

**TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER**



**Annual Financial Report  
Fiscal Year 2007**



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

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# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER

John C. Baldwin, M.D.  
*President*

November 15, 2007

The Honorable Rick Perry  
Governor of Texas

Ms. Susan Combs  
Comptroller of Public Accounts

Mr. John Keel, CPA  
State Auditor

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

Mr. John O'Brien  
Director, Legislative Budget Board

To Agency Heads Addressed:

We are pleased to submit the Annual Financial Report of Texas Tech University Health Sciences Center for the year ended August 31, 2007, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

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 "John C. Baldwin".

John C. Baldwin, M.D.  
President



TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER  
Finance and Administration

Office of Accounting Services

November 15, 2007

John C. Baldwin, M.D.  
President  
Texas Tech University Health Sciences Center  
Lubbock, Texas 79430

Dear Dr. Baldwin:

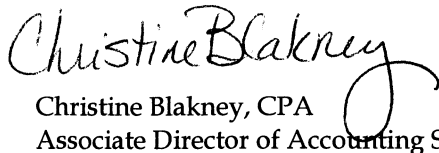
Submitted herein is the *Annual Financial Report* for Texas Tech University Health Sciences Center for the fiscal year ended August 31, 2007.

The financial statements in this report have been prepared in compliance with TEX. GOV'T CODE ANN §2101.011 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.

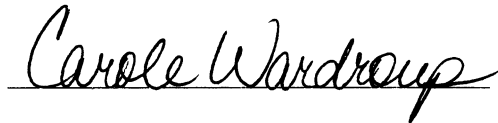
Please feel free to contact me should you have any questions about this report.

Sincerely,

  
Christine Blakney, CPA  
Associate Director of Accounting Services

Approved:

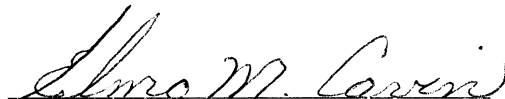
Carole Wardroup  
Director of Accounting Services



Michael Crowder, CPA  
Associate Vice President for Business Affairs



Elmo M. Cavin  
Executive Vice President for Finance & Administration





**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

**Annual Financial Report**  
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*Organizational Data*  
*August 31, 2007*

**BOARD OF REGENTS**

Term Expires

Larry Anders (Vice-Chair) .....January 31, 2011 .....Dallas  
F. Scott Dueser (Chair) .....January 31, 2009 ..... Abilene  
L. Frederick (Rick) Francis .....January 31, 2013 ..... El Paso  
Mark Griffin.....January 31, 2011 ..... Lubbock  
John F. Scovell .....January 31, 2013 .....Dallas  
Daniel T. Serna .....January 31, 2011 ..... Arlington  
Windy Sitton.....January 31, 2009 ..... Lubbock  
Bob L. Stafford.....January 31, 2009 ..... Amarillo  
Jerry E. Turner.....January 31, 2013 ..... Blanco

**FISCAL OFFICERS**

Kent Hance ..... Chancellor  
Jim Brunjes.....Vice Chancellor and Chief Financial Officer  
John C. Baldwin, M.D. .... President  
Elmo M. Cavin.....Executive Vice President for Finance & Administration  
Michael Crowder ..... Associate Vice President for Business Affairs  
Carole Wardroup ..... 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, 2007*

<i>TYPE OF STUDENT</i>	<i>STUDENTS BY SEMESTER</i>		
	<i>FALL 2006</i>	<i>SPRING 2007</i>	<i>SUMMER 2007</i>
Texas Resident	2,203	2,211	1,292
Out-of-State	65	63	78
Foreign	-	-	-
Hazelwood Act	29	33	23
Foster Care	1	2	1
Teachers, Professors, and Dependents	1	-	-
Competitive Scholarship	66	67	32
Deaf or Blind	5	5	3
Teaching Assistant, Research Assistant, and Dependents	43	43	43
Adjacent County	45	46	32
Total Students	2,458	2,470	1,504
<i>PROGRAM</i>			
Medical	550	550	-
Graduate Medical	99	99	80
Nursing	181	273	373
Graduate Nursing	488	441	253
Allied Health	165	168	42
Graduate Allied Health	626	594	664
Pharmacy	349	345	92
Total Students	2,458	2,470	1,504

### *ENROLLMENT TREND DATA*

<i>TERM</i>	<i>STUDENTS</i>	<i>SEMESTER</i>
		<i>HOURS</i>
Fall 2006	2,458	40,406
Fall 2005	2,391	38,402
Fall 2004	2,272	35,684
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



**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

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

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**FINANCIAL STATEMENTS**

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# 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, 2007*

#### ASSETS

##### Current Assets

Unrestricted Cash and Cash Equivalents	\$ 110,623,275
Restricted Cash and Cash Equivalents	67,019,591
Balance of Legislative Appropriations	22,568,473
Accounts Receivable	
Federal Receivable	1,486,935
Interest and Dividends Receivable	1,088,851
Patient Accounts Receivable	47,410,563
less Allowances for Uncollectibles and Adjustments	(31,247,614)
Student Accounts Receivable	643,133
less Allowance for Uncollectibles	(30,983)
Contract Accounts Receivable	10,562,373
Pledged Gifts Receivable	2,088,518
less Allowance for Uncollectibles	(41,770)
Other	183,490
less Allowance for Uncollectibles	(98,520)
Due from Other State Agencies	4,813,564
Merchandise Inventories	766,488
Prepaid Expenses	517,082
Loans and Notes Receivable	306,582
less Allowance for Uncollectibles and Cancellations	(36,341)
Total Current Assets	<u>238,623,690</u>

##### Non-Current Assets

Restricted Cash and Cash Equivalents	(552,740)
Pledged Gifts Receivable	8,912,630
less Allowance for Uncollectibles	(178,253)
Loans and Notes Receivable	2,563,230
less Allowance for Uncollectibles and Cancellations	(243,204)
Investments	274,160,878
Non-Depreciable Capital Assets	84,177,143
Depreciable Capital Assets	378,718,152
less Accumulated Depreciation	<u>(190,810,156)</u>
Total Non-Current Assets	<u>556,747,680</u>
TOTAL ASSETS	<u>\$ 795,371,370</u>

# 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, 2007*

#### LIABILITIES

##### Current Liabilities

Accounts Payable	\$ 19,430,500
Payroll Payable	30,211,536
Due to Other State Agencies	145,350
Unclaimed Property Due to the State Treasury	57,523
Deferred Revenue	8,946,314
Bonds Payable	5,407,450
Claims Payable	2,264,141
Compensable Leave Payable	4,426,426
Funds Held for Others	170,811
Other	269,507

Total Current Liabilities 71,329,558

##### Non-Current Liabilities

Unclaimed Property Due to the State Treasury	60,939
Bonds Payable	120,974,550
Claims Payable	20,377,272
Compensable Leave Payable	17,705,704
Other	529,248

Total Non-Current Liabilities 159,647,713

TOTAL LIABILITIES 230,977,271

#### NET ASSETS

Invested in Capital Assets, Net of Related Debt	157,947,735
Restricted	
Capital Projects	9,556,394
Funds Held as Permanent Investments	
Nonexpendable	113,413,827
Other	29,163,599
Unrestricted	254,312,544

TOTAL NET ASSETS 564,394,099

TOTAL LIABILITIES AND NET ASSETS \$ 795,371,370

# 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, 2007*

Operating Revenues	
Student Tuition and Fees - Unpledged	\$ 3,214,752
less Discounts and Allowances	(3,551,926)
less Uncollectibles	19,871
Student Tuition and Fees - Pledged	16,837,973
Net Professional Fees	249,737,052
less Uncollectibles	(33,019,309)
Net Sales and Services of Auxiliary Enterprises - Pledged	434,398
Net Other Sales and Services - Unpledged	1,440,222
Net Other Sales and Services - Pledged	2,337,662
Federal Grant and Contract Revenues - Unpledged	10,057,122
Federal Grant and Contract Revenues - Pledged	2,386,861
Federal Grant and Contract Pass-Through Revenues	3,507,141
State Grant and Contract Revenues - Unpledged	5,424,037
State Grant and Contract Revenues - Pledged	113,093
State Grant and Contract Pass-Through Revenues	3,021,244
Local Grant and Contract Revenues - Unpledged	78,489,460
Local Grant and Contract Revenues - Pledged	579,153
Private Grant and Contract Revenues - Unpledged	22,289,891
Private Grant and Contract Revenues - Pledged	3,295,880
Total Operating Revenues	<u>366,614,577</u>
Operating Expenses	
Instruction	221,528,812
Research	16,523,207
Public Service	113,051,926
Academic Support	77,037,466
Student Services	8,127,040
Institutional Support	18,602,700
Operation and Maintenance of Plant	20,078,747
Auxiliary Enterprises	356,588
Depreciation	13,161,675
Total Operating Expenses	<u>488,468,161</u>
Operating Loss	<u>(121,853,584)</u>
Non-Operating Revenues and Gains	
Legislative Appropriations Revenue	133,132,304
Federal Grant and Contract Revenues	552,866
less Refunds to Grantors	(5,992)
Private Gifts	12,574,038
less Uncollectibles	(265,759)

# 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, 2007*

Non-Operating Revenues and Gains (continued)	
Net Investment Income - Unpledged	\$ 18,495,534
Net Investment Income - Pledged	6,332,058
Net Increase in Fair Value of Investments	15,006,110
Other - Unpledged	354,921
Other - Pledged	327,079
Total Non-Operating Revenues and Gains	<u>186,503,159</u>
Non-Operating Expenses and Losses	
Interest Expense on Capital Asset Financing	702,231
Loss on Sale and Disposal of Capital Assets	566,460
Other	51,759
Total Non-Operating Expenses and Losses	<u>1,320,450</u>
Other Revenues, Expenses, Gains, Losses, and Transfers	
Capital Contributions	761,791
Capital Recoveries	345,075
Legislative Appropriations Revenue for Capital (HEAF)	11,899,627
Net Transfers from Texas Tech University	1,074,065
Net Transfers to Texas Tech University System Administration	(1,423,760)
Transfers to Other State Agencies	(4,591,786)
Legislative Transfers Out (System Administration Support)	(2,386,687)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	<u>5,678,325</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ 69,007,450</u>
Net Assets, September 1, 2006	495,386,649
Net Assets, August 31, 2007	<u>\$ 564,394,099</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, 2007*

