheet amounts for Cash and Temporary Investments, and Investments is as follows:

Cash and Deposits	\$ (4,055,644)
Investments	<u>284,356,942</u>
Total	<u>\$ 280,301,298</u>
Cash and Temporary Investments (Exhibit A)	\$ 103,422,495
Investments (Exhibit A)	<u>176,878,803</u>
Total	<u>\$ 280,301,298</u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

Cash and Temporary Investments as reported on the Balance Sheet, Exhibit A, are allocated in the STIF as follows:

Bank Deposits		
Demand Deposits		
Cashier's Accounts	\$ 297,000	
Cash in Bank	<u>(5,680,049)</u>	
Total		<u>(5,383,049)</u>
Cash and Cash Equivalents		
Petty Cash	23,038	
Local Funds in the State Treasury	518,099	
Reimbursements in Transit	<u>786,268</u>	
Total		<u>1,327,405</u>
Temporary Investments		
Repurchase Agreements	8,808,018	
TexPool Investments	57,728,354	
Government Securities Due within 1 Year	<u>40,941,767</u>	
Total		<u>107,478,139</u>
Total Cash and Temporary Investments (Exhibit A)		<u><u>\$ 103,422,495</u></u>
Demand accounts were deposited in:		
American State Bank – Lubbock		\$ (6,704,114)
Bank of America – Amarillo		274,464
Chase Bank – El Paso		1,094
Wells Fargo Bank – El Paso		126,449
American State Bank – Odessa		<u>622,058</u>
Total Demand Accounts		<u><u>\$ (5,680,049)</u></u>

To comply with the reporting requirements of GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, the Health Sciences Center's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the Health Sciences Center at year end.

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

UNAUDITED

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

The following categories of credit risk are included:

Category 1

Investments that are insured or registered or for which the securities are held by the Health Sciences Center or its agent in the Health Sciences Center's name.

Category 2

Uninsured and unregistered investments for which

the securities are held by the broker's or dealer's trust department or institution in the Health Sciences Center's name.

Category 3

Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Health Sciences Center's name.

Investment Categories Texas Tech University Health Sciences Center Investments by Investment Type		
Type of Security	Category 1	Reported Value
<b>Categorized Investments</b>		
U.S. Government and Agency Securities	\$ 131,170,191	\$ 131,170,191
Repurchase Agreements	8,808,018	8,808,018
Common Stock	61,050,038	61,050,038
Municipal and Non-Governmental Bonds	5,160,352	5,160,352
<b>Total Categorized Investments</b>	<b>206,188,599</b>	<b>206,188,599</b>
<b>Uncategorized Investments</b>		
Money Market and Mutual Funds	3,623,811	3,623,811
Mutual Funds	13,676,531	13,676,531
Statewide HMO	1,949,862	1,949,862
Surgery Partnership	290,385	290,385
TexPool	57,728,354	57,728,354
Cash Value of Life Insurance	347,262	347,262
Gift Annuity Trust	64,000	64,000
Mineral Rights and Royalties	3,561	3,561
Real Estate and Mortgages	482,252	482,252
Works of Art	2,325	2,325
<b>Total Uncategorized Investments</b>	<b>78,168,343</b>	<b>78,168,343</b>
<b>Total Investments</b>	<b>\$ 284,356,942</b>	<b>\$ 284,356,942</b>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

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

value from another security, currency, commodity or index. The schedule below provides certain information of the different types of mortgage derivatives included in the Health Sciences Center's portfolio.

**Mortgage Derivative Securities**

Type	Carrying Value
Planned Amortization Class Securities	\$ 88,259,891
Total	<u>\$ 88,259,891</u>

**NOTE 3  
Bonds Payable**

Bonds and interest payable are due in annual installments varying from \$ 425,375 to \$ 4,044,064 with interest rates from 2.63% to 6.00% with the final installment due in 2029. Additional bond

information is disclosed in the supplemental schedules. The combined aggregate amount of principal and interest requirements for all long-term debt at August 31, 2001 is as follows:

Year Ended 8/31	Principal	Interest	Total
2002	\$ 1,759,497	\$ 829,557	\$ 2,589,054
2003	1,768,225	749,497	2,517,722
2004	643,920	693,082	1,337,002
2005	671,849	660,351	1,332,200
2006	706,071	628,995	1,335,066
2007 and Beyond	12,441,791	5,652,900	18,094,691
Totals	<u>\$ 17,991,353</u>	<u>\$ 9,214,382</u>	<u>\$ 27,205,735</u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

Revenue Financing System Refunding Bonds,  
Series 1993

For the advance refunding of \$16,565,000 in principal amount of all the General Tuition Revenue Bonds, Series 1972, 1972A, 1974 and 1984.

