

FINANCIAL REPORT

of

Texas Tech University Health Sciences Center

For the Year Ended August 31, 1999

EXHIBITS

EXHIBIT A
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
 BALANCE SHEET
 August 31, 1999
 (With Comparative Totals at August 31, 1998)

UNAUDITED

	Current Funds				Restricted
	Educational and General	Unrestricted		Total Unrestricted	
		Designated	Auxiliary Enterprises		
ASSETS					
Cash and Temporary Investments (Sch A-1)	\$ 5,754,675	\$ 33,222,786	\$ 365,509	\$ 39,342,970	\$ 17,470,449
Balance in State Appropriations	11,241,438			11,241,438	
Accounts Receivable (Net of Allowance for Doubtful Accounts, \$21,052,341, 8/31/99, and \$20,510,331, 8/31/98)	4,102	16,717,803	25	16,721,930	4,409,806
Investments (Sch A-2)	3,396,547	78,755,087	547,963	82,699,597	25,625,052
Interest Receivable	27,138	557,687	3,982	588,807	298,776
Federal Receivable					489,836
Notes Receivable (Net of Allowance for Doubtful Accounts, \$160,438, 8/31/99 and \$200,732, 8/31/98)		880,308		880,308	
Prepaid Expenses		80,866	280	81,146	31,707
Deferred Charges		86,866		86,866	
Inventories	15,405	815,447		830,852	37,967
Land					
Buildings					
Construction in Progress					
Improvements Other Than Buildings					
Equipment					
Library Books and Materials					
TOTAL ASSETS	\$ 20,439,305	\$ 131,116,850	\$ 917,759	\$ 152,473,914	\$ 48,363,593
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 6,014,862	\$ 1,640,829	\$ 2,033	\$ 7,657,724	\$ 6,346,825
Payroll Payable	5,298,745	7,781,617	8,752	13,089,114	5,524,569
Other Accrued Liabilities					
Deposits Payable	51,747	2,725		54,472	
Unclaimed Property Due to State Treasury	132,959			132,959	
Deferred Revenue	2,285,423	1,045,833	103,280	3,434,536	472,115
Compensable Leave Payable	4,315,783	3,123,631	7,006	7,446,420	2,652,783
Claims Incurred But Not Reported		44,653,416		44,653,416	
Revenue Bonds Payable					
Funds Held in Custody for Others (Sch A-4)					
TOTAL LIABILITIES	18,099,519	58,248,051	121,071	76,468,641	14,996,292

Loan Funds	Endowment Funds	Plant Funds		Agency Funds	Component Units	Totals (Memorandum Only)		
		Unexpended	Retirement of Indebtedness			Investment in Plant	1999	1998
\$ 517,442	\$ 22,606,142	\$ 7,820,811 12,435,377	\$	\$	\$ 779,974	\$ 5,777,206	\$ 94,314,994 23,676,815	\$ 90,912,340 19,833,726
							21,131,736	24,077,416
776,303	54,648,377	2,943,556		1,170,166	15,263,064		183,126,115	108,193,107
6,211	41,221	13,280			68,896		1,017,191	812,200
							489,836	303,723
2,860,268						373,086	4,113,662	3,691,854
						14,950	127,803	69,974
							86,866	136,219
							868,819	810,727
							3,806,042	3,806,042
							127,541,075	124,111,664
							18,778,549	15,362,027
							3,470,254	3,184,065
							60,736,453	58,655,228
							14,495,309	13,833,879
<u>\$ 4,160,224</u>	<u>\$ 77,295,740</u>	<u>\$ 23,213,024</u>	<u>\$</u>	<u>\$ 228,827,682</u>	<u>\$ 1,950,140</u>	<u>\$ 21,497,202</u>	<u>\$ 557,781,519</u>	<u>\$ 467,794,191</u>
\$ 18,795	\$	\$ 1,665,010 155,856	\$	\$	\$ 1,817,728	\$ 55,090	\$ 17,561,172 18,613,683	\$ 13,034,291 17,105,500
							155,856	165,279
							54,472	47,252
							132,959	126,122
					219		3,906,870	4,319,220
							10,099,203	10,027,819
		4,196,221		19,805,461		240,000	44,893,416	43,114,133
					132,193		24,001,682	18,793,400
							132,193	127,757
<u>18,795</u>		<u>6,017,087</u>		<u>19,805,461</u>	<u>1,950,140</u>	<u>295,090</u>	<u>119,551,506</u>	<u>106,860,773</u>

EXHIBIT A
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
 BALANCE SHEET
 August 31, 1999
 (With Comparative Totals at August 31, 1998)