FUNCTION	SALARIES AND WAGES	PAYROLL RELATED COSTS	PROFESSIONAL FEES AND SERVICES	FEDERAL SUB- CONTRACTS
Instruction	\$ 152,435,995	\$ 34,398,461	\$ 11,526,010	\$ 158,244
Research	8,759,158	2,302,019	319,462	476,893
Public Service	42,542,093	10,493,643	41,237,272	725,154
Academic Support	46,250,034	11,809,547	3,811,944	29,205
Student Services	3,609,277	955,982	516,647	-
Institutional Support	12,491,655	3,008,281	1,324,978	-
Operation and Maintenance of Plant	5,569,021	1,363,154	67,965	-
Auxiliary Enterprises	152,167	48,515	302	-
Depreciation	-	-	-	-
Total Operating Expenses	271,809,400	64,379,602	58,804,580	1,389,496

FUNCTION	TRAVEL	MATERIALS AND SUPPLIES	COMMUNICATIONS AND UTILITIES	REPAIRS AND MAINTENANCE
Instruction	1,750,828	15,360,744	2,084,547	616,893
Research	239,817	3,958,281	90,885	183,589
Public Service	545,121	14,770,756	755,547	395,013
Academic Support	1,011,924	10,848,962	1,448,274	1,259,904
Student Services	306,319	2,047,194	183,481	91,128
Institutional Support	274,910	492,456	183,521	55,707
Operation and Maintenance of Plant	50,173	5,754,435	5,981,806	797,931
Auxiliary Enterprises	7,018	78,779	17,410	25,043
Depreciation	-	-	-	-
Total Operating Expenses	4,186,110	53,311,607	10,745,471	3,425,208

FUNCTION	RENTALS AND LEASES	PRINTING AND REPRODUCTION	DEPRECIATION	BAD DEBT
Instruction	1,168,760	677,841	-	(168)
Research	14,009	73,576	-	-
Public Service	835,855	241,658	-	-
Academic Support	807,869	371,470	-	(270,441)
Student Services	69,357	223,796	-	-
Institutional Support	58,692	145,030	-	-
Operation and Maintenance of Plant	463,826	22,077	-	-
Auxiliary Enterprises	9,027	12,549	-	-
Depreciation	-	-	13,161,675	-
Total Operating Expenses	3,427,395	1,767,997	13,161,675	(270,609)

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

**Annual Financial Report  
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*Matrix of Operating Expenses by Natural Classification  
For the Year Ended August 31, 2007*

<u>FUNCTION</u>	<u>INTEREST</u>	<u>SCHOLARSHIPS</u>	<u>CLAIMS AND LOSSES</u>	<u>OTHER OPERATING</u>
Instruction	\$ 2,484	\$ 539,015	\$ -	\$ 809,157
Research	139	67,700	-	37,681
Public Service	1,183	227,796	65,182	215,651
Academic Support	2,821	320,777	-	(664,822)
Student Services	103	5,067	-	118,689
Institutional Support	4,568	111,083	(50,851)	502,670
Operation and Maintenance of Plant	83	687	-	7,588
Auxiliary Enterprises	33	-	-	5,746
Depreciation	-	-	-	-
Total Operating Expenses	<u>11,414</u>	<u>1,272,125</u>	<u>14,331</u>	<u>1,032,360</u>

<u>FUNCTION</u>	<u>GRAND TOTAL</u>
Instruction	221,528,812
Research	16,523,207
Public Service	113,051,926
Academic Support	77,037,466
Student Services	8,127,040
Institutional Support	18,602,700
Operation and Maintenance of Plant	20,078,747
Auxiliary Enterprises	356,588
Depreciation	13,161,675
Total Operating Expenses	<u>\$ 488,468,161</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, 2007*

Cash Flows from Operating Activities	
Cash Inflows	
Collections from Student Tuition and Fees	\$ 17,774,683
Collections from Grants and Contracts	130,477,395
Collections from Patients and Insurers	217,125,008
Collections of Loans to Students	1,165,695
Collections from Auxiliary Enterprises	434,398
Collections from Other Operating Activities	4,299,423
Cash Outflows	
Payments to Suppliers	201,722,909
Payments to Employees	268,697,042
Payments for Loans Issued to Students	1,397,137
Payments for Auxiliary Enterprises	356,588
Payments for Other Operating Activities	2,368,082
Net Cash Used for Operating Activities	<u>(103,265,156)</u>
Cash Flows from Non-Capital Financing Activities	
Cash Inflows	
Proceeds from Legislative Appropriations	131,083,358
Proceeds from Net Transfers from Texas Tech University	1,074,065
Proceeds from Non-Capital Gifts and Grants	12,214,662
Proceeds from Direct Lending	35,290,653
Proceeds from Other Non-Capital Financing Activities	770,756
Cash Outflows	
Payments for Net Transfers to Texas Tech University System Administration	3,810,447
Payments for Transfers to Other State Agencies	4,591,786
Payments for Direct Lending	35,135,099
Net Cash Provided by Non-Capital Financing Activities	<u>136,896,162</u>
Cash Flows from Capital and Related Financing Activities	
Cash Inflows	
Proceeds from Legislative Appropriations for Capital	11,899,627
Proceeds from Capital Gifts and Grants	761,791
Cash Outflows	
Payments for Purchases of Capital Assets	45,477,000
Payments for Principal on Capital Debts	5,669,315
Payments for Interest on Capital Debts	6,262,281
Payments for Other Capital Related Activities	44,761
Net Cash Used for Capital and Related Financing Activities	<u>(44,791,939)</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, 2007*

#### Cash Flows from Investing Activities

##### Cash Inflows

Proceeds from Sales and Maturities of Investments	\$ 41,531,347
Proceeds from Interest and Dividends on Investments	30,529,307

##### Cash Outflows

Payments for Purchases of Investments	53,462,963
---------------------------------------	------------

Net Cash Provided by Investing Activities	<u>18,597,691</u>
---	-------------------

TOTAL NET CASH FLOWS	<u>7,436,758</u>
----------------------	------------------

Cash and Cash Equivalents, September 1, 2006	169,653,368
--	-------------

Cash and Cash Equivalents, August 31, 2007	<u>\$ 177,090,126</u>
--	-----------------------

#### Components of Cash and Cash Equivalents, August 31, 2007

Cash on Hand	25,758
--------------	--------

Cash in Bank	12,299,610
--------------	------------

Reimbursements Due from the State Treasury	4,477,885
--	-----------

Local Balance of Legislative Appropriations	8,705,294
---	-----------

Repurchase Agreements	18,616,404
-----------------------	------------

TexPool and TexStar Investments	<u>132,965,175</u>
---------------------------------	--------------------

Cash and Cash Equivalents, August 31, 2007	<u>\$ 177,090,126</u>
--	-----------------------

#### Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (121,853,584)
----------------	------------------

##### Adjustments

Depreciation Expense	13,161,675
----------------------	------------

Bad Debt Expense	(270,609)
------------------	-----------

Decrease (Increase) in Accounts Receivable	1,700,926
--	-----------

Decrease (Increase) in Merchandise Inventories	(136,185)
--	-----------

Decrease (Increase) in Prepaid Expenses	(56,200)
---	----------

Decrease (Increase) in Loans and Notes Receivable	(231,442)
---	-----------

Increase (Decrease) in Short-Term Payables	2,059,496
--	-----------

Increase (Decrease) in Deferred Revenue	1,281,735
---	-----------

Increase (Decrease) in Claims Payable	(903,120)
---------------------------------------	-----------

Increase (Decrease) in Compensable Leave	1,548,503
--	-----------

Increase (Decrease) in Other Liabilities	<u>433,649</u>
--	----------------

Net Cash Used for Operating Activities	<u>\$ (103,265,156)</u>
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**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

**Annual Financial Report**  
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**NOTES TO THE FINANCIAL STATEMENTS**

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# 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, 2007*

### 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, 2007.

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 several campuses located in Abilene, Amarillo, Dallas, El Paso, Lubbock and Odessa. The School of Medicine is represented at a majority of the campuses while other schools have a presence at only select 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 nine 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, 2007*

### 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 4<sup>th</sup> Street, Lubbock, Texas 79430.

Texas Tech Foundation, Inc. (TTFI) is a component unit of the consolidated Texas Tech University System as 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 restrictive 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 therefore not available for current operational needs are classified as non-current assets.

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*Notes to the Financial Statements*  
*August 31, 2007*

**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. TTUHSC utilizes bank deposits, repurchase agreements and eligible investment pools as cash equivalents in its Short/Intermediate Term Investment Fund. Per policy and state statute all bank deposits are fully collateralized. Eligible investment pools must maintain a \$1 net asset value and be continuously rated no lower than AAA or AAA-m by at least one nationally recognized rating service. TTUHSC currently utilizes TexPool and TexStar as eligible investment pools.

**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 include both consumable inventories and merchandise inventories. Consumable

# 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, 2007*

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

inventories include supplies and postage that are 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.

#### Restricted Assets

Cash and cash equivalents that are held for endowments or for special programs are reported as restricted because 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, in the case of gifts, at fair value as of the date of donation.

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 depreciated over the appropriate useful life beginning when the asset is placed into service.



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

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

**Payables**

Major categories of TTUHSC payables include bonds payable, claims payable and general accounts payable (including payroll). Additional 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 compensation for the additional hours worked at a rate equal to 1½ times the usual hourly wage or, if provided by department policy, they may request compensatory leave for the additional hours worked at a rate of 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. Accumulated sick leave balances are not recognized as an institutional liability because sick leave is not paid out to terminating employees.

**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)

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

the term of the lease represents 75% or more of the useful life of the leased asset; or (4) the discounted present value of all future lease payments at the inception of the lease represent 90% or more of the fair value of the leased asset.

#### Encumbrances

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

#### Net Assets

Net assets represent the excess of assets over liabilities. As a result of the amounts restricted by external parties and also amounts invested in capital assets, net of related debt, the excess of assets over liabilities does not generally 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, 2007.

Reserved		
Encumbrances	\$	22,224,388
Inventory		766,488
Prepaid Expenses		517,082
Accounts Receivable		27,888,765
Working Capital		51,808
Self Insured Plans		46,308,845
Funds Functioning as Endowments		24,403,073
Unreserved		132,152,095
Total Unrestricted Net Assets	\$	<u>254,312,544</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.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 1 (continued) Summary of Significant Accounting Policies

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

#### **Risk Financing**

Liabilities are reported when it is probable that a loss has occurred and 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 artwork). All other capital asset categories are depreciated.

