

**TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION**



ANNUAL FINANCIAL REPORT

FISCAL YEAR 2011

ANNUAL FINANCIAL REPORT

OF

**TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION**

FOR THE YEAR ENDED AUGUST 31, 2011

LUBBOCK, TEXAS

**Texas Tech University
System Administration (768)**

Table of Contents

| | |
|--|----|
| Letters of Transmittal | 1 |
| Organizational Data | 3 |
| Financial Statements: | |
| Statement of Net Assets | 5 |
| Statement of Revenues, Expenses and Changes in Net Assets | 6 |
| Matrix of Operating Expenses by Natural Classification | 7 |
| Statement of Cash Flows..... | 8 |
| Notes to the Financial Statements: | |
| Notes to the Financial Statements | 10 |
| Supporting Schedules: | |
| Schedule 1A Schedule of Expenditures of Federal Awards | 26 |
| Schedule 1B Schedule of State Grant Pass-Throughs from/to State Agencies | 27 |
| Schedule 2A Miscellaneous Bond Information | 28 |
| Schedule 2B Changes in Bond Indebtedness..... | 29 |
| Schedule 2C Debt Service Requirements | 30 |
| Schedule 2D Analysis of Funds Available for Debt Service | 31 |
| Schedule 2E Defeased Bonds Outstanding..... | 32 |
| Schedule 2F Early Extinguishment and Refunding | 33 |
| Schedule 3 Reconciliation of Cash in State Treasury | 34 |



TEXAS TECH UNIVERSITY SYSTEM

Kent Hance, *Chancellor*

November 7, 2011

Honorable Rick Perry
Governor of Texas

Honorable Susan Combs
Texas Comptroller

Mr. John O'Brien
Director, Legislative Budget Board

Mr. John Keel, CPA
State Auditor

To Agency Heads Addressed:

We are pleased to submit the annual financial report of Texas Tech University System Administration for the year ended 08/31/2011, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. Neither the State Auditor nor TTUS Office of Audit Services has audited the accompanying annual financial report and, therefore, neither has expressed an opinion on the financial statements and related information contained in this report. 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* (CAFR).

As indicated by the following letter of transmittal, this report has been prepared by the Texas Tech University office of Financial Accounting and Reporting to provide a summary of the institution's financial records, and to present a complete picture of the fiscal affairs of the Texas Tech University System Administration. If you have any questions, please contact Debra Crowder, Director of Financial Reporting at 806-742-2970.

Sincerely,

A handwritten signature in black ink that reads "Kent Hance".

Kent Hance
Chancellor



Office of the Chancellor | Box 42013 | Lubbock, Texas 79409-2013 | T 806.742.0012 | F 806.742.8050

An EEO/Affirmative Action Institution



TEXAS TECH UNIVERSITY

Financial Accounting & Reporting

November 7, 2011

Chancellor Kent Hance
Texas Tech University System Administration
Lubbock, Texas 79409

Dear Chancellor Hance:

Submitted herein is the Annual Financial Report of Texas Tech University System Administration for the fiscal year ended August 31, 2011.

The accompanying Annual Financial Report has been prepared in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

This Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR); 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 742-2970.

Sincerely,

A handwritten signature in cursive script that reads "Debra Crowder".

Debra Crowder, CPA
Director of Financial Reporting

Approved:

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

Jim Brunjes
Texas Tech University System Administration
Chief Financial Officer

Texas Tech University System Administration (768)
Organizational Data
August 31, 2011

Board of Regents

Term Expires

Jerry E. Turner (**Chair**) January 31, 2013.....Blanco, TX
Mickey L. Long (**Vice Chair**) .. January 31, 2015..... Midland, TX

Larry K. Anders January 31, 2017.....Dallas, TX
L. Frederick Francis January 31, 2013.....El Paso, TX
John Huffaker..... January 31, 2015.....Amarillo, TX
Debbie Montford..... January 31, 2017.....San Antonio, TX
Nancy Neal..... January 31, 2015.....Lubbock, TX
John F. Scovell January 31, 2013.....Dallas, TX
John D. Steinmetz January 31, 2017.....Lubbock, TX

Jill Fadal (**Student Regent**) May 31, 2012..... Austin, TX

Ben W. Lock (**Staff**)..... Secretary

Fiscal Officers

Kent Hance.....Chancellor
Jim Brunjes.....Vice Chancellor and Chief Financial Officer