Issued October 26, 1993.

\$2,330,000 outstanding as of August 31, 2001.

\$17,100,000; all authorized bonds have been issued.

Source of revenue for debt service: On October 21, 1993, the Board of Regents of Texas Tech University and Texas Tech University Health Sciences Center established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University and Texas Tech University Health Sciences Center.

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 and Texas Tech University Health Sciences Center. 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.

Revenue Financing System Bonds, Second Series  
1995

For the financing of the library/conference center project and to pay the costs of issuing the bonds.

Issued April 25, 1995.

\$1,854,600 outstanding as of August 31, 2001.

\$11,000,000; all authorized bonds have been issued.

Source of revenue for debt service: On October 21, 1993, the Board of Regents of Texas Tech University and Texas Tech University Health Sciences Center established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University and Texas Tech University Health Sciences Center.

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 and Texas Tech University Health Sciences Center. 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.

Revenue Financing System Bonds, Third Series  
1999

Includes financing for projects in Amarillo, Midland and Lubbock, the costs of issuing the bonds and the advance refunding of a portion of the Revenue Financing System Bonds, Second Series 1995.

Issued May 4, 1999.

\$13,806,753 outstanding as of August 31, 2001.

\$15,632,182; all authorized bonds have been issued.

Source of revenue for debt service: On October 21, 1993, the Board of Regents of Texas Tech University and Texas Tech University Health Sciences Center established a Revenue Financing System for the purpose of providing a

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

financing structure for all revenue supported indebtedness of Texas Tech University and Texas Tech University Health Sciences Center.

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 and Texas Tech University Health Sciences Center. 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.

Bonds Authorized but Unissued at Year End

House bill 1235 of the 75<sup>th</sup> legislature authorized the issuance of \$32,500,000 of Revenue Financing System bonds. On August 31, 2001, \$8,200,000 had been issued and \$3,960,000 of commercial paper had been retired leaving \$20,340,000 of authorized bonds unissued.

**NOTE 4  
 Notes Payable**

Commercial paper was issued during the fiscal year to finance construction projects in Amarillo, Lubbock and Midland. Debt service for the obligation is provided in general appropriation for tuition revenue bonds. All commercial paper outstanding on 8/31/01 will be retired in fiscal year

2002 with a total debt service requirement of \$9,654,489.

Commercial paper has short maturities up to 270 days with interest rates ranging from 2.3% to 4.6%

Description	Balance 9/01/00	Increase	Decrease	Balance 8/31/01
Commercial Paper	\$ 605,000	\$ 11,000,000	\$ 1,990,000	\$ 9,615,000
Total	\$ 605,000	\$ 11,000,000	\$ 1,990,000	\$ 9,615,000

**NOTE 5  
 Employee Retirement Plans**

The State of Texas has joint contributory retirement plans for substantially all its regular employees. One of the primary plans in which the Health Sciences Center participates is administered by the Teacher Retirement System of Texas. The contributory percentages of participant salaries currently provided by the State and by each participant are 6.0 percent and 6.4 percent, respectively, of annual compensation.

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

The State has also established an optional retirement program for institutions of higher

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity and custodial mutual fund contracts. The contributory percentages of participant salaries provided by the State and each participant for employees hired before September 1, 1995 are 8.5 % and 6.65% by the state and each participant, respectively. The state's contribution is comprised of 6.00% from the ORP's appropriation and 2.5% from other funding sources. The 6.00% contribution is mandatory with the other contributions being at the discretion of the board. The board has approved the additional contributions for employees of the Health Sciences Center. The contributory percentages on salaries for participants entering the program after August 31, 1995 are 6.00% and 6.65% by the state and each participant, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the Health Sciences Center was \$5,106,887 for the fiscal year ended August 31, 2001. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the Health Sciences Center.

**NOTE 6**  
**Deferred Compensation**

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

The State's 457 plan complies with the Internal Revenue Code Section 457, GASB Statement No. 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB Statement No. 2 and amends GASB Statement No. 31. GASB Statement No. 2, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of the Internal Revenue Code Section 457*, established reporting requirements for IRC Section 457 plans. Based on the laws in effect at

the time of its passage, that Statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans "unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries." Existing plans are also required to comply with this requirement by January 1, 1999. As of August 31, 2001, the Health Sciences Center had no employees contributing to the 457 plan.