Capital asset changes for the year ended August 31, 2007 are summarized in the table at the top of the next page.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 2 (continued) Capital Assets

Capital Asset Category	Balance 09/01/2006	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/2007
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
<b>Non-Depreciable Assets</b>								
Land and Land Improvements	\$ 6,307,286	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,307,286
Construction in Progress	85,996,799	-	(43,883,527)	-	-	35,138,180	-	77,251,452
Other	530,405	-	-	-	-	88,000	-	618,405
<b>Total Non-Depreciable Assets</b>	<b>\$ 92,834,490</b>	<b>\$ -</b>	<b>\$ (43,883,527)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 35,226,180</b>	<b>\$ -</b>	<b>\$ 84,177,143</b>
<b>Depreciable Assets</b>								
Buildings and Building Improvements	\$ 229,357,483	\$ (10,502)	\$ 43,883,527	\$ -	\$ -	\$ 7,810,144	\$ -	\$ 281,040,652
Infrastructure	5,055,866	(5,207)	-	-	-	-	-	5,050,659
Furniture and Equipment	50,548,870	(22,822)	-	151,071	(538,206)	6,797,560	(2,121,961)	54,814,512
Vehicles	1,817,546	-	-	40,456	-	68,177	(263,405)	1,662,774
Other	25,435,551	(59,171)	-	-	-	1,639,715	-	27,016,095
Facilities and Other Improvements	9,133,460	-	-	-	-	-	-	9,133,460
<b>Total Depreciable Assets</b>	<b>\$ 321,348,776</b>	<b>\$ (97,702)</b>	<b>\$ 43,883,527</b>	<b>\$ 191,527</b>	<b>\$ (538,206)</b>	<b>\$ 16,315,596</b>	<b>\$ (2,385,366)</b>	<b>\$ 378,718,152</b>

Accumulated depreciation changes for the year ended August 31, 2007 are summarized in the table below.

Capital Asset Category	Balance 09/01/2006	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/2007
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
Buildings and Building Improvements	\$ (128,160,269)	\$ -	\$ -	-	-	\$ (7,034,098)	-	\$ (135,194,367)
Infrastructure	(698,561)	-	-	-	-	(212,969)	-	(911,530)
Furniture and Equipment	(32,572,601)	-	-	(122,661)	91,060	(4,220,517)	1,906,333	(34,918,386)
Vehicles	(1,236,674)	-	-	(40,456)	-	(128,688)	262,360	(1,143,458)
Facilities and Other Improvements	(1,863,330)	-	-	-	-	(460,380)	-	(2,323,710)
Other	(15,213,682)	-	-	-	-	(1,105,023)	-	(16,318,705)
<b>Total Accumulated Depreciation</b>	<b>\$ (179,745,117)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (163,117)</b>	<b>\$ 91,060</b>	<b>\$ (13,161,675)</b>	<b>\$ 2,168,693</b>	<b>\$ (190,810,156)</b>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

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### NOTE 3 Deposits, Investments, and Repurchase Agreements

TTUHSC's investment portfolio is 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, under Texas law, TTUHSC is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. 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. Other assets include securities gifted to TTUHSC with written donor instructions to maintain in their original form, and bond proceeds invested in external investment pools. TTUHSC also maintains a cash balance in the State Treasury (local balance of legislative appropriations).

As of August 31, 2007, the carrying amount of deposits was \$12,299,610 as detailed in the table on the following page.

# 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, 2007*

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

#### Texas Tech University Health Sciences Center Deposits of Cash in Bank

##### Enterprise Funds

Cash in Bank - Carrying Value	\$ 12,299,610
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	-
Less: Uninvested Securities Lending Cash Collateral included in Carrying Value and Reported as Securities Lending Collateral	-
Less: Securities Lending CD Collateral included in carrying value and Reported as Securities Lending Collateral	-
Cash in Bank	<u>\$ 12,299,610</u>
Enterprise Funds Current Assets Cash in Bank	\$ 12,656,211
Enterprise Funds Current Assets Restricted Cash in Bank	785,765
Enterprise Funds Non-Current Assets Restricted Cash in Bank	<u>(1,143,366)</u>
Cash in Bank	<u>\$ 12,299,610</u>

These amounts consist of all cash in local banks and are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts. As of August 31, 2007, the total bank balance for Enterprise Funds was \$8,325,012.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The policy of TTUHSC is to require collateralization of bank balances in excess of FDIC protection. At August 31, 2007, TTUHSC had \$37,577 of GAAP fund 0001 funds considered to be uninsured and uncollateralized. A transfer of that amount was made to the primary depository of TTUHSC after year end to provide sufficient collateral for the institution.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 3 (continued) Deposits, Investments, and Repurchase Agreements

#### INVESTMENTS

As of August 31, 2007, the carrying value and fair value of investments are summarized in the following table.

Texas Tech University Health Sciences Center Carrying Value and Fair Value of Investments		
	Carrying Value	Fair Value
<b>Enterprise Funds</b>		
U. S. Government		
U. S. Treasury Securities	\$ 20,955,619	\$ 20,955,619
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	62,369,604	62,369,604
Corporate Obligations	-	-
Corporate Asset and Mortgage Backed Securities	-	-
Equity	28,946,847	28,946,847
International Equity	44,894,706	44,894,706
Repurchase Agreement	18,616,404	18,616,404
Fixed Income Money Market and Bond Mutual Fund	23,792,223	23,792,223
Other Commingled Funds	74,553,460	74,553,460
Other Commingled Funds (TexPool)	79,135,248	79,135,248
Commercial Paper	-	-
Securities Lending Collateral Investment Pool	-	-
Alternative Investments	72,222,949	72,222,949
Miscellaneous (Limited Partnerships, Guaranteed Investment Contract, Political Subdivision, Bankers' Acceptance, Negotiable CD)	255,397	255,397
<b>Total Investments</b>	<u>\$ 425,742,457</u>	<u>\$ 425,742,457</u>
Non-Current Investments		\$ 274,160,878
Items in Cash and Cash Equivalents:		
Repurchase Agreements		18,616,404
TexPool and TexSTAR Investments		132,965,175
<b>Total Investments</b>		<u>\$ 425,742,457</u>

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER****Annual Financial Report  
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*Notes to the Financial Statements  
August 31, 2007*

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

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. It is the policy of TTUHSC to limit international equity investments to between 10-30% of the LTIF portfolio. The exposure to foreign currency risk as of August 31, 2007 is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation	International Equity
01	0001	Argentine peso	-	\$ 25,767
01	0001	Australian dollar	-	1,005,836
01	0001	Bermudan dollar	-	8,723
01	0001	Brazilian real	-	1,610,968
01	0001	Bulgarian lev	-	94,968
01	0001	Canadian dollar	-	407,881
01	0001	Cayman dollar	-	8,723
01	0001	Chilean peso	-	29,888
01	0001	Chinese yuan	-	989,293
01	0001	Columbian peso	-	3,619
01	0001	Czech koruna	-	116,541
01	0001	Danish krone	-	199,486
01	0001	Egyptian pound	-	10,997
01	0001	Euro	-	13,627,148
01	0001	Hong Kong dollar	-	696,453
01	0001	Hungarian forint	-	409,419
01	0001	Indian rupee	-	309,261
01	0001	Indonesian rupiah	-	72,782
01	0001	Israeli shekel	-	188,526
01	0001	Japanese yen	-	7,053,825
01	0001	Jordanian dinar	-	1,392
01	0001	Malaysian ringgit	-	532,633
01	0001	Mexican peso	-	519,042
01	0001	Moroccan dirham	-	4,315
01	0001	New Zealand dollar	-	75,001
01	0001	Norwegian krone	-	723,037
01	0001	Pakistani rupee	-	2,784
01	0001	Peruvian nuevo sol	-	9,049
01	0001	Phillippino peso	-	277,853

(continued on next page)



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 3 (continued) Deposits, Investments, and Repurchase Agreements

Fund Type	GAAP Fund	Foreign Currency	International Obligation	International Equity
01	0001	Polish zloty	-	\$ 689,118
01	0001	Pound sterling	-	6,099,147
01	0001	Romanian leu	-	209,186
01	0001	Russian ruble	-	400,249
01	0001	Singapore dollar	-	468,867
01	0001	South African rand	-	293,762
01	0001	South Korean won	-	2,493,549
01	0001	Swedish krona	-	742,911
01	0001	Swiss franc	-	1,684,432
01	0001	Taiwan dollar	-	2,206,902
01	0001	Thai baht	-	394,025
01	0001	Turkish lira	-	197,348
		Total		\$ 44,894,706

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TTUHSC's investment policy limits fixed income securities held by the STIF to those issued by the U. S. or its agencies and instrumentalities. Fixed income mutual funds in the STIF must hold securities that are at least rated investment grade.

#### Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	Unrated
01	0001	U. S. Government Agency Obligations	\$ 62,369,604	-
		U. S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	-	-
		Corporate Obligations	-	-
		Corporate Asset and Mortgage Backed Securities	-	-
		International Obligation	-	-
01	0001	Repurchase Agreement	18,616,404	-
01	0001	Fixed Income Money Market and Bond Mutual Fund	-	23,792,223

# 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, 2007*

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

#### DERIVATIVE INVESTING

TTUHSC holds collateralized mortgage obligations. These securities were purchased to provide an incremental yield above that available on corporate securities with similar terms. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the fair value. It is estimated these securities, along with other securities held by TTUHSC, will provide future cash inflows on a time schedule that approximately matches the outflows associated with TTUHSC liabilities. These securities are rated AAA by the major rating agencies.

### 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, 2007, no commercial paper debt was outstanding.

### 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 09/01/2006	Increases	Decreases	Balance 08/31/2007	Current Portion
Bonds Payable	\$ 132,051,315	\$ -	\$ 5,669,315	\$ 126,382,000	\$ 5,407,450
Claims Payable	23,544,533	-	903,120	22,641,413	2,264,141
Compensable Leave	20,583,627	1,656,062	107,559	22,132,130	4,426,426
Total Long Term Liabilities	\$ 176,179,475	\$ 1,656,062	\$ 6,679,994	\$ 171,155,543	\$ 12,098,017

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 5 (continued) Summary of Long Term Liabilities

#### NOTES AND LOANS PAYABLE

No notes payable were outstanding as of August 31, 2007.

#### CLAIMS PAYABLE

Claims payable includes estimates for both known medical malpractice claims and those that have not yet been made against the insured participants. 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. Funding for future claim payments will be from a self-insurance reserve managed by the office of General Counsel.

Description	Balance 09/01/2006	Increases	Decreases	Balance 08/31/2007
TTUHSC	\$ 23,544,533	\$ -	\$ 903,120	\$ 22,641,413
Total Claims Payable	\$ 23,544,533	\$ -	\$ 903,120	\$ 22,641,413

#### COMPENSABLE LEAVE

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2007. 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, 2007 was estimated at \$17,705,704, out of a total liability of \$22,132,130. Funding for future leave balance payments will be from the same source as annualized salary expense.

