

**TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER**



**Annual Financial Report
Fiscal Year 2004**

**TEXAS TECH UNIVERSITY HEALTH SCIENCES
CENTER**

**Annual Financial Report
U N A U D I T E D**

Table of Contents
August 31, 2004

LETTERS OF TRANSMITTAL	1
ORGANIZATIONAL DATA.....	3
ENROLLMENT DATA.....	4

FINANCIAL STATEMENTS:

Statement of Net Assets.....	6
Statement of Revenues, Expenses, and Changes in Net Assets	8
Matrix of Operating Expenses by Natural Classification	10
Statement of Cash Flows	12

NOTES TO THE FINANCIAL STATEMENTS:

Note 1	Summary of Significant Accounting Policies.....	17
Note 2	Capital Assets.....	23
Note 3	Deposits, Investments, and Repurchase Agreements.....	24
Note 4	Short Term Debt.....	28
Note 5	Summary of Long Term Liabilities.....	28
Note 6	Capital Leases.....	30
Note 7	Operating Leases	30
Note 8	Interfund Balances / Activity	30
Note 9	Contingent Liabilities.....	31
Note 10	Continuance Subject to Review	32
Note 11	Risk Financing and Related Insurance.....	32
Note 12	Segment Information.....	33
Note 13	Bonded Indebtedness.....	33
Note 14	Subsequent Events.....	36
Note 15	Related Parties.....	36
Note 16	Stewardship, Compliance, and Accountability	36
Note 17	The Financial Reporting Entity	36
Note 18	Restatement of Net Assets.....	36
Note 19	Employee Retirement Plans	37
Note 20	Deferred Compensation.....	38
Note 21	Donor Restricted Endowments.....	39
Note 22	Management Discussion and Analysis.....	40
Note 23	Post Employment Health Care and Life Insurance Benefits.....	48
Note 24	Special or Extraordinary Items	48
Note 25	Disaggregation of Receivable and Payable Balances	49
Note 26	Medical Patient Revenues	51

**TEXAS TECH UNIVERSITY HEALTH SCIENCES
CENTER**

**Annual Financial Report
U N A U D I T E D**

Table of Contents
August 31, 2004

SUPPORTING SCHEDULES:

Schedule 1A: Schedule of Expenditures of Federal Awards	54
Schedule 1B: Schedule of State Grant Pass-Throughs from / to State Agencies.....	67
Schedule 3: Reconciliation of Cash in State Treasury	68



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Office of the President

3601 4th Street
Lubbock, Texas 79430
(806) 743-2900
Fax (806) 743-2910

November 10, 2004

The Honorable Rick Perry
Governor of Texas

The Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts

Mr. Lawrence F. Alwin, CPA
State Auditor

Dr. Raymund A. Paredes
Commissioner, Texas Higher Education Coordinating Board

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

To Agency Heads Addressed:

The *Annual Financial Report* for 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*. The accompanying *Annual Financial Report* will be considered for audit as part of the audit of the State of Texas *Comprehensive Annual Financial Report*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report. This report is intended to present a complete picture of the fiscal affairs of TTUHSC for the year ended August 31, 2004.

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

Sincerely,

A handwritten signature in black ink, appearing to read "M. Roy Wilson".

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



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Office of Accounting Services
Box 5868
Lubbock, Texas 79408-5868
(806) 743-1888
Fax (806) 743-1894

November 10, 2004

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

Dear Dr. Wilson:

Submitted herein is the *Annual Financial Report* for Texas Tech University Health Sciences Center for the fiscal year ended August 31, 2004.

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 Texas 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 of Texas *Comprehensive Annual Financial Report*; therefore, an opinion has not been expressed on the statements and related information contained in the accompanying report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Downen", written over a horizontal line.

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

Approved:

Michael Crowder, CPA
Associate Vice President for Business Affairs

A handwritten signature in black ink, appearing to read "Michael Crowder", written over a horizontal line.

Elmo M. Cavin
Executive Vice President for Finance & Administration

A handwritten signature in black ink, appearing to read "Elmo M. Cavin", written over a horizontal line.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Organizational Data
August 31, 2004

BOARD OF REGENTS

Term Expires

Carin Marcy Barth..... January 31, 2005 Houston
C. Robert Black January 31, 2007 Horseshoe Bay
E.R. (Dick) Brooks January 31, 2005 Granbury
F. Scott Dueser February 1, 2009 Abilene
L. Frederick (Rick) Francis January 31, 2007 El Paso
J. Frank Miller, III January 31, 2009 Dallas
Brian C. Newby January 31, 2005 Fort Worth
Windy Sitton February 1, 2009 Lubbock
Bob L. Stafford February 1, 2007 Amarillo

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 for Finance & Administration
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 U N A U D I T E D

Enrollment Data

August 31, 2004

<i>TYPE OF STUDENT</i>	<i>STUDENTS BY SEMESTER</i>		
	<i>FALL</i>	<i>SPRING</i>	<i>SUMMER</i>
	<i>2003</i>	<i>2004</i>	<i>2004</i>
Texas Resident	1,868	1,829	1,160
Out-of-State	89	91	74
Foreign	10	4	5
Hazelwood Act	23	22	21
Military Personnel and Dependents	2	2	2
Teachers, Professors, and Dependents	-	1	1
Competitive Scholarship	59	58	31
Deaf or Blind	5	4	2
Teaching Assistant, Research Assistant, and Dependents	35	38	34
Adjacent County	14	14	6
Total Students	2,105	2,063	1,336
<i>PROGRAM</i>			
Medical	511	508	-
Graduate Medical	89	84	74
Nursing	346	341	413
Graduate Nursing	93	108	113
Allied Health	178	168	76
Graduate Allied Health	550	529	580
Pharmacy	338	325	80
Total Students	2,105	2,063	1,336

ENROLLMENT TREND DATA

<i>TERM</i>	<i>STUDENTS</i>	<i>SEMESTER</i>
		<i>HOURS</i>
Fall 2003	2,105	34,548
Fall 2002	1,972	32,569
Fall 2001	1,788	28,822
Fall 2000	1,719	28,978
Fall 1999	1,649	26,153
Fall 1998	1,547	26,261
Fall 1997	1,548	25,870
Fall 1996	1,514	23,240
Fall 1995	1,326	20,389
Fall 1994	1,276	19,817

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report
U N A U D I T E D

FINANCIAL STATEMENTS

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Statement of Net Assets

As of August 31, 2004

ASSETS

Current Assets

Unrestricted Cash and Cash Equivalents	\$ 84,285,948
Restricted Cash and Cash Equivalents	68,053,631
Balance of Legislative Appropriations	17,450,804
Accounts Receivable	
Federal Receivable	1,588,640
Interest and Dividends Receivable	681,597
Patient Accounts Receivable	42,752,611
less Allowances for Uncollectibles and Adjustments	(26,958,502)
Student Accounts Receivable	379,375
less Allowance for Uncollectibles	(35,759)
Contract Accounts Receivable	8,293,476
less Allowance for Uncollectibles	(124,494)
Pledged Gifts Receivable	815,368
less Allowance for Uncollectibles	(40,768)
Other	212,332
less Allowance for Uncollectibles	(87,982)
Due from Other State Agencies	3,794,314
Merchandise Inventories	687,635
Prepaid Expenses	304,354
Loans and Notes Receivable	276,829
less Allowance for Uncollectibles and Cancellations	(29,102)
Total Current Assets	<u>202,300,307</u>

Non-Current Assets

Restricted Cash and Cash Equivalents	2,464,939
Pledged Gifts Receivable	263,297
less Allowance for Uncollectibles	(13,165)
Loans and Notes Receivable	2,544,836
less Allowance for Uncollectibles and Cancellations	(194,983)
Investments	216,130,479
Non-Depreciable Capital Assets	59,808,373
Depreciable Capital Assets	265,450,322
less Accumulated Depreciation	(151,363,131)
Total Non-Current Assets	<u>395,090,967</u>
TOTAL ASSETS	<u>\$ 597,391,274</u>

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Statement of Net Assets

As of August 31, 2004

LIABILITIES

Current Liabilities

Accounts Payable	\$ 18,537,591
Payroll Payable	20,714,015
Unclaimed Property Due to the State Treasury	28,695
Deferred Revenue	5,652,380
Bonds Payable	1,326,849
Claims Payable	2,937,244
Compensable Leave Payable	3,272,164
Payable from Restricted Assets	4,998,852
Funds Held for Others	177,732
Other	219,963

Total Current Liabilities 57,865,485

Non-Current Liabilities

Unclaimed Property Due to the State Treasury	74,617
Bonds Payable	93,997,863
Claims Payable	26,435,198
Compensable Leave Payable	13,088,654
Other	3,480

Total Non-Current Liabilities 133,599,812

TOTAL LIABILITIES 191,465,297

NET ASSETS

Invested in Capital Assets, Net of Related Debt	132,683,021
Restricted	
Capital Projects	6,353,987
Funds Held as Permanent Investments	
Nonexpendable	73,040,834
Other	17,674,391
Unrestricted	176,173,744

TOTAL NET ASSETS 405,925,977

TOTAL LIABILITIES AND NET ASSETS \$ 597,391,274

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report UNAUDITED

Statement of Revenues, Expenses, and Changes in Net Assets *For the Year Ended August 31, 2004*

Operating Revenues	
Student Tuition and Fees - Unpledged	\$ 2,745,981
less Discounts and Allowances	(2,397,406)
less Uncollectibles	(4,281)
Student Tuition and Fees - Pledged	10,316,285
Net Professional Fees	117,426,301
less Uncollectibles	(32,181,103)
Net Sales and Services of Auxiliary Enterprises - Pledged	473,400
Net Other Sales and Services - Unpledged	1,654,265
Net Other Sales and Services - Pledged	1,330,094
Federal Grant and Contract Revenues - Unpledged	10,217,158
Federal Grant and Contract Revenues - Pledged	2,275,255
Federal Grant and Contract Pass-Through Revenues	134,914
State Grant and Contract Revenues - Unpledged	81,673,063
State Grant and Contract Revenues - Pledged	58,786
State Grant and Contract Pass-Through Revenues from Other State Agencies	2,187,565
Local Grant and Contract Revenues - Unpledged	58,265,215
Local Grant and Contract Revenues - Pledged	673,129
Private Grant and Contract Revenues - Unpledged	17,730,261
Private Grant and Contract Revenues - Pledged	3,909,062
Total Operating Revenues	276,487,944
Operating Expenses	
Instruction	151,508,713
Research	16,381,431
Public Service	98,618,405
Academic Support	64,161,946
Student Services	6,250,235
Institutional Support	19,475,537
Operation and Maintenance of Plant	16,625,109
Auxiliary Enterprises	318,142
Depreciation	8,774,535
Total Operating Expenses	382,114,053
Operating Loss	(105,626,109)
Non-Operating Revenues and Gains	
Legislative Appropriations Revenue	119,906,789
Federal Grant and Contract Revenues	516,263
less Refunds to Grantors	(27,569)
Private Gifts	4,743,469
less Uncollectibles	(84,606)

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Statement of Revenues, Expenses, and Changes in Net Assets *For the Year Ended August 31, 2004*