UNAUDITED

	Current Funds				Restricted
	Educational and General	Unrestricted		Total Unrestricted	
		Designated	Auxiliary Enterprises		
FUND BALANCES					
Unrestricted					
Reserved for					
Encumbrances	\$ 871,866	\$ 1,967,097	\$ 4,272	\$ 2,843,235	\$
Inventories	15,405	815,447		830,852	
Prepaid Expenses		80,866		80,866	
Accounts Receivable	4,102	16,717,803	25	16,721,930	
Working Capital	115,148	174,610	265	290,023	
Self Insured Plans		10,201,325		10,201,325	
External Investment Pool		1,803,192		1,803,192	
HEAF	244,497			244,497	
Unreserved					
Allocated	1,088,768	39,405,163	490,032	40,983,963	
Unallocated		1,703,296	302,094	2,005,390	
Restricted					
Encumbered					452,466
Other					32,914,835
US Government Grants Refundable					
Principal Endowments					
Funds Functioning as Endowments					
Unrestricted					
Net Investment in Plant					
TOTAL FUND BALANCES (EXHIBIT B)	<u>2,339,786</u>	<u>72,868,799</u>	<u>796,688</u>	<u>76,005,273</u>	<u>33,367,301</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,439,305</u>	<u>\$ 131,116,850</u>	<u>\$ 917,759</u>	<u>\$ 152,473,914</u>	<u>\$ 48,363,593</u>

See Accompanying Notes to the Financial Statements

Loan Funds	Endowment Funds	Plant Funds			Agency Funds	Component Units	Totals (Memorandum Only)	
		Unexpended	Retirement of Indebtedness	Investment in Plant			1999	1998
\$	\$	\$ 264,005	\$	\$	\$	\$	\$ 3,107,240	\$ 3,056,299
							830,852	791,985
							80,866	37,458
							16,721,930	17,413,711
							290,023	197,653
							10,201,325	8,253,542
		4,822,568					1,803,192	1,165,565
		2,002,844					5,067,065	4,564,564
							42,986,807	38,848,720
							2,005,390	1,752,249
		9,997,401				22,724	10,472,591	2,975,261
1,793,524		109,119				7,602,018	42,419,496	45,314,535
2,347,905							2,347,905	2,364,653
	59,095,782					13,577,370	72,673,152	16,232,295
	18,199,958						18,199,958	17,805,423
				209,022,221			209,022,221	200,159,505
<u>4,141,429</u>	<u>77,295,740</u>	<u>17,195,937</u>		<u>209,022,221</u>		<u>21,202,112</u>	<u>438,230,013</u>	<u>360,933,418</u>
<u>\$ 4,160,224</u>	<u>\$ 77,295,740</u>	<u>\$ 23,213,024</u>	<u>\$</u>	<u>\$ 228,827,682</u>	<u>\$ 1,950,140</u>	<u>\$ 21,497,202</u>	<u>\$ 557,781,519</u>	<u>\$ 467,794,191</u>

EXHIBIT B
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
 STATEMENT OF CHANGES IN FUND BALANCES
 For the Year Ended August 31, 1999
 (With Comparative Totals - Year Ended August 31, 1998)

UNAUDITED

	Current Funds				
	Unrestricted				Restricted
	Educational and General	Designated	Auxiliary Enterprises	Total Unrestricted	
FUND BALANCES, September 1, 1998	\$ 6,272,832	\$ 61,912,610	\$ 721,143	\$ 68,906,585	\$ 36,859,095
REVENUES AND OTHER ADDITIONS					
Current Funds Revenues (Exhibit C)	91,518,594	121,273,362	506,952	213,298,908	
State Appropriations - General Revenue					5,966,353
Federal Grants and Contracts					4,296,065
Federal Pass-Through Grants from Other State Agencies (Note 22)					55,569
State Grants and Contracts					72,125,150
State Pass-Through Grants from Other State Agencies (Note 23)					3,109,510
Local Grants and Contracts					32,237,366
Private Gifts, Grants and Contracts					10,881,455
Net Increase (Decrease) in Fair Value of Investments					(467,073)
Investment Income					1,839,410
Endowment Income					732,995
Sales and Services					1,034,351
Miscellaneous Income					76,350
Component Units Expended for Plant Facilities (Including \$5,021,216 Charged to Current Funds)					
Adjustments to Plant Investment					
Bond Proceeds					
TOTAL REVENUES AND OTHER ADDITIONS	91,518,594	121,273,362	506,952	213,298,908	131,887,501
EXPENDITURES AND OTHER DEDUCTIONS					
Current Funds Expenditures (Exhibit C)	83,732,361	124,392,018	334,521	208,458,900	116,963,073
Expended for Plant Facilities					
Adjustments to Plant Investment					
Disposal of Plant Facilities					
Retirement of Indebtedness					
Interest on Indebtedness					
Refund to Grantor					20,496
Administrative Costs					
Facilities and Administrative Cost Recovered					1,323,526
Component Units					
Incurred But Not Reported (Note 14)		1,539,283		1,539,283	
Loan Cancellations and Write-offs					
Increase in Bonds Payable					
Other Deductions					
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	83,732,361	125,931,301	334,521	209,998,183	118,307,095