#### BONDS PAYABLE

Refer to Note 13 for detailed information on bond liability balances, transactions and funding source.

# 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, 2007*

#### **NOTE 6** **Capital Leases**

As of August 31, 2007, 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 \$4,125,851 for the year ended August 31, 2007. 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
2008	\$ 4,249,627
2009	4,377,116
2010	4,508,429
2011	4,643,682
2012	4,782,993

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 an outstanding interfund receivable from the University of Texas Investment Management Company (UTIMCO) as of August 31, 2007, representing undistributed earnings from the investment assets of the Permanent Health Fund for Higher Education. As of August 31, 2007, TTUHSC had an outstanding interfund payable to Texas Tech University representing payment for 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**

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*Notes to the Financial Statements*  
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**NOTE 8 (continued)**  
**Interfund Balances / Activity**

Texas Tech University Health Sciences Center Due from / to Other State Agencies				
Agency Name	Agency Nbr	D23 Fund	Due from	Due to
University of Texas System	720	0810	\$ 4,813,564	\$ -
Texas Tech University	733	0001	<u>-</u>	<u>145,350</u>
Total Due from / to Other State Agencies			<u>\$ 4,813,564</u>	<u>\$ 145,350</u>

Also, for the year ended August 31, 2007, TTUHSC had various transfers to and from other components of the Texas Tech University System and other state agencies. 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. The transfer to the Texas Department of State Health is for the UPL program amount due to Covenant Medical Center. The transfers to the Texas Higher Education Coordinating Board are for 2% Medical Loan and B-On-Time set-asides.

Interfund transfer activity is summarized in the table below.

Texas Tech University Health Sciences Center Transfers from / to Other State Agencies				
Agency Name	Agency Nbr	D23 Fund	Transfers In	Transfers Out
Texas Tech University	733	0001	\$ 1,460,334	\$ 386,269
Texas Tech University System Administration	768	0001	1,217	1,424,977
Texas Department of State Health Services	529	0001	-	4,500,000
Texas Higher Education Coordinating Board	781	0542	-	71,577
Texas Higher Education Coordinating Board	781	5103	<u>-</u>	<u>20,209</u>
Total Transfers from / to Other State Agencies			<u>\$ 1,461,551</u>	<u>\$ 6,403,032</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### NOTE 8 (continued) Interfund Balances / Activity

For the year ended August 31, 2007, TTUHSC recorded a Legislative transfer out to TTUSA for system administration support. Details of that transfer are shown in the following table.

Texas Tech University Health Sciences Center Legislative Transfers in/out				
Agency Name	Agency Nbr	D23 Fund	Transfers In	Transfers Out
Texas Tech University System Administration	768	0001	\$ -	\$ 2,386,687
Total Legislative Transfers from / to Other State Agencies			\$ -	\$ 2,386,687

### NOTE 9 Contingent Liabilities

#### PENDING LITIGATION

At August 31, 2007, various lawsuits and claims involving TTUHSC were pending. While the ultimate liability with respect to litigation and other claims asserted against TTUHSC for the majority of the claims cannot be reasonably estimated at this time, a liability was recorded for the claims that were probable and estimable. These claims amounted to \$15,000 which is reported as a component of Accounts Payable. The liability for other claims filed, to the extent not provided for by insurance, is not likely to have a material impact on TTUHSC.

#### REBATABLE ARBITRAGE

As of August 31, 2007, the Revenue Financing System and Improvement Bonds, Series 2006, was the only outstanding bond issue of TTUHSC which had an associated outstanding rebatable arbitrage liability amounting to \$521,269. This liability is payable on the fifth anniversary of the bond issue which will occur in 2011. 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.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### NOTE 9 (continued) Contingent Liabilities

#### 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 \$22,513,106 as of August 31, 2007. These commitments will be funded by donor contributions, appropriations from the state, issuance of revenue bonds, and other borrowings. As of August 31, 2007, the amount of legislative appropriations for capital from the state available for these commitments totaled \$1,760,504.

#### 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, 2007 was \$35,135,099.

### 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, 2007, of \$22,641,413. Texas Tech Physician Associates, a blended component unit, had no accrued IBNR at August 31, 2007. A reconciliation of IBNR is provided in the table in Note 5.

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.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

As of September 1, 2003, 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 79<sup>th</sup> 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, 2007.

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, 2007, 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*  
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### NOTE 13 (continued) Bonded Indebtedness

#### 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, 2<sup>nd</sup> Series 1995

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

Outstanding: \$6,432,144 outstanding as of August 31, 2007

Interest Rates: 4.00% to 5.25%

Maturity Dates: 1999 through 2029

Balance Changes: \$0 issued; \$734,647 retired

#### REVENUE FINANCING SYSTEM BONDS, 7<sup>th</sup> 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: \$5,165,000 outstanding as of August 31, 2007

Interest Rates: 3.00% to 5.50%

Maturity Dates: 2002 through 2021

Balance Changes: \$0 issued; \$720,000 retired

#### REVENUE FINANCING SYSTEM BONDS, 9<sup>th</sup> 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: \$59,460,000 outstanding as of August 31, 2007

Interest Rates: 4.00% to 5.25%

Maturity Dates: 2006 through 2023

Balance Changes: \$0 issued; \$2,435,000 retired

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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*Notes to the Financial Statements*  
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### NOTE 13 (continued) Bonded Indebtedness

#### **REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 10<sup>th</sup> SERIES 2006**

Purpose:	Financing for Medical Education Building project in El Paso, the costs of issuing the bonds, and the advance refunding of a portion of the Revenue Financing System Bonds, Series 1999 and Revenue Financing System Bonds, 7 <sup>th</sup> Series 2001
Issued:	February 1, 2006; all authorized bonds (\$59,694,524) have been issued which includes \$45,000,000 of new bonds for the project
Outstanding:	\$55,324,856 outstanding as of August 31, 2007
Interest Rates:	4.00% to 5.00%
Maturity Dates:	2006 through 2029
Balance Changes:	\$0 issued; \$1,779,668 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**

As of August 31, 2007, TTUHSC had \$32,310,000 of authorized bonds that were not issued. Refer to Note 14 for detailed information on expectations of bond issuance.

#### **DEFEASED BONDS OUTSTANDING**

As of August 31, 2007, a total of \$15,285,000 of defeased bonds were outstanding related to an advance refunding of a portion of the Revenue Financing System Bonds, 3<sup>rd</sup> Series, 1999 and Revenue Financing System Bonds, 7<sup>th</sup> Series, 2001.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 14 Subsequent Events

House Bill 153 of the 79<sup>th</sup> Texas Legislature provided authorization for TTUHSC to issue \$32,310,000 of additional Revenue Financing System bonds to be used for the expansion of the School of Pharmacy in Amarillo, construction of a research facility in Amarillo and renovations of the El Paso Medical Science building. TTUHSC intends to issue the entire \$32,310,000 during fiscal year 2008.

### 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

TTUHSC had no material prior-period adjustments that would require a restatement of net assets for the year ended August 31, 2007.

### 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.

**Annual Financial Report**  
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*Notes to the Financial Statements*  
*August 31, 2007*

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

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 80<sup>th</sup> Texas Legislature approved an increase to the employer contribution beginning in fiscal year 2008. The state contributory percentage will increase to 6.58%.

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 age is 65 with five years of service or when the sum of the participant's age and years of service is at least 80 years. For unreduced benefits, persons beginning service on or after September 1, 2007, will be subject to a minimum age of 60 to qualify under the retirement rule of 80. The reduced service requirement age is 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 of the five 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 \$3,354,867 for the year ended August 31, 2007, \$3,157,045 for the year ended August 31, 2006, and \$3,006,843 for the year ended August 31, 2005.

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. The 80<sup>th</sup> Texas Legislature approved an increase to the employer contribution beginning in fiscal year 2008. The state contributory percentage will increase to 6.58%.

**Annual Financial Report**  
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**NOTE 19 (continued)**  
**Employee Retirement Plans**

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 \$2,786,848 for the year ended August 31, 2007, \$2,781,324 for the year ended August 31, 2006, and \$2,392,447 for the year ended August 31, 2005.

**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 Texa\$aver, administered by the Employees Retirement System, is available for income deferral.

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, 2007, there were 199 TTUHSC participants in this deferred compensation plan.

**NOTE 21**  
**Donor Restricted Endowments**

TTUHSC endowments are categorized as either true endowments or funds functioning as endowments. As of August 31, 2007, 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.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 21 (continued) Donor Restricted Endowments

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, 2007 are summarized in the table below.

Endowment Category	Net Appreciation	Statement of Net Assets Reporting Section
True Endowments	\$ 3,563,052	Restricted / Nonexpendable
True Endowments	1,426,640	Restricted / Expendable
True Endowments	<u>4,608,826</u>	Unrestricted / Expendable
Total	<u>\$ 9,598,518</u>	

There were also unrealized fair market value gains associated with true endowments that amounted to \$8,841,927 for the year ended August 31, 2007.

### 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, 2007. 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.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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

*Notes to the Financial Statements*  
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### NOTE 22 (continued) Management Discussion and Analysis

#### FINANCIAL HIGHLIGHTS

- TTUHSC continues to experience growth in enrollment totaling 2.8% between the fall 2005 term and the fall 2006 term. The most notable portions of this one-year growth were in the Graduate School of Biomedical Sciences (up 8.8%) and the School of Nursing (up 7.5%). Annual enrollment increases over the last ten years have averaged 5.0%.
- Overall net assets increased by \$69.0 million for the year ended August 31, 2007, primarily due to increased state appropriations, increased local and private grant revenues, and increased patient revenue.
- Capital asset additions totaled \$48.7 million for the year ended August 31, 2007.

#### 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 on the following page shows the balances in asset, liability, and net asset categories as of August 31, 2007, 2006, and 2005 (amounts in thousands).

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*Notes to the Financial Statements*  
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**NOTE 22 (continued)**  
**Management Discussion and Analysis**

	2007	2006	2005
Assets			
Current Assets	\$ 238,624	\$ 228,355	\$ 185,214
Non-Current Investments	274,161	253,931	235,654
Other Non-Current Assets	10,501	10,645	7,298
Capital Assets, Net of Accumulated Depreciation	272,085	234,438	189,921
Total Assets	<u>\$ 795,371</u>	<u>\$ 727,369</u>	<u>\$ 618,087</u>
Liabilities			
Current Liabilities	\$ 71,329	\$ 67,857	\$ 60,991
Non-Current Liabilities	159,648	164,125	126,513
Total Liabilities	<u>\$ 230,977</u>	<u>\$ 231,982</u>	<u>\$ 187,504</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 157,948	\$ 145,414	\$ 129,368
Restricted	152,133	136,000	109,634
Unrestricted	254,313	213,973	191,581
Total Net Assets	<u>\$ 564,394</u>	<u>\$ 495,387</u>	<u>\$ 430,583</u>

***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 and the current portions of compensable leave payable and claims payable. The institution's current ratio (current assets to current liabilities) of 3.35 reflects strong liquidity and a notable short-term ability to meet upcoming obligations.



