

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER



Annual Financial Report Fiscal Year 2003

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

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August 31, 2003

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November 14, 2003

The Honorable Rick Perry
Governor of Texas

The Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts

Mr. Lawrence F. Alwin, CPA
State Auditor

Dr. Don W. Brown
Commissioner, Texas Higher Education Coordinating Board

Mr. John Keel, CPA
Director, Legislative Budget Board

To Agency Heads Addressed:

The Annual Financial Report of Texas Tech University Health Sciences Center (TTUHSC), with which this letter is bound, is transmitted for inclusion in the State of Texas Comprehensive Annual Financial Report for the fiscal year ended August 31, 2003. The State Auditor will consider the accompanying Annual Financial Report for audit as part of the audit of the State's Comprehensive Annual Financial Report; therefore, an opinion on the financial statements and related information contained in this report has not been expressed. This report is intended to present a complete picture of the fiscal affairs of TTUHSC for the year ended August 31, 2003.

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

Sincerely,

M. Roy Wilson, M.D., M.S.
President

November 14, 2003

M. Roy Wilson, M.D.
President
Texas Tech University Health Sciences Center
Lubbock, Texas 79430

Dear Dr. Wilson:

Submitted herein is the Annual Financial Report of Texas Tech University Health Sciences Center for the fiscal year ended August 31, 2003.

The financial statements in this report have been prepared in conformity with the General Provisions of the Appropriations Act, Article IX, and in accordance with the requirements established by the Comptroller of Public Accounts.

The accompanying Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State's Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the statements and related information contained in this report.

Please feel free to contact me should you have any questions or concerns about this report.

Sincerely,

Thomas B.M. Downen, CPA
Director of Accounting Services

Approved:

Michael Crowder, CPA
Associate Vice President for Business Affairs

Elmo M. Cavin
Executive Vice President

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Organizational Data

August 31, 2003

BOARD OF REGENTS

Term Expires January 31,

| | | |
|-------------------------------|------------|---------------|
| Carin Marcy Barth | 2005 | Houston |
| C. Robert (Bob) Black | 2007 | Horseshoe Bay |
| E.R. (Dick) Brooks | 2005 | Granbury |
| J. Robert Brown, J.D. | 2007 | El Paso |
| John W. Jones* | 2003 | Brady |
| Nancy E. Jones, D.B.A.* | 2003 | Abilene |
| Brian C. Newby, J.D. | 2005 | Fort Worth |
| J. Michael Weiss, J.D.* | 2003 | Lubbock |

**The terms for these regents were set to expire on January 31, 2003. Regents continue to serve until replacements are appointed by the Governor. No replacements had been named as of August 31, 2003.*

FISCAL OFFICERS

| | |
|--------------------------------|--|
| David R. Smith, M.D. | Chancellor |
| Jim Brunjes | Senior Vice Chancellor and Chief Financial Officer |
| M. Roy Wilson, M.D., M.S. | President |
| Elmo M. Cavin..... | Executive Vice President |
| Michael Crowder | Associate Vice President for Business Affairs |
| Thomas B. M. Downen..... | Director of Accounting Services |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Enrollment Data

August 31, 2003

| TYPE OF STUDENT | NUMBER OF STUDENTS BY SEMESTER | | |
|---|--------------------------------|-------------|-------------|
| | FALL 2002 | SPRING 2003 | SUMMER 2003 |
| Texas Resident | 1,728 | 1,773 | 995 |
| Out-of-State | 53 | 49 | 44 |
| Foreign | 20 | 12 | 4 |
| Hazelwood Act | 24 | 21 | 15 |
| Military Personnel and Dependents | 1 | 2 | - |
| Teachers, Professors, and Dependents | 13 | 11 | - |
| Competitive Scholarship | 50 | 56 | 28 |
| Deaf or Blind | 2 | 2 | 2 |
| Teaching Assistant, Research Assistant, and Dependents | 30 | 34 | 30 |
| Adjacent County | 51 | 52 | 29 |
| Total Students | 1,972 | 2,012 | 1,147 |
| PROGRAM: | | | |
| Medical | 499 | 490 | 64 |
| Graduate Medical | 84 | 87 | 328 |
| Nursing | 331 | 332 | 97 |
| Graduate Nursing | 84 | 112 | 49 |
| Allied Health | 151 | 160 | 497 |
| Graduate Allied Health | 460 | 469 | 112 |
| Pharmacy | 363 | 362 | - |
| Total Students | 1,972 | 2,012 | 1,147 |

ENROLLMENT TREND DATA (Fall Semester)

| FISCAL YEAR | STUDENTS | SEMESTER HOURS |
|-------------|----------|----------------|
| 2003 | 1,972 | 32,569 |
| 2002 | 1,788 | 28,822 |
| 2001 | 1,719 | 28,978 |
| 2000 | 1,649 | 26,153 |
| 1999 | 1,547 | 26,261 |
| 1998 | 1,548 | 25,870 |
| 1997 | 1,514 | 23,240 |
| 1996 | 1,326 | 20,389 |
| 1995 | 1,276 | 19,817 |
| 1994 | 1,238 | 17,912 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

FINANCIAL STATEMENTS

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Net Assets*
As of August 31, 2002 and 2003

| | <u>2002</u> | <u>2003</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Unrestricted Cash and Cash Equivalents | \$ 44,037,197 | \$ 46,499,223 |
| Unrestricted Short-Term Investments | 27,238,556 | 33,600,157 |
| Restricted Cash and Cash Equivalents | 18,414,767 | 14,195,843 |
| Restricted Short-Term Investments | 13,197,353 | 14,088,940 |
| Legislative Appropriations | 29,174,624 | 20,324,415 |
| Accounts Receivable | | |
| Federal Receivable | 790,919 | 1,157,818 |
| Interest and Dividends Receivable | 1,075,181 | 784,102 |
| Patient Accounts Receivable | 41,172,117 | 32,718,091 |
| less Allowance for Uncollectibles | (24,348,578) | (20,702,267) |
| Student Accounts Receivable | 238,403 | 269,213 |
| less Allowance for Uncollectibles | (29,425) | (31,478) |
| Contract Accounts Receivable | 5,865,765 | 6,986,334 |
| less Allowance for Uncollectibles | (262,412) | (124,494) |
| Pledged Gifts Receivable (net of Allowance for Uncollectibles) | 1,032,933 | 1,597,856 |
| Other (net of Allowance for Uncollectibles) | 100,216 | 54,408 |
| Due from Other Agencies | 3,147,990 | 3,188,880 |
| Merchandise Inventories | 690,151 | 784,867 |
| Prepaid Expenses | 158,481 | 165,150 |
| Loans and Notes Receivable | 911,367 | 389,956 |
| less Allowance for Uncollectibles and Cancellations | (48,568) | (36,562) |
| Total Current Assets | <u>162,557,037</u> | <u>155,910,452</u> |
| Non-Current Assets | | |
| Restricted Cash and Cash Equivalents | 9,547,968 | (4,753,889) |
| Restricted Short-Term Investments | 3,249,751 | 4,232,109 |
| Endowment Investments | 69,159,168 | 80,849,513 |
| Loans and Notes Receivable | 2,267,301 | 2,193,201 |
| less Allowance for Uncollectibles and Cancellations | (206,669) | (159,060) |
| Pledged Gifts Receivable (net of Allowance for Uncollectibles) | 247,070 | 1,041,230 |
| Investments | 94,956,270 | 114,444,262 |
| Non-Depreciable Capital Assets | 47,435,253 | 62,099,655 |
| Depreciable Capital Assets | 230,159,183 | 237,851,388 |
| less Accumulated Depreciation | (139,134,359) | (145,136,281) |
| Total Non-Current Assets | <u>317,680,936</u> | <u>352,662,128</u> |
| TOTAL ASSETS | <u>\$ 480,237,973</u> | <u>\$ 508,572,580</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Net Assets*
As of August 31, 2002 and 2003

| | <u>2002</u> | <u>2003</u> |
|--|-----------------------|-----------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | \$ 18,879,349 | \$ 21,374,421 |
| Payable from Restricted Assets | 13,157,969 | 12,788,609 |
| Accrued Liabilities | 77,416 | 69,126 |
| Unclaimed Property Due to State Treasury | 49,348 | 49,036 |
| Deferred Revenue | 4,717,600 | 4,886,086 |
| Compensable Leave | 2,868,604 | 3,046,157 |
| Claims Payable | 3,567,844 | 4,192,468 |
| Notes Payable | 3,140,000 | 4,405,796 |
| Bonds Payable | 2,343,225 | 1,273,920 |
| Funds Held for Others | 163,228 | 169,604 |
| Other Current Liabilities | 170,503 | 102,436 |
| Total Current Liabilities | <u>49,135,086</u> | <u>52,357,659</u> |
| Non-Current Liabilities | | |
| Accrued Liabilities | 108,094 | - |
| Unclaimed Property Due to State Treasury | 72,209 | 62,442 |
| Compensable Leave | 11,474,418 | 12,184,630 |
| Claims Payable | 44,003,405 | 37,732,216 |
| Bonds Payable | 32,328,631 | 31,054,711 |
| Other Non-Current Liabilities | 10,876 | 2,150,987 |
| Total Non-Current Liabilities | <u>87,997,633</u> | <u>83,184,986</u> |
| TOTAL LIABILITIES | <u>137,132,719</u> | <u>135,542,645</u> |
| NET ASSETS | | |
| Invested in Capital Assets | 103,421,900 | 119,004,928 |
| Restricted | | |
| Nonexpendable | | |
| Endowments | 70,141,496 | 81,728,967 |
| Expendable | | |
| Capital Projects | 6,688,942 | 7,660,438 |
| Higher Education Assistance Fund | 18,688,588 | 11,024,566 |
| Other | 38,597,100 | 38,508,825 |
| Unrestricted | <u>105,567,228</u> | <u>115,102,211</u> |
| TOTAL NET ASSETS | <u>343,105,254</u> | <u>373,029,935</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 480,237,973</u> | <u>\$ 508,572,580</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Revenues, Expenses, and Changes in Net Assets**For the Years Ended August 31, 2002 and 2003*

| | <u>2002</u> | <u>2003</u> |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Tuition and Fees - Unpledged | \$ 506,657 | \$ 1,302,672 |
| less Discounts and Allowances | (1,073,428) | (1,246,671) |
| less Uncollectibles | (9,029) | (288) |
| Tuition and Fees - Pledged | 10,462,834 | 11,949,927 |
| less Discounts and Allowances | (2,424,826) | (2,586,120) |
| less Uncollectibles | (20,396) | (597) |
| Net Professional Fees | 103,803,058 | 84,703,143 |
| less Uncollectibles | (21,470,586) | (22,326,449) |
| Net Sales and Services of Auxiliary Enterprises - Pledged | 67,548 | 69,908 |
| Net Other Sales and Services - Unpledged | 1,608,977 | 1,013,001 |
| Net Other Sales and Services - Pledged | 1,414,973 | 1,758,658 |
| Federal Grant Revenues - Unpledged | 5,601,116 | 9,501,258 |
| Federal Grant Revenues - Pledged | 2,075,953 | 2,325,720 |
| Federal Grant Pass-Through Revenues | 325,229 | 160,172 |
| State Grant Revenues (net of refunds to grantors) - Unpledged | 86,592,844 | 83,628,288 |
| State Grant Revenues (net of refunds to grantors) - Pledged | 1,723,847 | 647,382 |
| State Grant Pass-Through Revenues | 4,332,910 | 3,303,923 |
| Local Grant Revenues - Unpledged | 47,878,876 | 61,520,902 |
| Local Grant Revenues - Pledged | 286,815 | 287,234 |
| Private Grant Revenues - Unpledged | 39,507,024 | 38,484,833 |
| Private Grant Revenues - Pledged | 4,432,768 | 3,090,946 |
| Total Operating Revenues | <u>285,623,164</u> | <u>277,587,842</u> |
| Operating Expenses | | |
| Instruction | 166,630,246 | 172,609,914 |
| Research | 15,446,983 | 15,806,414 |
| Public Service | 117,098,329 | 101,424,079 |
| Academic Support | 55,851,503 | 53,791,191 |
| Student Services | 4,679,501 | 5,868,012 |
| Institutional Support | 12,559,058 | 10,208,551 |
| Operation and Maintenance of Plant | 13,892,975 | 14,178,620 |
| Auxiliary Enterprises | 334,186 | 288,651 |
| Depreciation and Amortization | 6,451,126 | 8,146,762 |
| Total Operating Expenses | <u>392,943,907</u> | <u>382,322,194</u> |
| Operating Loss | <u>(107,320,743)</u> | <u>(104,734,352)</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Revenues, Expenses, and Changes in Net Assets**For the Years Ended August 31, 2002 and 2003*