Non-Operating Revenues and Gains (continued)	
Net Investment Income - Unpledged	\$ 20,881,128
Net Investment Income - Pledged	3,497,167
Net Decrease in Fair Value of Investments	(935,049)
Other - Unpledged	3,280,570
Other - Pledged	516,423
Total Non-Operating Revenues and Gains	<u>152,294,585</u>
Non-Operating Expenses and Losses	
Interest Expense on Capital Asset Financing	1,732,126
Loss on Sale and Disposal of Capital Assets	428,916
Other	789,334
Total Non-Operating Expenses and Losses	<u>2,950,376</u>
Other Revenues, Expenses, Gains, Losses, and Transfers	
Capital Contributions	1,706,470
Capital Recoveries	171,920
Legislative Appropriations Revenue for Capital (HEAF)	7,735,000
Net Transfers from Texas Tech University	1,302,623
Net Transfers to Texas Tech University System Administration	(4,993,470)
Set-Aside Transfers to THECB	(71,782)
Legislative Transfers In (El Paso 4-Year Medical School)	2,000,000
Net Other Revenues, Expenses, Gains, Losses, and Transfers	<u>7,850,761</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ 51,568,861</u>
Net Assets, September 1, 2003	373,029,935
Restatement of Net Assets, September 1, 2003 (Note 18)	(18,672,819)
Net Assets, August 31, 2004	<u>\$ 405,925,977</u>

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Matrix of Operating Expenses by Natural Classification For the Year Ended August 31, 2004

<u>FUNCTION</u>	<u>SALARIES AND WAGES</u>	<u>PAYROLL RELATED COSTS</u>	<u>PROFESSIONAL FEES AND SERVICES</u>	<u>FEDERAL SUB-CONTRACTS</u>
Instruction	\$ 112,222,774	\$ 27,050,255	\$ 5,637,573	\$ 268,625
Research	9,155,177	2,190,406	426,106	(248,811)
Public Service	38,703,807	9,039,240	36,707,351	511,202
Academic Support	39,275,811	9,617,354	1,453,696	552,666
Student Services	2,557,619	727,789	102,147	-
Institutional Support	11,097,431	2,501,692	1,233,630	-
Operation and Maintenance of Plant	5,270,121	1,329,093	112,747	-
Auxiliary Enterprises	142,358	46,146	820	-
Depreciation	-	-	-	-
Total Operating Expenses	<u>218,425,098</u>	<u>52,501,975</u>	<u>45,674,070</u>	<u>1,083,682</u>

<u>FUNCTION</u>	<u>TRAVEL</u>	<u>MATERIALS AND SUPPLIES</u>	<u>COMMUNICATIONS AND UTILITIES</u>	<u>REPAIRS AND MAINTENANCE</u>
Instruction	1,063,843	12,568,964	1,213,074	356,322
Research	297,603	2,934,185	95,883	195,271
Public Service	548,869	10,833,620	728,263	182,357
Academic Support	908,661	7,045,232	983,628	726,102
Student Services	195,468	2,128,854	86,949	45,185
Institutional Support	207,836	2,872,634	285,492	254,769
Operation and Maintenance of Plant	52,807	3,217,829	5,112,999	968,760
Auxiliary Enterprises	2,353	42,176	13,542	30,804
Depreciation	-	-	-	-
Total Operating Expenses	<u>3,277,440</u>	<u>41,643,494</u>	<u>8,519,830</u>	<u>2,759,570</u>

<u>FUNCTION</u>	<u>RENTALS AND LEASES</u>	<u>PRINTING AND REPRODUCTION</u>	<u>DEPRECIATION</u>	<u>BAD DEBT</u>
Instruction	638,659	542,859	-	-
Research	11,680	82,195	-	-
Public Service	638,452	172,372	-	-
Academic Support	788,896	494,576	-	-
Student Services	55,914	216,290	-	-
Institutional Support	110,893	179,610	-	40,226
Operation and Maintenance of Plant	502,179	21,295	-	-
Auxiliary Enterprises	18,806	4,482	-	-
Depreciation	-	-	8,774,535	-
Total Operating Expenses	<u>2,765,479</u>	<u>1,713,679</u>	<u>8,774,535</u>	<u>40,226</u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Matrix of Operating Expenses by Natural Classification For the Year Ended August 31, 2004

<u>FUNCTION</u>	<u>INTEREST</u>	<u>SCHOLARSHIPS</u>	<u>CLAIMS AND LOSSES</u>	<u>OTHER OPERATING</u>
Instruction	\$ 2,380	\$ 617,876	\$ 325,000	\$ (10,999,491)
Research	2,065	212,766	-	1,026,905
Public Service	1,002	151,226	-	400,644
Academic Support	1,702	223,594	345,185	1,744,843
Student Services	219	4,998	-	128,803
Institutional Support	1,792	37,702	213,137	438,693
Operation and Maintenance of Plant	131	-	-	37,148
Auxiliary Enterprises	-	50	-	16,605
Depreciation	-	-	-	-
Total Operating Expenses	<u>9,291</u>	<u>1,248,212</u>	<u>883,322</u>	<u>(7,205,850)</u>

<u>FUNCTION</u>	<u>GRAND TOTAL</u>
Instruction	151,508,713
Research	16,381,431
Public Service	98,618,405
Academic Support	64,161,946
Student Services	6,250,235
Institutional Support	19,475,537
Operation and Maintenance of Plant	16,625,109
Auxiliary Enterprises	318,142
Depreciation	8,774,535
Total Operating Expenses	<u>\$ 382,114,053</u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Statement of Cash Flows *For the Year Ended August 31, 2004*

Cash Flows from Operating Activities

Cash Inflows

Collections from Student Tuition and Fees	\$ 11,320,992
Collections from Grants and Contracts	175,384,679
Collections from Patients and Insurers	81,466,913
Collections of Loans to Students	915,799
Collections from Auxiliary Enterprises	473,400
Collections from Other Operating Activities	10,255,493

Cash Outflows

Payments to Suppliers	165,891,787
Payments to Employees	213,578,652
Payments for Loans Issued to Students	1,125,843
Payments for Auxiliary Enterprises	318,142
Payments for Other Operating Activities	2,201,426

Net Cash Used for Operating Activities (103,298,574)

Cash Flows from Non-Capital Financing Activities

Cash Inflows

Proceeds from Legislative Appropriations	124,780,400
Proceeds from Net Transfers from Texas Tech University	1,302,623
Proceeds from Non-Capital Gifts and Grants	5,848,720
Proceeds from Direct Lending	27,547,635
Proceeds from Other Non-Capital Financing Activities	3,805,121

Cash Outflows

Payments for Net Transfers to Texas Tech University System Administration	4,993,470
Payments for Set-Aside Transfers to THECB	71,782
Payments for Direct Lending	27,625,938

Net Cash Provided by Non-Capital Financing Activities 130,593,309

Cash Flows from Capital and Related Financing Activities

Cash Inflows

Proceeds from Capital Debt Issuances	62,538,540
Proceeds from Legislative Appropriations for Capital	7,735,000
Proceeds from Capital Gifts and Grants	1,706,470

Cash Outflows

Payments for Purchases of Capital Assets	25,001,467
Payments for Principal and Interest on Capital Debts	5,860,313
Payments for Other Capital Related Activities	168,400

Net Cash Provided by Capital and Related Financing Activities 40,949,830

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Statement of Cash Flows *For the Year Ended August 31, 2004*

Cash Flows from Investing Activities	
Cash Inflows	
Proceeds from Sales and Maturities of Investments	\$ 31,468,012
Proceeds from Interest and Dividends on Investments	12,511,364
Cash Outflows	
Payments for Purchases of Investments	12,114,057
Net Cash Provided by Investing Activities	31,865,319
TOTAL NET CASH FLOWS	
	100,109,884
Cash and Cash Equivalents, September 1, 2003	54,694,634
Cash and Cash Equivalents, August 31, 2004	\$ 154,804,518
Components of Cash and Cash Equivalents, August 31, 2004	
Cash on Hand	22,393
Cash in Bank	(3,910,185)
Reimbursements Due from the State Treasury	1,192,588
Local Balance of Legislative Appropriations	4,774,440
Repurchase Agreements	21,544,126
TexPool and TexStar Investments	131,181,156
Cash and Cash Equivalents, August 31, 2004	\$ 154,804,518
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(105,626,109)
Adjustments	
Depreciation Expense	8,774,535
Bad Debt Expense	40,226
Decrease (Increase) in Accounts Receivable	(5,693,836)
Decrease (Increase) in Merchandise Inventories	97,232
Decrease (Increase) in Prepaid Expenses	(234,650)
Decrease (Increase) in Loans and Notes Receivable	(210,044)
Increase (Decrease) in Short-Term Payables	10,169,476
Increase (Decrease) in Deferred Revenue	766,294
Increase (Decrease) in Claims Payable	(12,552,242)
Increase (Decrease) in Compensable Leave	1,130,031
Increase (Decrease) in Other Liabilities	40,513
Net Cash Used for Operating Activities	(103,298,574)

**SEE ACCOMPANYING NOTES
TO THE FINANCIAL STATEMENTS**

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report
U N A U D I T E D

NOTES TO THE FINANCIAL STATEMENTS

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 Summary of Significant Accounting Policies

GENERAL INTRODUCTION

Texas Tech University Health Sciences Center (TTUHSC) is a component unit of the State of Texas and its financial records reflect compliance with applicable state statutes and regulations. This *Annual Financial Report* includes all accounts of TTUHSC, a separate institution established pursuant to Texas 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.

As an institution of higher education of the State of Texas, the income of TTUHSC is generally exempt from income taxes. However, income unrelated to the exempt purpose of TTUHSC would be subject to tax under § 511(a)(2)(B) of the Internal Revenue Code. Management does not believe that there is any material unrelated income for the year ended August 31, 2004.

TTUHSC is one of three entities included in the Texas Tech University System. The other two entities, reported separately as additional component units of the State of Texas, are Texas Tech University (TTU) and Texas Tech University System Administration (TTUSA).

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.

TTUHSC operates four campuses, located in Amarillo, El Paso, Lubbock, and Odessa. The School of Medicine is represented at all four campuses, while other schools have a presence at only selected campuses. Most administrative functions are centralized at the Lubbock campus.

FUND STRUCTURE

Blended Component Units

Texas Tech Physician Associates (TTPA) is reported as a blended component unit of TTUHSC. TTPA is a certified non-profit health corporation authorized under the Medical Practice Act § 5.01(a), article 4495b of the State of Texas. TTPA was created for the purpose of entering into prepaid capitation agreements for physician and other medical services. TTPA is exempt from tax under Internal Revenue Code § 501(c)(3). The TTPA board consists of ten directors appointed by TTUHSC.

Although legally separate from TTUHSC, TTPA is reported as a component unit because TTUHSC can impose its will on TTPA. TTPA balances and activities are blended with TTUHSC balances and activities since the sole purpose of TTPA is to financially support TTUHSC.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

Independent financial statements for TTPA can be obtained from the Health Care Systems division of TTUHSC at 3601 4th Street, Lubbock, Texas 79430.

Texas Tech Foundation, Inc. (TTFI) is a component unit of the consolidated Texas Tech University System, since it serves the fundraising needs of TTUHSC, TTU, and TTUSA. No balances or activities associated with TTFI are included in this *Annual Financial Report*.

BASIS OF ACCOUNTING

The fiscal records of TTUHSC are maintained using a modified accrual basis of accounting. Most internal financial reports utilize this basis. However, balances and activities included in most external reports, including this *Annual 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 full 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 established and monitored for most TTUHSC funds, though some fund areas have a more constrictive budget structure than do other 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. In some cases, 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.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents are defined as all cash on hand, cash in banks, reimbursements due from the State Treasury, local balances of legislative appropriations (held in the State Treasury), and temporary investments with original maturities of 90 days or less.