UNAUDITED
TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION (768)

FINANCIAL STATEMENTS

Texas Tech University System Administration (768)
Statement of Net Assets
August 31, 2011

ASSETS

Current Assets:

| | |
|------------------------------------|------------------------|
| Cash and Cash Equivalents (Note 1) | \$ 7,450,584.16 |
| Restricted: | |
| Cash and Cash Equivalents (Note 1) | 923,936.13 |
| Legislative Appropriations | 812,348.68 |
| Accounts Receivable, net: | |
| Interest and Dividends | 11,565.07 |
| Gift Receivables | 9,700.00 |
| Accounts Receivable | 46,178.87 |
| Other Receivables | 5,065.50 |
| Prepaid Expenses | 17,532.50 |
| Total Current Assets | <u>\$ 9,276,910.91</u> |

Non-Current Assets:

| | |
|---|------------------------|
| Restricted: | |
| Cash and Cash Equivalents (Note 1) | \$ 4,950,660.88 |
| Investments (Note 3) | 409,173.79 |
| Gift Receivables | 24,206.42 |
| Investments (Note 3) | 2,439,918.89 |
| Capital Assets (Note 2) | |
| Depreciable or Amortizable | 1,986,716.05 |
| Accumulated Depreciation and Amortization | (529,142.57) |
| Total Non-Current Assets | <u>\$ 9,281,533.46</u> |

Total Assets \$ 18,558,444.37

LIABILITIES

Current Liabilities:

| | |
|---------------------------------------|------------------------|
| Accounts Payable | \$ 22,778.51 |
| Payroll Payable | 957,540.23 |
| Due to Other State Agencies (Note 12) | 400,000.00 |
| Employees' Compensable Leave (Note 5) | 120,425.79 |
| Notes and Loans Payable (Note 5) | 969,235.68 |
| Other Current Liabilities | 134.72 |
| Total Current Liabilities | <u>\$ 2,470,114.93</u> |

Non-Current Liabilities:

| | |
|---------------------------------------|----------------------|
| Employees' Compensable Leave (Note 5) | <u>\$ 883,122.50</u> |
| Total Non-Current Liabilities | <u>\$ 883,122.50</u> |

Total Liabilities \$ 3,353,237.43

NET ASSETS

| | |
|---|-------------------------|
| Invested in Capital Assets, Net of Related Debt | \$ 488,337.80 |
| Restricted: | |
| Nonexpendable: | |
| Endowments | 347,101.01 |
| Expendable: | |
| Capital Projects | 4,777,831.72 |
| Debt Service | (134.72) |
| Other | 2,088,949.14 |
| Unrestricted (Note 1) | 7,503,121.99 |
| Total Net Assets | <u>\$ 15,205,206.94</u> |

Total Liabilities and Net Assets \$ 18,558,444.37

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Texas Tech University System Administration (768)
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended August 31, 2011

| | | |
|--|--|---------------------------|
| Operating Revenues | | |
| State Grant Pass-Throughs (Schedule 1B) | | \$ (165.05) |
| Total Operating Revenues | | <u>\$ (165.05)</u> |
| Operating Expenses | | |
| Institutional Support | | \$ 14,351,602.53 |
| Depreciation and Amortization | | <u>95,501.63</u> |
| Total Operating Expenses | | <u>\$ 14,447,104.16</u> |
| Operating Income (Loss) | | <u>\$ (14,447,269.21)</u> |
| Nonoperating Revenues (Expenses) | | |
| Legislative Revenue | | \$ 2,930,265.01 |
| Private Gifts | | 10,000.00 |
| Investment Income (Expense) | | 225,016.60 |
| Investment Income (Expense) - Pledged | | 1,979,063.88 |
| Interest Expense on Capital Asset Financing | | (1,228.83) |
| Net Increase in Fair Value of Investments | | 16,724.71 |
| Other Nonoperating Revenues (Expenses) | | <u>(53,098.78)</u> |
| Total Nonoperating Revenues (Expenses) | | <u>\$ 5,106,742.59</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers | | \$ (9,340,526.62) |
| Other Revenues, Expenses, Gains, Losses and Transfers | | |
| Additions to Permanent Endowments | | \$ 3,213.72 |
| Legislative Transfer In (Note 12) | | 3,456,302.00 |
| Transfers In from Texas Tech University Foundation, Inc | | 4,274,660.19 |
| Transfers In from Components | | <u>5,572,214.11</u> |
| Total Other Revenues, Expenses, Gains, Losses and Transfers | | <u>\$ 13,306,390.02</u> |
| TOTAL CHANGES IN NET ASSETS | | <u>\$ 3,965,863.40</u> |
| Beginning Net Assets (September 1, 2010) | | \$ 11,239,343.54 |
| Ending Net Assets (August 31, 2011) | | <u>\$ 15,205,206.94</u> |