Loan Funds	Endowment Funds	Plant Funds			Component Units	Totals (Memorandum Only)	
		Unexpended	Retirement of Indebtedness	Investment in Plant		1999	1998
\$ 4,115,093	\$ 22,803,434	\$ 10,147,416	\$	\$ 200,159,505	\$ 17,942,290	\$ 360,933,418	\$ 322,077,064
						213,298,908	210,331,827
						5,966,353	5,819,148
39,092						4,335,157	4,331,886
						55,569	
						72,125,150	70,767,240
		2,143,028				3,109,510	2,798,802
5,095	3,607,825				14,492	34,394,886	34,155,375
					4,186,829	18,681,204	11,987,128
(12,320)	(483,293)	(46,962)			213,668	(795,980)	(128,760)
80,887		394,099			552,455	2,866,851	3,124,012
727	792,915				465,390	1,992,027	1,654,540
						1,034,351	1,023,079
56,554						132,904	114,904
					9,595,613	9,595,613	10,214,851
				12,575,732		12,575,732	21,824,082
				1,132,914		1,132,914	841,461
		8,064,200	7,712,941			15,777,141	3,920,582
170,035	3,917,447	10,554,365	7,712,941	13,708,646	15,028,447	396,278,290	382,780,157
						325,421,973	309,250,640
		7,554,516				7,554,516	15,538,492
				1,106,647		1,106,647	1,912,982
				2,625,963		2,625,963	880,419
			10,423,900			10,423,900	2,348,200
			952,384			952,384	985,984
114,163						134,659	4,681
22,237						22,237	13,787
						1,323,526	1,196,267
					11,189,277	11,189,277	7,705,546
					240,000	1,779,283	4,110,474
29,501						29,501	12,297
		4,196,221		1,012,061		5,208,282	1,572,382
		3,474,251	745,542	101,259		4,321,052	1,576,626
165,901		15,224,988	12,121,826	4,845,930	11,429,277	372,093,200	347,108,777

EXHIBIT B
 TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
 STATEMENT OF CHANGES IN FUND BALANCES
 For the Year Ended August 31, 1999
 (With Comparative Totals - Year Ended August 31, 1998)

UNAUDITED

	Current Funds				
	Unrestricted				Restricted
	Educational and General	Designated	Auxiliary Enterprises	Total Unrestricted	
TRANSFERS AMONG FUNDS					
Mandatory					
Funding of Matching Grants	\$	\$ (23,446)	\$	\$ (23,446)	\$ 10,416
Funding of Retirement of Indebtedness	<u>(1,297,380)</u>			<u>(1,297,380)</u>	
Total Mandatory Transfers	(1,297,380)	(23,446)		(1,320,826)	10,416
Total Non-Mandatory Transfers	<u>(10,421,899)</u>	<u>15,637,574</u>	<u>(96,886)</u>	<u>5,118,789</u>	<u>(17,082,616)</u>
TOTAL TRANSFERS AMONG FUNDS	<u>(11,719,279)</u>	<u>15,614,128</u>	<u>(96,886)</u>	<u>3,797,963</u>	<u>(17,072,200)</u>
NET INCREASE/(DECREASE)	<u>(3,933,046)</u>	<u>10,956,189</u>	<u>75,545</u>	<u>7,098,688</u>	<u>(3,491,794)</u>
FUND BALANCES, August 31, 1999 (EXHIBIT A)	<u>\$ 2,339,786</u>	<u>\$ 72,868,799</u>	<u>\$ 796,688</u>	<u>\$ 76,005,273</u>	<u>\$ 33,367,301</u>

See Accompanying Notes to the Financial Statements

Loan Funds	Endowment Funds	Plant Funds			Component Units	Totals (Memorandum Only)	
		Unexpended	Retirement of Indebtedness	Investment in Plant		1999	1998
\$ 13,030	\$	\$	\$ 4,408,885	\$	\$	\$ 3,111,505	\$ 3,184,974
13,030			4,408,885			3,111,505	
9,172	50,574,859	11,719,144			(339,348)	50,000,000	
22,202	50,574,859	11,719,144	4,408,885		(339,348)	53,111,505	3,184,974
26,336	54,492,306	7,048,521		8,862,716	3,259,822	77,296,595	38,856,354
<u>\$ 4,141,429</u>	<u>\$ 77,295,740</u>	<u>\$ 17,195,937</u>	<u>\$</u>	<u>\$ 209,022,221</u>	<u>\$ 21,202,112</u>	<u>\$ 438,230,013</u>	<u>\$ 360,933,418</u>