Investments

Investments are reported at fair value in this *Annual Financial Report* 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; and (2) money market investments and participating interest-earning investment contracts that mature within one year of the date of their acquisition may be reported at amortized cost, assuming that the investment is not affected by the financial institution's credit standing or other relevant factors.

Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

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.

Allowances for uncollectibles and other adjustments are estimated using either (1) aging schedules (for student accounts receivable), (2) percentage of revenues (for pledged gifts receivable), or (3) detailed evaluations of past collection performance (for patient accounts receivable, contract accounts receivable, loans and notes receivable, and other accounts receivable).

Receivables that are not expected to be collected within one year are reported as non-current assets, and include portions of pledged gifts receivable and loans and notes receivable.

Inventories

Inventories generally include both consumable inventories and merchandise inventories. Consumable inventories include supplies and postage on hand and available for consumption. 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.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

Restricted Assets

Cash and cash equivalents that are held for endowments or for special programs are reported as restricted, since they are not available for current operations. All such cash and cash equivalents are associated with programs that are restricted by an external party.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or at fair value at the date of donation in the case of gifts.

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 as summarized below.

Capital Asset Category	Useful Life
Buildings and Building Improvements	22 years
Infrastructure	20 years
Furniture and Equipment	3 - 15 years
Vehicles	5 - 7 years
Facilities and Other Improvements	10 - 23 years

Depreciation expense is not allocated to functional categories.

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).

For fabricated assets financed by debt, construction period interest is capitalized as part of the capital asset cost. The capitalized interest is combined with the other costs associated with constructing the asset and, once placed in service, depreciated over the appropriate useful life.

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 generally capitalized and instead are reported as an expense of the period.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

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 vacation leave and other compensated time are accrued in a manner consistent with State of Texas rules and guidelines and in accordance with generally accepted accounting principles. Within the framework of those guidelines, employees are eligible to carry forward a limited annual leave balance.

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 of Texas rules and guidelines and in accordance with generally accepted accounting principles. 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, accumulated sick leave balances are not recognized 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 basis 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.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

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 amounts invested in capital assets, net of related debt, and other external restrictions, 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 below illustrates the components of unrestricted net assets as of August 31, 2004.

Reserved		
Encumbrances	\$	3,602,450
Inventory		687,635
Prepaid Expenses		304,354
Accounts Receivable		19,390,724
Working Capital		53,213
Self Insured Plans		33,820,301
External Investment Pool		173,198
Fair Market Value Adjustment		3,006,529
Funds Functioning as Endowments		16,740,760
Unreserved		<u>98,394,580</u>
Total Unrestricted Net Assets	\$	<u>176,173,744</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.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 1 (continued) Summary of Significant Accounting Policies

Risk Financing

Liabilities are reported when it is probable that a loss has occurred and when 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

Capital assets are categorized as either (1) land and land improvements, (2) buildings and building improvements, (3) infrastructure, (4) furniture and equipment, (5) vehicles, (6) construction in progress, (7) other capital assets, or (8) facilities and other improvements. Non-depreciable capital assets include land and land improvements, construction in progress, and other capital assets (representing inexhaustible library books and artwork). All other capital asset categories are depreciated.

Capital asset changes for the year ended August 31, 2004 are summarized in the table below.

Capital Asset Category	Balance 09/01/2003	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/2004
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
Non-Depreciable Assets								
Land and Land Improvements	\$ 6,297,346	\$ -	\$ -	\$ -	\$ -	\$ 9,940	\$ -	\$ 6,307,286
Construction in Progress	35,172,882	-	(22,096,634)	-	-	18,386,214	-	31,462,462
Other	20,891,546	(5,215)	-	-	-	1,152,294	-	22,038,625
Total Non-Depreciable Assets	\$ 62,361,774	\$ (5,215)	\$ (22,096,634)	\$ -	\$ -	\$ 19,548,448	\$ -	\$ 59,808,373
Depreciable Assets								
Buildings and Building Improvements	\$ 178,358,489	\$ (15,811,401)	\$ 22,096,634	\$ -	\$ -	\$ 20,434,863	\$ -	\$ 205,078,585
Infrastructure	2,473,453	-	-	-	-	-	-	2,473,453
Furniture and Equipment	48,278,184	(25,438)	-	28,458	(193,986)	3,569,512	(2,455,184)	49,201,546
Vehicles	1,383,093	-	-	19,999	(18,358)	106,994	(18,985)	1,472,743
Facilities and Other Improvements	7,096,050	-	-	-	-	127,945	-	7,223,995
Total Depreciable Assets	\$ 237,589,269	\$ (15,836,839)	\$ 22,096,634	\$ 48,457	\$ (212,344)	\$ 24,239,314	\$ (2,474,169)	\$ 265,450,322

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 2 (continued) Capital Assets

Accumulated depreciation changes for the year ended August 31, 2004 are summarized in the table below.

Capital Asset Category	Balance 09/01/2003	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/2004
			Completed CIP	Increases – Interagency Transfers	Decreases – Interagency Transfers			
Buildings and Building								
Improvements	\$ (112,875,933)	\$ 289,821	\$ -	-	-	\$ (4,012,016)	-	\$ (116,598,128)
Infrastructure	(176,019)	-	-	-	-	(123,673)	-	(299,692)
Furniture and Equipment	(30,440,865)	(2,619)	-	(9,486)	32,747	(4,160,462)	2,179,370	(32,401,315)
Vehicles	(975,288)	-	-	(16,332)	18,358	(128,163)	18,985	(1,082,440)
Facilities and Other								
Improvements	(631,335)	-	-	-	-	(350,221)	-	(981,556)
Other	(36,841)	36,841	-	-	-	-	-	-
Total Accumulated Depreciation	\$ (145,136,281)	\$ 324,043	\$ -	\$ (25,818)	\$ 51,105	\$ (8,774,535)	\$ 2,198,355	\$ (151,363,131)

NOTE 3 Deposits, Investments, and Repurchase Agreements

The majority of the cash and investment assets of TTUHSC are pooled with similar asset holdings of TTU and TTUSA and are jointly invested pursuant to the parameters of applicable Texas law and the governing board's 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." Further, 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.

The governing investment policy is Regents' Rules Chapter 09, "Investments, Endowments, and Income-Producing Lands." The majority of TTUHSC assets are invested in two investment pools: the Long Term Investment Fund (LTIF) and the Short / Intermediate Term Investment Fund (STIF). Endowment funds and certain eligible long term institutional funds are invested in the LTIF, which invests in equity and fixed income securities and is operated using a total return philosophy. Other institutional funds not in the LTIF are invested in the STIF, which is a fixed income fund and is operated using a hold to maturity philosophy. Other assets include securities gifted to TTUHSC with

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

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

written donor instructions to maintain in their original form. Also, TTUHSC maintains a cash balance in the State Treasury (local balance of legislative appropriations).

The bank balances of TTUHSC are 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

Demand deposits in the cash pool and other accounts as of August 31, 2004 are summarized in the table below.

Demand Accounts - Carrying Amount	\$	(3,942,785)
Demand Accounts - Bank Balances		10,199,523
Category 1		303,132
Category 2		9,896,391

Total TTUHSC cash and cash equivalents, as of August 31, 2004, were comprised of the following:

	Current Unrestricted	Current Restricted	Non-Current Restricted	Total
Cash on Hand	\$ 20,653	\$ 1,740	\$ -	\$ 22,393
Cash in Banks – Cashier's Accounts	32,560	40	-	32,600
Cash in Banks – Demand Accounts	(3,657,597)	(185,840)	(99,348)	(3,942,785)
Reimbursements Due from the State Treasury	1,081,008	111,580	-	1,192,588
Local Balance of Legislative Appropriations	4,774,440	-	-	4,774,440
Repurchase Agreements	18,822,651	2,133,107	588,368	21,544,126
TexPool and TexStar Investments	63,212,233	65,993,004	1,975,919	131,181,156
Total Cash and Cash Equivalents	\$ 84,285,948	\$ 68,053,631	\$ 2,464,939	\$ 154,804,518

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

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

Demand deposit carrying amounts as of August 31, 2004, as segregated between the various banking institutions with balances, are depicted below.

Plains Capital Bank – Lubbock	\$ (14,110,256)
Bank of America – Amarillo	8,383,552
Wells Fargo Bank – El Paso	355,480
American State Bank – Odessa	<u>1,428,439</u>
Total Cash in Banks – Demand Accounts	<u>\$ (3,942,785)</u>

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 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 differs from market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not being depicted in this note.

The following categories of credit risk are considered 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
- Category 3 Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the name of TTUHSC

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

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

Following is a summary of TTUHSC investment balances and associated credit risk categories as of August 31, 2004:

Type of Security	Category 1	Total
Categorized Investments		
U. S. Government and Agency Obligations	\$ 30,593,991	\$ 30,593,991
U. S. Government and Agency Mortgage Obligations	8,788,744	8,788,744
Collateralized Mortgage Obligations	61,103,885	61,103,885
Repurchase Agreements	21,544,126	21,544,126
Corporate Stock	63,508,968	63,508,968
Total Categorized Investments	<u>185,539,714</u>	<u>185,539,714</u>
Uncategorized Investments		
TexPool and TexStar Investments		131,181,156
Other Uncategorized Investments		<u>52,134,891</u>
Total Uncategorized Investments		<u>183,316,047</u>
Total Investments		<u>\$ 368,855,761</u>

Included in the U. S. Government and Agency securities are investments in certain conservative mortgage derivative securities. A derivative security is an investment product which may be a security or contract that derives its value from another security, currency, commodity, or index.

As of August 31, 2004, total TTUHSC investments included \$61,103,885 of planned amortization class mortgage derivative securities. Since the derivative securities held as investments are U. S. government agency securities, and considering that these securities are held in the STIF, a hold to maturity investment pool, credit and market risks are not significant. The reinvestment risk associated with principal repayments on mortgage backed securities is substantially reduced because the securities are structured as planned amortization classes, which offer prepayment protection.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 4 Short Term Debt

TTUHSC has at times over the past several years issued short term commercial paper to serve as an interim financing source for long term construction projects in advance of issuing authorized bonds. As of August 31, 2004, no commercial paper debt was outstanding. Below is a summary of commercial paper activity for the year ended August 31, 2004.

Description	Balance 09/01/2003	Increases	Decreases	Balance 08/31/2004
Commercial Paper Payable	\$ 4,405,796	\$ -	\$ (4,405,796)	\$ -

The commercial paper that was outstanding as of September 1, 2003 was retired on September 24, 2003 when the Revenue Financing System Bonds, 9th Series 2003 were issued.

NOTE 5 Summary of Long Term Liabilities

As indicated in the table below, several categories of long term liabilities are reported including accrued liabilities, unclaimed property due to the State Treasury, bonds payable, claims payable, and compensable leave payable.

Category	Balance 09/01/2003	Increases	Decreases	Balance 08/31/2004	Current Portion
Accrued Liabilities	\$ 69,126	\$ 2,225	\$ (69,126)	\$ 2,225	\$ 2,225
Unclaimed Property Due to the State Treasury	111,478	74,039	(82,205)	103,312	28,695
Bonds Payable	32,328,631	64,270,000	(1,273,919)	95,324,712	1,326,849
Claims Payable	41,924,684	8,152	(12,560,394)	29,372,442	2,937,244
Compensable Leave	15,230,787	1,906,935	(776,904)	16,360,818	3,272,164
Other Liabilities	21,620	35,589	(51,799)	5,410	1,930
Total Long Term Liabilities	\$ 89,686,326	\$ 66,296,940	\$ (14,814,347)	\$ 141,168,919	\$ 7,569,107

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 5 (continued) Summary of Long Term Liabilities

NOTES AND LOANS PAYABLE

No notes payable were outstanding as of August 31, 2004.