| | <u>2002</u> | <u>2003</u> |
|---|-----------------------|-----------------------|
| Non-Operating Revenues and Gains | | |
| Legislative Revenue | \$ 109,423,042 | \$ 108,256,854 |
| Federal Grant Revenues (net of refunds to grantors) | 255,861 | (18,021) |
| Private Gifts (net of Uncollectibles) | 1,264,632 | 4,920,849 |
| Net Investment Income - Unpledged | 8,135,140 | 10,654,335 |
| Net Investment Income - Pledged | 111,761 | (275,253) |
| Net Increase (Decrease) in Fair Value of Investments | (5,459,596) | 8,183,925 |
| Other Non-Operating Revenues and Gains - Unpledged | 1,403,845 | 923,820 |
| Other Non-Operating Revenues and Gains - Pledged | 120,631 | 821,147 |
| Total Non-Operating Revenues and Gains | <u>115,255,316</u> | <u>133,467,656</u> |
| Non-Operating Expenses and Losses | | |
| Interest Expense on Capital Asset Financing | 1,450,256 | 754,717 |
| Loss on Sale and Disposal of Capital Assets | 1,613,252 | 3,350,521 |
| Other Non-Operating Expenses and Losses | 2,424,110 | 964,777 |
| Total Non-Operating Expenses and Losses | <u>5,487,618</u> | <u>5,070,015</u> |
| Other Revenues, Expenses, Gains, Losses, and Transfers | | |
| Capital Contributions | 3,159,143 | 879,067 |
| Capital Recoveries | 1,912,557 | 1,175,350 |
| Legislative Revenue - Capital | 7,735,000 | 7,735,000 |
| Transfers from Other Components | 2,487,239 | 2,588,787 |
| Transfers to System Administration | (5,357,703) | (5,132,969) |
| Legislative Transfers In (SORM) | 741,639 | 547,267 |
| Net Other Revenues, Expenses, Gains, Losses, and Transfer | <u>10,677,875</u> | <u>7,792,502</u> |
| TOTAL CHANGES IN NET ASSETS | <u>\$ 13,124,830</u> | <u>\$ 31,455,791</u> |
| Beginning Net Assets (September 1, 2001 and 2002) | 477,322,518 | 343,105,254 |
| Restatements of Beginning Net Assets (Note 17) | (147,342,094) | (1,531,110) |
| Ending Net Assets (August 31, 2002 and 2003) | <u>\$ 343,105,254</u> | <u>\$ 373,029,935</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Matrix of Operating Expenses by Natural Classification For the Year Ended August 31, 2003

| <i>FUNCTION</i> | <i>SALARIES AND WAGES</i> | <i>PROFESSIONAL FEES AND SERVICES</i> | <i>FEDERAL SUB-CONTRACTS</i> | <i>TRAVEL</i> |
|------------------------------------|---------------------------|---------------------------------------|------------------------------|------------------|
| Instruction | \$ 145,733,827 | \$ 5,266,464 | \$ - | \$ 1,349,609 |
| Research | 11,199,968 | 197,150 | 87,838 | 233,285 |
| Public Service | 49,644,253 | 41,426,521 | 41,431 | 406,495 |
| Academic Support | 41,344,012 | 863,145 | 532,853 | 567,599 |
| Student Services | 3,438,777 | 78,107 | - | 168,283 |
| Institutional Support | 11,169,310 | 1,065,464 | - | 180,053 |
| Operation and Maintenance of Plant | 6,558,525 | 96,810 | - | 37,857 |
| Auxiliary Enterprises | 173,052 | 200 | - | 247 |
| Depreciation and Amortization | - | - | - | - |
| Total Operating Expenses | <u>269,261,724</u> | <u>48,993,861</u> | <u>662,122</u> | <u>2,943,428</u> |

| <i>FUNCTION</i> | <i>MATERIALS AND SUPPLIES</i> | <i>COMMUNICATIONS AND UTILITIES</i> | <i>REPAIRS AND MAINTENANCE</i> | <i>RENTALS AND LEASES</i> |
|------------------------------------|-------------------------------|-------------------------------------|--------------------------------|---------------------------|
| Instruction | 15,187,012 | 1,510,189 | 441,902 | 1,082,069 |
| Research | 3,437,001 | 95,496 | 174,905 | 24,122 |
| Public Service | 9,090,614 | 835,940 | 203,507 | 801,171 |
| Academic Support | 7,501,381 | 797,755 | 673,556 | 355,183 |
| Student Services | 1,724,339 | 56,509 | 45,620 | 26,375 |
| Institutional Support | 1,750,264 | 187,844 | 53,144 | 30,524 |
| Operation and Maintenance of Plant | 1,794,315 | 4,449,298 | 744,393 | 459,457 |
| Auxiliary Enterprises | 51,483 | 25,832 | 23,144 | 8,328 |
| Depreciation and Amortization | - | - | - | - |
| Total Operating Expenses | <u>40,536,409</u> | <u>7,958,863</u> | <u>2,360,171</u> | <u>2,787,229</u> |

| <i>FUNCTION</i> | <i>PRINTING AND REPRODUCTION</i> | <i>DEPRECIATION</i> | <i>BAD DEBT</i> | <i>INTEREST</i> |
|------------------------------------|----------------------------------|---------------------|-----------------|-----------------|
| Instruction | 719,645 | - | (10,539) | 2,187 |
| Research | 107,559 | - | - | 437 |
| Public Service | 169,835 | - | 309 | 851 |
| Academic Support | 436,062 | - | 1,885 | 3,945 |
| Student Services | 213,579 | - | - | 350 |
| Institutional Support | 123,270 | - | (80,231) | 1,094 |
| Operation and Maintenance of Plant | 25,029 | - | - | 44 |
| Auxiliary Enterprises | 3,897 | - | - | - |
| Depreciation and Amortization | - | <u>8,146,762</u> | - | - |
| Total Operating Expenses | <u>1,798,876</u> | <u>8,146,762</u> | <u>(88,576)</u> | <u>8,908</u> |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Matrix of Operating Expenses by Natural Classification *For the Year Ended August 31, 2003*

| <i>FUNCTION</i> | <i>SCHOLARSHIPS</i> | <i>CLAIMS AND LOSSES</i> | <i>OTHER OPERATING</i> | <i>GRAND TOTAL</i> |
|------------------------------------|---------------------|--------------------------|------------------------|--------------------|
| Instruction | \$ 462,406 | \$ 235,000 | \$ 630,143 | \$ 172,609,914 |
| Research | 221,770 | - | 26,883 | 15,806,414 |
| Public Service | 136,703 | - | (1,333,551) | 101,424,079 |
| Academic Support | 109,631 | 250,000 | 354,184 | 53,791,191 |
| Student Services | 2,218 | (50) | 113,905 | 5,868,012 |
| Institutional Support | 59,710 | 104,881 | (4,436,776) | 10,208,551 |
| Operation and Maintenance of Plant | - | 324 | 12,568 | 14,178,620 |
| Auxiliary Enterprises | - | - | 2,468 | 288,651 |
| Depreciation and Amortization | - | - | - | 8,146,762 |
| Total Operating Expenses | 992,438 | 590,155 | (4,630,176) | \$ 382,322,194 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Cash Flows*
For the Years Ended August 31, 2002 and 2003

| | <u>2002</u> | <u>2003</u> |
|---|----------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash Inflows | | |
| Collections for Tuition and Fees | \$ 6,884,679 | \$ 9,558,652 |
| Collections for Grants and Contracts | 198,597,039 | 201,325,272 |
| Collections from Patients | 81,181,878 | 67,184,409 |
| Collections of Loans | 2,065,380 | 1,546,995 |
| Collections for Auxiliary Enterprises | 67,548 | 69,908 |
| Collections of Sales and Services of Educational Activities | 3,023,950 | 2,771,659 |
| Collections from Other Operating Activities | 218,920 | 4,675,984 |
| Cash Outflows | | |
| Payments to Suppliers | 127,291,718 | 113,785,385 |
| Payments to Employees | 264,039,196 | 266,387,142 |
| Payments for Loans Issued to Students | 788,952 | 1,011,099 |
| Payments for Other Operating Activities | 2,171,080 | (489,451) |
| Net Cash Used for Operating Activities | <u>(102,251,552)</u> | <u>(93,561,296)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Cash Inflows | | |
| Proceeds from State Appropriations | 104,508,497 | 117,654,330 |
| Proceeds from Transfers from Other Components | 2,487,239 | 2,588,787 |
| Proceeds from Noncapital Gifts and Grants | 2,618,352 | 3,543,745 |
| Proceeds from Agency Activities | 42,270 | 6,376 |
| Proceeds from Other Noncapital Financing Activities | 2,798,091 | 1,833,543 |
| Cash Outflows | | |
| Payments of Transfers to System Administration | 5,357,703 | 5,132,969 |
| Net Cash Provided by Noncapital Financing Activities | <u>107,096,746</u> | <u>120,493,812</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Cash Inflows | | |
| Proceeds from Capital Debt Issuances | 23,565,000 | 1,400,000 |
| Proceeds from State Capital Appropriations | 7,735,000 | 7,735,000 |
| Proceeds from Capital Gifts and Grants | 3,159,143 | 879,067 |
| Cash Outflows | | |
| Payments for Purchases of Capital Assets | 24,561,751 | 28,207,728 |
| Payments for Principal on Capital Debts | 13,359,497 | 2,477,429 |
| Payments for Interest on Capital Debts | 1,371,458 | 749,497 |
| Payments for Other Capital Related Activities | 2,617,041 | 969,997 |
| Net Cash Used for Capital and Related Financing Activities | <u>(7,450,604)</u> | <u>(22,390,584)</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report***Statement of Cash Flows*
For the Years Ended August 31, 2002 and 2003

| | <u>2002</u> | <u>2003</u> |
|---|----------------------|----------------------|
| Cash Flows from Investing Activities | | |
| Cash Inflows | | |
| Proceeds from Sales and Maturities of Investments | \$ 20,029,707 | \$ (9,597,427) |
| Proceeds from Interest and Dividends on Investments | 2,105,142 | 18,813,196 |
| Cash Outflows | | |
| Payments for Purchases of Investments | 10,010,235 | 29,816,456 |
| Net Cash Provided by (Used for) Investing Activities | <u>12,124,614</u> | <u>(20,600,687)</u> |
| TOTAL NET CASH FLOWS | <u>9,519,204</u> | <u>(16,058,755)</u> |
| Beginning Cash and Cash Equivalents | 62,480,728 | 71,999,932 |
| Ending Cash and Cash Equivalents | <u>\$ 71,999,932</u> | <u>\$ 55,941,177</u> |
| Components of Ending Cash and Cash Equivalents | | |
| Cash on Hand | 21,319 | 21,863 |
| Cash in Bank | (3,174,804) | (5,285,740) |
| Reimbursements Due from State Treasury | 744,712 | 740,499 |
| Cash in State Treasury | 6,072,711 | 2,688,451 |
| Repurchase Agreements | 15,013,470 | 21,267,686 |
| TexPool Investments | 53,322,524 | 36,508,418 |
| Ending Cash and Cash Equivalents | <u>\$ 71,999,932</u> | <u>\$ 55,941,177</u> |
| Reconciliation of Operating Loss to Operating Cash Flow | | |
| Operating Loss | (107,320,743) | (104,734,352) |
| Adjustments | | |
| Depreciation Expense | 6,451,126 | 8,146,762 |
| Bad Debt Expense | (1,273,615) | (88,576) |
| Decrease (Increase) in Accounts Receivable | 4,445,695 | 3,199,380 |
| Decrease (Increase) in Loans and Notes Receivable | 1,276,428 | 535,896 |
| Decrease (Increase) in Inventory | (133,835) | (94,716) |
| Decrease (Increase) in Prepaid Expenses | 1,139,059 | (6,669) |
| Increase (Decrease) in Accounts Payable | (5,773,716) | 2,125,712 |
| Increase (Decrease) in Accrued Liabilities | 45,554 | (116,384) |
| Increase (Decrease) in Deferred Revenue | (348,155) | 168,486 |
| Increase (Decrease) in Compensable Leave | 3,957,030 | 887,765 |
| Increase (Decrease) in Claims Payable | (4,914,778) | (5,646,565) |
| Increase (Decrease) in Other Liabilities | 198,398 | 2,061,965 |
| Net Cash Used for Operating Activities | <u>(102,251,552)</u> | <u>(93,561,296)</u> |

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

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NOTES TO THE FINANCIAL STATEMENTS

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Notes to the Financial Statements

August 31, 2003

NOTE 1

Summary of Significant Accounting Policies

GENERAL INTRODUCTION

Texas Tech University Health Sciences Center (TTUHSC) is one of the three components of the Texas Tech University System. The other two components, reported separately, are Texas Tech University and Texas Tech University System Administration.