EXHIBIT C
TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
STATEMENT OF CURRENT FUNDS REVENUES AND EXPENDITURES
For the Year Ended August 31, 1999
(With Comparative Totals - Year Ended August 31, 1998)

UNAUDITED

	Unrestricted		
	Educational and General	Designated	Auxiliary Enterprises
REVENUES (Schedules B-1, B-2, B-3 and C-1)			
Tuition	\$ 4,725,558	\$	\$
Designated Tuition		1,428,598	
Other Fees	18,034	1,287,169	306,245
Tuition Remissions and Exemptions	503,557	50,372	
State Appropriations - General Revenue (C-1, Note a)	76,188,052	184,701	
State Appropriations - HEAF (C-1, Note a)	7,735,000		
Federal Grants and Contracts	886,079	210,912	
Federal Pass-Through Grants from Other State Agencies (Note 22)			
State Grants and Contracts	18,006	3,279,137	
State Pass-Through Grants from Other State Agencies (Note 23)	(437)		
Local Grants and Contracts		11,907,033	
Private Gifts, Grants and Contracts	232,678	13,889,414	
Endowment Income		253,995	
Sales and Services of Educational Activities		1,187,400	
Sales and Services of Auxiliary Enterprises			161,743
Professional Fees		77,751,697	
Other Revenues			
Net Increase (Decrease) in Fair Value of Investments	(53,730)	3,444,773	(8,715)
Investment Income	739,859	3,523,158	47,679
Sale of Utilities	441,501		
Sale of Capital Assets	58,052		
Miscellaneous Income	26,385	300,077	
Student Health		2,574,926	
TOTAL REVENUES	\$ 91,518,594 (Exhibit B)	\$ 121,273,362 (Exhibit B)	\$ 506,952 (Exhibit B)
EXPENDITURES (Schedules B-1, B-2, B-3, B-4 and C-2)			
Instruction	\$ 38,941,133	\$ 73,786,964	\$
Research	2,586,164	1,047,751	
Public Service	91,384	1,256,961	
Academic Support	21,350,546	35,186,196	
Student Services	418,942	3,332,130	
Institutional Support	9,962,095	7,288,306	
Operation and Maintenance of Plant	9,863,872	1,829,873	
Scholarships and Fellowships	518,225	663,837	
Auxiliary Enterprises			334,521
TOTAL EXPENDITURES (EXHIBIT B)	\$ 83,732,361	\$ 124,392,018	\$ 334,521

See Accompanying Notes to the Financial Statements

Total Unrestricted	Restricted	Totals (Memorandum Only)	
		1999	1998
\$ 4,725,558	\$	\$ 4,725,558	\$ 4,405,673
1,428,598		1,428,598	1,236,469
1,611,448		1,611,448	1,536,214
553,929		553,929	541,916
76,372,753	5,966,353	82,339,106	81,460,262
7,735,000		7,735,000	7,735,000
1,096,991	3,314,298	4,411,289	4,164,519
	55,569	55,569	
3,297,143	63,262,172	66,559,315	61,990,440
(437)	3,109,510	3,109,073	3,876,391
11,907,033	28,277,594	40,184,627	38,725,047
14,122,092	9,761,544	23,883,636	20,945,228
253,995	732,995	986,990	762,384
1,187,400	1,034,351	2,221,751	2,334,293
161,743		161,743	102,858
77,751,697		77,751,697	78,689,495
3,382,328	(467,073)	2,915,255	(2,190,738)
4,310,696	1,839,410	6,150,106	9,882,713
441,501		441,501	431,112
58,052		58,052	14,175
326,462	76,350	402,812	687,074
2,574,926		2,574,926	2,434,053
<u>\$ 213,298,908</u>	<u>\$ 116,963,073</u>	<u>\$ 330,261,981</u>	<u>\$ 319,764,578</u>
(Exhibit B)			
\$ 112,728,097	\$ 19,022,108	\$ 131,750,205	\$ 128,476,641
3,633,915	4,092,930	7,726,845	7,004,076
1,348,345	82,579,010	83,927,355	77,345,780
56,536,742	10,491,972	67,028,714	64,270,258
3,751,072		3,751,072	3,637,992
17,250,401	129,949	17,380,350	14,429,739
11,693,745	182,771	11,876,516	12,107,497
1,182,062	464,333	1,646,395	1,711,698
334,521		334,521	266,959
<u>\$ 208,458,900</u>	<u>\$ 116,963,073</u>	<u>\$ 325,421,973</u>	<u>\$ 309,250,640</u>

NOTES TO THE FINANCIAL STATEMENTS

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
Notes to the Financial Statements
August 31, 1999

NOTE 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

FUND STRUCTURE

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

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

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

Current Funds

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

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

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

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

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

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

Loan Funds

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

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
Notes to the Financial Statements (continued)
August 31, 1999

Endowment Funds

Endowment funds include the following fund types:

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

Term Endowment Funds are like endowment funds, except that all or part of the principal may be used after a stated period of time or on the occurrence of a certain event.