CLAIMS PAYABLE

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

Description	Balance 09/01/2003	Increases	Decreases	Balance 08/31/2004
TTUHSC	\$ 41,834,684	\$ -	\$ (12,467,242)	\$ 29,367,442
TTPA	90,000	8,152	(93,152)	5,000
Total Claims Payable	<u>\$ 41,924,684</u>	<u>\$ 8,152</u>	<u>\$ (12,560,394)</u>	<u>\$ 29,372,442</u>

COMPENSABLE LEAVE

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2004. 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, 2004 was estimated at \$13,088,654, out of a total liability of \$16,360,818.

BONDS PAYABLE

See Note 13 for detailed information on bond liability balances and transactions.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 6 **Capital Leases**

As of August 31, 2004, no material outstanding TTUHSC leases satisfied the requirements for capitalization.

NOTE 7 **Operating Leases**

TTUHSC leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in this *Annual Financial Report*. Total rental expense under these agreements was \$2,634,002 for the year ended August 31, 2004. The table below provides the estimated minimum lease payments for operating leases for TTUHSC for the next five fiscal years.

For Years Ending August 31	Minimum Lease Payments
2005	\$ 2,713,022
2006	2,794,412
2007	2,878,245
2008	2,964,592
2009	3,053,530

TTUHSC structures all 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 appropriations. However, there is little or no historical precedence for lease cancellations at TTUHSC.

NOTE 8 **Interfund Balances / Activity**

TTUHSC had outstanding interfund receivables from the University of Texas Investment Management Company (UTIMCO) and from TTU as of August 31, 2004. The outstanding balance due from UTIMCO represented undistributed earnings from the investment assets of the Permanent Health Fund for Higher Education. The balance due from TTU represented overpaid shared services fees. The table at the top of the next page provides additional information about these balances due.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 8 (continued) Interfund Balances / Activity

Agency Name	Agency Nbr	D23 Fund	Amount Due
University of Texas System	720	0810	\$ 3,569,845
Texas Tech University	755	0001	224,469
Total Due From Other State Agencies			\$ 3,794,314

Also, for the year ended August 31, 2004, TTUHSC had various transfers to and from other components of the Texas Tech University System and to the Texas Higher Education Coordinating Board (THECB). The majority of the net transfers in from TTU are for servicing of outstanding bonded indebtedness for which appropriations are shared. The majority of the net transfers out to TTUSA are to support system administrative functions. Finally, the transfers out to THECB are for tuition set-asides.

Interfund activity is summarized in the table below.

Agency Name	Agency Number	D23 Fund	Transfers In	Transfers Out
Texas Tech University	755	0001	\$ 1,490,168	\$ (187,545)
Texas Tech University System Administration	793	0001	11,466	(5,004,936)
Texas Higher Education Coordinating Board	781	0239	-	(71,782)
Totals			\$ 1,501,634	\$ (5,264,263)

NOTE 9 Contingent Liabilities

PENDING LITIGATION

At August 31, 2004, 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 for by insurance, is not likely to have a material impact on TTUHSC.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 9 (continued) **Contingent Liabilities**

REBATABLE ARBITRAGE

The Revenue Financing System Refunding and Improvement Bonds, Series 1999, was the only outstanding bond issue of TTUHSC for which rebatable arbitrage was outstanding as of August 31, 2004, totaling \$2,225. These rebatable excesses were earned during periods when unrestricted yield was 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 issue after this unrestricted yield period ends.

CONSTRUCTION CONTRACT COMMITMENTS

Numerous large contracts have been entered into for the purposes of planning, constructing, and equipping building additions and other projects. Outstanding commitment amounts totaled \$30,207,300 as of August 31, 2004. These commitments will be funded by donor contributions, appropriations from the state, issuance of revenue bonds, and other borrowings. As of August 31, 2004, the amount of legislative appropriations for capital from the state available for these commitments totaled \$4,070,309.

DIRECT LENDING

TTUHSC participates in the federal Direct Loan Program, which provides loans from the federal government to qualifying students and their families for educational purposes. While TTUHSC helps students to obtain these loans, the institution is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers. The amount of direct loans issued during the year ended August 31, 2004 was \$27,625,938.

NOTE 10 **Continuance Subject to Review**

TTUHSC is not subject to the Texas Sunset Act.

NOTE 11 **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, 2004 of \$29,367,442. Texas Tech Physician Associates, a blended component unit, had estimated accrued IBNR at August 31, 2004 of \$5,000. A reconciliation of IBNR is provided in the table in Note 5.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 11 (continued) **Risk Financing and Related Insurance**

The TTUHSC medical malpractice self insurance plan, an occurrence based plan, was established in 1985. Claim limits associated with the plan are \$400,000 per occurrence and \$1,200,000 aggregate per annum for services provided by faculty physicians (unless lower limits are set by law, in which case the lower limits set by law apply), \$100,000 per occurrence and \$300,000 aggregate per annum for services provided by resident physicians, and \$25,000 per occurrence and \$75,000 aggregate per annum for services provided by students. The plan also has a \$1,000,000 total limit per claimant per occurrence.

As of September 1, 2004, providers of health care (physicians) are no longer excepted from the statutory limits of liability set for public servants as set out in § 108.002 of the Texas Civil Practices and Remedies Code. Public servants are limited in liability to \$100,000 to a single person and \$300,000 for a single occurrence. There is also a \$250,000 per person and \$500,000 per occurrence statutory limit in place for tort claims against TTUHSC as an institution.

The State of Texas provides coverage for workers compensation and unemployment benefits from appropriations made to other state agencies for TTUHSC employees. The *General Appropriations Act* of the 78th Texas Legislature provides that TTUHSC must reimburse the General Revenue Fund, from TTUHSC appropriations, one-half of the unemployment benefits expected to be paid for former and current employees. The Texas Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. TTUHSC must also reimburse the General Revenue Fund for all of the cost for unemployment compensation for any employees paid from funds held in local bank accounts or from local balances of legislative appropriations held in the State Treasury. No material outstanding claims were pending as of August 31, 2004.

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.

NOTE 12 **Segment Information**

TTUHSC has no reportable segments.

NOTE 13 **Bonded Indebtedness**

Several bond issues were outstanding as of August 31, 2004, as summarized in the paragraphs that follow on the next two pages.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 13 (continued) **Bonded Indebtedness**

REVENUE FINANCING SYSTEM BONDS, 2nd SERIES 1995

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

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

Outstanding: \$497,200 outstanding as of August 31, 2004

Interest Rates: 4.30% to 5.35%

Maturity Dates: 1996 through 2005

Balance Changes: \$0 issued; \$470,800 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, 2nd Series 1995

Issued: May 4, 1999; all authorized bonds (\$15,632,182) have been issued

Outstanding: \$13,322,512 outstanding as of August 31, 2004

Interest Rates: 4.00% to 5.25%

Maturity Dates: 1999 through 2029

Balance Changes: \$0 issued; \$173,119 retired

REVENUE FINANCING SYSTEM BONDS, 7th 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

Outstanding: \$17,235,000 outstanding as of August 31, 2004

Interest Rates: 3.00% to 5.50%

Maturity Dates: 2002 through 2021

Balance Changes: \$0 issued; \$630,000 retired

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 13 (continued) **Bonded Indebtedness**

REVENUE FINANCING SYSTEM BONDS, 9th SERIES 2003

Purpose:	Financing for projects in El Paso and Lubbock, the costs of issuing the bonds, and the retirement of outstanding commercial paper
Issued:	September 24, 2003; all authorized bonds (\$64,270,000) have been issued
Outstanding:	\$64,270,000 outstanding as of August 31, 2004
Interest Rates:	2.25% to 5.25%
Maturity Dates:	2006 through 2023
Balance Changes:	\$64,270,000 issued; \$0 retired

SOURCES OF REVENUE FOR DEBT SERVICE

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, § 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Texas Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

BONDS AUTHORIZED BUT UNISSUED

Section 55.1749 of House Bill No. 28 of the 78th Texas Legislature provided authorization for TTUHSC to issue \$45,000,000 of additional Revenue Financing System bonds for construction of a medical education building at the El Paso campus. As of August 31, 2004, the entire amount of the authorization remained unissued. The Texas Legislature has not yet provided any appropriations funding for debt service on this approved bond issue. The medical education building is in the planning and design stage and will remain in that stage pending provision of the necessary debt service appropriations.

DEFEASED BONDS OUTSTANDING

As of August 31, 2004, 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, 2nd Series 1995.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 14 **Subsequent Events**

TTUHSC is transitioning its Short / Intermediate Term Investment Fund (STIF) from investments in government agency fixed income securities, primarily mortgage backed securities and collateralized mortgage obligations, to investments in U. S. Treasury obligations and government / agency fixed income mutual funds. This transition began in July 2004. As of August 31, 2004, securities having a book value of \$24,399,210 had been sold for \$24,572,944, resulting in a net gain on the sales of \$173,734 for the year ended August 31, 2004.

TTUHSC sold numerous additional STIF securities in the two months after the year ended on August 31, 2004. Between September 1, 2004 and October 12, 2004, additional securities with a book value of \$50,188,957 were sold for \$49,523,372. The resultant loss on the sales was \$665,585.

No additional sales related to this transition are anticipated.

NOTE 15 **Related Parties**

TTUHSC has no related parties except those identified as component units in Note 1.

NOTE 16 **Stewardship, Compliance, and Accountability**

TTUHSC has no material stewardship, compliance, or accountability issues.

NOTE 17 **The Financial Reporting Entity**

TTUHSC is a component unit of the State of Texas. The accompanying financial statements reflect inclusion of one blended component unit described in detail in Note 1. TTUHSC has no other related organizations or joint ventures or jointly governed organizations.

NOTE 18 **Restatement of Net Assets**

Prior-period adjustments for TTUHSC that required the restatement of beginning net assets related to prior period capital asset depreciation adjustments, a reclassification of U. S. government grants

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 18 (continued) **Restatement of Net Assets**

refundable from a liability to a component of restricted net assets, and exclusion of Texas Tech Foundation, Inc., which had been reported previously as a component unit of TTUHSC but is now more appropriately reported as a component unit of the consolidated Texas Tech University System.

Reported Net Assets, September 1, 2003	\$ 373,029,935
Restatements	
Reduction in Accumulated Depreciation Expense Resulting from Building Componentization	289,821
Reduction in Accumulated Depreciation Expense Resulting from the Reclassification of Artwork to Non-Depreciable	31,626
Reclassification of U. S. Government Grants Refundable	2,147,785
Exclusion of Texas Tech Foundation, Inc.	<u>(21,142,051)</u>
Total Restatements	<u>(18,672,819)</u>
Restated Net Assets, September 1, 2003	<u>\$ 354,357,116</u>

NOTE 19 **Employee Retirement Plans**

The State of Texas has joint contributory retirement plans for substantially all regular employees. One of the primary plans in which TTUHSC participates is administered by the Teacher Retirement System (TRS) of Texas. The TRS program was established by the Texas Legislature and can only be amended by legislative action.

The TRS program is a cost sharing, multiple-employer, defined benefit pension plan. The contributory percentages currently provided by the state and by each participant are 6.00% and 6.40%, respectively, of annual participant compensation.