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Texas Tech University System Administration (768)
Matrix of Operating Expenses by Natural Classification
For the Year Ended August 31, 2011

| <u>Function</u> | <u>Salaries and Wages</u> | <u>Payroll Related Costs</u> | <u>Professional Fees and Services</u> | <u>Travel</u> | <u>Materials and Supplies</u> |
|-------------------------------|-------------------------------|----------------------------------|---|----------------------|-----------------------------------|
| Institutional Support | \$ 9,385,490.60 | \$ 2,077,349.47 | \$ 757,521.87 | \$ 383,467.23 | \$ 315,241.17 |
| Depreciation and Amortization | | | | | |
| Total Operating Expenses | <u>\$ 9,385,490.60</u> | <u>\$ 2,077,349.47</u> | <u>\$ 757,521.87</u> | <u>\$ 383,467.23</u> | <u>\$ 315,241.17</u> |

| <u>Function</u> | <u>Communications and Utilities</u> | <u>Repairs and Maintenance</u> | <u>Rentals and Leases</u> | <u>Printing and Reproduction</u> | <u>Depreciation and Amortization</u> |
|-------------------------------|---|------------------------------------|-------------------------------|--------------------------------------|--|
| Institutional Support | \$ 219,601.17 | \$ 139,208.47 | \$ 733,647.01 | \$ 66,491.87 | \$ |
| Depreciation and Amortization | | | | | 95,501.63 |
| Total Operating Expenses | <u>\$ 219,601.17</u> | <u>\$ 139,208.47</u> | <u>\$ 733,647.01</u> | <u>\$ 66,491.87</u> | <u>\$ 95,501.63</u> |

| <u>Function</u> | <u>Interest</u> | <u>Other Operating</u> | <u>Grand Total</u> |
|-------------------------------|------------------|----------------------------|-------------------------|
| Institutional Support | \$ 273.14 | \$ 273,310.53 | \$ 14,351,602.53 |
| Depreciation and Amortization | | | 95,501.63 |
| Total Operating Expenses | <u>\$ 273.14</u> | <u>\$ 273,310.53</u> | <u>\$ 14,447,104.16</u> |

Texas Tech University System Administration (768)
Statement of Cash Flows
For the Year Ended August 31, 2011

| | |
|---|---------------------------|
| Cash Flows from Operating Activities | |
| Proceeds from Grants and Contracts | \$ 400,000.00 |
| Payments to Suppliers for Goods and Services | (520,941.51) |
| Payments to Employees for Salaries | (9,435,036.18) |
| Payments to Employees for Benefits | (2,077,349.47) |
| Payments for Other Operating Expenses | (2,447,660.01) |
| Net Cash Used By Operating Activities | <u>\$ (14,080,987.17)</u> |
| Cash Flows from Noncapital Financing Activities | |
| Proceeds from State Appropriations | \$ 2,784,092.89 |
| Proceeds from Noncapital Gifts | 27,556.41 |
| Proceeds from Transfers from Components | 9,367,548.69 |
| Proceeds from Transfers from Texas Tech Foundation, Inc. | 2,833,936.19 |
| Proceeds from Other Financing Activities | 2,692.24 |
| Payments for Transfers to Components | (339,032.58) |
| Net Cash Provided by Noncapital Financing Activities | <u>\$ 14,676,793.84</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Payments for Interest Paid on Capital Debt | \$ (1,584.00) |
| Payments for Additions to Capital Assets | (62,573.65) |
| Net Cash Used by Capital and Related Financing Activities | <u>\$ (64,157.65)</u> |
| Cash Flows from Investing Activities | |
| Proceeds from Investment Sales and Maturities | \$ 1,021,665.12 |
| Proceeds from Interest and Investment Income | 2,197,825.11 |
| Payments to Acquire Investments | (425,500.75) |
| Net Cash Provided by Investing Activities | <u>\$ 2,793,989.48</u> |
| TOTAL NET CASH FLOWS | <u>\$ 3,325,638.50</u> |
| Beginning Cash & Cash Equivalents - September 1, 2010 | 9,999,542.67 |
| Ending Cash & Cash Equivalents - August 31, 2011 | <u>\$ 13,325,181.17</u> |
| Reconciliation of Operating Loss to Net Cash Flows from Operating Activities | |
| Operating Loss | \$ (14,447,269.21) |
| Adjustments: | |
| Depreciation Expense | 95,501.63 |
| (Increase) Decrease in Accounts Receivable | (46,961.98) |
| (Increase) Decrease in Prepaid Expenses | (6,032.50) |
| Increase (Decrease) in Accounts Payable | (27,462.64) |
| Increase (Decrease) in Payroll Payable | 56,207.68 |
| Increase (Decrease) in Due to Other State Agencies | 400,000.00 |
| Increase (Decrease) in Compensable Leave | (104,970.15) |
| Net Cash Used for Operating Activities | <u>\$ (14,080,987.17)</u> |
| Noncash Transactions | |
| Net Change in Fair Value of Investments | \$ 16,724.71 |
| Other | \$ 1,440,724.00 |

