

TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION



ANNUAL FINANCIAL REPORT

FISCAL YEAR 2004

ANNUAL FINANCIAL REPORT

OF

**TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION**

FOR THE YEAR ENDED AUGUST 31, 2004

LUBBOCK, TEXAS

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TEXAS TECH UNIVERSITY SYSTEM

DAVID R. SMITH, M.D.
Chancellor

Box 42013
Lubbock, Texas 79409-2013
(806) 742-0012
FAX (806) 742-8050

November 17, 2004

Honorable Rick Perry
Governor of Texas

Honorable Carole Keeton Strayhorn
Comptroller of Public Accounts

Mr. John Keel
Director, Legislative Budget Board

Mr. Lawrence F. Alwin, CPA
State Auditor

To Agency Heads Addressed:

The Financial Report of Texas Tech University System Administration, with which this letter is bound, is transmitted for inclusion in the State of Texas Annual Financial Report for the fiscal year ended August 31, 2004. The State Auditor has not audited the accompanying annual financial report and, therefore, has not expressed an opinion on the financial statements and related information contained in this report. This report is intended to present a complete picture of the fiscal affairs of the System for the year ended August 31, 2004.

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

Sincerely,

A handwritten signature in black ink, appearing to read "David R. Smith", followed by a horizontal line.

David R. Smith, M.D.
Chancellor

DRS:nh



TEXAS TECH UNIVERSITY

Office of the Comptroller and
Assistant Vice President for Administration & Finance

Box 41102
Lubbock, Texas 79409-1102
(806) 742-3255
Fax (806) 742-0066

November 17, 2004

Chancellor David R. Smith
Texas Tech University System Administration
Lubbock, Texas 79409

Dear Chancellor Smith:

Submitted herein is the Annual Financial Report of Texas Tech University System Administration for the fiscal year ended August 31, 2004, 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 significant changes related to 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 be in compliance with GAAP. 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.

If you have any questions, please contact me at 742-3255.

Sincerely,

A handwritten signature in purple ink that reads "Sharon Williamson".

Sharon Williamson, CPA
Director of Financial Accounting and Reporting

A handwritten signature in black ink that reads "Rebecca Hyde".
Rebecca Hyde

Director of Student and University Financial Services

Approved:

Jim Brunjes
Chief Financial Officer

SSW:nh

A handwritten signature in blue ink that reads "Jim Brunjes".

Texas Tech University System Administration

Board of Regents

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

Officers of the Board

C. Robert BlackChair
Brian C. Newby..... Vice Chair
Ben Lock..... Secretary

Fiscal Officers

David R. Smith, M.D. Chancellor
Jim Brunjes.....Senior Vice Chancellor and Chief Financial Officer

FINANCIAL STATEMENTS

Texas Tech University System Administration
Statement of Net Assets (Unaudited)
August 31, 2004

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 1)	\$	2,986,244
Legislative Appropriations		965,066
Accounts Receivable, net:		
Interest and Dividends		2,076
Accounts Receivables		3,138
Prepaid Expenses		7,306
		<hr/>
Total Current Assets		3,963,830

Non-Current Assets:

Investments		2,207,718
Capital Assets (Note 2)		
Depreciable		250,625
Accumulated Depreciation		(70,063)
		<hr/>
Total Non-Current Assets		2,388,280

Total Assets	\$	<u><u>6,352,110</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$	164,550
Payroll Payable		1,056,032
Deferred Revenue		23,833
Employees' Compensable Leave (Note 5)		125,373
		<hr/>
Total Current Liabilities		1,369,788

Non-Current Liabilities:

Employees' Compensable Leave (Note 5)		375,226
		<hr/>
Total Non-Current Liabilities		375,226

Total Liabilities	\$	<u>1,745,014</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt		180,562
Unrestricted (Note 1)		4,426,534
		<hr/>

Total Net Assets		4,607,096
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Total Liabilities and Net Assets	\$	<u><u>6,352,110</u></u>
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See Accompanying Notes To Financial Statements

Texas Tech University System Administration
Statement of Revenues, Expenses, and Changes in Net Assets (Unaudited)
For the Year Ended August 31, 2004