The TRS program covers retirement, proportional retirement, disability annuities, and death and survivor benefits. A participant is vested after five years of creditable service and is entitled to any benefit for which eligibility requirements have been met. The normal service retirement is at age 65 with five years of service, or when the sum of the participant's age and years of service equals or exceeds 80 years. Reduced service requirement is at age 55 with five years of service or any age below 50 with 30 years of service. The standard life annuity benefit formula is 2.3 percent of the average

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 19 (continued) **Employee Retirement Plans**

of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum standard monthly annuity is the greater of \$150 or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at the time of retirement.

Contributions made by the state on behalf of TTUHSC for the TRS program amounted to \$2,999,565 for the year ended August 31, 2004, \$3,038,755 for the year ended August 31, 2003, and \$3,032,487 for the year ended August 31, 2002.

TRS does not separately account for each of its component governmental agencies, since TRS 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 TRS *Comprehensive Annual Financial Report* submitted to the state and available from the TRS website.

The State of Texas has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the TRS program. ORP is a defined contribution pension plan that provides for the purchase of annuity and custodial mutual fund contracts. The contributory percentages currently provided by the state and by each participant for employees who participated before September 1, 1995 are 8.50% and 6.65%, respectively, of annual participant compensation. The state's contribution is comprised of 6.00% from the ORP appropriation and 2.50% 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 currently provided by the state and by each participant for employees entering the program after August 31, 1995 are 6.00% and 6.65%, respectively, of annual participant compensation. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Contributions made by the state on behalf of TTUHSC for the ORP amounted to \$2,743,570 for the year ended August 31, 2004, \$2,500,552 for the year ended August 31, 2003, and \$2,578,047 for the year ended August 31, 2002.

NOTE 20 **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*, § 609.001. A deferred compensation plan called TexaSaver, administered by the Employees Retirement System, is available for income deferral.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 20 (continued) **Deferred Compensation**

The state's 457 plan complies with the Internal Revenue Code (IRC) § 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 § 457*, established reporting requirements for IRC § 457 plans. Based on the laws in effect at the time of its passage, that statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans "unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries." Existing plans are also required to comply with this requirement by January 1, 1999.

As of August 31, 2004, there were 127 TTUHSC participants in this deferred compensation plan.

NOTE 21 **Donor Restricted Endowments**

TTUHSC endowments are categorized as either true endowment or funds functioning as endowments. As of August 31, 2004, 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, a portion of the endowment earnings are expendable for student financial assistance or other purposes as designated by the donor or associated agreement. In other cases, endowment earnings are fully reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF), described in more detail in Note 3. The LTIF allows for quarterly spendable income distributions amounting to 1.125% of the 12-quarter rolling average unitized balance. Spendable income can be supported by both realized earnings and by unrealized earnings.

Donor restricted endowment earnings for the year ended August 31, 2004 are summarized in the table below.

Endowment Category	Net Appreciation	Statement of Net Assets Reporting Section
True Endowments	\$ 7,129,261	Restricted / Nonexpendable
True Endowments	467,350	Restricted / Expendable

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 21 (continued) Donor Restricted Endowments

Endowment Category	Net Appreciation	Statement of Net Assets Reporting Section
True Endowments	\$ 4,231,382	Unrestricted / Expendable
Total	\$ 11,827,993	

There were also unrealized fair market value losses associated with true endowments that amounted to \$378,201 for the year ended August 31, 2004.

NOTE 22 Management Discussion and Analysis

INTRODUCTION

This discussion and analysis provides an overview of the financial position and activities of TTUHSC for the year ended August 31, 2004. This discussion and analysis has been prepared by management and should be reviewed in conjunction with the financial statements and accompanying notes.

USING THE FINANCIAL STATEMENTS

Included in this *Annual Financial Report* are three basic financial statements: (1) the Statement of Net Assets, (2) the Statement of Revenues, Expenses, and Changes in Net Assets, and (3) the Statement of Cash Flows.

FINANCIAL HIGHLIGHTS

- TTUHSC continues to experience growth in enrollment, totaling 6.7% between the fall 2002 term and the fall 2003 term. The most notable portion of this one-year growth was in the School of Allied Health Sciences (up 27.6%). Annual enrollment increases over the last ten years have averaged 5.5%.
- The current market upturn has resulted in significant realized investment gains. Realized net gains resulting from the sale or maturity of investments increased net assets by \$10.1 million for the year ended August 31, 2004. Overall net assets increased by \$51.6 million for the year ended

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 22 (continued) **Management Discussion and Analysis**

August 31, 2004, primarily due to increased investment returns, increased legislative appropriations revenues, and increased professional fees income.

- Capital asset additions totaled \$43.8 million for the year ended August 31, 2004.

CONDENSED FINANCIAL INFORMATION

In the summary financial statements presented on the next few pages, three years of comparative data are provided. Prior year amounts have, in certain instances, been restated or reclassified to conform to current year presentation.

Summary Schedule 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.

The table below shows the balances in asset, liability, and net asset categories as of August 31, 2004, 2003, and 2002 (amounts in thousands).

	2004	2003	2002
Assets			
Current Assets	\$ 202,300	\$ 155,910	\$ 162,557
Non-Current Investments	216,130	199,526	167,365
Other Non-Current Assets	5,065	(1,678)	11,856
Capital Assets, Net of Accumulated Depreciation	173,896	154,815	138,460
Total Assets	\$ 597,391	\$ 508,573	\$ 480,238
Liabilities			
Current Liabilities	57,865	52,358	49,135
Non-Current Liabilities	133,600	83,185	87,998
Total Liabilities	\$ 191,465	\$ 135,543	\$ 137,133

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 22 (continued) Management Discussion and Analysis

	2004	2003	2002
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 132,683	\$ 119,005	\$ 103,422
Restricted	97,069	138,923	134,116
Unrestricted	176,174	115,102	105,567
Total Net Assets	\$ 405,926	\$ 373,030	\$ 343,105

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents, short-term investments, balances in legislative appropriations, and various student, patient, and contract receivables. Current liabilities consist primarily of trade accounts payable, payroll payable, deferred revenues, commercial paper notes payable, and the current portions of compensable leave payable and claims payable. The institution's current ratio (current assets to current liabilities) of 3.50 reflects strong liquidity and a notable short-term ability to meet upcoming obligations.

Non-Current Investments

Non-current investments include both long-term and restricted short-term holdings. Most of these investments relate to endowment funds or securities held in reserve for estimated future medical malpractice claims.

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 of the reported unrestricted net assets have been committed for future program budgets related to academic, patient, and research programs and initiatives, as well as capital projects.

The table at the top of the next page summarizes the composition of net assets at August 31, 2004, 2003, and 2002 (in thousands).

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 22 (continued) Management Discussion and Analysis

	2004	2003	2002
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 132,683	\$ 119,005	\$ 103,422
Restricted			
Capital Projects	6,354	7,660	6,689
Funds Held as Permanent Investments	73,041	81,729	70,141
Other	17,674	49,534	57,286
Unrestricted	176,174	115,102	105,567
Total Net Assets	\$ 405,926	\$ 373,030	\$ 343,105

Summary Schedule of Revenues, Expenses, and Changes in Net Assets

The table below (and on the next two pages) summarizes the revenues, expenses, and changes in net assets for the years ended August 31, 2004, 2003, and 2002 (in thousands).

	2004	2003	2002
Operating Revenues			
Net Student Tuition and Fees	\$ 10,661	\$ 8,998	\$ 7,028
Net Professional Fees	85,245	82,043	103,392
Grant and Contract Revenues	177,125	183,285	171,697
Net Sales and Services of Auxiliary Enterprises	473	491	482
Other	2,984	2,771	3,024
Total Operating Revenues	276,488	277,588	285,623
Operating Expenses			
Instruction	(151,509)	(168,408)	(161,276)
Research	(16,381)	(15,806)	(15,447)
Public Service	(98,618)	(101,424)	(117,098)
Academic Support	(64,162)	(53,791)	(55,852)
Student Services	(6,250)	(5,868)	(4,680)

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report
U N A U D I T E D**

Notes to the Financial Statements
August 31, 2004

NOTE 22 (continued)
Management Discussion and Analysis

	2004	2003	2002
Operating Expenses (continued)			
Institutional Support	\$ (19,476)	\$ (14,410)	\$ (17,913)
Operation and Maintenance of Plant	(16,625)	(14,179)	(13,893)
Auxiliary Enterprises	(318)	(289)	(334)
Depreciation	(8,775)	(8,147)	(6,451)
Total Operating Expenses	(382,114)	(382,322)	(392,944)
Operating Loss	(105,626)	(104,734)	(107,321)
Non-Operating Revenues and Expenses			
Legislative Appropriations Revenue	119,907	108,257	109,423
Net Gift Income	4,659	4,921	1,265
Net Investment Income	23,443	18,563	2,787
Interest Expense on Capital Asset Financing	(1,732)	(755)	(1,450)
Other	3,067	(2,588)	(2,257)
Total Non-Operating Revenues and Expenses	149,344	128,398	109,768
Income Before Other Revenues, Expenses, Gains, Losses, and Transfers	43,718	23,664	2,447
Other Revenues, Expenses, Gains, Losses, and Transfers			
Capital Contributions and Recoveries	1,879	2,054	5,072
Legislative Appropriations Revenue for Capital	7,735	7,735	7,735
Net Transfers to Other State Agencies	(3,763)	(2,544)	(2,871)
Legislative Transfers In	2,000	547	742
Total Other Revenues, Expenses, Gains, Losses, and Transfers	7,851	7,792	10,678
Change in Net Assets	\$ 51,569	\$ 31,456	\$ 13,125
Beginning Net Assets	373,030	343,105	477,322

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements August 31, 2004

NOTE 22 (continued) Management Discussion and Analysis

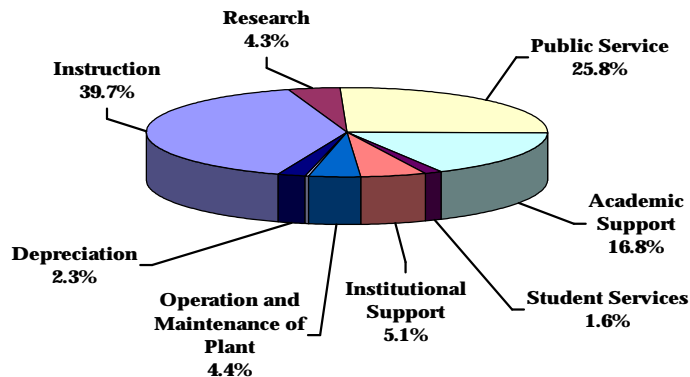
	2004	2003	2002
Restatements	\$ (18,673)	\$ (1,531)	\$ (147,342)
Ending Net Assets	\$ 405,926	\$ 373,030	\$ 343,105

Operating Revenues

Student tuition and fees, a primary source of funding for academic programs, are reflected net of associated discounts and allowances. Student tuition and fee revenues increased by 18.5% for 2004, primarily resulting from overall increases in enrollment and slight increases in tuition rates. Grant and contract revenues declined by 3.4% for 2004, caused primarily by reduced capitation rates for state correctional health care contracts. Professional fee revenues are principally generated within the practice plans from patients or through contractual arrangements with governmental payers and private insurers. As such, professional fees revenues are subject to fluctuation due to changes in standard reimbursement rates for medical services.

Operating Expenses

The illustration below presents the composition of operating expenses by programmatic function for the year ended August 31, 2004.