TTUHSC offers graduate and undergraduate programs in five schools: the School of Allied Health, Sciences the School of Medicine, the School of Nursing, the School of Pharmacy, and the Graduate School of Biomedical Sciences. Major ancillary operations include correctional health care, grant and contract activities, and comprehensive clinical operations.

FUND STRUCTURE

Agency Funds

Agency funds are used to account for assets that TTUHSC holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Blended Component Units

Texas Tech Physician Associates (TTPA) and a portion of the Texas Tech Foundation Inc. (TTFI) are reported as blended component units.

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

TTFI is governed by a 30-member board appointed by the Texas Tech University System governing board. TTFI, in its entirety, supports both TTUHSC and Texas Tech University.

Although both entities are legally separate from TTUHSC, TTPA and a portion of TTFI are reported as if they were part of the institution because their sole purpose is to financially support TTUHSC.

BASIS OF ACCOUNTING

The accounting records of TTUHSC are maintained using a modified accrual basis. Most internal financial reports utilize this basis. Accounting data for most external reports, including this *Annual*

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August 31, 2003

NOTE 1 (continued) Summary of Significant Accounting Policies

Financial Report, are converted to a full accrual basis of accounting in compliance with Governmental Accounting Standards Board (GASB) statements 34 and 35.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. For reporting purposes, operating activities are distinguished from non-operating activities. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principal ongoing operations. Operating expenses include administrative expenses and depreciation on capital assets, among others.

RESTRICTED NET ASSETS

In cases where both restricted and unrestricted net assets are available for use, restricted resources are used first and then unrestricted resources are used as needed.

BUDGETS AND BUDGETARY ACCOUNTING

Budgets are used for all TTUHSC funds, though the budget structure is more constrictive in some fund areas. Many of the budgets are based on legislative appropriations.

ASSETS, LIABILITIES, AND FUND EQUITY

Current and Non-Current Assets

Current assets are those that are readily available to meet current operational requirements. Non-current assets are those that are not readily available to meet current operational requirements and, instead, are intended to support longer-term institutional needs. Highly liquid assets (including cash and cash equivalents) that are not expendable and thus not available for current operational needs are classified as non-current assets.

Cash and Cash Equivalents

Cash and cash equivalents for TTUHSC are defined as all cash on hand, demand deposits in banks, local funds held by the State, reimbursements in transit from the State, and temporary investments with maturities of 90 days or less. Components of cash and cash equivalents as of August 31, 2003 are provided in the table that follows.

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Notes to the Financial Statements

August 31, 2003

NOTE 1 (continued) Summary of Significant Accounting Policies

| | Current Unrestricted | Current Restricted | Non-Current Restricted | Total |
|---|-------------------------|-----------------------|---------------------------|---------------|
| Cash on Hand | \$ 17,863 | \$ 4,000 | \$ - | \$ 21,863 |
| Cash In Bank | 7,138,694 | (1,288,034) | (11,136,400) | (5,285,740) |
| Reimbursements Due from State Treasury | 445,992 | 294,507 | - | 740,499 |
| Cash in State Treasury | 2,688,451 | - | - | 2,688,451 |
| Repurchase Agreements | 13,715,904 | 5,752,314 | 1,799,468 | 21,267,686 |
| TexPool Investments | 22,492,319 | 9,433,056 | 4,583,043 | 36,508,418 |
| Total Cash and Cash Equivalents | \$ 46,499,223 | \$ 14,195,843 | \$ (4,753,889) | \$ 55,941,177 |

Investments

Investments are reported at fair value in the statement of net assets with the following exceptions: (1) non-participating 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 is used.

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.

Inventories

Inventories generally 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. Where insignificant, the cost of inventory items is recognized as an expense in the period of purchase. Where significant, the cost of the inventory is recorded as an asset.

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Notes to the Financial Statements

August 31, 2003

**NOTE 1 (continued)
Summary of Significant Accounting Policies**

Receivables

The most significant categories of TTUHSC receivables are patient receivables and contract receivables. Patient receivables are reported net of allowances for contractual and similar adjustments.

Restricted Assets

Both cash and cash equivalents and short-term investments related to current restricted funds, loan funds, endowment funds, plant funds, agency funds, and component unit funds are reported as restricted assets. Restricted assets can only be expended for specifically identified purposes.

Cash and cash equivalents and short-term investments related to endowment funds and plant funds are reported as non-current, reflective of the usual requirements to maintain endowment corpi in perpetuity and to expend plant funds over extended periods.

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.

TTUHSC has adopted the federal standard of capitalizing furniture and equipment assets that exceed an aggregate cost threshold of \$5,000. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), facilities and other improvements (\$100,000), and vehicles (\$5,000).

As a result of limitations in the SPA system, capital asset betterments that do not individually exceed the full capitalization threshold described above are not capitalized and instead are reported as an expense of the period.

Payables

Major categories of TTUHSC payables include bonds payable, claims payable, and general accounts payable (including payroll). Minor categories of payables include deposits payable and unclaimed property due to the State treasury.

Compensable Leave

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time.

Annual Leave

Annual leave is accrued in a manner consistent with State rules and guidelines. Within the framework

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August 31, 2003

NOTE 1 (continued) Summary of Significant Accounting Policies

of those guidelines, employees are eligible to carry forward a limited annual leave balance. Any such balances that represent compensable leave are appropriately reported as an institutional liability.

Overtime and Compensatory Leave

Non-exempt employees who work in excess of 40 hours in a week generally have the option of requesting additional compensation for the extra hours worked, at a rate equal to 1½ times the usual hourly wage, or requesting compensatory leave for the extra hours worked, at 1½ hours of added leave for each extra hour worked.

Employee Sick Leave

Employee sick leave is accrued in a manner consistent with State rules and guidelines. Within the framework of those guidelines, employees are eligible to carry forward an unlimited sick leave balance. Since sick leave is not paid out to terminating employees, sick leave balances are not recorded as an institutional liability.

Capital Lease Obligations

Where material, capital leases are appropriately recorded as liabilities associated with the acquisition of capital assets in compliance with the full-accrual model of accounting set forth by GASB statements 34 and 35. For purposes of complying with this requirement, a capital lease is defined by fulfilling any of the following four conditions: (1) the ownership of the asset transfers to the lessee at the end of the lease; (2) the lessee has the option of purchasing the leased asset at the end of the lease for a bargain price; (3) the term of the lease represents 75% or more of the useful life of the leased asset; or (4) the discounted present value of all future lease payments at the inception of the lease represent 90% or more of the fair value of the leased asset.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding are reported as reservations of net assets and do not constitute expenditures or liabilities.

Net Assets

Net Assets represent the excess of assets over liabilities. In most cases, as a result of the reservation of net assets, the excess of assets over liabilities does not represent spendable resources.

Reservations of Net Assets

Net Assets are categorized in the accounting records by degree of availability. Net Assets that are encumbered or that represent certain non-cash assets, such as inventory or accounts receivable, are reserved. The table that follows illustrates the components of unrestricted net assets as of August 31, 2003.

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August 31, 2003

NOTE 1 (continued) Summary of Significant Accounting Policies

| | |
|---------------------------------|-----------------------|
| Reserved | |
| Encumbrances | \$ 2,659,551 |
| Inventory | 784,867 |
| Prepaid Expenses | 529,490 |
| Accounts Receivable | 14,727,253 |
| Working Capital | 235,363 |
| Self Insured Plans | 18,381,367 |
| External Investment Pool | 298,263 |
| Fair Market Value Adjustment | 2,888,916 |
| Funds Functioning as Endowments | 14,493,381 |
| Unreserved | <u>60,103,760</u> |
| Total Unrestricted Net Assets | <u>\$ 115,102,211</u> |

Interfund Activity and Transactions

TTUHSC 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 interactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

Risk Financing

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss is reasonably estimable. Identified liabilities include amounts for claims that have been incurred but not reported.

NOTE 2 Capital Assets

GENERAL INTRODUCTION

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.

Depreciation expense is reported as a net total without consideration of the benefiting function. Accumulated depreciation is classified by capital asset category, providing for an estimation of the net book value of each asset category.

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August 31, 2003

NOTE 2 (continued) Capital Assets

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. Non-depreciable capital assets include land, construction in progress, and the portion of other capital assets that represents library books and holdings. All other capital asset categories are depreciated.

Capital asset balances and transactions as of and between September 1, 2002 and August 31, 2003 are summarized in the table that follows.

| Capital Asset Category | Beginning Balance 09/01/2002 | Adjustments | Reclasses | Additions | Deletions | Ending Balance 08/31/2003 |
|---------------------------------------|------------------------------------|-----------------------|---------------------|----------------------|-----------------------|---------------------------------|
| Non-Depreciable Capital Assets | | | | | | |
| Land and Land Improvements | \$ 6,297,346 | \$ - | \$ - | \$ - | \$ - | \$ 6,297,346 |
| Construction in Progress | 21,781,134 | - | - | 13,391,748 | - | 35,172,882 |
| Other | 19,356,773 | - | - | 1,272,654 | - | 20,629,427 |
| Sub-Total | 47,435,253 | - | - | 14,664,402 | - | 62,099,655 |
| Depreciable Capital Assets | | | | | | |
| Buildings and Building Improvements | 176,622,749 | (1,356,412) | 200,758 | 5,441,668 | (2,550,274) | 178,358,489 |
| Infrastructure | 966,394 | - | - | 1,507,059 | - | 2,473,453 |
| Furniture and Equipment | 45,553,518 | (209,959) | (423,557) | 5,087,655 | (1,729,473) | 48,278,184 |
| Vehicles, Boats and Aircraft | 1,379,240 | (83) | - | 118,608 | (114,672) | 1,383,093 |
| Facilities and Other Improvements | 5,489,948 | (96,961) | - | 1,703,063 | - | 7,096,050 |
| Other | 147,334 | - | - | 120,000 | (5,215) | 262,119 |
| Sub-Total | 230,159,183 | (1,663,415) | (222,799) | 13,978,053 | (4,399,634) | 237,851,388 |
| Total Capital Assets | \$277,594,436 | \$ (1,663,415) | \$ (222,799) | \$ 28,642,455 | \$ (4,399,634) | \$299,951,043 |

Accumulated depreciation balances and changes as of and between September 1, 2002 and August 31, 2003 are summarized in the table that follows.

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Notes to the Financial Statements

August 31, 2003

NOTE 2 (continued) Capital Assets

| Capital Asset Category | Beginning Balance 09/01/2002 | Adjustments | Reclasses | Additions | Deletions | Ending Balance 08/31/2003 |
|-------------------------------------|------------------------------------|--------------|-------------|--------------|----------------|---------------------------------|
| Buildings and Building Improvements | \$109,876,388 | \$ (154,778) | \$ - | \$ 3,301,157 | \$ (146,834) | \$112,875,933 |
| Infrastructure | 52,346 | - | - | 123,673 | - | 176,019 |
| Furniture and Equipment | 27,914,017 | (50,194) | (57,297) | 4,236,425 | (1,602,086) | 30,440,865 |
| Vehicles, Boats and Aircraft | 971,112 | (17,356) | - | 123,118 | (101,586) | 975,288 |
| Facilities and Other Improvements | 296,171 | (9,494) | - | 344,658 | - | 631,335 |
| Other | 24,325 | - | - | 17,731 | (5,215) | 36,841 |
| Total Accumulated Depreciation | <u>\$139,134,359</u> | \$ (231,822) | \$ (57,297) | \$ 8,146,762 | \$ (1,855,721) | <u>\$145,136,281</u> |

NOTE 3 Deposits, Investments, and Repurchase Agreements

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

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 governing board.

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

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August 31, 2003

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

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 the governing board's 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 provided by law for TTUHSC 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. TTUHSC 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 TTUHSC. 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, TTUHSC maintains a cash balance with the State Treasury and invests debt proceeds with TexPool, a cooperative government investment pool as described above.

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Notes to the Financial Statements

August 31, 2003

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

The bank balance of TTUHSC was classified according to the following risk categories:

- Category 1 Insured or collateralized with securities held by TTUHSC or by its agent in the name of TTUHSC.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the name of TTUHSC.