Operating Revenues	
Sales and Services of Other Activities	\$ 5,761
Nongovernmental Grants and Contracts	40,000
	<hr/>
Total Operating Revenues	45,761
	<hr/>
Operating Expenses	
Institutional Support	18,362,824
Depreciation and Amortization	39,406
	<hr/>
Total Operating Expenses	18,402,230
	<hr/>
Operating Income (Loss)	(18,356,469)
	<hr/>
Nonoperating Revenues (Expenses)	
Legislative Revenue	2,075,107
Investment Income	2,059,789
Decrease in Fair Value of Investments	(9,475)
Other Nonoperating Revenues (Expenses)	3,140,032
	<hr/>
Total Nonoperating Revenues (Expenses)	7,265,453
	<hr/>
Income (Loss) before Other Revenues, Expenses, Gains, Losses and Transfers	(11,091,016)
	<hr/>
Other Revenues, Expenses, Gains, Losses and Transfers	
Transfers In from Components	12,297,902
	<hr/>
Total Other Revenues, Expenses, Gains, Losses and Transfers	12,297,902
	<hr/>
TOTAL CHANGES IN NET ASSETS	\$ 1,206,886
	<hr/> <hr/>
Beginning Net Assets (September 1, 2003)	3,641,130
Restatements of Beginning Net Assets (Note 18)	(240,920)
	<hr/>
Ending Net Assets (August 31, 2004)	\$ 4,607,096
	<hr/> <hr/>

See Accompanying Notes to Financial Statements

UNAUDITED

Texas Tech University System Administration
 Matrix of Operating Expenses by Natural Classification
 For the Year Ended August 31, 2004

Function	Salaries and Wages	Payroll Related Costs	Professional Fees and Services	Travel	Materials and Supplies
Institutional Support	\$ 12,127,185	\$ 2,709,421	\$ 654,147	\$ 409,576	\$ 560,996
Depreciation and Amortization					
Total Operating Expenses	\$ 12,127,185	\$ 2,709,421	\$ 654,147	\$ 409,576	\$ 560,996

Function	Communications and Utilities	Repairs and Maintenance	Rentals and Leases	Printing and Reproduction	Depreciation and Amortization
Institutional Support	\$ 41,514	\$ 114,762	\$ 578,428	\$ 229,405	
Depreciation and Amortization					39,406
Total Operating Expenses	\$ 41,514	\$ 114,762	\$ 578,428	\$ 229,405	\$ 39,406

Function	Other Operating	Grand Total
Institutional Support	\$ 937,390	\$ 18,362,824
Depreciation and Amortization		39,406
Total Operating Expenses	\$ 937,390	\$ 18,402,230

Texas Tech University System Administration
Statement of Cash Flows (Unaudited)
For the Year Ended August 31, 2004

Cash Flows from Operating Activities	
Other Sales and Services	\$ 5,761
Grants and Contracts	40,000
Payments to Employees	(12,105,372)
Payments for Other Operating Activities	(6,242,108)
Net Cash Used By Operating Activities	<u>(18,301,719)</u>
Cash Flows from Noncapital Financing Activities	
State Appropriations	2,037,736
Transfers In From Other Components	12,297,902
Other Noncapital Financing Activities	3,140,032
Net Cash Provided by Noncapital Financing Activities	<u>17,475,670</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets	(55,368)
Net Cash Used by Capital and Related Financing Activities	<u>(55,368)</u>
Cash Flows from Investing Activities	
Proceeds from Investment Sales and Maturities	1,786,101
Interest and Dividends Received	2,073,766
Purchases of Investments	(1,171,258)
Net Cash Provided by Investing Activities	<u>2,688,609</u>
TOTAL NET CASH FLOWS	<u>\$ 1,807,192</u>
Cash & Cash Equivalents - September 1, 2003	1,241,496
Restatement to Beginning Cash & Cash Equivalents (Note 18)	(62,444)
Cash & Cash Equivalents September 1, 2003 Restated	<u>1,179,052</u>
Ending Cash & Cash Equivalents - August 31, 2004	<u>\$ 2,986,244</u>
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities	
Operating Loss	(18,356,469)
Adjustments:	
Depreciation Expense	39,406
(Increase) Decrease in Accounts Receivable	(2,492)
(Increase) Decrease in Prepaid Expenses	(747)
Increase (Decrease) in Accounts Payable	(5,722)
Increase (Decrease) in Payroll Payable	67,754
Increase (Decrease) in Compensable Leave	(43,449)
Net Cash Used for Operating Activities	<u>(18,301,719)</u>

POLICIES AND NOTES

TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Texas Tech University System Administration is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements for State Agencies.