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

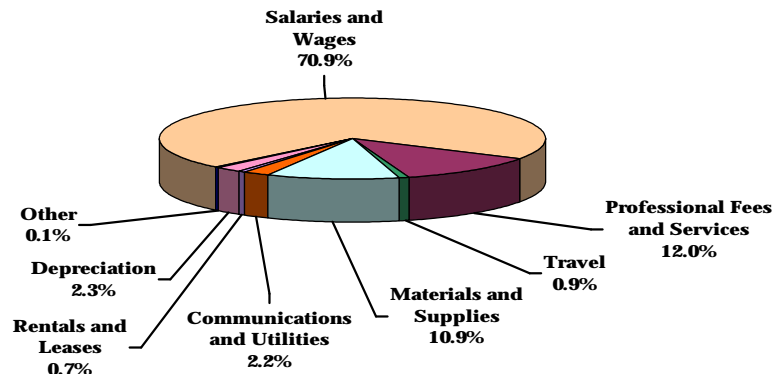
Notes to the Financial Statements *August 31, 2004*

NOTE 22 (continued) **Management Discussion and Analysis**

Total operating expenses declined only slightly for the year ended August 31, 2004. Instruction expenses appear to have declined significantly for 2004, but most of that change is related to account reclassifications from instruction to academic support. Institutional support expenses increased 35.2%, caused primarily by major fluctuations in cost recoveries for administrative service departments.

Expenditures for expansion of facilities have been on the rise, resulting in increasing depreciation expenses. Over the last two fiscal years, five new constructed buildings have been placed in service.

The illustration below presents the composition of operating expenses by natural classification for the year ended August 31, 2004.



Non-Operating Revenues and Expenses

Numerous recurring revenues are considered non-operating, as required by generally accepted accounting principles. The largest element of recurring non-operating revenue is legislative appropriations from the state, which increased 10.8% for the year ended August 31, 2004. Realized gains and losses from the sale of investments, along with unrealized changes in the fair market value of investments, are factored into the reported amount for net investment income. Overall net investment income increased by 26.3% for 2004, due primarily to realized gains resulting from the sales 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.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 22 (continued) **Management Discussion and Analysis**

Interest expense on capital asset financings increased 129.4% for the year ended August 31, 2004, due to the added interest cost associated with the \$64.3 million of recently issued bonds.

Other Revenues, Expenses, Gains, and Losses

Capital contributions for the period were comprised primarily of special-purpose gifts for facilities expansion and renovation. Capital contributions and recoveries declined slightly for 2004. The legislative appropriations for capital represent distributions from the Higher Education Assistance Fund (HEAF), and will continue at the same annual amount through August 31, 2005. The overall increase of 47.9% in net transfers to other state agencies was caused by reduced transfers in from Texas Tech University (TTU). Most transfers in from TTU are for the purpose of servicing outstanding bond issues for which appropriations from the state are shared. One such bond issue was fully retired during 2003, causing a reduction in this transfer support starting in 2004.

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 one 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 the current year. Net assets increased \$51.6 million for the year ended August 31, 2004, primarily due to increased investment returns, increased legislative appropriations revenues, and increased professional fees income.

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, 2004 amounted to \$43.8 million. Capital asset additions were funded by a variety of sources, including private donations and proceeds from debt issuances authorized and funded by the Texas Legislature. Interim financing is provided by issuance of short-term commercial paper notes. One new debt issuance was recognized during the year ended August 31, 2004, resulting in proceeds, including premiums, of \$67.5 million. These proceeds were used not only for capital project funding but also to pay bond issue costs and to retire \$4.4 million of commercial paper that had been issued in prior years to provide interim capital project funding.

As of August 31, 2004, total capital assets and related accumulated depreciation amounted to \$325.3 million and \$151.4 million, respectively. Related debt balances included \$41.2 million of bonds payable, current and non-current. As of August 31, 2004, TTUHSC had bond ratings of AA from Fitch, Aa3 from Moody's, and AA from Standard and Poor's.

Additional detailed information regarding capital assets and related debt is included in earlier notes in this *Annual Financial Report*.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 22 (continued) Management Discussion and Analysis

ECONOMIC OUTLOOK

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.

Cuts in legislative appropriations that occurred in 2003 are not expected to continue in the future and were partially offset by increases in tuition rates and student enrollment. General appropriations received during the year ended August 31, 2004 were \$91.5 million. General appropriations to TTUHSC for the year ending August 31, 2005, as included in the *General Appropriations Act* of the 78th Texas Legislature, are expected to be \$91.6 million. Appropriations for the years ending August 31, 2006 and August 31, 2007 will be determined during the 79th Texas Legislature, which is scheduled to go into session in January 2005.

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.

NOTE 23 Post Employment Health Care and Life Insurance Benefits

TTUHSC does not anticipate any institutional liability associated with post employment health care and life insurance benefits. Such liability, as it relates to former and current TTUHSC employees, is borne by the Employees Retirement System of Texas.

NOTE 24 Special or Extraordinary Items

TTUHSC had no special or extraordinary items during the year ended August 31, 2004.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements
August 31, 2004

NOTE 25 Disaggregation of Receivable and Payable Balances

RECEIVABLES

Components of receivables as of August 31, 2004, including current and non-current receivables, are summarized in the table below.

Description	Gross Receivables	Allowances	Net Receivables
Federal Receivable	\$ 1,588,640	\$ -	\$ 1,588,640
Interest and Dividends Receivable	681,597	-	681,597
Patient Accounts Receivable	42,752,611	(26,958,502)	15,794,109
Student Accounts Receivable	379,375	(35,759)	343,616
Contract Accounts Receivable	8,293,476	(124,494)	8,168,982
Pledged Gifts Receivable	1,078,665	(53,933)	1,024,732
Loans and Notes Receivable	2,821,665	(224,085)	2,597,580
Other	212,332	(87,982)	124,350
Total Receivables	<u>\$ 57,808,361</u>	<u>\$ (27,484,755)</u>	<u>\$ 30,323,606</u>

Contractual Arrangements and Concentrations of Credit Risk

TTUHSC provides care to patients covered by various third party payers such as Medicare, Medicaid, and private insurance companies and health maintenance organizations (HMOs).

TTUHSC provides primary, secondary, and tertiary health care services to counties in west Texas, eastern New Mexico, and the Oklahoma panhandle region, as well as border regions in southwest Texas. Patient care centers are located in the Texas cities of Amarillo, El Paso, Lubbock, and Odessa.

Concentrations of gross patient accounts receivable are depicted in the table at the top of the next page. Management does not believe there are significant credit risks associated with the listed payers, other than the self pay and medically indigent category. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivables are reported in this *Annual Financial Report* net of allowances for bad debts, contractual adjustments, and charity care.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**Annual Financial Report
U N A U D I T E D**

Notes to the Financial Statements
August 31, 2004

NOTE 25 (continued)
Disaggregation of Receivable and Payable Balances

Description	Gross Receivables
Medicare	\$ 4,638,650
Medicaid	10,969,814
Managed Care, including Blue Cross	5,880,283
Commercial	4,150,832
Self Pay and Medically Indigent	17,021,863
Other	91,169
	<hr/>
Total Gross Patient Accounts Receivable	\$ 42,752,611

PAYABLES

Short-term payables as of August 31, 2004, including payables from restricted assets, were comprised of the elements noted in the table below.

Description	Balance
Vendor Accounts Payable	\$ 15,150,347
Patient Refunds Payable	2,398,107
Residency Program Refunds Payable	2,996,410
Grants and Contracts Refunds Payable	421,409
Payroll Payable	23,284,185
Deposits Payable	4,155
Accrued Interest Payable	215,808
	<hr/>
Total Short-Term Payables	\$ 44,470,421

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Notes to the Financial Statements *August 31, 2004*

NOTE 26 **Medical Patient Revenues**

Patient charges for the medical practice plan are reported net of contractual adjustments and charity care. Components of gross medical patient charges for the year ended August 31, 2004 are summarized below.

Gross Medical Patient Charges	\$ 237,031,716
less Contractual Adjustments	(67,548,638)
less Charity Care	<u>(75,175,491)</u>
Net Medical Patient Charges	<u>94,307,587</u>

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

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

Patient charges earned under third party contractual arrangements are primarily from fixed rate agreements which, for Medicare and Medicaid, are updated annually by the federal government and state government, respectively. Gross patient services charges under the Medicare and Medicaid programs for the year ended August 31, 2004 were \$130,356,955. Compliance with these programs is complex and can be subject to future government interpretation as well as potential regulatory action.

For the Medicaid program in Texas, and other government programs, contractual adjustments are reported as charity care as defined in Section III of the *General Appropriations Act* of the 78th Texas Legislature.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report
U N A U D I T E D

SUPPORTING SCHEDULES

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Identifying Number	Agy Nbr	Pass-Through From			Direct Program
				Agency Amount	University Amount	Non- State Agency Amount	
U. S. Department of Justice							
Crime Laboratory Improvement							
Combined Offender DNA Index							
System Backlog Reduction	16.564			\$ -	\$ -	\$ -	\$ 2,156
TOTAL U. S. DEPARTMENT OF JUSTICE				-	-	-	2,156
U. S. Department of Labor							
South Plains Workforce Board							
Employment and Training Administration							
Pilots, Demonstrations, and Research Projects	17.261	AH-12465-02-06		-	-	1,353,253	-
Covenant Health Systems		03LN020024FN		-	-	-	-
Lubbock Christian University		03LN020024F1		-	-	-	-
South Plains College		03LN020024F2		-	-	-	-
TOTAL U. S. DEPARTMENT OF LABOR				-	-	1,353,253	-
U.S. Department of Education							
Fund for the Improvement of Post-Secondary Education	84.116			-	-	-	133,370
Rehabilitation Long-Term Training	84.129			-	-	-	86,969
Baylor College of Medicine / Fund for the Improvement of Post-Secondary Education	84.116	03LM030001FHN		-	-	2,619	-
TOTAL U. S. DEPARTMENT OF EDUCATION				-	-	2,619	220,339
U. S. Department of Health and Human Services							
Centers of Excellence	93.157			-	-	-	797,895
University of Texas at El Paso				-	-	-	-
Raiders Rojos National Alumni		04EM030077F3		-	-	-	-
Health Education and Training Centers (HETCAT)	93.189			-	-	-	350,527
University of Texas Health Science Center at San Antonio				-	-	-	-
University of Texas Medical Branch at Galveston				-	-	-	-
University of North Texas Health Science Center				-	-	-	-
Cactus Health Services		04EM040999F3		-	-	-	-
Clinica Guadalupana		04EM040999F1		-	-	-	-
El Paso County Hospital District		04EM040999F6		-	-	-	-
Primary Care Services		04EM040999F2		-	-	-	-
Promotores de Salud, Inc		04EM040999F5		-	-	-	-
U S Mexico Border Health Association		04EM040999F8		-	-	-	-