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TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION (768)

NOTES to the
FINANCIAL STATEMENTS

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TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION (768)

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, TexPool and TexSTAR, and Blackrock Temp Fund 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 market value. Investment pool cash equivalents are recorded at fair market value.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

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

| Description | Current Unrestricted | Current Restricted | Non-Current Restricted | Total |
|--|-------------------------|-----------------------|---------------------------|-------------------------|
| Cash in Bank | \$ 6,620,591.77 | \$ 821,009.99 | \$ (1,559,871.87) | \$ 5,881,729.89 |
| Blackrock Temp Fund | 76,514.58 | 9,488.46 | (18,027.53) | 67,975.51 |
| TexPool & TexSTAR | 753,477.81 | 93,437.68 | 6,528,560.28 | 7,375,475.77 |
| Total Cash and Cash Equivalents | \$ 7,450,584.16 | \$ 923,936.13 | \$ 4,950,660.88 | \$ 13,325,181.17 |

Investments

The Texas Tech University System Administration accounts for its investments at fair market 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. Pledged gift receivables expected to be collected within one year are reported as current assets, with the remaining portions reported as non-current.

Prepaid Expenses

Prepaid expenses include items such as insurance, subscriptions, prepaid postage, prepaid travel costs and similar services which benefit more than one accounting period. These are recorded as assets, with the recognition of the expenditure deferred until the accounting period when the items are used or consumed.

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 market 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 the year 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.

Intangible capital assets are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. These assets are required to be reported if they are identifiable. Land use rights are capitalized if the cost meets or exceeds \$100,000. Purchased computer software is capitalized if the aggregate cost of the purchase meets or exceeds \$100,000. Internally generated computer software has a capitalization threshold of \$1,000,000, and other intangible capital assets must be capitalized if the cost meets or exceeds \$100,000. Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Accounts Payable

Accounts Payable and Payroll Payable represent the liability for the value of assets or services received, and wages/salaries owed 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.

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 | \$ 85,775.50 |
| Accounts Receivable | 22,162.61 |
| FMV Adjustment | 12,818.05 |
| Service Department Operating Funds | 907,278.98 |
| Future Operating Budgets | 6,167,798.64 |
| Funds Functioning as Endowments | 307,288.21 |
| Total Unrestricted Net Assets | <u>\$ 7,503,121.99</u> |

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

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 (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, (8) Facilities and Other Improvements, (9) Land Use Rights, (10) Computer Software, or (11) Other Intangible Capital Assets. The changes to fixed asset balances are summarized below.