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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*Notes to the Financial Statements*  
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### NOTE 22 (continued) Management Discussion and Analysis

#### *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 below summarizes the composition of net assets at August 31, 2007, 2006, and 2005 (in thousands).

	2007	2006	2005
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 157,948	\$ 145,414	\$ 129,368
Restricted			
Capital Projects	9,556	7,438	5,319
Funds Held as Permanent Investments	113,414	96,686	86,451
Other	29,163	31,876	17,864
Unrestricted	254,313	213,973	191,581
Total Net Assets	<u>\$ 564,394</u>	<u>\$ 495,387</u>	<u>\$ 430,583</u>

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

The table on the following pages summarizes the revenues, expenses, and changes in net assets for the years ended August 31, 2007, 2006, and 2005 (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, 2007*

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

		RESTATED	
	2007	2006	2005
Operating Revenues			
Net Student Tuition and Fees	\$ 16,520	\$ 15,543	\$ 12,164
Net Professional Fees	216,718	184,155	162,463
Grant and Contract Revenues	129,164	123,675	106,232
Net Sales and Services of Auxiliary Enterprises	434	497	591
Other	3,778	3,591	3,263
	366,614	327,461	284,713
Total Operating Revenues			
Operating Expenses			
Instruction	\$ (221,529)	\$ (198,157)	\$ (170,684)
Research	(16,523)	(16,601)	(15,043)
Public Service	(113,052)	(104,484)	(101,431)
Academic Support	(77,037)	(74,400)	(66,104)
Student Services	(8,127)	(6,968)	(6,671)
Institutional Support	(18,603)	(16,074)	(18,509)
Operation and Maintenance of Plant	(20,079)	(17,986)	(15,980)
Auxiliary Enterprises	(356)	(308)	(351)
Depreciation	(13,162)	(12,281)	(12,800)
	(488,468)	(447,259)	(407,573)
Total Operating Expenses			
Operating Loss	(121,854)	(119,798)	(122,860)
Non-Operating Revenues and Expenses			
Legislative Appropriations Revenue	133,132	131,522	109,167
Net Gift Income	12,308	19,160	16,068
Net Investment Income	39,834	25,771	30,364
Interest Expense on Capital Asset Financing	(702)	(1,747)	(1,561)
Other	611	929	688
	185,183	175,635	154,726
Total Non-Operating Revenues and Expenses			
Income Before Other Revenues, Expenses, Gains, Losses, and Transfers	63,329	55,837	31,866

# 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, 2007*

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

	2007	2006	2005
Other Revenues, Expenses, Gains, Losses, and Transfers			
Capital Contributions and Recoveries	1,106	498	1,318
Legislative Appropriations Revenue for Capital	11,900	11,900	7,735
Net Transfers to Other State Agencies	(7,328)	(3,432)	(4,147)
Total Other Revenues, Expenses, Gains, Losses, and Transfers	5,678	8,966	4,906
Change in Net Assets	\$ 69,007	\$ 64,803	\$ 36,772
Beginning Net Assets	\$ 495,387	\$ 430,584	\$ 405,927
Restatements	-	-	(12,115)
Ending Net Assets	\$ 564,394	\$ 495,387	\$ 430,584

#### 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 revenue increased by 6.3% for 2007. This increase primarily resulted from overall increases in enrollment and slight increases in tuition rates. 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. As a result of a decision by the Comptroller's office, beginning in 2007, revenue received for TDCJ operations is reported as professional fees rather than grant and contract revenue. The table above has been restated to reflect this change.

#### Operating Expenses

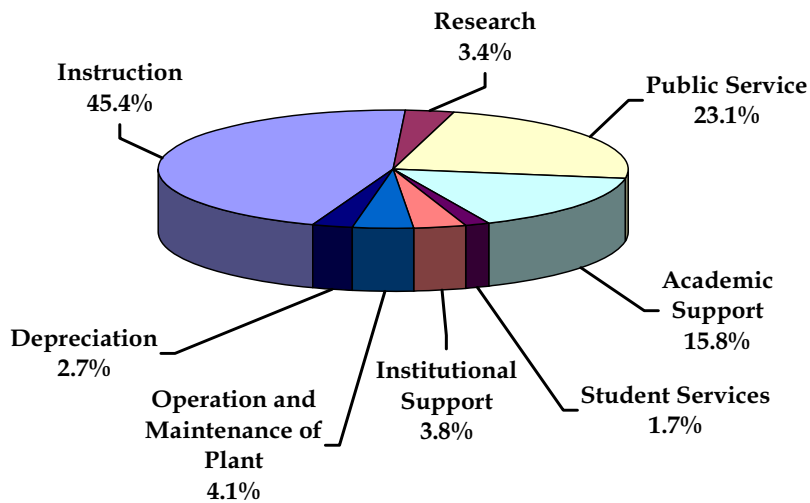
The illustration on the following page presents the composition of operating expenses by programmatic function for the year ended August 31, 2007.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

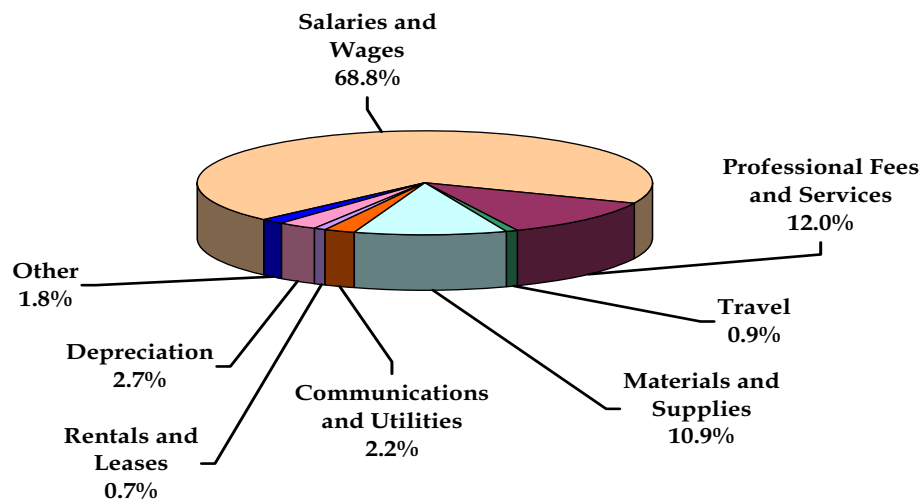
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*Notes to the Financial Statements*  
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### NOTE 22 (continued) Management Discussion and Analysis



The illustration below presents the composition of operating expenses by natural classification for the year ended August 31, 2007.



# 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, 2007*

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

#### 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 1.1% for the year ended August 31, 2007. 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 54.6% for 2007.

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.

#### 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 increased for 2007. The legislative appropriations for capital represent distributions from the Higher Education Assistance Fund (HEAF).

#### Change in Net Assets

Net assets increased \$69.0 million for the year ended August 31, 2007, primarily due to increased contract revenue and investment 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, 2007 amounted to \$48.7 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.

As of August 31, 2007, total capital assets and related accumulated depreciation amounted to \$462.9 million and \$190.8 million, respectively. Related debt balances included \$114.1 million of bonds payable, current and non-current. As of August 31, 2007, TTUHSC had a bond rating of 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*.

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### 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.

General appropriations received during the year ended August 31, 2007, were \$117.1 million. General appropriations to TTUHSC, as approved by the 80<sup>th</sup> Texas Legislature, are expected to be \$160.9 million for the year ending August 31, 2008, and \$146.3 million for the year ending August 31, 2009. Total appropriations for the next biennium reflect a 31.25% increase.

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, 2007.

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### NOTE 25 Disaggregation of Receivable and Payable Balances

#### RECEIVABLES

Components of receivables as of August 31, 2007, including current and non-current receivables, are summarized in the following table.

Description	Gross Receivables	Allowances	Net Receivables
Federal Receivable	\$ 1,486,935	\$ -	\$ 1,486,935
Interest and Dividends Receivable	1,088,851	-	1,088,851
Patient Accounts Receivable	47,410,563	(31,247,614)	16,162,949
Student Accounts Receivable	643,133	(30,983)	612,150
Contract Accounts Receivable	10,562,373	-	10,562,373
Pledged Gifts Receivable	11,001,148	(220,023)	10,781,125
Loans and Notes Receivable	2,869,812	(279,545)	2,590,267
Other	183,490	(98,520)	84,970
Total Receivables	\$ 75,246,305	\$ (31,876,685)	\$ 43,369,620

#### 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 Abilene, Amarillo, El Paso, Lubbock, and Odessa.

Concentrations of gross patient accounts receivable are depicted in the table on the following 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.

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**NOTE 25 (continued)**  
**Disaggregation of Receivable and Payable Balances**

Description	Gross Receivables
Medicare	\$ 5,971,071
Medicaid	11,251,509
Managed Care, including Blue Cross	6,927,916
Commercial	5,984,630
Self Pay and Medically Indigent	16,876,494
Other	398,943
Total Gross Patient Accounts Receivable	<u>\$ 47,410,563</u>

**PAYABLES**

Short-term payables as of August 31, 2007, were comprised of the elements noted in the table below.

Description	Balance
Vendor Accounts Payable	\$ 17,483,555
Patient Refunds Payable	1,946,945
Payroll Payable	30,211,536
Accrued Interest Payable	269,087
Total Short-Term Payables	<u>\$ 49,911,123</u>

**NOTE 26**  
**Termination Benefits**

TTUHSC had no reportable termination benefits during the year ended August 31, 2007.



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### NOTE 27 Medical Patient Revenues

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

Gross Medical Patient Charges	\$ 284,187,163
less Contractual Adjustments	(99,628,288)
less Charity Care	<u>(77,161,986)</u>
Net Medical Patient Charges	<u>\$ 107,396,889</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, 2007 were \$149,932,579. Compliance with these programs is complex and can be subject to future government interpretation as well as potential regulatory action.

For the Medicaid program in Texas, and other government programs, contractual adjustments are reported as charity care as defined in Article III of the *General Appropriations Act* of the 79<sup>th</sup> Texas Legislature.