Blended Component Unit

Texas Tech Foundation, Inc is a component unit of the consolidated Texas Tech University System since it serves the fundraising needs of Texas Tech University, Texas Tech University Health Sciences Center and Texas Tech University System Administration. No balances or activities associated with Texas Tech Foundation, Inc. are included in this Annual Financial Report.

Due to the significant changes related to 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 statements to be in compliance with generally accepted accounting principles (GAAP). 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.

Basis of Accounting

The accounting records of Texas Tech University System Administration are maintained using a modified accrual basis. Accounting data for most external reports, including this Annual Financial Report, are converted to full accrual basis of accounting in compliance with GASB Statements 34 and 35. For financial reporting purposes, Texas Tech University System Administration is considered a special-purpose government engaged only in business-type activities. Accordingly, Texas Tech University System Administration's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents

For the purpose of financial statement reporting, cash equivalents are short-term highly liquid investments with an original maturity of three months or less. Included in this category are demand deposits in banks, local funds held by the state, state reimbursements in transit, repurchase agreements and Texpool investments.

Texas Tech University System Administration records and reports its deposits in the general deposit account at cost. It records and reports its special deposit accounts at fair value. Investment pool cash equivalents are recorded at fair value.

Cash and Cash Equivalents as reported on the Statement of Net Assets

	Current Unrestricted
Cash In Bank	\$ (80,268)
Repurchase Agreements	472,698
Texpool Investments	2,593,814
Total Cash and Cash Equivalents	\$ 2,986,244

Texas Tech University System Administration - Notes to the Financial Statements (continued)**Investments**

The Texas Tech University System Administration accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Receivables

Interest and income receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items.

Prepaid Expenses

Disbursements for insurance, subscriptions, prepaid postage, prepaid travel costs and similar services are paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods.

Capital Assets

Furniture, equipment, and vehicles with a cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds for buildings, building improvements, facilities and other improvements are \$100,000. The capitalization threshold for infrastructure is \$500,000. These assets are capitalized at cost. Donated assets are reported at fair value on the acquisition date. Routine repairs and maintenance and capital assets acquired for less than the threshold amounts are charged to operating expenses in which the expense was incurred. Depreciation is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting System (SPA). Assets are depreciated over the estimated useful life of the asset using the straight-line method.

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

Net Assets

Net Assets are the difference between fund assets and liabilities. They are presented in three separate classes: Invested in Capital Assets, Net of Related Debt, Restricted and Unrestricted.

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by a party external to the System such as creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Texas Tech University System Administration - Notes to the Financial Statements (continued)

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of restricted net assets. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be moved or modified.

Unrestricted Net Assets as reported on the Statement of Net Assets

Reserved for:	
Encumbrances	\$ 163,803
Imprest Funds	600
Fair Market Value Adjustment	(53,270)
Future Operating Budgets	4,815,704
Unreserved	<u>(500,303)</u>
Total Unrestricted Net Assets	<u>\$ 4,426,534</u>

Interfund Activity and Transactions

Texas Tech University System Administration is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, including blended component units. Interfund transactions are defined as financial transactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

Note 2: Capital Assets

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system. Accumulated depreciation is classified by capital asset category, providing for an estimation of the net book value of each asset category.

Capital assets are categorized as either (1) Land and Land Improvements, (2) Buildings and Building Improvements, (3) Infrastructure, (4) Furniture and Equipment, (5) Vehicles, Boats and Aircraft, (6) Construction in Progress, (7) Other Capital Assets, or (8) Facilities and Other Improvements. The changes to fixed asset balances are summarized below.

Business-type Activities:	Balance 09/01/03	Adjustments	Completed CIP	Inc- Int'agy Trans	Dec- Int'agy Trans	Additions	Deletions	Balance 08/31/04
Depreciable Assets:								
Furniture and Equipment	\$109,573					\$14,596		\$124,169
Vehicles, Boats and Aircraft	85,684					40,772		126,456
Total depreciable assets at historical costs	195,257					55,368		250,625
Less Accumulated Depreciation for:								
Furniture and Equipment	(22,233)					(21,036)		(43,269)
Vehicles, Boats and Aircraft	(8,424)					(18,370)		(26,794)
Total Accumulated Depreciation	(30,657)					(39,406)		(70,063)
Depreciable Assets, Net	164,600					15,962		180,562
Business-type Activities Capital Assets, net:	\$164,600					\$15,962		\$180,562

Texas Tech University System Administration - Notes to the Financial Statements (continued)

Note 3: Deposits, Investments, and Repurchase Agreements

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

The governing investment policy is Regents’ Rules Chapter 09, “Investment, Endowments, and Income Producing Lands.” The majority of Texas Tech University System Administration 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 total return philosophy. Other institutional funds not in the LTIF are invested in the STIF, which is a fixed income fund and is operated using a hold to maturity philosophy. Other assets include securities gifted to Texas Tech University System Administration with written donor instructions to maintain in their original form.