The State also administers another plan, "Texsaver", created in accordance with Internal Revenue Code Sec. 401(k). However, the assets of this plan do not belong to the State nor does the State have a liability related to this plan.

**NOTE 7**  
**Compensated Absences**

Full-time employees earn annual leave from seven to fourteen hours per month depending on the respective employees' years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 520 for those employees with 35 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment at current rate of pay for all accumulated annual leave up to the maximum allowed. The Health Sciences Center recognizes the accrued liability for the unpaid annual leave in the Current Funds. For the year ended August 31, 2001, the accrued liability totaled \$10,385,996.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The Health Sciences Center's policy is to recognize the cost of the sick leave



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

when paid and the liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

Health Sciences Center made lump sum payments totaling \$1,870,448 for accrued vacation (and/or compensatory time) to employees who separated from state service during fiscal year ending August 31, 2001.

**NOTE 8**  
**Pending Lawsuits and Claims**

At August 31, 2001, various lawsuits and claims involving the Health Sciences Center were pending. While the ultimate liability with respect to litigation and other claims asserted against the Health Sciences Center cannot be reasonably estimated at this time, such liability, to the extent not provided by insurance or otherwise, is not likely to have a material effect on the Health Sciences Center.

**NOTE 9**  
**Rebatable Arbitrage**

The Revenue Financing System Bonds, Second Series 1995, and the Revenue Financing System Bonds, Third Series 1999, were the only outstanding bond issues of the Health Sciences Center calculated as having rebatable arbitrage totaling \$139,956 at August 31, 2001. This excess has been earned during the period when unrestricted yield is allowed on these funds. As required by the Internal Revenue Code, the Health Sciences Center will restrict earnings on these funds after this unrestricted yield period ends to a yield less than the yield of the bond issues.

**NOTE 10**  
**Capital Lease Obligations**  
 Not Applicable

**NOTE 11**  
**Operating Lease Obligations  
 and Rental Agreements**

Included in current expenditures are the following amounts of rent paid or due under operating leases as of August 31, 2001.

Fund Group	Year Ended 2001	August 31 2000
Educational and General	\$ 344,280	\$ 363,974
Designated	2,427,972	2,165,171
Auxiliary	7,683	25,774
Restricted	660,116	533,647
Totals	<u>\$ 3,440,051</u>	<u>\$ 3,088,566</u>

There are no future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2001.

**NOTE 12**  
**Funds Held in Trust by Others**

*Amarillo Economic Development Corporation*

The Amarillo Economic Development Corporation (AEDC) and Texas Tech University Health Sciences Center (TTUHSC) have entered into an agreement for the construction and maintenance of the School of Pharmacy. The AEDC has provided funding for the construction of a facility adjacent to the existing TTUHSC clinic on the Amarillo campus. The agreement provides that if the School of Pharmacy ceases use of the facility for more than one year, the property will revert to the AEDC.

The Amarillo Area Foundation Pharmacy School

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

Maintenance Endowment was established by the AEDC. Amarillo National Bank acts as the investment manager and custodian for the fund and invests the corpus. The use of the earnings of the fund changed on September 1, 1999 following the assumption of the responsibility for maintenance of the building by the State of Texas. The new purpose of the fund is to use 60% of the earnings for an Amarillo Area Community Pharmacy Scholarship Fund benefiting scholarship recipients from the northernmost 26 counties of the Texas panhandle who enroll in the School of Pharmacy. The remaining 40% of the earnings will be used to fund an appointee to the Amarillo Community Endowed Chair in Pharmaceutical Sciences and to purchase research equipment and hire technicians. As of August 31, 2001, the principal of this fund was \$3,112,276 and the market value was \$2,616,622. The annual income amounted to \$114,816.

*University Medical Center - Lubbock*

University Medical Center (UMC) has established two restricted funds in the names of Health Sciences Center individuals. The Peter Corte Canizaro fund in the amount of \$250,000 benefits the department of Surgery in Lubbock. The University Medical Center Endowment for Excellence in Medicine in the amount of \$11,000,000 is established to endow eleven chairs in Medicine in Lubbock. As of August 31, 2001, the principal of this fund was \$11,902,212 and the market value was \$11,945,969. The annual income amounted to \$375,836. The net earnings of the funds are transferred to the Health Sciences Center monthly.