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**SUPPORTING SCHEDULES**

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# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### *Schedule 1A: Schedule of Expenditures of Federal Awards* *For the Year Ended August 31, 2007*

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	
<b>U. S. Department of Justice</b>							
System Backlog Reduction	16.564			\$ -	\$ -	\$ -	\$ 511,528
Texas Tech University			733	-	-	-	-
Law Enforcement Assistance Program	16.000	2006DDBX0589		-	-	-	145,189
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580			-	-	-	115,477
TOTAL U. S. DEPARTMENT OF JUSTICE				-	-	-	772,194
<b>National Science Foundation</b>							
Social, Behavioral and Economic Sciences	47.075						
Texas Tech University			733	-	44,563	-	-
Engineering Grants	47.041			-	-	-	65,574
Sigma Plus		06LN040045F2H		-	-	-	-
TOTAL NATIONAL SCIENCE FOUNDATION				-	44,563	-	65,574
<b>U. S. Department of Education</b>							
Fund for the Improvement of Post-Secondary Education	84.116			-	-	-	2,585
Rehabilitation Long-Term Training	84.129			-	-	-	142,812
Brigham Young University / Fund for the Improvement of Post-Secondary Education	84.116	06LM050994F1H		-	-	19,276	-
TOTAL U. S. DEPARTMENT OF EDUCATION				-	-	19,276	145,397
<b>U. S. Department of Health and Human Services</b>							
Maternal and Child Health Federal Consolidated Programs	93.110			-	-	-	40,633
American Academy of Pediatrics		06AM060045FNH		-	-	8,500	-
Centers of Excellence	93.157			-	-	-	420,175
University Of Texas El Paso			724	-	-	-	-
Fellowship Salary and Benefits	93.000	07ET040065F2		-	17,317	-	-
Migrant Clinicians Network / Immunization Research, Demonstration, Public Information and Education: Training and Clinical Skills	93.185	06EM040050F2H		-	-	1,843	-
Health Education and Training Centers (HETCAT)	93.189			-	-	-	257,679
University of Texas Health Science Center at San Antonio			745	-	-	-	-
University of Texas Medical Branch at Galveston			723	-	-	-	-
University of North Texas Health Science Center			763	-	-	-	-
Texas Tech University / Allied Health Special Projects	93.191		733	-	6,805	-	-

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Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To			Expenditures	Total Pass- Through To and Expenditures
			Agy Nbr	State Agency Amount	Non- State Agency Amount		
<b>U. S. Department of Justice</b>							
System Backlog Reduction	16.564	\$ 511,528		\$ -	\$ -	\$ 482,323	\$ 482,323
Texas Tech University		-	733	29,205	-	-	29,205
Law Enforcement Assistance Program	16.000	145,189		-	-	145,189	145,189
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	115,477		-	-	115,477	115,477
TOTAL U. S. DEPARTMENT OF JUSTICE		772,194		29,205	-	742,989	772,194
<b>National Science Foundation</b>							
Social, Behavioral and Economic Sciences	47.075						
Texas Tech University		44,563	733	-	-	44,563	44,563
Engineering Grants	47.041	65,574		-	-	61,047	61,047
Sigma Plus		-		-	4,527	-	4,527
TOTAL NATIONAL SCIENCE FOUNDATION		110,137		-	4,527	105,610	110,137
<b>U. S. Department of Education</b>							
Fund for the Improvement of Post-Secondary Education	84.116	2,585		-	-	2,585	2,585
Rehabilitation Long-Term Training	84.129	142,812		-	-	142,812	142,812
Brigham Young University / Fund for the Improvement of Post-Secondary Education	84.116	19,276		-	-	19,276	19,276
TOTAL U. S. DEPARTMENT OF EDUCATION		164,673		-	-	164,673	164,673
<b>U. S. Department of Health and Human Services</b>							
Maternal and Child Health Federal Consolidated Programs	93.110	40,633		-	-	40,633	40,633
American Academy of Pediatrics		8,500		-	-	8,500	8,500
Centers of Excellence	93.157	420,175		-	-	383,998	383,998
University Of Texas El Paso		-	724	36,177	-	-	36,177
Fellowship Salary and Benefits	93.000	17,317		-	-	17,317	17,317
Migrant Clinicians Network / Immunization Research, Demonstration, Public Information and Education: Training and Clinical Skills	93.185	1,843		-	-	1,843	1,843
Health Education and Training Centers (HETCAT)	93.189	257,679		-	-	149,429	149,429
University of Texas Health Science Center at San Antonio		-	745	38,752	-	-	38,752
University of Texas Medical Branch at Galveston		-	723	48,585	-	-	48,585
University of North Texas Health Science Center		-	763	20,913	-	-	20,913
Texas Tech University / Allied Health Special Projects	93.191	6,805	733	-	-	6,805	6,805

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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	
<b>U. S. Department of Health and Human Services (cont)</b>							
Advanced Education Nursing Grant Program	93.247			\$ -	\$ -	\$ -	\$ 147,747
Poison Control Stabilization and Enhancement Grants	93.253			-	-	-	73,262
Northwest Texas Health Care		H4BHS02320		-	-	-	-
Comprehensive Geriatric Education Program (CGEP)	93.265			-	-	-	84,222
Advanced Education Nursing Traineeships	93.358			-	-	-	59,175
Nurse Education, Practice and Retention Grants	93.359			-	-	-	576,356
University of Texas Medical Branch at Galveston/Cancer Control	93.399		723	-	4,168	-	-
Child Care and Development Fund Program	93.596			-	-	54,087	-
Health Careers Opportunity Program	93.822			-	-	-	68,720
Basic / Core Area Health Education Centers	93.824			-	-	-	719,917
West Texas A&M University			757	-	-	-	-
West Central Texas Council of Governments		06OL030022F1H		-	-	-	-
Permian Basin Workforce		06OL030022F3H		-	-	-	-
AHEC of the Plains		06OL030022FNH		-	-	-	-
Grants for Training in Primary Care Medicine and Dentistry	93.884			-	-	-	(173)
Rural Health Care Services Outreach and Rural Health							
Network Development Program	93.912			-	-	-	(1,417)
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SVCS				-	28,290	64,430	2,446,296
<b>RESEARCH AND DEVELOPMENT (R&amp;D) CLUSTER</b>							
<b>U. S. Department of Agriculture</b>							
Grants for Agricultural Research Competitive Research Grants	10.206			-	-	-	416,752
Texas Tech University			733	-	-	-	-
Ayuda. Inc.		742696297		-	-	-	-
<b>U. S. Department of Commerce</b>							
Receptor Logic, Ltd / Advanced Technology Program	11.612	06AP050017F1H		-	-	36,568	-
<b>U. S. Department of Defense</b>							
Texas Tech University / T0231 / SBCCOM Year 3	12.000	DOD - SBCCOM	733	-	117,402	-	-
Military Medical Research and Development	12.420	W81XH-5-1-0544		-	-	55,521	-
T. R. U. E. Research Foundation / Military Medical Research and Development	12.420	06AP050072FNL		-	-	492,665	-
The Scripps Research Institute / Military Medical Research and Development	12.420	07LM40054F2H		-	-	60,471	-

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			Agy Nbr	State Agency Amount	Non- State Agency Amount		
<b>U. S. Department of Health and Human Services (cont)</b>							
Advanced Education Nursing Grant Program	93.247	\$ 147,747	-	-	-	\$ 147,747	\$ 147,747
Poison Control Stabilization and Enhancement Grants	93.253	73,262	-	-	-	59,190	59,190
Northwest Texas Health Care		-	-	-	14,072	-	14,072
Comprehensive Geriatric Education Program (CGEP)	93.265	84,222	-	-	-	84,222	84,222
Advanced Education Nursing Traineeships	93.358	59,175	-	-	-	59,175	59,175
Nurse Education, Practice and Retention Grants	93.359	576,356	-	-	-	576,356	576,356
University of Texas Medical Branch at Galveston/Cancer Control	93.399	4,168	723	-	-	4,168	4,168
Child Care and Development Fund Program	93.596	54,087	-	-	-	54,087	54,087
Health Careers Opportunity Program	93.822	68,720	-	-	-	68,720	68,720
Basic / Core Area Health Education Centers	93.824	719,917	-	-	-	94,815	94,815
West Texas A&M University		-	757	161,772	-	-	161,772
West Central Texas Council of Governments		-	-	-	152,014	-	152,014
Permian Basin Workforce		-	-	-	155,233	-	155,233
AHEC of the Plains		-	-	-	156,083	-	156,083
Grants for Training in Primary Care Medicine and Dentistry	93.884	(173)	-	-	-	(173)	(173)
Rural Health Care Services Outreach and Rural Health							
Network Development Program	93.912	(1,417)	-	-	-	(1,417)	(1,417)
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SVCS		2,539,016	306,199	477,402	1,755,415	2,539,016	
<b>RESEARCH AND DEVELOPMENT (R&amp;D) CLUSTER</b>							
<b>U. S. Department of Agriculture</b>							
Grants for Agricultural Research Competitive Research Grants	10.206	416,752	-	-	-	307,528	307,528
Texas Tech University		-	733	104,024	-	-	104,024
Ayuda. Inc.		-	-	-	5,200	-	5,200
<b>U. S. Department of Commerce</b>							
Receptor Logic, Ltd / Advanced Technology Program	11.612	36,568	-	-	-	36,568	36,568
<b>U. S. Department of Defense</b>							
Texas Tech University / T0231 / SBCCOM Year 3	12.000	117,402	733	-	-	117,402	117,402
Military Medical Research and Development	12.420	55,521	-	-	-	55,521	55,521
T. R. U. E. Research Foundation / Military Medical Research and Development	12.420	492,665	-	-	-	492,665	492,665
The Scripps Research Institute / Military Medical Research and Development	12.420	60,471	-	-	-	60,471	60,471