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

Plant Funds

Plant funds are segregated into the following fund groups:

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

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

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

Agency Funds

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

BASIS OF ACCOUNTING

The financial statements of Texas Tech University Health Sciences Center have been prepared on the accrual basis of accounting except depreciation

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

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

Total (Memorandum Only) Columns

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

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

Cash and Cash Equivalents

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

Investments

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

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

Inventories

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

Fixed Assets

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

Liabilities

The compensable leave balance represents the amount of employees' unused vacation time as of the end of the fiscal year. This amount is the total of the compensable leave hours multiplied by the salary rate for the employee.

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

Encumbrances

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

Revenues

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

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

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Notes to the Financial Statements (continued)
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NOTE 2
Deposits, Investments and
Repurchase Agreements

Investments

The Health Sciences Center's investment portfolio has been invested pursuant to the parameters of applicable Texas law and the Board of Regents' Investment Policies. Under Texas law, Health Sciences Center investments may be "any kind of investment that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Under Texas law, the Health Sciences Center is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest Health Sciences Center funds without express written authority from the Board of Regents.

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

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

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

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

Under Board of Regents' policy, the STIF is authorized to invest in (1) obligations of the United States or its instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its instrumentalities, (5) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for Health Sciences Center deposits, (6) fully collateralized repurchase

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

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

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

bonds, and bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received are obtained during the award process.

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

Category 1

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

Category 2

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

At August 31, 1999, the carrying amount of deposits in the cash pool and other accounts was:

Carrying Amount	\$ (3,428,231)
Bank Balance	658,986
Category 1	389,712
Category 2	269,274

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

Cash and Deposits	\$
	358,107
Investments	<u>277,083,002</u>
Total Deposits and Investments	<u>\$ 277,441,109</u>
Cash and Temporary Investments (Exhibit A)	\$ 94,314,994
Investments (Exhibit A)	<u>183,126,115</u>
Total Deposits and Investments	<u>\$ 277,441,109</u>

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

Bank Deposits		
Demand Deposits		
Cashier's Accounts	\$	285,500
Cash in Bank		<u>(3,713,731)</u>
Total		<u>(3,428,231)</u>
Cash and Cash Equivalents		
Petty Cash		20,423
Local Funds in the State Treasury		1,621,447
Reimbursements in Transit		<u>2,144,468</u>
Total		<u>3,786,338</u>
Temporary Investments		
Repurchase Agreements		11,922,237
TexPool Investments		24,185,136
Corporate Commercial Paper		12,958,855
Government Securities Due within 1 Year		<u>44,890,659</u>
Total		<u>93,956,887</u>
Total Cash and Temporary Investments (Exhibit A)		<u>\$ 94,314,994</u>
Demand accounts were deposited in:		
American State Bank – Lubbock	\$	(4,235,446)
Bank of America – Amarillo		127,848
Chase Bank – El Paso, Chamizal		343,238
Chase Bank – Odessa		<u>50,629</u>
Total Demand Accounts		<u>\$ (3,713,731)</u>

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

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

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Notes to the Financial Statements (continued)
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The following categories of credit risk are included:

trust department or institution in the Health Sciences Center's name.

Category 1

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

Category 3

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

Category 2

Uninsured and unregistered investments for which the securities are held by the broker's or dealer's

Investment Categories Texas Tech University Health Sciences Center Investments by Investment Type		
Type of Security	Category 1	Reported Value
Categorized Investments		
U.S. Government and Agency Securities	\$ 181,018,544	\$ 181,018,544
Corporate and Municipal Securities	12,958,855	12,958,855
Repurchase Agreements	11,922,237	11,922,237
Common Stock	21,167,955	21,167,955
Municipal and Non-Governmental Bonds	1,561,867	1,561,867
Total Categorized Investments	<u>228,629,458</u>	<u>228,629,458</u>
Uncategorized Investments		
Money Market and Mutual Funds	9,653,869	9,653,869
Mutual Funds	11,597,199	11,597,199
Statewide HMO	1,949,862	1,949,862
Surgery Partnership	230,385	230,385
TexPool	24,185,136	24,185,136
Cash Value of Life Insurance	284,967	284,967
Gift Annuity Trust	64,000	64,000
Mineral Rights and Royalties	3,549	3,549
Real Estate and Mortgages	482,252	482,252
Works of Art	2,325	2,325
Total Uncategorized Investments	<u>48,453,544</u>	<u>48,453,544</u>
Total Investments	<u>\$ 277,083,002</u>	<u>\$ 277,083,002</u>