The carrying amount of deposits in the cash pool and other accounts as of August 31, 2003 is presented in the table that follows.

| | | |
|-----------------------------------|----|-------------|
| Demand Accounts - Carrying Amount | \$ | (5,504,240) |
| Demand Accounts - Bank Balances | | 5,435,239 |
| Category 1 | | 490,637 |
| Category 2 | | 4,944,602 |

Cash and Short-Term Investments as reported on the Statement of Net Assets are allocated in the STIF as illustrated in the table that follows.

| | | |
|---|----|---------------------------|
| Cash in Bank | | |
| Cashier's Accounts | \$ | 218,500 |
| Demand Accounts | | <u>(5,504,240)</u> |
| Total Cash in Bank | | (5,285,740) |
| Other Cash and Cash Equivalents | | |
| Cash on Hand | | 21,863 |
| Reimbursements Due from State Treasury | | 740,499 |
| Cash in State Treasury | | 2,688,451 |
| Repurchase Agreements | | 21,267,686 |
| TexPool Investments | | <u>36,508,418</u> |
| Total Other Cash Equivalents | | 61,226,917 |
| Short-Term Investments | | |
| Government Securities (due within one year) | | <u>51,921,206</u> |
| Total Short-Term Investments | | <u>51,921,206</u> |
| Total Cash and Short-Term Investments | \$ | <u><u>107,862,383</u></u> |

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Notes to the Financial Statements

August 31, 2003

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

Demand Deposits by Bank Account

| | |
|--------------------------------|--------------|
| Plains National Bank – Lubbock | (11,741,450) |
| Bank of America – Amarillo | 3,633,055 |
| Wells Fargo Bank – El Paso | 2,461,429 |
| American State Bank – Odessa | 142,724 |

| | |
|-----------------------|----------------|
| Total Demand Accounts | \$ (5,504,240) |
|-----------------------|----------------|

To comply with the reporting requirements of GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, TTUHSC's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by TTUHSC.

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.

| Type of Security | Category 1 | Reported Value |
|---|---------------|----------------|
| Categorized Investments | | |
| U.S. Government and Agency Obligations | \$ 37,890,580 | \$ 37,890,580 |
| U.S. Government and Agency Mortgage Obligations | 27,465,618 | 27,465,618 |
| Collateralized Mortgage Obligations | 55,079,152 | 55,079,152 |
| Repurchase Agreements | 21,267,686 | 21,267,686 |
| Corporate Stock | 53,419,106 | 53,419,106 |
| Miscellaneous Investments | 4,038,048 | 4,038,048 |
| Total Categorized Investments | 199,160,190 | 199,160,190 |
| Uncategorized Investments | | |
| Real Estate and Mortgages | | 482,252 |
| Other Uncategorized Investments | | 105,348,642 |
| Total Uncategorized Investments | | 105,830,894 |
| Total Investments | | \$ 304,991,084 |

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August 31, 2003

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

Market risk is not being depicted in this note.

The following categories of credit risk are included in this note:

- Category 1 Investments that are insured or registered or for which the securities are held by TTUHSC or its agent in the name of TTUHSC.
- 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 name of TTUHSC.

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 that follows provides certain information of the different types of mortgage derivatives included in TTUHSC's portfolio.

| Type | Carrying Value |
|---|----------------|
| Planned Amortization Class Mortgage Derivative Securities | \$ 55,079,153 |
| Total Mortgage Derivative Securities | \$ 55,079,153 |

NOTE 4 Summary of Long-Term Liabilities

Several categories of long-term liabilities are reported, including accrued liabilities, unclaimed property due to the state treasury, compensable leave, claims payable, capital lease obligations, and bonds payable. More detailed information for bonds payable is presented in Note 12. A summary of balances and changes in long-term liabilities follows.

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Notes to the Financial Statements

August 31, 2003

NOTE 4 (continued) Summary of Long-Term Liabilities

| Category | Beginning Balance 09/01/2002 | Increases | Decreases | Ending Balance 08/31/2003 | Current Portion |
|---|------------------------------------|--------------|----------------|---------------------------------|--------------------|
| Accrued Liabilities | \$ 185,510 | \$ - | \$ (116,384) | \$ 69,126 | \$ 69,126 |
| Unclaimed Property Due to State Treasury | 121,557 | 61,110 | (71,189) | 111,478 | 49,036 |
| Compensable Leave | 14,343,022 | 1,836,397 | (948,632) | 15,230,787 | 3,046,157 |
| Claims Payable | 47,571,249 | 266,365 | (5,912,930) | 41,924,684 | 4,192,468 |
| Bonds Payable | 34,671,856 | - | (2,343,225) | 32,328,631 | 1,273,920 |
| Other Liabilities | 18,994 | - | (1,249) | 17,745 | 1,068 |
| Total Long-Term Liabilities | \$ 96,912,188 | \$ 2,163,872 | \$ (9,393,609) | \$ 89,682,451 | \$ 8,631,775 |

NOTES AND LOANS PAYABLE

All Notes Payable outstanding, which are comprised of commercial paper issuances, will mature within three months and are thus classified as current liabilities. TTUHSC did not have any loans payable outstanding as of August 31, 2003.

| Description | Beginning Balance 09/01/2002 | Increases | Decreases | Ending Balance 08/31/2003 |
|----------------------------------|------------------------------------|--------------|--------------|------------------------------|
| Commercial Paper | \$ 3,140,000 | \$ 1,400,000 | \$ (134,204) | \$ 4,405,796 |
| Total Notes and Loans Payable | \$ 3,140,000 | \$ 1,400,000 | \$ (134,204) | \$ 4,405,796 |

CLAIMS PAYABLE

Claims payable includes estimates for both known medical malpractice claims and those that have not yet been made against the participants insured. The liability is actuarially estimated to reflect the anticipated future claims for past medical services. Some of these claims are in process, while others are expected to be filed in the future. The liability estimate does not consider the probability of payment on a claim-by-claim basis, and instead considers overall probability of payment for medical malpractice

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 4 (continued) Summary of Long-Term Liabilities

claims. Claims payable reports a combined liability of TTUHSC and Texas Tech Physician Associates, a blended component unit.

| Description | Beginning Balance | | Ending Balance | |
|---------------------------------|-------------------|-----------|----------------|---------------|
| | 09/01/2002 | Increases | Decreases | 08/31/2003 |
| TTUHSC Self Insurance Fund | \$ 46,036,378 | \$ - | \$ (4,201,694) | \$ 41,834,684 |
| Texas Tech Physician Associates | 1,534,871 | - | (1,444,871) | 90,000 |
| Total Claims Payable | \$ 47,571,249 | \$ - | \$ (5,646,565) | \$ 41,924,684 |

COMPENSABLE LEAVE

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of the end of the fiscal year. Past experience has demonstrated that approximately 20% of TTUHSC compensable leave balances will mature within one year. Therefore, the non-current portion of the liability as of August 31, 2003 was estimated at \$12,184,630, out of a total liability of \$15,230,787.

BONDS PAYABLE

See Note 12 for detailed information on bond liability balances and transactions.

NOTE 5 Capital Leases

As of August 31, 2003, no material outstanding TTUHSC leases satisfied the requirements for capitalization.

NOTE 6 Operating Leases

TTUHSC structures all material leases to allow for cancellation within the current period. Most of the cancellation clauses are based on a 30-day notice condition or on the condition of continuing

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Notes to the Financial Statements

August 31, 2003

NOTE 6 (continued) Operating Leases

appropriations. Therefore, no material minimum lease payments are outstanding. Payments associated with lease agreements are reported as expenses in the period in which they become due.

NOTE 7 Interfund Balances / Activity

TTUHSC had an outstanding interfund receivable from the University of Texas Investment Management Company (UTIMCO) of \$3,188,880 as of August 31, 2003. The outstanding balance represented undistributed earnings from the investment assets of the Permanent Health Fund for Higher Education.

| Agency Name | Agency # | D23 Fund | Amount |
|-------------------------------|----------|----------|--------------|
| University of Texas System | 720 | 0810 | \$ 3,188,880 |
| Total Due From Other Agencies | | | \$ 3,188,880 |

Several interfund transfers occurred during the report period, all of which were with other components of the Texas Tech University System. Net transfers out for the period to Texas Tech University System Administration (TTUSA), agency number 768, amounted to \$5,132,969. The primary purpose of the transfers to TTUSA is to support system administrative functions. Net transfers in from Texas Tech University (TTU), agency number 733, amounted to \$2,588,787. The primary purpose of the transfers from TTU is to service outstanding bonded indebtedness for which appropriations are shared.

NOTE 8 Contingent Liabilities

At August 31, 2003, various lawsuits and claims involving TTUHSC were pending. While the ultimate liability with respect to litigation and other claims asserted against TTUHSC 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 TTUHSC.

REBATABLE ARBITRAGE

The Revenue Financing System Refunding and Improvement Bonds, Series 1999, was the only outstanding bond issue of TTUHSC for which outstanding rebatable arbitrage was reflected, totaling \$69,126 as of August 31, 2003. These excesses have been earned during periods when unrestricted yield

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August 31, 2003

**NOTE 8 (continued)
Contingent Liabilities**

is allowed on these funds. As required by the Internal Revenue Code, TTUHSC will restrict earnings on these funds to a yield less than the yield of the bond issues after this unrestricted yield period ends.

**NOTE 9
Continuance Subject to Review**

TTUHSC is not subject to the Texas Sunset Act.

**NOTE 10
Risk Financing and Related Insurance**

TTUHSC has self-insured arrangements for coverage in the areas of unemployment compensation and medical malpractice. The medical malpractice plan had an actuarially determined accrued incurred but not reported (IBNR) liability at August 31, 2003 of \$41,834,684. Texas Tech Physician Associates, a blended component unit, had estimated accrued IBNR at August 31, 2003 of \$90,000. A reconciliation of IBNR is presented in the table in Note 4. The remaining funds did not have accrued contingent liabilities.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for TTUHSC employees. The current General Appropriations Act provides that TTUHSC must reimburse the General Revenue Fund – Consolidated, from TTUHSC appropriations, one-half of the unemployment benefits expected to be paid for former and current employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. For workers' compensation, TTUHSC remits an assessed amount from both appropriated and unappropriated fund types to the State Office of Risk Management (SORM). SORM assumes the responsibility for paying all workers' compensation claims for current and former employees of TTUHSC.

TTUHSC must reimburse the General Revenue Fund for all of the cost for 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 were pending as of August 31, 2003.

**NOTE 11
Segment Information**

TTUHSC has no reportable segments.

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Notes to the Financial Statements *August 31, 2003*

NOTE 12 **Bonded Indebtedness**

Several bond issues were outstanding as of August 31, 2003, as summarized in the paragraphs that follow.

REVENUE FINANCING SYSTEM BONDS. SECOND SERIES 1995

Purpose: Financing of the library / conference center project and the costs of issuing the bonds

Issued: April 25, 1995; all authorized bonds (\$11,000,000) have been issued.

Outstanding: \$968,000 outstanding as of August 31, 2003

Interest Rates: 4.30% to 6.00%

Maturity Dates: 1996 through 2015

Balance Changes: \$0 issued; \$446,600 retired

REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS. SERIES 1999

Purpose: 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; all authorized bonds (\$15,632,182) have been issued.

Outstanding: \$13,495,631 outstanding as of August 31, 2003

Interest Rates: 4.00% to 5.25%

Maturity Dates: 1999 through 2029

Balance Changes: \$0 issued; \$161,625 retired

REVENUE FINANCING SYSTEM BONDS. SEVENTH SERIES 2001

Purpose: Financing for projects in El Paso and Lubbock, the costs of issuing the bonds, and the retirement of outstanding commercial paper

Issued: January 23, 2002; all authorized bonds (\$19,510,000) have been issued.

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Notes to the Financial Statements

August 31, 2003

NOTE 12 (continued) Bonded Indebtedness

Outstanding: \$17,865,000 outstanding as of August 31, 2003

Interest Rates: 3.00% to 5.50%

Maturity Dates: 2002 through 2021

Balance Changes: \$0 issued; \$575,000 retired

SOURCES OF DEBT-SERVICE REVENUE

On October 21, 1993, the governing board of the Texas Tech University System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of Texas Tech University System components. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fees, pledged general fees and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University System components. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

BONDS AUTHORIZED BUT UNISSUED AT YEAR END

House bill 658 of the 77th legislature, codified in Education Section 55.1739, authorized the issuance of \$66,882,525 of Revenue Financing System bonds. As of August 31, 2003, the entire amount of this authorization remained unissued.

DEFEASED BONDS OUTSTANDING

As of August 31, 2003, a total of \$6,967,400 of defeased bonds were outstanding related to an advance refunding of a portion of the Revenue Financing System Bonds, Second Series 1995.

NOTE 13 Subsequent Events

On September 24, 2003, the Texas Tech University System issued Revenue Financing System Bonds, Series Nine 2003. Of the total bond issue, \$64,270,000 is attributable to TTUHSC. The purpose of the bond issue was to finance projects in El Paso and Lubbock, to cover the costs of issuing the bonds, and to retire outstanding commercial paper. The interest rates for this bond series will range from 2.25% to 5.25%. As a result of this issue, total TTUHSC bonds payable as of September 24, 2003 amounted to \$96,598,631.