To comply with the reporting requirements of GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, Texas Tech University System Administration’s investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by Texas Tech University System Administration 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.

Deposits of Cash in Bank

- A. The carrying amount of \$(80,268) for Cash in Bank (including restricted assets) is presented below.
- B. The bank balance of the Texas Tech University System Administration has been classified according to the following risk categories:
 - 1. Category 1 – Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity
 - 2. Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the governmental entity’s name
 - 3. Category 3 – Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the governmental entity’s name).

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
			\$0.00	\$(80,268)
Consisting of the following:				
Demand Deposits				\$(80,868)
Imprest funds				600
				<u>\$(80,268)</u>

Texas Tech University System Administration - Notes to the Financial Statements (continued)

Investments

The fair values of investments as of the balance sheet date (including both short-term and long-term) are shown below. Investments are categorized to give an indication of the level of risk assumed by the agency at year-end. The three categories are:

Category 1: Investments that are insured or registered, or for which the securities are held by the agency, or its agent in the agency's name.

Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the agency'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 agency's name.

Investment Categories
Texas Tech University System Administration
By Investment Type

Type of Security	Category			Fair Value
	1	2	3	
U.S. Government and Agency Obligations	\$672,337			\$ 672,337
U.S. Government and Agency Mortgage Obligations	193,157			193,157
Collateralized Mortgage Obligations	1,342,224			1,342,224
Repurchase Agreements	472,698			472,698
Totals	\$2,680,416			\$2,680,416
Uncategorized Investments:				
TexPool				\$2,593,814
			Total Investments	\$5,274,230

Reverse Repurchase Agreements

The Texas Tech University System Administration, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the Agency and the Agency transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the Agency arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

Texas Tech University System Administration - Notes to the Financial Statements (continued)

Derivative Investing

Included in the U.S. Government and Agency Securities category of these “pooled” 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 Texas Tech University System Administration’s portfolio.

Mortgage Derivative Securities

<u>Type</u>	<u>Carrying Value</u>
Planned Amortization Class Securities	\$1,342,224.00

Note 4: Short-Term Debt

Texas Tech University System Administration has no short-term debt outstanding as of August 31, 2004.

Note 5: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2004, the following changes occurred in liabilities.

<u>Long-Term Liability Category</u>	<u>Balance 09/01/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 08/31/04</u>	<u>Current Portion</u>
Compensable Leave	\$544,048	\$0	\$43,449	\$500,599	\$125,373
Total	<u>\$544,048</u>	<u>\$0</u>	<u>\$43,449</u>	<u>\$500,599</u>	<u>\$125,373</u>

Employees’ Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee’s resignation, dismissal, or separation from State employment provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 6: Capital Leases

The Texas Tech University System Administration has no capital leases.

Note 7: Operating Lease Obligations

The Texas Tech University System Administration has no operating leases.

Texas Tech University System Administration - Notes to the Financial Statements (continued)**Note 8: Interfund Balances/Activities**

The Texas Tech University System Administration has no interfund balances or activity.

Note 9: Contingent Liabilities

At August 31, 2004, no material lawsuits or claims involving the Texas Tech University System Administration were pending.

Note 10: Continuance Subject to Review

The Texas Tech University System Administration is not subject to the Texas Sunset Act.

Note 11: Risk Financing and Related Insurance

Texas Tech System Administration by state law is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). The System is assessed fees by SORM based upon claims experience, claim incidences, payroll size and FTE. SORM also determines the methodology for allocation to the major fund groups. SORM pays all WCI claims. The Worker's Compensation plan for the fiscal year was funded by a 1.0 percent charge on gross payroll for non-educational and general funds.

The System has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas pays 50% of claims for employees paid from state funds. The System pays the remainder for employees paid from state funds and 100% of the claims paid for employees paid from non-state funds. The Unemployment Compensation Fund is currently funded by interest earnings on the fund.