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To			Expend- itures	Total Pass- Through To and Expend- itures
			Agy Nbr	State Agency Amount	Non- State Agency Amount		
U. S. Department of Justice							
Crime Laboratory Improvement							
Combined Offender DNA Index							
System Backlog Reduction	16.564	\$ 2,156		\$ -	\$ -	\$ 2,156	\$ 2,156
TOTAL U. S. DEPARTMENT OF JUSTICE		2,156		-	-	2,156	2,156
U. S. Department of Labor							
South Plains Workforce Board							
Employment and Training Administration							
Pilots, Demonstrations, and Research Projects	17.261	1,353,253		-	-	800,587	800,587
Covenant Health Systems		-		-	237,829	-	237,829
Lubbock Christian University		-		-	167,147	-	167,147
South Plains College		-		-	147,690	-	147,690
TOTAL U. S. DEPARTMENT OF LABOR		1,353,253		-	552,666	800,587	1,353,253
U.S. Department of Education							
Fund for the Improvement of Post-Secondary Education	84.116	133,370		-	-	133,370	133,370
Rehabilitation Long-Term Training	84.129	86,969		-	-	86,969	86,969
Baylor College of Medicine / Fund for the Improvement of Post-Secondary Education	84.116	2,619		-	-	2,619	2,619
TOTAL U. S. DEPARTMENT OF EDUCATION		222,958		-	-	222,958	222,958
U. S. Department of Health and Human Services							
Centers of Excellence	93.157	797,895		-	-	593,324	593,324
University of Texas at El Paso		-	724	102,064	-	-	102,064
Raiders Rojos National Alumni		-		-	102,507	-	102,507
Health Education and Training Centers (HETCAT)	93.189	350,527				170,814	170,814
University of Texas Health Science Center at San Antonio		-	745	92,083	-	-	92,083
University of Texas Medical Branch at Galveston		-	723	62,516	-	-	62,516
University of North Texas Health Science Center		-	763	4,909	-	-	4,909
Cactus Health Services		-		-	5,134	-	5,134
Clinica Guadalupana		-		-	7,560	-	7,560
El Paso County Hospital District		-		-	1,620	-	1,620
Primary Care Services		-		-	2,296	-	2,296
Promotores de Salud, Inc		-		-	950	-	950
U S Mexico Border Health Association		-		-	2,645	-	2,645

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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 (cont)								
Advanced Education Nursing Grant Program	93.247			\$ -	\$ -	\$ -	\$ 379,796	
University of Texas at Tyler				-	-	-	-	
Poison Control Stabilization and Enhancement Grants	93.253			-	-	-	53,247	
Advanced Education Nursing Traineeships	93.358			-	-	-	32,323	
Nurse Education, Practice and Retention Grants	93.359			-	-	-	377,872	
Basic / Core Area Health Education Centers	93.824			-	-	-	559,088	
West Texas A&M University				-	-	-	-	
Permian Basin Workforce		04LM030022F2		-	-	-	-	
AHEC of the Plains		04LT030022FHN		-	-	-	-	
Medical Library Assistance	93.879			-	-	-	65,250	
Grants for Residency Training in General								
Internal Medicine and/or General Pediatrics	93.884			-	-	-	430,867	
Health Care and Other Facilities	93.887			-	-	-	50,382	
Rural Health Outreach and Rural Network								
Development Program	93.912			-	-	-	89,737	
University of Texas at El Paso				-	-	-	-	
Scholarships for Health Professions Students								
from Disadvantaged Backgrounds	93.925			-	-	-	172,047	
University of Texas Health Science Center at San Antonio /								
Health Education and Training Centers (HETCAT)	93.189		745	-	80,973	-	-	
University of Texas at El Paso				-	-	-	-	
El Paso Independent School District		03EM030999F19		-	-	-	-	
Heart of Texas Memorial Hospital		03EM030999F13		-	-	-	-	
Schleicher County Medical Center		03EM030999F14		-	-	-	-	
Shackelford County Community Resource Ctr		03EM030999F6		-	-	-	-	
Ysleta Independent School District		03EM030999F8		-	-	-	-	
Texas Health Foundation		03EM030999F4		-	-	-	-	
Texas Tech University / Allied Health Special Projects	93.191		733	-	15,930	-	-	
University of Texas at El Paso / Advanced Education								
Nursing Grant Program	93.247		724	-	110,044	-	-	
University of Texas Medical Branch at Galveston /								
Cancer Research Manpower	93.398		723	-	500	-	-	
University of Texas Medical Branch at Galveston /								
Cancer Control	93.399		723	-	3,239	-	-	
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SVCS				-	210,686	-	3,359,031	

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To			Expend- itures	Total Pass- Through To and Expend- itures
			Agy Nbr	State Agency Amount	Non- State Agency Amount		
U. S. Department of Health and Human Services (cont)							
Advanced Education Nursing Grant Program	93.247	\$ 379,796		\$ -	\$ -	\$ 296,593	\$ 296,593
University of Texas at Tyler		-	750	83,203	-	-	83,203
Poison Control Stabilization and Enhancement Grants	93.253	53,247		-	-	53,247	53,247
Advanced Education Nursing Traineeships	93.358	32,323		-	-	32,323	32,323
Nurse Education, Practice and Retention Grants	93.359	377,872		-	-	377,872	377,872
Basic / Core Area Health Education Centers	93.824	559,088		-	-	127,758	127,758
West Texas A&M University		-	757	97,037	-	-	97,037
Permian Basin Workforce		-		-	112,015	-	112,015
AHEC of the Plains		-		-	222,278	-	222,278
Medical Library Assistance	93.879	65,250		-	-	65,250	65,250
Grants for Residency Training in General							
Internal Medicine and/or General Pediatrics	93.884	430,867		-	-	430,867	430,867
Health Care and Other Facilities	93.887	50,382		-	-	50,382	50,382
Rural Health Outreach and Rural Network							
Development Program	93.912	89,737		-	-	75,896	75,896
University of Texas at El Paso		-	724	13,841	-	-	13,841
Scholarships for Health Professions Students							
from Disadvantaged Backgrounds	93.925	172,047		-	-	172,047	172,047
University of Texas Health Science Center at San Antonio /							
Health Education and Training Centers (HETCAT)	93.189	80,973		-	-	23,830	23,830
University of Texas at El Paso		-	724	35,544	-	-	35,544
El Paso Independent School District		-		-	5,350	-	5,350
Heart of Texas Memorial Hospital		-		-	1,080	-	1,080
Schleicher County Medical Center		-		-	1,590	-	1,590
Shackelford County Community Resource Ctr		-		-	8,100	-	8,100
Ysleta Independent School District		-		-	3,859	-	3,859
Texas Health Foundation		-	763	-	1,620	-	1,620
Texas Tech University / Allied Health Special Projects	93.191	15,930		-	-	15,930	15,930
University of Texas at El Paso / Advanced Education							
Nursing Grant Program	93.247	110,044	763	-	-	110,044	110,044
University of Texas Medical Branch at Galveston /							
Cancer Research Manpower	93.398	500		-	-	500	500
University of Texas Medical Branch at Galveston /							
Cancer Control	93.399	3,239		-	-	3,239	3,239
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SVCS		3,569,717		491,197	478,604	2,599,916	3,569,717

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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>	
STUDENT FINANCIAL ASSISTANCE CLUSTER							
U. S. Department of Education							
Federal Supplemental Educational Opportunity Grants	84.007			\$ -	\$ -	\$ -	\$ 24,686
Federal Family Education Loans							
New Loans Processed (Note 3)	84.032			-	-	-	27,080,210
Federal Perkins Loan Program	84.038						
New Loans Processed (Note 3)				-	-	-	545,728
Administrative Costs Recovered (Note 3)				-	-	-	29,022
Federal Pell Grant Program	84.063			-	-	-	402,452
				-	-	-	28,082,098
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER							
RESEARCH AND DEVELOPMENT (R&D) CLUSTER							
U. S. Department of Agriculture							
Texas Tech University / Initiative for Fudture Agriculture and Food Systems	10.302		733	-	52,197	-	-
Scientific Cooperation and Research	10.961		733	-	62,624	-	-
U. S. Department of Defense							
Texas Tech University	12.000	DOD - SBCCOM	733	-	429,354	-	-
U. S. Department of Energy							
BWXT Pantex, LLC	81.049	01AMF0004F1		-	-	13,568	-
U. S. Department of Health and Human Services							
Special Programs for the Aging / Title IV and Title II							
Discretionary Projects	93.048			-	-	-	518,848
Maternal and Child Health Federal Consolidated Programs	93.110			-	-	-	42,012
Biological Response to Environmental Health Hazards	93.113			-	-	-	38,771
Oral Diseases and Disorders Research	93.121			-	-	-	435,094
Alcohol National Service Research Awards for Research							
Training	93.272			-	-	-	50,982
Alcohol Research Programs	93.273			-	-	-	226,340
Centers for Disease Control and Prevention:							
Investigations and Technical Assistance	93.283			-	-	-	78,876
Comparative Medicine	93.306			-	-	-	192,673
Biomedical Technology	93.371			-	-	-	32,551
Cancer Cause and Prevention Research	93.393			-	-	-	302,919

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To			Expend- itures	Total Pass- Through To and Expend- itures
			Agy Nbr	State Agency Amount	Non- State Agency Amount		
STUDENT FINANCIAL ASSISTANCE CLUSTER							
U. S. Department of Education							
Federal Supplemental Educational Opportunity Grants	84.007	\$ 24,686		\$ -	\$ -	\$ 24,686	\$ 24,686
Federal Family Education Loans							
New Loans Processed (Note 3)	84.032	27,080,210		-	-	27,080,210	27,080,210
Federal Perkins Loan Program	84.038						
New Loans Processed (Note 3)		545,728		-	-	545,728	545,728
Administrative Costs Recovered (Note 3)		29,022		-	-	29,022	29,022
Federal Pell Grant Program	84.063	402,452		-	-	402,452	402,452
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		28,082,098		-	-	28,082,098	28,082,098
RESEARCH AND DEVELOPMENT (R&D) CLUSTER							
U. S. Department of Agriculture							
Texas Tech University / Initiative for Fudture Agriculture and Food Systems	10.302	52,197		-	-	52,197	52,197
Scientific Cooperation and Research	10.961	62,624		-	-	62,624	62,624
U. S. Department of Defense							
Texas Tech University	12.000	429,354		-	-	429,354	429,354
U. S. Department of Energy							
BWXT Pantex, LLC	81.049	13,568		-	-	13,568	13,568
U. S. Department of Health and Human Services							
Special Programs for the Aging / Title IV and Title II Discretionary Projects	93.048	518,848		-	-	518,848	518,848
Maternal and Child Health Federal Consolidated Programs	93.110	42,012		-	-	42,012	42,012
Biological Response to Environmental Health Hazards	93.113	38,771		-	-	38,771	38,771
Oral Diseases and Disorders Research	93.121	435,094		-	-	435,094	435,094
Alcohol National Service Research Awards for Research Training	93.272	50,982		-	-	50,982	50,982
Alcohol Research Programs	93.273	226,340		-	-	226,340	226,340
Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283	78,876		-	-	78,876	78,876
Comparative Medicine	93.306	192,673		-	-	192,673	192,673
Biomedical Technology	93.371	32,551		-	-	32,551	32,551
Cancer Cause and Prevention Research	93.393	302,919		-	-	302,919	302,919

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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 (cont)								
Cancer Treatment Research	93.395			\$ -	\$ -	\$ -	\$ 111,418	
Cancer Biology Research	93.396			-	-	-	99,825	
Heart and Vascular Diseases Research	93.837			-	-	-	1,143,954	
Texas Tech University				-	-	-	-	
Texas A&M Research Foundation				-	-	-	-	
University of Iowa		01LM000013F3		-	-	-	-	
Lung Diseases Research	93.838			-	-	-	24,155	
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846			-	-	-	112,003	
Diabetes, Endocrinology, and Metabolism Research	93.847			-	-	-	360	
Digestive Diseases and Nutrition Research	93.848			-	-	-	9	
Kidney Diseases, Urology, and Hematology Research	93.849			-	-	-	580	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			-	-	-	295,865	
Biological Basis Research in the Neurosciences	93.854			-	-	-	75,684	
Allergy, Immunology, and Transplantation Research	93.855			-	-	-	34,129	
Microbiology and Infectious Diseases Research	93.856			-	-	-	323,183	
Biomedical Research and Research Training	93.859			-	-	-	58,687	
Genetics and Development Biology Research and Research Training	93.862			-	-	-	173,506	
Population Research	93.864			-	-	-	1,245,312	
Child Health and Human Development Extramural Research	93.865			-	-	-	354,328	
Texas Tech University				-	-	-	-	
Aging Research	93.866			-	-	-	136,022	
Texas Agricultural Experiment Station				-	-	-	-	
Fogarty International Research Collaboration Award	93.934			-	-	-	29,874	
Cooperative Agreement for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988			-	-	-	596,201	
AHEC of the Plains		1LEW04129A		-	-	-	-	
Univ of Texas Hlth Science Ctr at Houston				-	-	-	-	
Univ of Texas at El Paso / Biometry and Risk Estimation Health Risks from Environmental Exposures	93.115			724	-	27,521	-	
Dr Andres M Lugo		04EM010066FH5		-	-	-	-	
Esperanza Lozano		04EM010066FH4		-	-	-	-	