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Notes to the Financial Statements

August 31, 2003

NOTE 14 Related Parties

Texas Tech Physician Associates (TTPA) and a portion of the Texas Tech Foundation Inc. (TTFI) are reported as blended component units.

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

TTFI is governed by a 30-member board appointed by the Texas Tech University System governing board. TTFI, in its entirety, supports both TTUHSC and Texas Tech University.

Although both entities are legally separate from TTUHSC, TTPA and a portion of TTFI are reported as if they were part of the institution because their sole purpose is to financially support TTUHSC.

NOTE 15 Stewardship, Compliance, and Accountability

Effective September 1, 2001, TTUHSC changed the basis of financial reporting from modified accrual to full accrual. This change was in response to the recent implementation of Governmental Accounting Standards Board statements 34 and 35. TTUHSC has no other material stewardship, compliance, and accountability issues.

NOTE 16 The Financial Reporting Entity

TTUHSC 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 TTUHSC, a separate institution established pursuant to Vernon's Texas Codes Annotated, Education Code, Chapter 110. TTUHSC is under the direction, management, and control of the Texas Tech University System Board of Regents, which acts separately and independently on all matters affecting TTUHSC.

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

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 17 Restatement of Net Assets

The only material prior-period adjustments for TTUHSC that required the restatement of beginning net assets related to inventory adjustments made by Statewide Property Accounting and to the capitalization of construction period interest not previously identified.

| | | |
|---|----------------|-----------------------|
| Reported Net Assets (August 31, 2002) | | \$ 343,105,254 |
| Restatements | | |
| Inventory Adjustments | \$ (2,070,758) | |
| Construction Period Interest Capitalization | <u>539,648</u> | |
| Total Restatements | | <u>(1,531,110)</u> |
| Restated Net Assets (August 31, 2002) | | <u>\$ 341,574,144</u> |

NOTE 18 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 TTUHSC 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, is included in the Teacher Retirement System's annual financial report.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity and custodial mutual fund contracts. The contributory percentages of participant salaries provided by the State and each participant for employees who participated before September 1, 1995 are 8.50% and 6.65% by the state and each participant, respectively. The State's contribution is comprised of 6.00% from the ORP's appropriation and 2.5% from other funding sources. The 6.00% contribution is mandatory with the other contributions being at the discretion of the governing board of TTUHSC. The governing board has approved the additional contributions for employees of TTUHSC. 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.

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Notes to the Financial Statements

August 31, 2003

NOTE 18 (continued) Employee Retirement Plans

The retirement expense to the State for TTUHSC was \$5,539,307 for the fiscal year ended August 31, 2003. This amount represents the portion of expended appropriations made by the State Legislature on behalf of TTUHSC.

NOTE 19 Deferred Compensation

TTUHSC employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Texas Government Code Annotated, Sec 609.001. A deferred compensation plan called TexaSaver, administered by the Employees Retirement System, is available for income deferral.

The State's 457 plan complies with the Internal Revenue Code Section 457, GASB statement 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB statement 2 and amends GASB statement 31. GASB statement 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. There are currently 108 TTUHSC participants in this plan.

NOTE 20 Donor Restricted Endowments

TTUHSC endowments are categorized as either true endowment or funds functioning as endowments. As of August 31, 2002, TTUHSC had no term endowments.

Expenditure of true endowment funds is not permitted without the express consent of the donor. Most TTUHSC endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF), described in more detail in Note 3. Reported gains and losses for the LTIF are in part realized and in part unrealized.

Endowment fund assets are held both by TTUHSC and Texas Tech Foundation, Inc. (TTFI). Earnings for the year ended August 31, 2003, divided between realized earnings and unrealized earnings, are summarized in the following table.

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Notes to the Financial Statements

August 31, 2003

NOTE 20 (continued) Donor Restricted Endowments

| | Realized Earnings | Unrealized Earnings | Total Earnings |
|--------------------------------|----------------------|------------------------|----------------------|
| TTUHSC Endowment Assets | \$ 7,751,848 | \$ 7,903,247 | \$ 15,655,095 |
| TTFI Endowment Assets | 2,810,585 | 1,413,024 | 4,223,609 |
| Total Endowment Asset Earnings | <u>\$ 10,562,433</u> | <u>\$ 9,316,271</u> | <u>\$ 19,878,704</u> |

NOTE 21 Management's Discussion and Analysis

INTRODUCION

This discussion and analysis provides an overview of the financial position and activities of TTUHSC for the year ended August 31, 2003. This discussion and analysis has been prepared by management and should be reviewed in conjunction with the financial statements and accompanying notes.

TTUHSC operates five schools: the School of Allied Health, the School of Medicine, the School of Nursing, the School of Pharmacy, and the Graduate School of Biomedical Sciences. The School of Pharmacy is the newest school, having begun operations in 1996. The graduate School of Biomedical Sciences is closely related to the School of Medicine, with biomedical science offerings that lead to PhD degrees rather than MD degrees.

In addition to the primary campus located in Lubbock, TTUHSC now includes regional campuses in Amarillo, El Paso, and Odessa. TTUHSC is one component of the Texas Tech University System; the other components are Texas Tech University (TTU), a general academic campus also based in Lubbock, and Texas Tech University System Administration (TTUSA).

USING THE FINANCIAL STATEMENTS

The Annual Financial Report contains three primary financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) statements. The GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis. Previously, financial statements focused on the accountability of individual fund groups rather than on the institution as a whole.

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

Other significant changes to the financial statements are as follows:

- The measurement focus and basis of accounting is presented in full accrual, consistent with the accounting method used by private-sector institutions. All current year revenues and expenses are recognized when earned or incurred, regardless of when cash is received or disbursed.
- Resources are classified for accounting and reporting purposes into the following four net asset categories: invested in capital assets, restricted nonexpendable, restricted expendable, and unrestricted.
- Revenues and expenses are categorized as operating or non-operating. Significant recurring sources of revenue, including state appropriations, gift contributions, and investment income (loss) are considered non-operating, as required by GASB statements 34 and 35.
- Receivables, cash advances, and unearned revenues for sponsored programs and student tuition and fees are now recorded as deferred revenue. Previously, only unearned cash receipts were recognized as deferred revenue.
- Scholarships and fellowships applied to student accounts are now shown as a reduction of revenues. Previously, all scholarships and fellowships were presented as expenditures.
- Uncollectible accounts are reported as a contra-revenue to the extent that a revenue stream associated with the uncollectible can be identified.

FINANCIAL HIGHLIGHTS

- TTUHSC continues to experience growth in enrollment, totaling 10.3% between the fall 2001 term and the fall 2002 term. The most notable portion of this one-year growth was in the School of Allied Health (up 22.2%). Annual enrollment increases over the last ten years have averaged 8.6%.
- The current economic upturn has resulted in significant realized and unrealized endowment investment gains. Unrealized net changes in the fair value of investments increased net assets by \$9.6 million for the year ended August 31, 2003. Overall net assets increased by \$31.5 million for the year ended August 31, 2003, primarily due to increased investment returns, increased gift revenues, and overall expense reductions.
- Capital asset additions totaled \$23.2 million for the year ended August 31, 2003, excluding \$5.4 million of construction in progress that was completed during the year.

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

Net assets are the difference between assets and liabilities and represent the equity component of the institution. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the organization's financial health when considered with non-financial factors such as enrollment, patient levels, and the condition of facilities. Assets and liabilities are generally measured using current values.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

One notable exception is capital assets, which are stated at historical cost less accumulated depreciation. The table below shows the balances in asset, liability, and net asset categories as of August 31, 2003.

| Texas Tech University Health Sciences Center Summary Statement of Net Assets (in thousands) | |
|--|---------------------|
| Assets: | |
| Current Assets | \$ 155,910.5 |
| Non-Current Investments | 199,525.9 |
| Other Non-Current Assets | - 1,678.5 |
| Capital Assets, net of Accumulated Depreciation | 154,814.7 |
| Total Assets | \$ 508,572.6 |
| Liabilities: | |
| Current Liabilities | 52,357.7 |
| Non-Current Liabilities | 83,185.0 |
| Total Liabilities | 135,542.7 |
| Net Assets: | |
| Invested in Capital Assets, net of Related Debt | 119,004.9 |
| Restricted | 138,922.8 |
| Unrestricted | 115,102.2 |
| Total Net Assets | 373,029.9 |
| Total Liabilities and Net Assets | \$ 508,572.6 |

For more detailed information, see the Statement of Net Assets.

Total net assets increased by \$31.5 million for the year ended August 31, 2003, not considering restatements of net assets resulting from adjustments by Statewide Property Accounting and from capitalization of construction period interest not previously identified.

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents, short-term investments, balances in the state treasury, and various student, patient, and contract receivables. Current liabilities consist primarily of trade accounts payable, deferred revenues, commercial paper notes, and the current portion of bonds payable. The institution's current ratio (current assets to current liabilities) of 2.98 reflects very strong liquidity and a notable short-term ability to meet upcoming obligations.

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Notes to the Financial Statements

August 31, 2003

**NOTE 21 (continued)
Management's Discussion and Analysis**

Non-Current Investments

Non-current investments include both long-term and restricted short-term holdings. The restricted short-term investments are held as endowment funds, either in permanent endowments or funds functioning as endowments. Within the restricted short-term investments, overall reported value increased for the year ended August 31, 2003 by a total of \$1.0 million.

Capital Assets and Related Debt

Significant additional resources continue to be invested in capital assets at TTUHSC. Capital asset additions for the year ended August 31, 2003 amounted to \$23.2 million. Additionally, \$5.4 million of construction in progress was completed during the year and transferred to permanent capital asset accounts.

Capital asset additions were funded by a variety of sources, including private donations and proceeds from debt issuances authorized and funded by the state legislature. Interim financing is provided by issuance of short-term commercial paper notes. No new debt issuances were recognized during the year. All commercial paper balances outstanding and the portions of debt payables expected to mature within one year are recognized as current liabilities. Commercial paper notes typically mature 90 days after issuance.

As of August 31, 2003, total capital assets and related accumulated depreciation amounted to \$300.0 million and \$145.1 million, respectively. Related debt balances included \$32.3 million of bonds payable, current and non-current, and \$4.4 million of commercial paper notes payable.

Additional detailed information regarding capital assets and related debt is included in the Notes to the Financial Statements.

Net Assets

Net assets invested in capital assets, net of related debt, represent capital assets net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction, or improvement of those assets. Restricted non-expendable net assets include permanent endowment funds that are subject to externally imposed restrictions governing their use.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects.

The following table summarizes the composition of net assets at August 31, 2003.

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

Texas Tech University Health Sciences Center Summary of Net Assets (in thousands)

Net Assets:

| | |
|---|----------------------------|
| Invested in Capital Assets, net of Related Debt | \$ 119,004.9 |
| Restricted: | |
| Non-Expendable: | |
| Endowments | 81,729.0 |
| Expendable: | |
| Capital Projects | 7,660.4 |
| Higher Education Assistance Fund | 11,024.6 |
| Other | 38,508.8 |
| Unrestricted | 115,102.2 |
| Total Net Assets | <u>\$ 373,029.9</u> |

For more detailed information, see the Statement of Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents significant operating activities and the results of operations for a period. The following table summarizes the institution's revenues, expenses, and changes in net assets for the year ended August 31, 2003.

Texas Tech University Health Sciences Center Summary Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

Operating Revenues:

| | |
|------------------------------|--------------------|
| Net Student Tuition and Fees | \$ 9,419.5 |
| Net Professional Fees | 62,376.7 |
| Grant Income | 202,950.7 |
| Net Auxiliary Enterprises | 69.9 |
| Other | 2,771.0 |
| Total Operating Revenues | <u>277,587.8</u> |
| Total Operating Expenses | <u>382,322.2</u> |
| Operating Loss | - 104,734.4 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

Texas Tech University Health Sciences Center
Summary Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands) (continued)

| | |
|--|---------------------|
| Non-Operating Revenues and Expenses: | |
| Legislative Revenue (State Appropriations) | \$ 108,256.9 |
| Gift Income | 4,920.8 |
| Net Investment Income | 10,379.1 |
| Net Increase in Fair Value of Investments | 8,183.9 |
| Interest Expense on Capital Asset Financing | - 754.7 |
| Net Other | - 2,588.3 |
| Net Non-Operating Revenues and Expenses | 128,397.7 |
| Other Revenues, Expenses, Gains, and Losses: | |
| Capital Contributions and Recoveries | 2,054.4 |
| Capital Appropriations | 7,735.0 |
| Net Transfers to Other Agencies | - 1,996.9 |
| Net Other Revenues, Expenses, Gains, and Losses | 7,792.5 |
| Total Changes in Net Assets | \$ 31,455.8 |
| Beginning Net Assets (September 1, 2002) | 343,105.3 |
| Restatements | -1,531.1 |
| Ending Net Assets (August 31, 2003) | \$ 373,030.0 |

For more detailed information, see the Statement of Revenues, Expenses, and Changes in Net Assets.