| | PRIMARY GOVERNMENT | | | | | | | | Balance 8/31/11 |
|---|--------------------|-------------|------------------------------------|--|--|----------------|----------------|-----------|--------------------|
| | Balance 9/1/10 | Adjustments | Reclassifications Completed CIP | Reclassifications Inc-Inf'agy Trans | Reclassifications Dec-Inf'agy Trans | Additions | Deletions | | |
| BUSINESS-TYPE ACTIVITIES | | | | | | | | | |
| Depreciable Assets | | | | | | | | | |
| Buildings and Building Improvements | \$ 1,652,114.00 | | | | | | | | \$ 1,652,114.00 |
| Facilities and Other Improvements | 101,095.39 | | | | | | | | 101,095.39 |
| Furniture and Equipment | 142,207.03 | | | | | 6,782.63 | | | 148,989.66 |
| Vehicle, Boats and Aircraft | 122,439.00 | | | | | (36,223.00) | (14,499.00) | | 71,717.00 |
| Total Depreciable Assets at Historical Cost | \$ 2,017,855.42 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (36,223.00) | \$ 6,782.63 | \$ (14,499.00) | \$ | 1,973,916.05 |
| Less Accumulated Depreciation for: | | | | | | | | | |
| Buildings and Building Improvements | \$ (219,968.70) | | | | | (71,341.20) | | | \$ (291,309.90) |
| Facilities and Other Improvements | (21,061.50) | | | | | (10,109.52) | | | (31,171.02) |
| Furniture and Equipment | (126,662.67) | | | | | (9,965.51) | | | (136,628.18) |
| Vehicles, Boats and Aircraft | (103,870.07) | | | | | 36,223.00 | (4,085.40) | 14,499.00 | (57,233.47) |
| Total Accumulated Depreciation | \$ (471,562.94) | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 36,223.00 | \$ (95,501.63) | \$ 14,499.00 | \$ | (516,342.57) |
| Depreciable Assets, Net | \$ 1,546,292.48 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (88,719.00) | \$ 0.00 | \$ | 1,457,573.48 |
| Intangible Capital Assets - Amortizable | | | | | | | | | |
| Computer Software – Intangible | \$ 12,800.00 | | | | | | | | \$ 12,800.00 |
| Total Intangible Assets at Historical Cost | \$ 12,800.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 12,800.00 |
| Less Accumulated Amortization for: | | | | | | | | | |
| Computer Software – Intangible | \$ (12,800.00) | | | | | | | | \$ (12,800.00) |
| Total Accumulated Amortization | \$ (12,800.00) | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | (12,800.00) |
| Amortizable Assets, Net | \$ - | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | 0.00 |
| Business-Type Activities Capital Assets, Net | \$ 1,546,292.48 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (88,719.00) | \$ 0.00 | \$ | 1,457,573.48 |

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 and Endowments.” 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), both having their own stand-alone investment policies. Endowment funds and certain eligible long-term institutional funds are invested in the LTIF, which invests in equity and fixed income securities, as well as alternative investments such as hedge funds and private equity, and is operated using a total return philosophy. Other institutional funds not in the LTIF are invested in the STIF, a fixed income fund. Other assets include securities gifted to Texas Tech University with donor instructions to maintain in their original form, and bond proceeds invested in external investment pools.

Deposits of Cash in Bank

As of August 31, 2011, the carrying amount of deposits was \$5,881,729.89 as presented below:

| Business-Type Activities | |
|---|------------------------|
| CASH IN BANK – CARRYING VALUE | \$ 5,881,729.89 |
| Less: Certificates of Deposit including in carrying value and reported as Cash Equivalent | |
| Less: Uninvested Securities Lending Cash Collateral including in carrying value and reported as Securities Lending Collateral | |
| Less: Securities Lending CD Collateral including in carrying value and reported as Securities Lending Collateral | |
| Cash in Bank per AFR | <u>\$ 5,881,729.89</u> |
| Proprietary Funds Current Assets Cash in Bank | \$ 6,620,591.77 |
| Proprietary Funds Current Assets Restricted Cash in Bank | 821,009.99 |
| Proprietary Funds Non-Current Assets Restricted Cash in Bank | <u>(1,559,871.87)</u> |
| Cash in Bank per AFR | <u>\$ 5,881,729.89</u> |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

These amounts consist of all cash in local banks and are included on the Statement of Net Assets as part of current unrestricted and restricted “Cash and Cash Equivalents” and non-current restricted “Cash and Cash Equivalents”.