*University of Texas Investment Management Co.*

The Texas Legislature has appropriated \$350,000,000 to create a state endowment fund for health-related institutions of higher education using the proceeds from state tobacco litigation. The endowment is managed by the University of Texas Investment Management Company ("UTIMCO"), a 501(c)(3) corporation, for the benefit of the ten health-related institutions of higher education named by the Legislature. Each health-related institution, including the Health Sciences Center, shares in the quarterly distributions of the fund's

earnings based on a formula created by the Legislature. The formula allocates 70% of the earnings equally between the ten schools and the remainder is allocated based on the institution's spending in the areas of instruction, research and unsponsored charity care for the previous biennium. The Health Sciences Center allocation of earnings from the endowment fund will range between 7% - 10%. The income earned for the year ended August 31, 2001 was \$1,532,158. The market value was \$337,615,950.

**NOTE 13**

**Contracts and Grants Awarded**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Funds received, but not expended during the reporting period, are shown as additions to fund balance on Exhibit B. Revenues are recognized on Exhibit C as funds are actually expended. For federal contract and grant awards, funds expended, but not collected are reported as Federal Receivables on Exhibit A. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit A.

Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g. multi-year awards, or funds awarded during fiscal year 2001 for which monies have not been received nor funds expended totaled \$25,906,188. Of this amount, \$7,824,518 was from federal contract and grant awards, \$367,581 was from state contract and grant awards, and \$16,814,623, from local contract and grant awards and \$899,466 from private contract and grant awards.

**NOTE 14**

**Risk Financing and Related Insurance**

The Health Sciences Center has self-insured arrangements for coverage in the areas of workers' compensation, unemployment compensation, and

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

medical malpractice. All plans are funded and are reported in the Designated Fund under the Unrestricted Current Fund. The medical malpractice plan has an actuarially determined accrued IBNR, Incurred But Not Reported, liability at August 31, 2001 of \$51,390,848. A component unit, Texas Tech Physician Associates, has estimated accrued IBNR at August 31, 2001 of \$1,095,179. The remaining funds do not have an accrued contingent liability. A reconciliation of IBNR is presented in the table below.

The State provided coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for the Health Sciences Center employees. The current General Appropriations Act provides that the Health

Sciences Center must reimburse General Revenue Fund – Consolidated, from the Health Sciences Center appropriations, one-half of the unemployment benefits and 25% of the workers' compensation benefits paid for former and current employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type.

The Health Sciences Center must reimburse the General Revenue Fund 100% of the cost for workers' compensation and unemployment compensation for any employees paid from funds held in local bank accounts and local funds held in the state treasury. No material outstanding claims are pending at August 31, 2001.

Description	Balance 9/1/00	Increase	Decrease	Balance 8/31/01
Self Insurance Fund	\$ 50,189,829	\$ 1,201,019		\$ 51,390,848
Texas Tech Physician Associates	405,000	690,179		1,095,179
Totals	\$ 50,594,829	\$ 1,891,198		\$ 52,486,027

**NOTE 15  
 Post Employment Benefits**

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees in accordance with State statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Texas Tech University Health Sciences Center participates in the Employees Retirement System insurance plans. The information regarding the State's contribution, the number of eligible retirees and the cost of providing those benefits is included in the notes to the annual financial report of the Employees Retirement System.

**NOTE 16  
 Related Parties**

The Texas Tech Foundation Inc. and Texas Tech Physician Associates are reported as blended component units. A 30-member board whose appointment is approved by the Texas Tech University Board of Regents governs the Foundation. Contributions and revenues collected through the Foundation for the benefit of the Health Sciences Center totaled \$926,400 for the year ended August 31, 2001.

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 Corporation was created by Texas Tech University Health Sciences Center for the purpose of entering into prepaid capitation agreements for physician and other medical services. Texas Tech Physician Associates

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

collected \$30,543,674 in capitation and medical service revenue during the year ended August 31, 2001. On the balance sheet date \$101,207 was due to the Health Sciences Center from the corporation. The corporation is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of 8 directors who are appointed by Texas Tech University Health Sciences Center.

Although both entities are legally separate from the Health Sciences Center, the Texas Tech Foundation Inc. and Texas Tech Physician Associates are reported as if they were part of the primary government because their sole purpose is to financially support the Texas Tech University Health Sciences Center.