Operating Revenues

Student tuition and fees, a primary source of funding for academic programs, are reflected net of associated discounts and allowances. Student-related revenues increased for 2003, caused primarily by overall increases in student enrollment. Professional fee revenues are principally generated within the practice plans from patients or through contractual arrangements with governmental payers and private insurers. Sponsored program revenues are primarily from governmental and private sources and related to instruction, research, and public service programs that generally provide for the recovery of direct and indirect costs.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

Operating Expenses

The graph and table that follow summarize the composition of operating expenses by programmatic function for the year ending August 31, 2003.

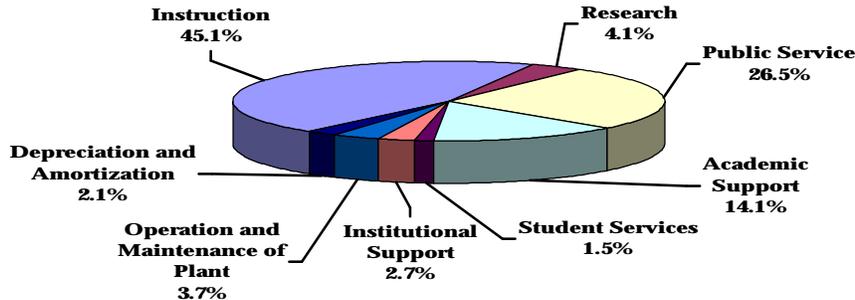


Illustration: Functional Classification of Operating Expenses (\$382.3 million)

Texas Tech University Health Sciences Center Summary of Operating Expenses by Functional Classification (in thousands)

Operating Expenses:

| | |
|------------------------------------|---------------------|
| Instruction | \$ 172,609.9 |
| Research | 15,806.4 |
| Public Service | 101,424.1 |
| Academic Support | 53,791.2 |
| Student Services | 5,868.0 |
| Institutional Support | 10,208.6 |
| Operation and Maintenance of Plant | 14,178.6 |
| Auxiliary Enterprises | 288.6 |
| Depreciation and Amortization | 8,146.8 |
| Total Operating Expenses | \$ 382,322.2 |

The above functional presentation of operating expenses reflects the continued commitment to promoting instruction, research, public service, and student support. Total expenses generally

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued)
Management's Discussion and Analysis

declined for the year ended August 31, 2003. Expenditures for expansion of facilities have been on the rise, resulting in increasing depreciation expenses.

Operating expenses are also reported by natural classification, as summarized in the graph and table below.

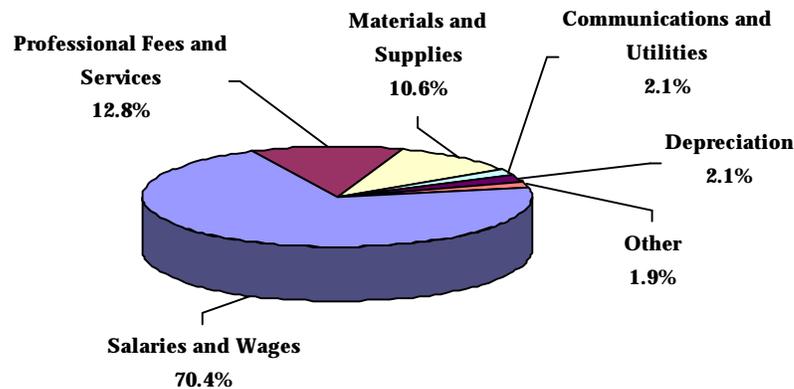


Illustration: Natural Classification of Operating Expenses (\$382.3 million)

Texas Tech University Health Sciences Center
 Summary of Operating Expenses by Natural Classification (in thousands)

| | |
|---------------------------------|-----------------------------------|
| Operating Expenses: | |
| Salaries and Wages | \$ 269,261.7 |
| Professional Fees and Services | 48,993.9 |
| Travel | 2,943.4 |
| Materials and Supplies | 40,536.4 |
| Communications and Utilities | 7,958.9 |
| Repairs and Maintenance | 2,360.2 |
| Rentals and Leases | 2,787.2 |
| Printing and Reproduction | 1,798.9 |
| Depreciation | 8,146.8 |
| Other | -2,465.2 |
| Total Operating Expenses | <u><u>\$ 382,322.2</u></u> |

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued)
Management's Discussion and Analysis

Non-Operating Revenues and Expenses

Numerous significant recurring revenues are considered non-operating, as required by GASB statements 34 and 35. The largest element of recurring non-operating revenue is appropriations from the state, which decreased 1.1% for the year ended August 31, 2003. Gift contributions were received from private sources and used to further research and public service initiatives and to support education. Realized gains and losses from the sale of investments are factored into the reported amount for investment income, whereas unrealized gains and losses are reported as the net change in the fair value of investments. The institution's endowment investment policies are designed to maximize long-term total return while income distribution policies are designed to preserve the value of the endowments and to generate a predictable stream of distributable income. Interest expense on capital asset financings decreased 48.0% for the year ended August 31, 2003, primarily due to capitalization of construction period interest costs.

Other Revenues, Expenses, Gains, and Losses

Capital contributions for the period were comprised primarily of special-purpose gifts for facilities expansion and renovation. The capital appropriations reported represent distributions from the Higher Education Assistance Fund (HEAF), and will continue at the same annual amount through August 31, 2005. Net transfers to other agencies include net transfers in from TTU covering a variety of purposes, net transfers out to TTUSA for administrative support, and minor transfers to and from other state agencies outside of the Texas Tech University System.

Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, and transfers that occurred during the fiscal period. It is an overall indication of the improvement or decline of the institution's financial health and reflects the change in net asset balance between the prior year and current year balance sheet. Net assets increased \$31.5 million for the year ending August 31, 2003, primarily due to increased investment returns, increased gift revenues, and overall expense reductions.

Restatements

Various restatements totaling \$0.6 million caused beginning net asset values to decrease. All of these restatements impacted capital assets and resulted from adjustments made by Statewide Property Accounting and from the capitalization of construction period interest not previously identified. The following table summarizes these restatements for the year ended August 31, 2003.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued) Management's Discussion and Analysis

Texas Tech University Health Sciences Center Summary of Restatement of Beginning Net Assets (in thousands)

Restatements:

| | |
|---|--------------------|
| Inventory Adjustments | \$ -2,070.7 |
| Construction Period Interest Capitalization | 539.6 |
| Total Restatements | \$ -1,531.1 |

For more detailed information, see Note 19.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about financial results by reporting the major sources and uses of cash. The statement provides an assessment of the institution's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the year ending August 31, 2003.

Texas Tech University Health Sciences Center Summary Statement of Cash Flows (in thousands)

| | |
|--|-------------------|
| Cash Inflows from Operating Activities | \$ 287,132.9 |
| Cash Outflows for Operating Activities | - 380,694.2 |
| Net Cash Used for Operating Activities | - 93,561.3 |
| Net Cash Provided by Non-Capital Financing Activities | 120,493.8 |
| Net Cash Used for Capital and Related Financing Activities | - 22,390.5 |
| Net Cash Used for Investing Activities | - 20,600.7 |
| Net Decrease in Cash and Cash Equivalents | - 16,058.7 |
| Beginning Cash and Cash Equivalents | 71,999.9 |
| Ending Cash and Cash Equivalents | \$ 55,941.2 |

For more detailed information, see the Statement of Cash Flows.

Net cash used in operating activities should be viewed in conjunction with net cash provided by non-capital financing activities. State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses, but are required to be classified as non-capital financing activities. Net cash provided by the combination of these two activities amounted to \$26.9 million for the year ended August 31, 2003.

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Notes to the Financial Statements

August 31, 2003

NOTE 21 (continued)
Management's Discussion and Analysis

Net cash used for capital and related financing activities totaled \$22.4 million and reflects a continuing commitment to expand and renovate facilities and to invest in equipment. Net cash used for investing activities of \$20.6 million reflected a general asset shift from cash and cash equivalents to investments. The unrealized losses from the decrease in the fair value of investments is a non-cash transaction for valuation purposes only and does not affect cash flows from investing activities. Cash and cash equivalents decreased \$16.1 million for the year ended August 31, 2003.

ECONOMIC OUTLOOK

Management considers the institution to be well positioned to continue to provide quality service to students, patients, and the research community. Future successes are largely dependent upon cost containment, the ability to recruit and retain the highest quality students, faculty, and staff, and ongoing financial and political support from state government.

Private gift contributions are a significant factor in the growth of academic, research, and patient care units and are an important supplement to the fundamental support provided by the state and through collections from students and patients. Economic pressures affecting donors may also affect the future level of support afforded TTUHSC from corporate and individual giving.

TTUHSC will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that the institution's financial condition is adequate for withstanding and adjusting to future economic uncertainties.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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SUPPORTING SCHEDULES

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Identifying Number</i> | <i>Pass-Through From</i> | | | | <i>Direct Program</i> |
|--|---------------------|-------------------------------|--------------------------|--------------------------|------------------------------|---|---------------------------|
| | | | <i>Agy Nbr</i> | <i>Agency Amount</i> | <i>University Amount</i> | <i>Non- State Agency Amount</i> | |
| U. S. Department of Labor | | | | | | | |
| South Plains Workforce Board Employment and Training Administration | | | | | | | |
| Research Projects | 17.261 | AH-12465-02-06 | | \$ - | \$ - | \$1,463,644 | \$ - |
| Covenant Health Systems | | 03LN020024FN | | - | - | - | - |
| Lubbock Christian University | | 03LN020024F1 | | - | - | - | - |
| South Plains College | | 03LN020024F2 | | - | - | - | - |
| TOTAL U. S. DEPARTMENT OF LABOR | | | | - | - | 1,463,644 | - |
| U. S. General Services Administration | | | | | | | |
| General Services Commission | | | | | | | |
| Donation of Federal Surplus Personal Property | | | | | | | |
| Non-Monetary Assistance (a) | 39.003 | | 303 | 1,998 | - | - | - |
| TOTAL U. S. GENERAL SERVICES ADMINISTRATION | | | | 1,998 | - | - | - |
| U.S. Department of Education | | | | | | | |
| Fund for the Improvement of Post-Secondary Educ. | 84.116 | | | - | - | - | 6,781 |
| Baylor College of Medicine | | 03LM030001FHN | | - | - | 7,316 | - |
| TOTAL U. S. DEPARTMENT OF EDUCATION | | | | - | - | 7,316 | 6,781 |
| U. S. Department of Health & Human Services | | | | | | | |
| Centers of Excellence | 93.157 | | | - | - | - | 668,102 |
| University of Texas at El Paso | | | | - | - | - | - |
| Advanced Education Nursing Grant Program | 93.247 | | | - | - | - | 281,707 |
| University of Texas at Tyler | | | | - | - | - | - |
| Advanced Education Nursing Traineeships | 93.358 | | | - | - | - | 34,490 |
| Basic Nurse Education and Practice Grants | 93.359 | | | - | - | - | 468,351 |
| Medical Library Assistance | 93.879 | | | - | - | - | 54,823 |
| Grants for Residency Training in General | | | | | | | |
| Internal Medicine and/or Gen Pediatrics | 93.884 | | | - | - | - | 31,845 |
| Rural Health Outreach and Rural Network | | | | | | | |
| Development Program | 93.912 | | | - | - | - | 432,145 |
| University of Texas at El Paso | | | | - | - | - | - |
| University of Texas Health Science Center at San Antonio - Health Education and Training Centers | 96.189 | | 745 | - | 183,658 | - | - |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Total Pass- Through From and Direct Program</i> | <i>Pass-Through To</i> | | | <i>Expend- itures</i> | <i>Total Pass- Through To and Expend- itures</i> |
|--|---------------------|--|------------------------|------------------------------------|---|---------------------------|--|
| | | | <i>Agy Nbr</i> | <i>State Agency Amount</i> | <i>Non- State Agency Amount</i> | | |
| U. S. Department of Labor | | | | | | | |
| South Plains Workforce Board Employment and Training Administration | | | | | | | |
| Research Projects | 17.261 | \$ 1,463,644 | | \$ - | \$ - | \$ 930,790 | \$ 930,790 |
| Covenant Health Systems | | - | | - | 351,187 | - | 351,187 |
| Lubbock Christian University | | - | | - | 117,626 | - | 117,626 |
| South Plains College | | - | | - | 64,041 | - | 64,041 |
| TOTAL U. S. DEPARTMENT OF LABOR | | 1,463,644 | | - | 532,854 | 930,790 | 1,463,644 |
| U. S. General Services Administration | | | | | | | |
| General Services Commission | | | | | | | |
| Donation of Federal Surplus Personal Property | | | | | | | |
| Non-Monetary Assistance (a) | 39.003 | 1,998 | | - | - | 1,998 | 1,998 |
| TOTAL U. S. GENERAL SERVICES ADMINISTRATION | | 1,998 | | - | - | 1,998 | 1,998 |
| U.S. Department of Education | | | | | | | |
| Fund for the Improvement of Post-Secondary Educ. | 84.116 | 6,781 | | - | - | 6,781 | 6,781 |
| Baylor College of Medicine | | 7,316 | | - | - | 7,316 | 7,316 |
| TOTAL U. S. DEPARTMENT OF EDUCATION | | 14,097 | | - | - | 14,097 | 14,097 |
| U. S. Department of Health & Human Services | | | | | | | |
| Centers of Excellence | 93.157 | 668,102 | | - | - | 536,980 | 536,980 |
| University of Texas at El Paso | | - | 724 | 131,122 | - | - | 131,122 |
| Advanced Education Nursing Grant Program | 93.247 | 281,707 | | - | - | 198,354 | 198,354 |
| University of Texas at Tyler | | - | 750 | 83,353 | - | - | 83,353 |
| Advanced Education Nursing Traineeships | 93.358 | 34,490 | | - | - | 34,490 | 34,490 |
| Basic Nurse Education and Practice Grants | 93.359 | 468,351 | | - | - | 468,351 | 468,351 |
| Medical Library Assistance | 93.879 | 54,823 | | - | - | 54,823 | 54,823 |
| Grants for Residency Training in General | | | | | | | |
| Internal Medicine and/or Gen Pediatrics | 93.884 | 31,845 | | - | - | 31,845 | 31,845 |
| Rural Health Outreach and Rural Network | | | | | | | |
| Development Program | 93.912 | 432,145 | | - | - | 116,203 | 116,203 |
| University of Texas at El Paso | | - | 724 | 315,942 | - | - | 315,942 |
| University of Texas Health Science Center at San Antonio - Health Education and Training Centers | 96.189 | 183,658 | | - | - | 108,977 | 108,977 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Schedule 1A: Schedule of Federal Financial Assistance *For the Year Ended August 31, 2003*