Note 12: Segment Information

The Texas Tech University System Administration has no reportable segments.

Note 13: Bonded Indebtedness

The Texas Tech University System Administration has no bonded indebtedness.

Note 14: Subsequent Events

System Administration is transitioning its Short/Intermediate Term Investment Funds (STIF) from investments in government agency fixed income securities, primarily mortgage backed securities and collateralized mortgage obligations, to investments in U.S. Treasury obligations and government/agency fixed income mutual funds. This transition began in July 2004. As of August 31, 2004, securities having a book value of \$522,858 had been sold for \$526,581, resulting in a net gain of \$3,723 for the year ended August 31, 2004.

System Administration sold numerous additional securities in the two months after the year ended August 31, 2004. Between September 1, 2004 and October 12, 2004, additional securities with a book value of \$1,075,514 were sold for \$1,061,251 which resulted in net loss of \$14,263.

The total sale of securities had a book value of \$1,598,372 that was sold for a total amount of \$1,587,832, or a net loss of (\$10,540) or (.66%). It is anticipated that this represents the total amount that will be sold from the current portfolio. This loss will be applied equally against the monthly total interest earnings in October 2004 through August 2005.

Note 15: Related Parties – Relationship with Texas Tech University System Administration

The Texas Tech University System Administration has no related parties to report.

Texas Tech University System Administration – Notes to the Financial Statements (continued)

Note 16: Stewardship, Compliance and Accountability

The Texas Tech University System Administration has no material stewardship, compliance, and accountability issues.

Note 17: The Financial Reporting Entity and Joint Ventures

The Financial Reporting Entity

Texas Tech University System Administration is the executive arm of the Texas Tech University System. As required by generally accepted accounting principles, these financial statements present the Texas Tech University System Administration. Texas Tech University System Administration has no related organizations or joint ventures or jointly governed organizations.

Note 18: Restatement of Fund Balances/Net Assets

Prior period adjustments for Texas Tech University System Administration that required the restatement of beginning net assets related to the exclusion of Texas Tech Foundation, Inc. which had been previously reported as a blended component unit of Texas Tech University System Administration but is now more appropriately reported as a blended component unit of the consolidated Texas Tech University System Annual Financial Report.

Restatement of Beginning Net Assets:

Net Assets as Reported at 8/31/03		\$3,641,130
Restatements		
Exclusion of Texas Tech Foundation, Inc.	<u>(\$240,920)</u>	<u>(\$240,920)</u>
Restated Net Assets at 8/31/03		<u>\$3,390,210</u>

Restatement of Beginning Cash and Cash Equivalents:

Cash and Cash Equivalents as Reported at 8/31/03		\$1,241,496
Restatements		
Exclusion of Texas Tech Foundation, Inc.	<u>(\$62,444)</u>	<u>(\$62,444)</u>
Restated Cash and Cash Equivalents at 8/31/03		<u>\$1,179,052</u>

Note 19: Employee Retirement Plans (administering agencies only)

Not applicable

Note 20: Deferred Compensation (administering agencies only)

Not applicable

Texas Tech University System Administration – Notes to the Financial Statements (continued)**Note 21: Donor-Restricted Endowments**

Texas Tech University System Administration has no endowments.

Note 22: Management Discussion and Analysis

Texas Tech University System Administration has no material highlights to include for fiscal year 2004.

Note 23: Post Employment Health Care and Life Insurance Benefits (UT, A&M and ERS only)

Not applicable

Note 24: Special or Extraordinary Items

Texas Tech University System Administration had no special or extraordinary items during the year ended August 31, 2004.

Note 25: Disaggregation of Receivable and Payable Balances**Receivables**

Components of receivables as of August 31, 2004 are summarized below.

Type	Net Amount
Interest and Dividends Receivable	2,076
Accounts Receivables	3,138
Total Receivables	<u><u>\$5,214</u></u>

Payables

Components of payables as of August 31, 2004 are summarized below.

Type	Net Amount
Accounts Payable	164,550
Payroll Payable	1,056,032
Total Payables	<u><u>\$1,220,582</u></u>

SCHEDULES

UNAUDITED

Texas Tech University System Administration
Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2004

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration
Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies
For the Year Ended August 31, 2004

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration
Schedule 3 - Reconciliation of Cash in State Treasury
For the Year Ended August 31, 2004

Schedule Not Applicable