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

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

Mortgage Derivative Securities

Type	Carrying Value
Planned Amortization Class Securities	\$ 83,539,598
Target Amortization Class Securities	680,729
Total	<u>\$ 84,220,327</u>

**NOTE 3
Bonds Payable**

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

The combined aggregate amount of principal and interest requirements for all long-term debt at August 31, 1999 is as follows:

Year Ended 8/31	Principal	Interest	Total
2000	\$ 2,902,264	\$ 1,063,873	\$ 3,966,137
2001	3,108,065	935,999	4,044,064
2002	1,759,497	829,557	2,589,054
2003	1,768,225	749,497	2,517,722
2004	643,920	693,082	1,337,002
2005 and Beyond	13,819,711	6,942,246	20,761,957
Totals	<u>\$ 24,001,682</u>	<u>\$ 11,214,254</u>	<u>\$ 35,215,936</u>

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Revenue Financing System Refunding Bonds,
Series 1993

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

Issued October 26, 1993.

\$6,745,000 outstanding as of August 31, 1999.

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

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

The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University and Texas Tech University Health Sciences Center. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

Revenue Financing System Bonds, Second Series
1995

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

Issued April 25, 1995.

\$2,675,200 outstanding as of August 31, 1999.

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

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

The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University and Texas Tech University Health Sciences Center. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

Revenue Financing System Bonds, Third Series
1999

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

Issued May 4, 1999.

\$14,581,482 outstanding as of August 31, 1999.

\$32,500,000; \$8,200,000 have been issued. Average interest rate of bonds refunded is 5.77%

Net proceeds from the Refunding portion of the

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series - \$7,432,182; after payment of \$93,363 in underwriting fees, insurance costs and other issuance costs.

NOTE 4
Notes Payable
Not Applicable

The refunded portion of the 1995 Series bonds, \$6,967,400, are considered fully defeased and the liability for those bonds has been removed from the Investment in Plant fund group.

NOTE 5
Employee Retirement Plans

The difference between cash flows required to service the new debt in comparison to the old debt was a cash savings of \$229,499.

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

Economic Gain - \$270,965 difference between the net present value of the old and new debt service payments.

The Teacher Retirement System does not separately account for each of its component governmental agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. According to an independent actuarial evaluation as of August 31, 1998, the present value of the Retirement System's actual and projected liabilities, including projected benefits payable to its retirees and active members and their beneficiaries, was in excess of the assets of the Retirement System. However, the actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded difference over a period of .6 years assuming payroll growth of 4.0%. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report.

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

The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to Texas Tech University and Texas Tech University Health Sciences Center. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts. The contributory percentages of participant salaries provided by the State and each participant for employees hired on or after September 1, 1995 are 7.31 percent and 6.65 percent, respectively.

The Health Sciences Center contributed 1.19

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percent to bring the non-participant contribution to 8.5 percent for employees hired prior to September 1, 1995. The State has no additional or unfunded liability for this program.

The retirement expense to the State for the Health Sciences Center was \$4,330,139 for the fiscal year ended August 31, 1999. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the Health Sciences Center.

NOTE 6
Deferred Compensation

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

The State's 457 plan complies with the Internal Revenue Code Section 457, GASB Statement No. 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB Statement No. 2 and amends GASB Statement No. 31. GASB Statement No. 2, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of the Internal Revenue Code Section 457*, established reporting requirements for IRC Section 457 plans. Based on the laws in effect at the time of its passage, that Statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans "unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries." Existing plans are also required to comply with this requirement by January 1, 1999. As of August 31, 1999, the Health Sciences Center had no employees contributing to the 457 plan.

The State also administers another plan, "Teksaver", created in accordance with Internal

Revenue Code Sec. 401(k). However, the assets of this plan do not belong to the State nor does the State have a liability related to this plan.

NOTE 7
Compensated Absences

Full-time employees earn annual leave from seven to fourteen hours per month depending on the respective employees' years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 376 for those employees with 20 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment at current rate of pay for all accumulated annual leave up to the maximum allowed. The Health Sciences Center recognizes the accrued liability for the unpaid annual leave in the Current Funds.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The Health Sciences Center's policy is to recognize the cost of the sick leave when paid and the liability is not shown in the financial statements since experience indicates the expenditure for sick leave to be minimal.