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Identifying Number</i> | <i>Agy Nbr</i> | <i>Pass-Through From</i> | | | <i>Direct Program</i> |
|---|---------------------|-------------------------------|--------------------|--------------------------|------------------------------|---|---------------------------|
| | | | | <i>Agency Amount</i> | <i>University Amount</i> | <i>Non- State Agency Amount</i> | |
| U. S. Department of Health and | | | | | | | |
| Human Services (continued) | | | | | | | |
| University of Texas at El Paso | | | | \$ - | \$ - | \$ - | \$ - |
| University of North Texas Health Science Center | | | | - | - | - | - |
| Texas Tech University / Allied Health Special Projects | 93.191 | | 733 | - | 13,907 | - | - |
| University of Texas at El Paso | | | | | | | |
| Advanced Education Nursing Grant Program | 93.247 | | 724 | - | 148,224 | - | - |
| University of Texas Medical Branch at Galveston | | | | | | | |
| Cancer Research Manpower | 93.398 | | 723 | - | 3,876 | - | - |
| Texas Workforce Commission | | | | | | | |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 1002CQC002 | | - | - | 54,720 | - |
| TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | - | 349,665 | 54,720 | 1,971,463 |
| STUDENT FINANCIAL ASSISTANCE CLUSTER | | | | | | | |
| U. S. Department of Education | | | | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | | - | - | - | 31,555 |
| Federal Family Education Loans | | | | | | | |
| New Loans Processed | 84.032 | | | - | - | - | 25,339,063 |
| Federal Perkins Loan Program | | | | | | | |
| New Loans Processed | 84.038 | | | - | - | - | 382,119 |
| Administrative Costs Recovered | 84.038 | | | - | - | - | 21,319 |
| Federal Pell Grant Program | 84.063 | | | - | - | - | 308,057 |
| TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER | | | | - | - | - | 26,082,113 |
| RESEARCH AND DEVELOPMENT (R&D) CLUSTER | | | | | | | |
| U. S. Department of Agriculture | | | | | | | |
| Texas Tech University | | | | | | | |
| Initiative for Future Agriculture and Food Systems | 10.302 | | 733 | - | 22,319 | - | - |
| U. S. Department of Defense | | | | | | | |
| Texas Tech University | 12.000 | DOD - SBCCOM | 733 | - | 754,897 | - | - |
| U. S. Department of Education | | | | | | | |
| National Institute on Disability and Rehabilitation | | | | | | | |
| Research | 84.133 | | | - | - | - | 6,028 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Schedule 1A: Schedule of Federal Financial Assistance *For the Year Ended August 31, 2003*

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Total Pass- Through From and Direct Program</i> | <i>Pass-Through To</i> | | | <i>Expend- itures</i> | <i>Total Pass- Through To and Expend- itures</i> |
|---|---------------------|--|------------------------|------------------------------------|---|---------------------------|--|
| | | | <i>Agy Nbr</i> | <i>State Agency Amount</i> | <i>Non- State Agency Amount</i> | | |
| U. S. Department of Health and | | | | | | | |
| Human Services (continued) | | | | | | | |
| University of Texas at El Paso | | \$ - | 724 | \$ 70,798 | \$ - | \$ - | \$ 70,798 |
| University of North Texas Health Science Center | | - | 763 | 3,882 | - | - | 3,882 |
| Texas Tech University / Allied Health Special Projects | 93.191 | 13,907 | | - | - | 13,907 | 13,907 |
| University of Texas at El Paso | | | | | | | |
| Advanced Education Nursing Grant Program | 93.247 | 148,224 | | - | - | 148,224 | 148,224 |
| University of Texas Medical Branch at Galveston | | | | | | | |
| Cancer Research Manpower | 93.398 | 3,876 | | - | - | 3,876 | 3,876 |
| Texas Workforce Commission | | | | | | | |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 54,720 | | - | - | 54,721 | 54,721 |
| TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | 2,375,848 | | 605,097 | - | 1,770,751 | 2,375,848 |
| STUDENT FINANCIAL ASSISTANCE CLUSTER | | | | | | | |
| U. S. Department of Education | | | | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | 31,555 | | - | - | 31,555 | 31,555 |
| Federal Family Education Loans | | | | | | | |
| New Loans Processed | 84.032 | 25,339,063 | | - | - | 25,339,063 | 25,339,063 |
| Federal Perkins Loan Program | | | | | | | |
| New Loans Processed | 84.038 | 382,119 | | - | - | 382,119 | 382,119 |
| Administrative Costs Recovered | 84.038 | 21,319 | | - | - | 21,319 | 21,319 |
| Federal Pell Grant Program | 84.063 | 308,057 | | - | - | 308,057 | 308,057 |
| TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER | | 26,082,113 | | - | - | 26,082,113 | 26,082,113 |
| RESEARCH AND DEVELOPMENT (R&D) CLUSTER | | | | | | | |
| U. S. Department of Agriculture | | | | | | | |
| Texas Tech University | | | | | | | |
| Initiative for Future Agriculture and Food Systems | 10.302 | 22,319 | | - | - | 22,319 | 22,319 |
| U. S. Department of Defense | | | | | | | |
| Texas Tech University | 12.000 | 754,897 | | - | - | 754,897 | 754,897 |
| U. S. Department of Education | | | | | | | |
| National Institute on Disability and Rehabilitation | | | | | | | |
| Research | 84.133 | 6,028 | | - | - | 6,028 | 6,028 |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Pass-Through From</i> | | | | | <i>Non- State Agency Amount</i> | <i>Direct Program</i> |
|---|---------------------|-------------------------------|--------------------|--------------------------|------------------------------|--------------------------|---|---------------------------|
| | | <i>Identifying Number</i> | <i>Agy Nbr</i> | <i>Agency Amount</i> | <i>University Amount</i> | <i>Agency Amount</i> | | |
| U. S. Department of Health and | | | | | | | | |
| Human Services | | | | | | | | |
| Special Programs for the Aging | | | | | | | | |
| Title IV and Title II Discretionary Projects | 93.048 | | | \$ - | \$ - | \$ - | \$ 649,330 | |
| Maternal & Child Health Federal Consolidated Programs | 93.110 | | | - | - | - | 69,058 | |
| Biological Response to Environmental Health Hazards | 93.113 | | | - | - | - | 95,453 | |
| Wichita State University | | 99LMF041N | | - | - | - | - | |
| Oral Diseases and Disorders Research | 93.121 | | | - | - | - | 276,283 | |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | | | - | - | - | 25,373 | |
| Mental Health Research Grants | 93.242 | | | - | - | - | 969 | |
| Alcohol National Service Research | | | | | | | | |
| Awards for Research Training | 93.272 | | | - | - | - | 47,007 | |
| Alcohol Research Programs | 93.273 | | | - | - | - | 572,929 | |
| University of North Texas Health Sciences Center | | | | - | - | - | - | |
| Comparative Medicine | 93.306 | | | - | - | - | 184,952 | |
| University of Houston | | | | - | - | - | - | |
| Biomedical Technology | 93.371 | | | - | - | - | 12,745 | |
| Cancer Cause and Prevention Research | 93.393 | | | - | - | - | 179,162 | |
| Cancer Treatment Research | 93.395 | | | - | - | - | 216,678 | |
| Cancer Biology Research | 93.396 | | | - | - | - | 94,090 | |
| Cell Biology and Biophysics Research | 93.821 | | | - | - | - | 30,698 | |
| Heart and Vascular Diseases Research | 93.837 | | | - | - | - | 988,227 | |
| Texas Tech University | | | | - | - | - | - | |
| University of Iowa | | 01LM000013F3 | | - | - | - | - | |
| Texas A&M Research Foundation | | | | - | - | - | - | |
| Diabetes, Endocrinology & Metabolism Research | 93.847 | | | - | - | - | 40,899 | |
| Digestive Diseases and Nutrition Research | 93.848 | | | - | - | - | 31,565 | |
| Extramural Research Programs in the Neurosciences | | | | | | | | |
| and Neurological Disorders | 93.853 | | | - | - | - | 371,622 | |
| University of South Florida | | 03LM020028N | | - | - | - | - | |
| Biological Basis Research in the Neurosciences | 93.854 | | | - | - | - | 91,120 | |
| Microbiology and Infectious Diseases Research | 93.856 | | | - | - | - | 416,569 | |
| Genetics and Development Biology Research and | | | | | | | | |
| Research Training | 93.862 | | | - | - | - | 179,312 | |
| Population Research | 93.864 | | | - | - | - | 1,650,797 | |

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Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Total Pass- Through From and Direct Program</i> | <i>Pass-Through To</i> | | | <i>Expend- itures</i> | <i>Total Pass- Through To and Expend- itures</i> |
|---|---------------------|--|------------------------|------------------------------------|---|---------------------------|--|
| | | | <i>Agy Nbr</i> | <i>State Agency Amount</i> | <i>Non- State Agency Amount</i> | | |
| U. S. Department of Health and | | | | | | | |
| Human Services | | | | | | | |
| Special Programs for the Aging | | | | | | | |
| Title IV and Title II Discretionary Projects | 93.048 | \$ 649,330 | | \$ - | \$ - | \$ 649,330 | \$ 649,330 |
| Maternal & Child Health Federal Consolidated Programs | 93.110 | 69,058 | | - | - | 69,058 | 69,058 |
| Biological Response to Environmental Health Hazards | 93.113 | 95,453 | | - | - | 88,280 | 88,280 |
| Wichita State University | | - | | - | 7,172 | - | 7,172 |
| Oral Diseases and Disorders Research | 93.121 | 276,283 | | - | - | 276,283 | 276,283 |
| Research on Healthcare Costs, Quality and Outcomes | 93.226 | 25,373 | | - | - | 25,373 | 25,373 |
| Mental Health Research Grants | 93.242 | 969 | | - | - | 969 | 969 |
| Alcohol National Service Research | | | | | | | |
| Awards for Research Training | 93.272 | 47,007 | | - | - | 47,007 | 47,007 |
| Alcohol Research Programs | | | | | | | |
| University of North Texas Health Sciences Center | | - | 763 | 41,025 | - | - | 41,025 |
| Comparative Medicine | 93.306 | 184,952 | | - | - | 181,766 | 181,766 |
| University of Houston | | - | 730 | 3,185 | - | - | 3,185 |
| Biomedical Technology | 93.371 | 12,745 | | - | - | 12,745 | 12,745 |
| Cancer Cause and Prevention Research | 93.393 | 179,162 | | - | - | 179,162 | 179,162 |
| Cancer Treatment Research | 93.395 | 216,678 | | - | - | 216,678 | 216,678 |
| Cancer Biology Research | 93.396 | 94,090 | | - | - | 94,090 | 94,090 |
| Cell Biology and Biophysics Research | 93.821 | 30,698 | | - | - | 30,698 | 30,698 |
| Heart and Vascular Diseases Research | 93.837 | 988,227 | | - | - | 914,927 | 914,927 |
| Texas Tech University | | - | 733 | 16,720 | - | - | 16,720 |
| University of Iowa | | - | | - | 26,381 | - | 26,381 |
| Texas A&M Research Foundation | | - | 14 | 30,198 | - | - | 30,198 |
| Diabetes, Endocrinology & Metabolism Research | 93.847 | 40,899 | | - | - | 40,899 | 40,899 |
| Digestive Diseases and Nutrition Research | 93.848 | 31,565 | | - | - | 31,565 | 31,565 |
| Extramural Research Programs in the Neurosciences | | | | | | | |
| and Neurological Disorders | 93.853 | 371,622 | | - | - | 333,463 | 333,463 |
| University of South Florida | | - | | - | 38,160 | - | 38,160 |
| Biological Basis Research in the Neurosciences | 93.854 | 91,120 | | - | - | 91,120 | 91,120 |
| Microbiology and Infectious Diseases Research | 93.856 | 416,569 | | - | - | 416,569 | 416,569 |
| Genetics and Development Biology Research and | | | | | | | |
| Research Training | 93.862 | 179,312 | | - | - | 179,312 | 179,312 |
| Population Research | 93.864 | 1,650,797 | | - | - | 1,650,797 | 1,650,797 |