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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	
<b>U. S. Department of Health and Human Services</b>							
Oral Diseases and Disorders Research	93.121			\$ -	\$ -	\$ -	\$ 79,032
Research Related to Deafness and Communication Disorders	93.173			-	-	-	24,132
Research & Training in Complementary & Alternative Medicine	93.213			-	-	-	87,677
Mental Health Research Grants /	93.242			-	-	-	146,629
University of Virginia		06LP050090FL		-	-	-	-
Occupational Safety and Health Program / University of Texas	93.262			-	-	-	18,034
Health Science Center at Houston			744				
Alcohol Research Programs	93.273			-	-	-	79,236
Drug Abuse and Addiction Research Programs	93.279			-	-	-	358,476
Minority Health and Health Disparities Research /	93.307			-	-	-	535,905
Area Health Education Center (AHEC) of the Plains		06OL040084FHN		-	-	-	-
Texas Tech University		07LT060093N9H	733	-	-	-	-
National Center for Research Resources /	93.389			-	-	-	403,416
Medical College of Ohio		06LM050050FL		-	-	-	-
Cancer Cause and Prevention Research	93.393			-	-	-	139,461
Cancer Treatment Research	93.395			-	-	-	148,836
National Cancer Institute / Cancer Biology Research	93.396			-	-	-	113,769
Southern Research Institute	93.000	06AP060073NL		-	-	73,176	-
National Heart Blood and Lung Institute / Heart and Vascular							
Diseases Research	93.837			-	-	-	119,705
Lung Diseases Research	93.838			-	-	-	195,361
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			-	-	-	230,836
Diabetes, Endocrinology and Metabolism Research	93.847			-	-	-	36,626
Spire Corporation		07LM0600PL		-	-	17,848	-
Kidney Diseases, Urology, and Hematology Research	93.849			-	-	-	340,254
Extramural Research Programs in the Neurosciences							
and Neurological Disorders	93.853			-	-	-	649,398
University at Lincoln - Nebraska		RNS052484A		-	-	-	-
University of North Texas Health Science Center			763	-	4,556	-	-
Microbiology and Infectious Diseases Research	93.856			-	-	-	126,383
Biomedical Research and Research Training	93.859			-	-	-	627,746
University of Rhode Island		07AP040026FNL		-	-	-	-
National Institute of General Medical Sciences / Biomedical							
Research and Research Training	93.859			-	-	-	182,825



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			Agy Nbr	State Agency Amount	Non- State Agency Amount		
<b>U. S. Department of Health and Human Services</b>							
Oral Diseases and Disorders Research	93.121	\$ 79,032	-	-	-	\$ 79,032	\$ 79,032
Research Related to Deafness and Communication Disorders	93.173	24,132	-	-	-	24,132	24,132
Research & Training in Complementary & Alternative Medicine	93.213	87,677	-	-	-	87,677	87,677
Mental Health Research Grants / University of Virginia	93.242	146,629	-	-	37,274	109,355	109,355
Occupational Safety and Health Program / University of Texas Health Science Center at Houston	93.262	18,034	744	200	-	17,834	17,834
Alcohol Research Programs	93.273	79,236	-	-	-	79,236	79,236
Drug Abuse and Addiction Research Programs	93.279	358,476	-	-	-	358,476	358,476
Minority Health and Health Disparities Research / Area Health Education Center (AHEC) of the Plains Texas Tech University	93.307	535,905	733	113,809	8,000	414,096	414,096
National Center for Research Resources / Medical College of Ohio	93.389	403,416	-	-	86,115	317,301	317,301
Cancer Cause and Prevention Research	93.393	139,461	-	-	-	139,461	139,461
Cancer Treatment Research	93.395	148,836	-	-	-	148,836	148,836
National Cancer Institute / Cancer Biology Research Southern Research Institute	93.396	113,769	-	-	-	113,769	113,769
National Heart Blood and Lung Institute / Heart and Vascular Diseases Research	93.837	119,705	-	-	-	119,705	119,705
Lung Diseases Research	93.838	195,361	-	-	-	195,361	195,361
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	230,836	-	-	-	230,836	230,836
Diabetes, Endocrinology and Metabolism Research Spire Corporation	93.847	36,626	-	-	-	36,626	36,626
Kidney Diseases, Urology, and Hematology Research	93.849	340,254	-	-	-	340,254	340,254
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	649,398	-	-	-	562,516	562,516
University at Lincoln - Nebraska		-	-	-	86,882	-	86,882
University of North Texas Health Science Center		4,556	763	-	-	4,556	4,556
Microbiology and Infectious Diseases Research	93.856	126,383	-	-	-	126,383	126,383
Biomedical Research and Research Training University of Rhode Island	93.859	627,746	-	-	31,849	595,897	595,897
National Institute of General Medical Sciences / Biomedical Research and Research Training	93.859	182,825	-	-	-	182,825	182,825

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### *Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2007*

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	
<b>U. S. Department of Health and Human Services (cont)</b>							
Child Health and Human Development	93.864			\$ -	\$ -	\$ -	\$ 123,416
Child Health and Human Development Extramural Research / University of Texas Southwest Research Center	93.865		729	-	61,442	-	793,724
Aging Research	93.866			-	-	-	839,555
Specially Selected Health Projects	93.888			-	-	-	209,457
International Research and Research Training	93.989			-	-	-	12,293
<b>Non-State Entities</b>							
University of Kansas Medical Center / Analysis of Diindolymethane in Human Plasma	93.000	05DP050061FNL		-	-	17,247	-
Oklahoma University Health Sciences Center / National Institute of Allergy & Infectious Disease	93.000	07AP07006NL		-	-	85,543	-
Alcohol Research Programs	93.273	06LM050047NL		-	-	24,589	-
National Center for Research Resources	93.389	06LM030014F3H		-	-	193,074	-
Kentucky Research Foundation / Drug Abuse and Addiction Research Programs	93.279	06AP030016NNL		-	-	36,360	-
Rush University Medical Center / Heart and Vascular Diseases Research	93.837	06LM040129N3L		-	-	96,142	-
Ohio State University Research Foundation / Heart and Vascular Diseases Research	93.837	05LM050030FNL		-	-	12,085	-
USDA: Community Based Research	10.200	RF01078439		-	-	17,000	-
University of South Florida / Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	04LM020034F2		-	-	86,721	-
<b>TOTAL RESEARCH AND DEVELOPMENT (R&amp;D) CLUSTER</b>				-	183,400	1,305,010	7,038,934
<b>OTHER CLUSTERS</b>							
<b>Women's Health Cluster</b>							
Texas Department of State Health Services			537				
Special Supplemental Nutrition Program for Women, Infant and Children	10.557			2,446,183	-	-	-
Centers for Disease Control and Prevention Investigations and Technical Assistance / Breast and Cervical Cancer Services Program	93.283			53,658	-	-	-
Maternal and Children's Patient Health Services	93.994			724,388	-	-	-

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### *Schedule 1A: Schedule of Expenditures of Federal Awards For the Year Ended August 31, 2007*

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To		Expenditures	Total Pass- Through To and Expenditures
			Agy Nbr	State Agency Amount		
<b>U. S. Department of Health and Human Services (cont)</b>						
Child Health and Human Development	93.864	\$ 123,416	-	-	\$ 123,416	\$ 123,416
Child Health and Human Development Extramural Research / University of Texas Southwest Research Center	93.865	793,724	729	-	855,166	855,166
Aging Research	93.866	839,555	-	-	839,555	839,555
Specially Selected Health Projects	93.888	209,457	-	-	209,457	209,457
International Research and Research Training	93.989	12,293	-	-	12,293	12,293
<b>Non-State Entities</b>						
University of Kansas Medical Center / Analysis of Diindolymethane in Human Plasma	93.000	17,247	-	-	17,247	17,247
Oklahoma University Health Sciences Center / National Institute of Allergy & Infectious Disease	93.000	85,543	-	-	85,543	85,543
Alcohol Research Programs	93.273	24,589	-	-	24,589	24,589
National Center for Research Resources	93.389	193,074	-	-	193,074	193,074
Kentucky Research Foundation / Drug Abuse and Addiction Research Programs	93.279	36,360	-	-	36,360	36,360
Rush University Medical Center / Heart and Vascular Diseases Research	93.837	96,142	-	-	96,142	96,142
Ohio State University Research Foundation / Heart and Vascular Diseases Research	93.837	12,085	-	-	12,085	12,085
USDA: Community Based Research	10.200	17,000	-	-	17,000	17,000
University of South Florida / Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	86,721	-	-	86,721	86,721
<b>TOTAL RESEARCH AND DEVELOPMENT (R&amp;D) CLUSTER</b>		<b>8,527,344</b>	<b>218,033</b>	<b>255,320</b>	<b>8,053,991</b>	<b>8,527,344</b>
<b>OTHER CLUSTERS</b>						
<b>Women's Health Cluster</b>						
Texas Department of State Health Services			537			
Special Supplemental Nutrition Program for Women, Infant and Children	10.557	2,446,183	-	-	2,446,183	2,446,183
Centers for Disease Control and Prevention Investigations and Technical Assistance / Breast and Cervical Cancer Services Program	93.283	53,658	-	-	53,658	53,658
Maternal and Children's Patient Health Services	93.994	724,388	-	-	724,388	724,388

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### *Schedule 1A: Schedule of Expenditures of Federal Awards* *For the Year Ended August 31, 2007*

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Identifying Number	Agy Nbr	Agency Amount	University Amount	Non-State Agency Amount	Direct Program
				<i>Pass-Through From</i>			
<b>Highway Safety Cluster</b>							
Texas Department of Transportation / State and Community							
Highway Safety	20.600		601	\$ 10,407	\$ -	\$ -	\$ -
TOTAL OTHER CLUSTERS				3,234,636	-	-	-
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>							
<b>U. S. Department of Health and Human Services</b>							
Scholarships for Health Professions Students							
from Disadvantaged Backgrounds	93.925			-	-	-	769,255
<b>U. S. Department of Education</b>							
Federal Supplemental Educational Opportunity Grants	84.007			-	-	-	37,514
Federal Family Education Loans							
New Loans Processed (Note 3)	84.032			-	-	-	34,691,706
Federal Perkins Loan Program / Federal Capital Contributor							
New Loans Processed (Note 3)	84.038			-	-	-	443,393
Administrative Costs Recovered (Note 3)				-	-	-	24,646
Federal Pell Grant Program	84.063			-	-	-	324,576
<b>Texas Higher Education Coordinating Board</b>			781				
Robert C. Byrd Honors Scholarship Program	84.185A			1,500	-	-	-
Leveraging Educational Assistance Scholarship Program	84.069A			5,490	-	-	-
Supplemental Leveraging Educational Assistance							
Scholarship Program	84.069B			9,263	-	-	-
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER				16,253	-	-	36,291,090
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 3,250,888	\$ 256,253	\$ 1,388,716	\$ 46,759,485

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### *Schedule 1A: Schedule of Expenditures of Federal Awards* *For the Year Ended August 31, 2007*

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Nbr	Total Pass- Through From and Direct Program	Pass-Through To		Expenditures	Total Pass- Through To and Expenditures
			Agy Nbr	State Agency Amount		
<b>Highway Safety Cluster</b>						
Texas Department of Transportation / State and Community						
Highway Safety	20.600	\$ 10,407	601	\$ -	\$ -	\$ 10,407
TOTAL OTHER CLUSTERS		3,234,636		-	-	3,234,636
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>						
<b>U. S. Department of Health and Human Services</b>						
Scholarships for Health Professions Students						
from Disadvantaged Backgrounds	93.925	769,255		-	-	769,255
<b>U. S. Department of Education</b>						
Federal Supplemental Educational Opportunity Grants	84.007	37,514		-	-	37,514
Federal Family Education Loans						
New Loans Processed (Note 3)	84.032	34,691,706		-	-	34,691,706
Federal Perkins Loan Program / Federal Capital Contributor						
New Loans Processed (Note 3)	84.038	443,393		-	-	443,393
Administrative Costs Recovered (Note 3)		24,646		-	-	24,646
Federal Pell Grant Program	84.063	324,576		-	-	324,576
<b>Texas Higher Education Coordinating Board</b>			781			
Robert C. Byrd Honors Scholarship Program	84.185A	1,500		-	-	1,500
Leveraging Educational Assistance Scholarship Program	84.069A	5,490		-	-	5,489
Supplemental Leveraging Educational Assistance						
Scholarship Program	84.069B	9,263		-	-	9,263
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER		36,307,343		-	-	36,307,342
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 51,655,342		\$ 553,437	\$ 737,249	\$ 50,364,656
		(Note 2)				(Note 2)

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## 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, 2007*

**Note 1    Nonmonetary Assistance**

Texas Tech University Health Sciences Center (TTUHSC) did not receive any nonmonetary assistance for the year ended August 31, 2007.