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To			Expend- itures	Total Pass- Through To and Expend- itures
			Agy Nbr	State Agency Amount	Non- State Agency Amount		
U. S. Department of Health and Human Services (cont)							
Cancer Treatment Research	93.395	\$ 111,418		\$ -	\$ -	\$ 111,418	\$ 111,418
Cancer Biology Research	93.396	99,825		-	-	99,825	99,825
Heart and Vascular Diseases Research	93.837	1,143,954		-	-	1,088,461	1,088,461
Texas Tech University		-	733	11	-	-	11
Texas A&M Research Foundation		-	14	25,004	-	-	25,004
University of Iowa		-			30,478	-	30,478
Lung Diseases Research	93.838	24,155		-	-	24,155	24,155
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	112,003		-	-	112,003	112,003
Diabetes, Endocrinology, and Metabolism Research	93.847	360		-	-	360	360
Digestive Diseases and Nutrition Research	93.848	9		-	-	9	9
Kidney Diseases, Urology, and Hematology Research	93.849	580		-	-	580	580
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	295,865		-	-	295,865	295,865
Biological Basis Research in the Neurosciences	93.854	75,684		-	-	75,684	75,684
Allergy, Immunology, and Transplantation Research	93.855	34,129		-	-	34,129	34,129
Microbiology and Infectious Diseases Research	93.856	323,183		-	-	323,183	323,183
Biomedical Research and Research Training	93.859	58,687		-	-	58,687	58,687
Genetics and Development Biology Research and Research Training	93.862	173,506		-	-	173,506	173,506
Population Research	93.864	1,245,312		-	-	1,245,312	1,245,312
Child Health and Human Development Extramural Research	93.865	354,328		-	-	316,842	316,842
Texas Tech University		-	733	37,486	-	-	37,486
Aging Research	93.866	136,022		-	-	115,307	115,307
Texas Agricultural Experiment Station		-	556	20,715	-	-	20,715
Fogarty International Research Collaboration Award	93.934	29,874		-	-	29,874	29,874
Cooperative Agreement for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	596,201		-	-	560,201	560,201
AHEC of the Plains		-			15,000	-	15,000
Univ of Texas Hlth Science Ctr at Houston		-	744	21,000	-	-	21,000
Univ of Texas at El Paso / Biometry and Risk Estimation Health Risks from Environmental Exposures	93.115	27,521		-	-	22,319	22,319
Dr Andres M Lugo		-			3,720	-	3,720
Esperanza Lozano		-			1,482	-	1,482

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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 (cont)							
University of Texas at El Paso / Mental Health Research Grants	93.242		724	\$ -	\$ 36,184	\$ -	\$ -
University of Texas Health Science Center at Houston / Occupational Safety and Health Training Grants	93.263		744	-	7,036	-	-
University of North Texas Health Science Center / Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		763	-	34,903	-	-
Non-State Entities							
Kentucky Research Foundation / Drug Abuse Research Programs	93.279	04AP030016NRN		-	-	48,251	-
Association of American Medical Colleges / Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283	04EM030080FN		-	-	14,604	-
Kentucky Research Foundation / Bioengineering Research	93.287	03AP010086FA1		-	-	23,959	-
Oklahoma University Health Sciences Center / Comparative Medicine	93.306	04LM030014FN		-	-	171,040	-
Oklahoma University Health Sciences Center / National Center for Research Resources	93.389	04LM030014F1		-	-	60,530	-
Loyola University of Chicago / Heart and Vascular Diseases Research	93.837	5R01HL057832-06		-	-	64,267	-
Barlow Scientific, Inc. / Heart and Vascular Diseases Research	93.837	03LM020054FN		-	-	43,794	-
University of Wisconsin System / Blood Diseases and Resources Research	93.839	03LM970080FA4		-	-	41,708	-
University of South Florida / Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	04LM020034F1		-	-	78,210	-
Oregon and Health Science University / Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	04AP030069NHN		-	-	16,218	-
University of New Mexico Health Science Center / Microbiology and Infectious Diseases	93.856	03EM020023F1		-	-	3,670	-
TOTAL RESEARCH AND DEVELOPMENT (R&D) CLUSTER				-	649,819	579,819	6,734,161

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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 (cont)							
University of Texas at El Paso / Mental Health Research							
Grants	93.242	\$ 36,184		\$ -	\$ -	\$ 36,184	\$ 36,184
University of Texas Health Science Center at Houston /		-		-	-	-	-
Occupational Safety and Health Training Grants	93.263	7,036		-	-	7,036	7,036
University of North Texas Health Science Center /							
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	34,903		-	-	34,903	34,903
Non-State Entities							
Kentucky Research Foundation / Drug Abuse							
Research Programs	93.279	48,251		-	-	48,251	48,251
Association of American Medical Colleges / Centers							
for Disease Control and Prevention: Investigations and Technical Assistance	93.283	14,604		-	-	14,604	14,604
Kentucky Research Foundation / Bioengineering							
Research	93.287	23,959		-	-	23,959	23,959
Oklahoma University Health Sciences Center /							
Comparative Medicine	93.306	171,040		-	-	171,040	171,040
Oklahoma University Health Sciences Center /							
National Center for Research Resources	93.389	60,530		-	-	60,530	60,530
Loyola University of Chicago / Heart and Vascular							
Diseases Research	93.837	64,267		-	-	64,267	64,267
Barlow Scientific, Inc. / Heart and Vascular Diseases							
Research	93.837	43,794		-	-	43,794	43,794
University of Wisconsin System / Blood Diseases							
and Resources Research	93.839	41,708		-	-	41,708	41,708
University of South Florida / Extramural Research							
Programs in the Neurosciences and Neurological Disorders	93.853	78,210		-	-	78,210	78,210
Oregon and Health Science University / Extramural							
Research Programs in the Neurosciences and Neurological Disorders	93.853	16,218		-	-	16,218	16,218
University of New Mexico Health Science Center /							
Microbiology and Infectious Diseases	93.856	3,670		-	-	3,670	3,670
TOTAL RESEARCH AND DEVELOPMENT (R&D) CLUSTER		7,963,799		104,216	50,680	7,808,903	7,963,799

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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>Agency Amount</i>	<i>University Amount</i>	<i>Non- State Agency Amount</i>	<i>Direct Program</i>
OTHER CLUSTERS							
Highway Safety Cluster							
Texas Department of Transportation / State and Community							
Highway Safety	20.600		601	\$ 134,914	\$ -	\$ -	\$ -
TOTAL OTHER CLUSTERS				134,914	-	-	-
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 134,914	\$ 860,505	\$1,935,691	\$ 38,397,785

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

<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>		
OTHER CLUSTERS						
Highway Safety Cluster						
Texas Department of Transportation / State and Community						
Highway Safety	20.600	\$ 134,914		\$ -	\$ -	\$ 134,914
TOTAL OTHER CLUSTERS		134,914		-	-	134,914
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 41,328,895		\$ 595,413	\$1,081,950	\$ 39,651,532
		(Note 2)				(Note 2)

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2004

Note 1 Nonmonetary Assistance

Texas Tech University Health Sciences Center (TTUHSC) did not receive any nonmonetary assistance for the year ended August 31, 2004.

Note 2 Reconciliation

Federal Grant and Contract Revenues - Unpledged (SRECNA)	\$	10,217,158
Federal Grant and Contract Revenues - Pledged (SRECNA)		2,275,255
Federal Grant and Contract Pass-Through Revenues (SRECNA)		134,914
Non-Operating Federal Grant and Contract Revenues (SRECNA)		516,263
TOTAL FEDERAL REVENUES (SRECNA)		13,143,590
Reconciling Items		
New Loans Processed		27,625,938
less Perkins Grant Revenue		(38,743)
Federal Grant and Contract Pass-Throughs to Other State Agen		595,414
Prior Period Revenue Recognition		2,696
TOTAL FEDERAL FINANCIAL ASSISTANCE	\$	41,328,895

Note 3 Student Loans

<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	\$ -	\$ -	\$ -	\$ 117,693
93.364 Nursing Student Loans	-	-	-	53,615
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	-	-	-	171,308
U. S. Department of Education				
84.032 Federal Family Education Loan Program	27,080,210	-	27,080,210	-
84.038 Federal Perkins Loan Program	545,728	29,022	574,750	1,854,750
TOTAL U. S. DEPARTMENT OF EDUCATION	27,625,938	29,022	27,654,960	1,854,750
TOTAL STUDENT LOANS	\$ 27,625,938	\$ 29,022	\$ 27,654,960	\$ 2,026,058

Note 4 Petroleum Violation Escrow Funds (does not apply to TTUHSC)

Note 5 Depository Libraries for Government Publications (does not apply to TTUHSC)

Note 6 Unemployment Insurance (does not apply to TTUHSC)

Note 7 Rebates from the Special Supplemental Food Program for Women, Infant, and Children (does not apply to TTUHSC)

Note 8 Federal Deferred Revenue (does not apply to TTUHSC)

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report U N A U D I T E D

Schedule 1B: Schedule of State Grant Pass-Throughs from / to State Agencies For the Year Ended August 31, 2004

State Grant Pass-Through Revenues From Other State Agencies

Texas Department of Human Services (Agency Number 324)	
Community Based Outreach for Children's Health Insurance Progr	\$ 15,890
TOTAL TEXAS DEPARTMENT OF HUMAN SERVICES	15,890
University of Texas at El Paso (Agency Number 724)	
MHGP Hispanic End-Of-Life Care	6,224
TOTAL UNIVERSITY OF TEXAS AT EL PASO	6,224
Texas Higher Education Coordinating Board (Agency Number 781)	
Family Practice Residency	1,136,530
Family Practice Rural and Public Health Rotation	31,129
Financial Aid Professional Nursing	(30)
Graduate Medical Education	230,373
Texas Grant Program	65,940
Advanced Technology Program	173,100
Primary Care Residency Program	435,000
Nursing and Allied Health	37,800
Minority Health Research / Education	55,609
TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD	2,165,451
TOTAL STATE GRANT PASS-THROUGH REVENUES	
FROM OTHER STATE AGENCIES	\$ 2,187,565

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report
U N A U D I T E D

Schedule 3: Reconciliation of Cash in the State Treasury
As of August 31, 2004

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Local Revenue (Fund 0239)	\$ 3,661,988	\$ -	\$ 3,661,988
Permanent Health Fund - El Paso Campus (Fund 0820)	905,825	-	905,825
Permanent Health Fund - Other Campuses (Fund 0821)	206,627	-	206,627
TOTAL CASH IN THE STATE TREASURY	<u>\$ 4,774,440</u>	<u>\$ -</u>	<u>\$ 4,774,440</u>