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Schedule 1A: Schedule of Federal Financial Assistance *For the Year Ended August 31, 2003*

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Identifying Number</i> | <i>Pass-Through From</i> | | | | <i>Direct Program</i> |
|--|---------------------|-------------------------------|--------------------------|--------------------------|------------------------------|---|---------------------------|
| | | | <i>Agy Nbr</i> | <i>Agency Amount</i> | <i>University Amount</i> | <i>Non- State Agency Amount</i> | |
| U. S. Department of Health and | | | | | | | |
| Human Services (continued) | | | | | | | |
| Aging Research | 93.866 | | | \$ - | \$ - | \$ - | \$ 50,198 |
| Fogarty International Research Collaboration Award | 93.934 | | | - | - | - | 15,767 |
| Cooperative Agreement for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | 93.988 | | | - | - | - | 1,084,491 |
| University of Texas at El Paso Biometry and Risk Estimation: Health Risks from Environmental Exposures | 93.115 | | 724 | - | 54,806 | - | - |
| Dr. Andres M Lugo | | 02EM010066FH3 | | - | - | - | - |
| University of Texas at El Paso Mental Health Research Grants | 93.242 | | 724 | - | 2,016 | - | - |
| University of Texas at El Paso Advanced Education Nursing Grant | 93.247 | | 724 | - | 373 | - | - |
| University of Texas Health Science Center at Houston Occupational Safety and Health Training Grants | 93.263 | | 744 | - | 5,673 | - | - |
| Other Non-State Entities | | | | | | | |
| Kentucky Research Foundation Bioengineering Research | 93.287 | 02AP010085FN | | - | - | 16,084 | - |
| Oklahoma University Health Sciences Center Comparative Medicine | 93.306 | 02LM020997FN | | - | - | 175,252 | - |
| Loyola University of Chicago Heart and Vascular Diseases Research | 93.837 | 2R01HL057832-06 | | - | - | 59,232 | - |
| University of Wisconsin System Blood Diseases and Resources Research | 93.839 | 02LM970080FHA | | - | - | 108,054 | - |
| University of South Florida Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 03LM020034FHN | | - | - | 72,419 | - |
| Oregon & Health Science University Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 02AP010096FN | | - | - | 8,932 | - |

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Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Total Pass- Through From and Direct Program</i> | <i>Pass-Through To</i> | | | <i>Expend- itures</i> | <i>Total Pass- Through To and Expend- itures</i> |
|---|---------------------|--|------------------------|------------------------------------|---|---------------------------|--|
| | | | <i>Agy Nbr</i> | <i>State Agency Amount</i> | <i>Non- State Agency Amount</i> | | |
| U. S. Department of Health and | | | | | | | |
| Human Services (continued) | | | | | | | |
| Aging Research | 93.866 | \$ 50,198 | | \$ - | \$ - | \$ 50,198 | \$ 50,198 |
| Fogarty International Research Collaboration Award | 93.934 | 15,767 | | - | - | 15,767 | 15,767 |
| Cooperative Agreement for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | 93.988 | 1,084,491 | | - | - | 1,084,491 | 1,084,491 |
| University of Texas at El Paso Biometry and Risk Estimation: Health Risks from Environmental Exposures Dr. Andres M Lugo | 93.115 | 54,806 | | - | - | 38,682 | 38,682 |
| | | - | | - | 16,124 | - | 16,124 |
| University of Texas at El Paso Mental Health Research Grants | 93.242 | 2,016 | | - | - | 2,016 | 2,016 |
| University of Texas at El Paso Advanced Education Nursing Grant | 93.247 | 373 | | - | - | 373 | 373 |
| University of Texas Health Science Center at Houston Occupational Safety and Health Training Grants | 93.263 | 5,673 | | - | - | 5,673 | 5,673 |
| Other Non-State Entities | | | | | | | |
| Kentucky Research Foundation Bioengineering Research | 93.287 | 16,084 | | - | - | 16,084 | 16,084 |
| Oklahoma University Health Sciences Center Comparative Medicine | 93.306 | 175,252 | | - | - | 175,252 | 175,252 |
| Loyola University of Chicago Heart and Vascular Diseases Research | 93.837 | 59,232 | | - | - | 59,232 | 59,232 |
| University of Wisconsin System Blood Diseases and Resources Research | 93.839 | 108,054 | | - | - | 108,054 | 108,054 |
| University of South Florida Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 72,419 | | - | - | 72,419 | 72,419 |
| Oregon & Health Science University Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | 8,932 | | - | - | 8,932 | 8,932 |

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Schedule 1A: Schedule of Federal Financial Assistance *For the Year Ended August 31, 2003*

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Identifying Number</i> | <i>Agy Nbr</i> | <i>Pass-Through From</i> | | | <i>Direct Program</i> |
|---|---------------------|-------------------------------|--------------------|--------------------------|------------------------------|---|---------------------------|
| | | | | <i>Agency Amount</i> | <i>University Amount</i> | <i>Non- State Agency Amount</i> | |
| U. S. Department of Health and | | | | | | | |
| Human Services (continued) | | | | | | | |
| University of New Mexico Health Science Center | | | | | | | |
| Microbiology and Infectious Diseases | 93.856 | 02EM020023FH | | \$ - | \$ - | \$ 7,540 | \$ - |
| Brigham and Women's Hospital | | | | | | | |
| Microbiology and Infectious Diseases | 93.856 | 02LM010978FN | | - | - | 28,331 | - |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | | | - | 840,084 | 475,844 | 7,381,322 |
| OTHER CLUSTERS | | | | | | | |
| Highway Safety Cluster | | | | | | | |
| Texas Department of Transportation | | | | | | | |
| State and Community Highway Safety | 20.600 | | 601 | 160,172 | - | - | - |
| TOTAL OTHER CLUSTERS | | | | 160,172 | - | - | - |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | 162,170 | 1,189,749 | 2,001,524 | 35,441,679 |

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Schedule 1A: Schedule of Federal Financial Assistance For the Year Ended August 31, 2003

| <i>Federal Grantor / Pass-Through Grantor / Program Title</i> | <i>CFDA Nbr</i> | <i>Total Pass- Through From and Direct Program</i> | <i>Pass-Through To</i> | | <i>Expend- itures</i> | <i>Total Pass- Through To and Expend- itures</i> |
|---|---------------------|--|------------------------|------------------------------------|---------------------------|--|
| | | | <i>Agy Nbr</i> | <i>State Agency Amount</i> | | |
| U. S. Department of Health and | | | | | | |
| Human Services (continued) | | | | | | |
| University of New Mexico Health Science Center | | | | | | |
| Microbiology and Infectious Diseases | 93.856 | \$ 7,540 | | \$ - | \$ - | \$ 7,540 |
| Brigham and Women's Hospital | | | | | | |
| Microbiology and Infectious Diseases | 93.856 | 28,331 | | - | 28,333 | 28,333 |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | 8,697,250 | | 91,128 | 87,837 | 8,518,285 |
| OTHER CLUSTERS | | | | | | |
| Highway Safety Cluster | | | | | | |
| Texas Department of Transportation | | | | | | |
| State and Community Highway Safety | 20.600 | 160,172 | | - | 160,172 | 160,172 |
| TOTAL OTHER CLUSTERS | | 160,172 | | - | 160,172 | 160,172 |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | 38,795,122 | | 696,225 | 620,691 | 37,478,206 |
| | | (b) | | | | (b) |

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Schedule 1A: Schedule of Federal Financial Assistance *For the Year Ended August 31, 2003*

(a) Non-Monetary Assistance

The "Donation of Federal Surplus Personal Property" is presented at 23.3% of the original federal acquisition cost of \$8,576. The surplus property is passed through from the General Services Commission (state agency 303). The federal grantor is the U. S. General Services Administration (GSA) and the federal CFDA number is 39.003.

(b) Reconciliation

| | | |
|------------------------------------|----|------------|
| Federal Revenues (SRECNA) | \$ | 11,969,129 |
| Reconciling Items: | | |
| Federal Surplus Property | | 1,998 |
| New Loans Processed | | 25,721,182 |
| Pass-Throughs | | 1,316,916 |
| Refund to Grantors | | (661) |
| Perkins Loan Revenue | | (213,442) |
| | | (213,442) |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | \$ | 38,795,122 |

(c) Student Loans Processed and Administrative Costs Recovered

| <i>Federal Grantor / CFDA Number / Program Title</i> | <i>New Loans Processed</i> | <i>Administrative Costs Recovered</i> | <i>Total</i> | <i>Ending Balances of Previous Years' Loans</i> |
|--|--------------------------------|---|---------------|---|
| U. S. Department of Health and Human Services | | | | |
| 93.342 Health Professions Student Loans | \$ - | \$ - | \$ - | \$ 179,627 |
| 93.364 Nursing Student Loans | - | - | - | 60,809 |
| TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | - | - | - | 240,436 |
| U. S. Department of Education | | | | |
| 84.032 Federal Family Education Loan Program | 25,339,063 | - | 25,339,063 | - |
| 84.038 Federal Perkins Loan Program | 382,119 | 21,319 | 403,438 | 1,633,399 |
| TOTAL U. S. DEPARTMENT OF EDUCATION | 25,721,182 | 21,319 | 25,742,501 | 1,633,399 |
| TOTAL STUDENT LOANS | \$ 25,721,182 | \$ 21,319 | \$ 25,742,501 | \$ 1,873,835 |

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Schedule 1B: Schedule of State Grant Pass-Throughs from / to State Agencies For the Year Ended August 31, 2003

Pass-Throughs From:

| | |
|---|--------------|
| Texas Higher Education Coordinating Board (Agency Number 781) | |
| Family Practice Residency | \$ 1,186,042 |
| Family Practice Rural and Public Health Rotation | 49,566 |
| Financial Aid Professional Nursing | 5,000 |
| Resident Physician Compensation Program | 400,619 |
| Graduate Medical Education | 838,167 |
| Texas Grant Program | 25,170 |
| Health Related Nursing Growth | 162,655 |
| Advanced Technology Program | 11,140 |
| Primary Care Residency Program | 330,000 |
| Roberta High Memorial Pharmacy Research | 4,000 |
| Nursing and Allied Health | 132,068 |
| Minority Health Research / Education | 159,496 |
| | <hr/> |
| TOTAL STATE GRANT PASS-THROUGHS | \$ 3,303,923 |
| | <hr/> <hr/> |

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

Schedule 3: Reconciliation of Cash in State Treasury

As of August 31, 2003

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| Local Revenue (Fund 0239) | \$ 2,237,370 | \$ - | \$ 2,237,370 |
| Permanent Health Fund - El Paso Campus (Fund 0820) | 300,142 | - | 300,142 |
| Permanent Health Fund - Other Campuses (Fund 0821) | 150,939 | - | 150,939 |
| | | | |
| TOTAL CASH IN STATE TREASURY (STATEMENT OF NET ASSETS) | <u>\$ 2,688,451</u> | <u>\$ -</u> | <u>\$ 2,688,451</u> |