**Note 2    Reconciliation**

Federal Grant and Contract Revenues - Unpledged (SRECNA)	\$	10,057,122
Federal Grant and Contract Revenues - Pledged (SRECNA)		2,386,861
Federal Grant and Contract Pass-Through Revenues (SRECNA)		3,507,141
Non-Operating Federal Grant and Contract Revenues (SRECNA)		<u>552,866</u>
TOTAL FEDERAL REVENUES (SRECNA)	\$	16,503,990
Reconciling Items		
Scholarship Proceeds	\$	16,253
New Loans Processed		<u>35,135,099</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE	\$	<u><u>51,655,342</u></u>

**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>
<b>U. S. Department of Health and Human Services</b>				
93.342 Health Professions Student Loans	\$ -	\$ -	\$ -	\$ 112,989
93.364 Nursing Student Loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,339</u>
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,328</u>
<b>U. S. Department of Education</b>				
84.032 Federal Family Education Loan Program and Adjustment	34,691,706	-	34,691,706	33,823,324
84.038 Federal Perkins Loan Program	<u>443,393</u>	<u>24,646</u>	<u>468,039</u>	<u>476,026</u>
TOTAL STUDENT LOANS	<u><u>\$ 35,135,099</u></u>	<u><u>\$ 24,646</u></u>	<u><u>\$ 35,159,745</u></u>	<u><u>\$ 34,299,350</u></u>

**Note 4    Depository Libraries for Government Publications** (does not apply to TTUHSC)

**Note 5    Unemployment Insurance** (does not apply to TTUHSC)

**Note 6    Rebates from the Special Supplemental Food Program for Women, Infant, and Children** (does not apply to TTUHSC)

**Note 7    Federal Deferred Revenue** (does not apply to TTUHSC)

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### *Schedule 1B: Schedule of State Grant Pass-Throughs from / to State Agencies For the Year Ended August 31, 2007*

#### State Grant Pass-Through Revenues From Other State Agencies

Texas Higher Education Coordinating Board (Agency Number 781)	
Family Practice Residency	\$ 1,078,041
Family Practice Rural and Public Health Rotation	20,364
Financial Aid Professional Nursing	46,559
Graduate Medical Education	228,270
Texas Grant Program	192,375
Advanced Technology Program	(250)
Professional Nursing Shortage Reduction Program	328,085
Primary Care Residency Program	345,000
Nursing and Allied Health	175,079
Minority Health Research / Education	172,143
<i>TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD</i>	<u>2,585,666</u>
Employee Retirement System of Texas (Agency Number 327)	
State Kids Insurance Program	<u>67,742</u>
<i>TOTAL EMPLOYEE RETIREMENT SYSTEM OF TEXAS</i>	<u>67,742</u>
Department of State Health Services (Agency Number 537)	
DSHS Program Funding	<u>367,836</u>
<i>TOTAL DEPARTMENT OF STATE HEALTH SERVICES</i>	<u>367,836</u>
<i>TOTAL STATE GRANT PASS-THROUGH REVENUES FROM OTHER STATE AGENCIES</i>	<u><u>\$ 3,021,244</u></u>





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*Schedule 2A: Miscellaneous Bond Information  
For the Fiscal Year Ended August 31, 2007*

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Scheduled Maturities		First Call Date
				First Year	Last Year	
Rev Fin Sys Ref & Imp Bonds Series 1999	\$ 15,632,182	4.00%	5.25%	1999	2029	2/15/2009
Rev Fin Sys Bonds 7th Series 2001	19,510,000	3.00%	5.50%	2002	2021	2/15/2012
Rev Fin Sys Bonds 9th Series 2003	64,270,000	4.00%	5.25%	2006	2023	8/15/2013
Rev Fin Sys Ref & Imp Bonds Series 2006	59,694,524	4.00%	5.00%	2006	2029	2/15/2016
	<u>\$ 159,106,706</u>					

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*Schedule 2B: Changes in Bonded Indebtedness*  
*For the Fiscal Year Ended August 31, 2007*

<u>Description of Issue</u>	<u>Bonds Outstanding 9/01/2006</u>	<u>Bonds Issued</u>	<u>Bonds Matured or Retired</u>
Rev Fin Sys Ref & Imp Bonds Series 1999	\$ 7,166,791	-	\$ 734,647
Rev Fin Sys Bonds 7th Series 2001	\$ 5,885,000	-	\$ 720,000
Rev Fin Sys Bonds 9th Series 2003	\$ 61,895,000	-	\$ 2,435,000
Rev Fin Sys Ref & Imp Bonds Series 2006	\$ 57,104,524	-	\$ 1,779,668
	<u>\$ 132,051,315</u>	<u>\$ -</u>	<u>\$ 5,669,315</u>

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*Schedule 2B: Changes in Bonded Indebtedness*  
*For the Fiscal Year Ended August 31, 2007*

<u>Description of Issue</u>	<u>Bonds Refunded or Extinguished</u>	<u>Bonds Outstanding 08/31/2007</u>	<u>Amt's Due Within One Year</u>
Rev Fin Sys Ref & Imp Bonds Series 1999	\$ -	\$ 6,432,144	\$ 768,843
Rev Fin Sys Bonds 7th Series 2001	-	5,165,000	755,000
Rev Fin Sys Bonds 9th Series 2003	-	59,460,000	2,520,000
Rev Fin Sys Ref & Imp Bonds Series 2006	-	55,324,856	1,363,607
	<u>\$ -</u>	<u>\$ 126,382,000</u>	<u>\$ 5,407,450</u>

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### *Schedule 2C: Debt Service Requirements For the Fiscal Year Ended August 31, 2007*

Description of Issue	Year	Principal	Interest
Revenue Bonds, Rev Fin Sys Ref & Imp Bonds Series 1999	2008	\$ 768,843	\$ 300,247
	2009	807,056	266,255
	2010	847,025	229,542
	2011	718,130	191,633
	2012	758,018	152,884
	2013 - 2017	2,533,072	204,206
			\$ 6,432,144
Revenue Bonds, Rev Fin Sys Bonds 7th Series 2001	2008	\$ 755,000	\$ 274,025
	2009	795,000	236,275
	2010	835,000	194,538
	2011	880,000	150,700
	2012	925,000	104,500
	2013 - 2017	975,000	53,625
			\$ 5,165,000
Revenue Bonds, Rev Fin Sys Bonds 9th Series 2003	2008	\$ 2,520,000	\$ 2,900,925
	2009	2,630,000	2,797,925
	2010	2,735,000	2,690,625
	2011	2,860,000	2,564,425
	2012	3,005,000	2,417,800
	2013 - 2017	17,595,000	9,535,450
	2018 - 2022	22,820,000	4,312,875
	2023 - 2027	5,295,000	132,375
		\$ 59,460,000	\$ 27,352,400
Revenue Bonds, Rev Fin Sys Ref & Imp Bonds Series 2006	2008	\$ 1,363,607	\$ 2,569,345
	2009	1,421,234	2,513,648
	2010	1,476,713	2,455,689
	2011	1,709,285	2,391,969
	2012	1,794,428	2,312,923
	2013 - 2017	15,025,000	9,643,282
	2018 - 2022	18,601,786	5,525,548
	2023 - 2027	13,139,005	1,598,814
	2028 - 2032	793,798	40,045
		\$ 55,324,856	\$ 29,051,263

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*Schedule 2D: Analysis of Funds Available for Debt Service  
For the Fiscal Year Ended August 31, 2007*

<u>Description of Issue</u>	<u>Pledged and Other Sources and Related Expenditures</u>			
	<u>Net Available for</u>			
	<u>Debt Service</u>			
	<u>Total Pledged and Other Sources</u>	<u>Operating Expenditures and Capital Outlay</u>	<u>Debt Service</u>	
			<u>Principal</u>	<u>Interest</u>
Rev Fin Sys Ref & Imp Bonds Series 1999				
Rev Fin Sys Bonds 7th Series 2001				
Rev Fin Sys Bonds 9th Series 2003				
Rev Fin Sys Ref & Imp Bonds Series 2006				
	<u>\$ 52,860,429</u>	<u>\$ 41,236,154</u>	<u>\$ 5,669,315</u>	<u>\$ 6,262,281</u>

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*Schedule 2E: Defeased Bonds Outstanding*  
*For the Fiscal Year Ended August 31, 2007*

<u>Description of Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds, Rev Fin Sys Ref & Imp Bonds Series 1999	2006	\$ 5,275,000
Revenue Bonds, Rev Fin Sys Bonds 7th Series 2001	2006	10,010,000
		<u>\$ 15,285,000</u>

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*Schedule 3: Reconciliation of Cash in the State Treasury*  
*As of August 31, 2007*

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	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Local Revenue (Fund 0239)	\$ 3,897,068	\$ -	\$ 3,897,068
Permanent Health Fund - El Paso Campus (Fund 0820)	3,169,595	-	3,169,595
Permanent Health Fund - Other Campuses (Fund 0821)	1,638,631	-	1,638,631
TOTAL CASH IN THE STATE TREASURY	<u>\$ 8,705,294</u>	<u>\$ -</u>	<u>\$ 8,705,294</u>