**NOTE 17  
 Reporting Entity**

Texas Tech University Health Sciences Center is an agency of the State of Texas and its financial records reflect compliance with applicable State statutes and regulations. The accompanying financial statements include all accounts of Texas Tech University Health Sciences Center, a separate institution established pursuant to V.T.C.A., Education Code, Chapter 110. The Health Sciences Center is under the direction, management, and control of the Texas Tech University Board of Regents, which acts separately

and independently on all matters affecting the Health Sciences Center.

The Health Sciences Center reports its portion of the assets, liabilities and fund balances of the Texas Tech Foundation, Inc. and all of the assets, liabilities and fund balance of Texas Tech Physician Associates in the accompanying financial statements. Both corporations are exempt from federal income tax under IRC 501(c)(3). Texas Tech Foundation, Inc and Texas Tech Physician Associates were founded to financially support Texas Tech University and Texas Tech University Health Sciences Center. As required by generally accepted accounting principles, these financial statements present the Health Sciences Center (the primary government) and its blended component units. The component units discussed in Note 16 are included in the Health Sciences Center's reporting entity because of the significance of their operational and financial relationship with the Health Sciences Center.

**NOTE 18  
 Interfund Borrowing**  
 Not Applicable

**NOTE 19  
 Subsequent Events**  
 Not Applicable

**NOTE 20  
 Fund Balance Restatement**

Due to the implementation of GASB Statement 33, the cumulative effect of recording pledged gifts are reported as a restatement of beginning fund balance on Exhibit B.

Funds	Balance 9/1/00	Restatement	Restated Balance 9/1/00
Restricted	\$ 33,718,810	\$ 104,700	\$ 33,823,510
Unexpended Plant	18,008,067	46,642	18,054,709
Component Units	23,486,896	134,961	23,621,857
Totals	\$ 75,213,773	\$ 286,303	\$ 75,500,076

UNAUDITED

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
 Notes to the Financial Statements (continued)  
 August 31, 2001

**NOTE 21**  
**Due From / Due To Other State Agencies**

Agency Name	Agency #	D23 Fund	Amount	Subfund	Source
<u>Due From Other State Agencies</u>					
University of Texas System	720	0810	\$ 2,637,146	Designated	State
Total Due From Other Agencies			<u>\$ 2,637,146</u>		

**NOTE 22**  
**Federal Pass-Through Grants from Other State Agencies**

Agency Name	Agy#	CFDA#	D23 Fund	Exhibit B Amount	Exhibit C Amount	Diff	Subfund
Texas Dept. of Transportation	601	20.600	0001	\$ 173,952	\$ 173,952	\$ 0	Restricted
Total Restricted				<u>173,952</u>	<u>173,952</u>	<u>0</u>	Restricted
Total Federal Pass-Through				<u>\$ 173,952</u>	<u>\$ 173,952</u>	<u>\$ 0</u>	

**NOTE 23**  
**State Pass-Through Grants from Other State Agencies**

Agency Name	Agy #	Fund Number	Amount	Exhibit C Amount	Diff	SubFund
Texas Higher Education Coordinating Board	781	0001	\$ 5,035	\$ 5,035	\$ 0	E & G
Texas Higher Education Coordinating Board (Exh B)	781	0001	<u>3,096,543</u>	<u>3,096,543</u>	<u>0</u>	Restricted
Total State Pass-through			<u>\$ 3,101,578</u>	<u>\$ 3,101,578</u>	<u>\$ 0</u>	

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER  
Notes to the Financial Statements (continued)  
August 31, 2001

**NOTE 24**  
**Interfund Receivable / Interfund Payable**  
Not Applicable

excess of \$100,000. Accordingly, no exceptions letters were received during 2001.

*Vending Machines*

**NOTE 25**  
**Advance To Other Agencies / Advance From Other Agencies**  
Not Applicable

Vending revenue collected for the current fiscal year was \$74,122. These funds are used solely for activities of students or activities in support of students.

**NOTE 26**  
**Supplementary Article IX Information**

*General Services Commission Exception Letters*

House Bill 2032 passed by the 74th Legislature exempted the Health Sciences Center from the need to request exception letters for purchases in

**NOTE 27**  
**Equity Ownership, Business Participation**

The State of Texas Education Code, Sec 51.912, requires disclosure of certain equity ownership or business participation by employees of the Health Sciences Center. Texas Tech University Health Sciences Center had no such activity to disclose at August 31, 2001.