Health Sciences Center made lump sum payments totaling \$1,273,899 for accrued vacation (and/or compensatory time) to employees who separated from state service during fiscal year ending August 31, 1999.

NOTE 8
Pending Lawsuits and Claims

At August 31, 1999, various lawsuits and claims involving the Health Sciences Center were pending. While the ultimate liability with respect to litigation and other claims asserted against the Health Sciences Center cannot be reasonably estimated

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
 Notes to the Financial Statements (continued)
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at this time, such liability, to the extent not provided by insurance or otherwise, is not likely to have a material effect on the Health Sciences Center.

initial term in excess of one year as of August 31, 1999.

NOTE 9
Rebatable Arbitrage

The Revenue Financing System Bonds, Second Series 1995, and the Revenue Financing System Bonds, Third Series 1999, were the only outstanding bond issues of the Health Sciences Center calculated as having rebatable arbitrage totaling \$155,856 at August 31, 1999. This excess has been earned during the period when unrestricted yield is allowed on these funds. As required by the Internal Revenue Code, the Health Sciences Center will restrict earnings on these funds after this unrestricted yield period ends to a yield less than the yield of the bond issues.

NOTE 10
Capital Lease Obligations
 Not Applicable

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

Included in current expenditures are the following amounts of rent paid or due under operating leases as of August 31, 1999.

Fund Group	Year Ended August 31	
	1999	1998
Educational and General	\$ 357,248	\$ 282,071
Designated	1,987,046	1,728,379
Auxiliary	30,159	15,472
Restricted	393,658	379,696
Totals	<u>\$ 2,768,111</u>	<u>\$ 2,405,618</u>

There are no future minimum lease rental payments under non-cancelable operating leases having an

NOTE 12
Funds Held in Trust by Others

Amarillo Economic Development Corporation

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

The Amarillo Area Foundation Pharmacy School Maintenance Endowment was established by the AEDC. Amarillo National Bank acts as the investment manager and custodian for the fund and invests the corpus. The use of the earnings of the fund changed on September 1, 1999 following the assumption of the responsibility for maintenance of the building by the State of Texas. The new purpose of the fund is to use 60% of the earnings for an Amarillo Area Community Pharmacy Scholarship Fund benefiting scholarship recipients from the northernmost 26 counties of the Texas panhandle who enroll in the School of Pharmacy. The remaining 40% of the earnings will be used to fund an appointee to the Amarillo Community Endowed Chair in Pharmaceutical Sciences and to purchase research equipment and hire technicians. As of August 31, 1999, the principal of this fund was \$2,703,564 and the market value was \$2,664,044. The annual income amounted to \$144,885.

University Medical Center - Lubbock

University Medical Center (UMC) has established two restricted funds in the names of Health Sciences Center individuals. The Peter Corte Canizaro fund in the amount of \$250,000 benefits the department of Surgery in Lubbock. The University Medical Center Endowment for Excellence in Medicine in the amount of

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\$11,000,000 is established to endow eleven chairs in Medicine in Lubbock. The net earnings of the funds are transferred to the Health Sciences Center monthly.

University of Texas Investment Management Co.

The Texas Legislature has appropriated \$350,000,000 to create a state endowment fund for health-related institutions of higher education using the proceeds from state tobacco litigation. The endowment is managed by the University of Texas Investment Management Company ("UTIMCO"), a 501(c)(3) corporation, for the benefit of the ten health-related institutions of higher education named by the Legislature. Each health-related institution, including the Health Sciences Center, shares in the quarterly distributions of the fund's earnings based on a formula created by the Legislature. The formula allocates 70% of the earnings equally between the ten schools and the remainder is allocated based on the institution's spending in the areas of instruction, research and unsponsored charity care for the previous biennium. The Health Sciences Center allocation of earnings from the endowment fund will range between 7% - 10%.

NOTE 13
Contracts and Grants Awarded

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

Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g. multi-year awards, or funds

awarded during fiscal year 1999 for which monies have not been received nor funds expended totaled \$21,682,540. Of this amount, \$2,278,058 was from federal contract and grant awards, \$293,144 was from state contract and grant awards, and \$14,217,058, from local contract and grant awards and \$4,894,280 from private contract and grant awards.

NOTE 14
Risk Financing and Related Insurance

The Health Sciences Center has self-insured arrangements for coverage in the areas of workers' compensation, unemployment compensation, and medical malpractice. All plans are funded and are reported in the Designated Fund under the Unrestricted Current Fund. The medical malpractice plan has an actuarially determined accrued IBNR, Incurred But Not Reported, liability at August 31, 1999 of \$44,653,416. A component unit, Texas Tech Physician Associates, has estimated accrued IBNR at August 31, 1999 of \$240,000. The remaining funds do not have an accrued contingent liability. A reconciliation of IBNR is presented in the table below.

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

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The Health Sciences Center must reimburse the General Revenue Fund 100% of the cost for workers' compensation and unemployment compensation for any employees paid from funds

held in local bank accounts and local funds held in the state treasury. No material outstanding claims are pending at August 31, 1999.

Description	Balance 9/1/98	Increase	Decrease	Balance 8/31/99
Self Insurance Fund	\$ 43,114,133	\$ 1,539,283		\$ 44,653,416
Texas Tech Physician Associates		240,000		240,000
Totals	\$ 43,114,133	\$ 1,779,283		\$ 44,893,416

NOTE 15
Post Employment Benefits

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

by Texas Tech University Health Sciences Center for the purpose of entering into prepaid capitation agreements for physician and other medical services. The corporation is exempt from tax under Internal Revenue Service code section 501(c)(3). The board consists of 8 directors who are appointed by Texas Tech University Health Sciences Center.

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

NOTE 16
Related Parties

The Texas Tech Foundation Inc. and Texas Tech Physician Associates are reported as blended component units. The Foundation is governed by a 30 member board whose appointment is approved by the Texas Tech University Health Sciences Center Board of Regents.

Texas Tech Physician Associates is a Certified Non-profit Health Corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the state of Texas. The Corporation was created

NOTE 17
Reporting Entity

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

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 August 31, 1999

Health Sciences Center.

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

NOTE 18
Interfund Borrowing
 Not Applicable

NOTE 19
Subsequent Events
 Not Applicable

NOTE 20
Fund Balance Restatement
 Not Applicable

NOTE 21
Due From / Due To Other State Agencies
 Not Applicable

NOTE 22
Federal Pass-Through Grants from Other State Agencies

Agency Name	Agy#	CFDA#	D23 Fund	Exhibit B Amount	Exhibit C Amount	Diff	Subfund
Texas Dept. of Transportation	601	20.600	0006	\$ 55,569	\$ 55,569	\$ 0	Restricted
Total Restricted				55,569	55,569	0	Restricted
Total Federal Pass-Through				<u>\$ 55,569</u>	<u>\$ 55,569</u>	<u>\$ 0</u>	

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 August 31, 1999

NOTE 23
State Pass-Through Grants from Other State Agencies

Agency Name	Agy #	Fund Number	Exhibit B Amount	Exhibit C Amount	Diff	SubFund
Texas Higher Education Coordinating Board	781	0001	\$	\$ (437)	\$ (437)	E & G
Texas Higher Education Coordinating Board	781	0001	3,099,510	3,099,510	0	Restricted
Board of Nursing Examiners	507	0001	10,000	10,000	0	Restricted
Total State Pass-through			<u>\$ 3,109,510</u>	<u>\$ 3,109,073</u>	<u>\$ (437)</u>	

NOTE 24
Interfund Receivable / Interfund Payable
 Not Applicable

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

NOTE 26
Supplementary Article IX Information

Bonded Employees

The Health Sciences Center does not acquire a bond on employees. We purchase a comprehensive crime policy that covers all employees.

Occupied Space

A report which includes space utilization is submitted to the Coordinating Board (CB) each fiscal year.

State-Owned and Leased Aircraft

The Health Sciences Center does not own or lease any aircraft.

General Services Commission Exception Letters

House Bill 2032 passed by the 74th Legislature exempted the Health Sciences Center from the need to request exception letters for purchases in excess of \$100,000. Accordingly, no exceptions letters were received during 1999.

Vending Machines

Vending revenue collected for the current fiscal year was \$127,252. These funds are used solely for activities of students or activities in support of students.

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Vehicle Purchases with Appropriated Funds

The following vehicles were purchased from appropriated funds during fiscal year 1999:

Make and Model	Price	Assigned Use	Fuel Efficiency	Fuel Type
1999 Ford SE Wagon	\$ 13,328	Managed Health Care	25 City / 34 Hwy.	Gas / Waiver
1999 Chevy Pickup S-10	\$ 14,465	Facilities Operations	17 City / 22 Hwy.	Gas / LPG
1999 Ford Pickup EOM	\$ 23,508	Facilities Operations	13 City / 17 Hwy.	Gas / LPG
2000 Chevy Malibu	\$ 14,350	WIC Program	20 City / 29 Hwy.	Gas / Waiver
2000 Chevy Malibu	\$ 14,350	WIC Program	20 City / 29 Hwy.	Gas / Waiver
2000 Chevy 4X4 Tron	\$ 25,330	Grounds Maintenance	No Rating Avail.	Diesel / Waiver