As of August 31, 2011, the total **bank balance** for Business-Type Activities was \$7,070,667.43.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System’s policy is to require collateralization of bank balances in excess of FDIC protection.

| Fund Type | GAAP Fund | Uninsured and uncollateralized | Uninsured and collateralized with securities held by the pledging financial institution | Uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the state’s name |
|-----------|-----------|--------------------------------|---|---|
| 05 | 9999 | \$ 0.00 | | |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Investments

As of August 31, 2011, the fair market value of investments is as presented below.

| Type of Security | Fair Value |
|--|-------------------------|
| Business-Type Activities | |
| U. S. Government | |
| U.S. Treasury Securities | \$ 295,344.97 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.) | 95,024.99 |
| Equity | 17,096.36 |
| International Obligations | 1,496.50 |
| Fixed Income Money Market and Bond Mutual Fund | 526,616.55 |
| Mutual Funds | 6,117.42 |
| Other Commingled Funds | 5,604,941.13 |
| Other Commingled Funds (Texpool) | 1,835,959.72 |
| International Other Commingled Funds | 65,191.62 |
| Real Estate | 1,461,001.67 |
| Externally Managed Investments: | |
| Domestic | 376,972.31 |
| International | 6,780.72 |
| Miscellaneous | |
| Total Investments | <u>\$ 10,292,543.96</u> |
| Non-Current Investments | \$ 2,849,092.68 |
| Items in Cash and Cash Equivalents: | |
| Blackrock Temp Fund | 67,975.51 |
| Texpool & TexSTAR Investments | <u>7,375,475.77</u> |
| Total Investments | <u>\$ 10,292,543.96</u> |

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The University's investment policy is to require third party custody for the two investment pools, the LTIF and the STIF. The balances listed below relate to the securities outside of those pools.

| Fund Type | GAAP Fund | Type | Uninsured and unregistered with securities held by the counterparty | Uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the state's name |
|-----------|-----------|--------|---|---|
| 05 | 9999 | Equity | \$ 0.00 | |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The System’s policy is to limit international equity investments to between 10-30% of the LTIF portfolio. The exposure to foreign currency risk as of August 31, 2011, is as follows.

| Fund Type | GAAP Fund | Foreign Currency | International Obligation | International Other Comingled Funds | International Externally Managed Investments |
|-----------|-----------|--------------------|--------------------------|-------------------------------------|--|
| 05 | 9999 | Argentine peso | | \$ 496.08 | |
| 05 | 9999 | Australian dollar | | 733.33 | \$ 147.05 |
| 05 | 9999 | Brazilian real | | 4,332.93 | |
| 05 | 9999 | Canadian dollar | | 1,226.30 | 36.05 |
| 05 | 9999 | Chilean Peso | \$ 199.53 | 370.93 | |
| 05 | 9999 | Chinese yuan | 166.28 | 4,664.51 | 200.01 |
| 05 | 9999 | Colombian peso | 166.28 | | |
| 05 | 9999 | Czech koruna | | 506.93 | |
| 05 | 9999 | Danish krone | | 102.50 | |
| 05 | 9999 | Egyptian pound | | 275.19 | |
| 05 | 9999 | Euro | 299.29 | 7,692.22 | 5,922.29 |
| 05 | 9999 | Hong Kong dollar | | 2,094.74 | 119.66 |
| 05 | 9999 | Indian rupee | | 1,530.19 | 68.67 |
| 05 | 9999 | Indonesian rupiah | | 727.69 | |
| 05 | 9999 | New Israel shekel | 16.63 | | |
| 05 | 9999 | Japanese yen | | 7,802.53 | 98.12 |
| 05 | 9999 | Malaysian ringgit | | 345.52 | |
| 05 | 9999 | Mexican peso | 16.63 | 2,510.12 | |
| 05 | 9999 | New Zealand dollar | | 29.88 | |
| 05 | 9999 | Norwegian krone | | 270.25 | 43.01 |
| 05 | 9999 | Peruvian nuevo sol | 116.39 | 332.56 | |
| 05 | 9999 | Phillippino peso | | 332.56 | |
| 05 | 9999 | Pound sterling | | 7,000.68 | 13.65 |
| 05 | 9999 | Russian ruble | | 686.72 | |
| 05 | 9999 | Singapore dollar | | 1,417.73 | 33.91 |
| 05 | 9999 | South African rand | 415.70 | 3,285.92 | |
| 05 | 9999 | South Korean wan | | 4,635.12 | 70.91 |
| 05 | 9999 | Swedish krona | | 623.16 | |
| 05 | 9999 | Swiss franc | | 5,010.44 | 4.64 |
| 05 | 9999 | New Taiwan dollar | | 3,767.50 | 22.75 |
| 05 | 9999 | Thai baht | | 1,617.68 | |
| 05 | 9999 | New Turkish lira | | 769.71 | |
| 05 | 9999 | Uruguay peso | 99.77 | | |
| | | | | | |
| | | Total | \$ 1,496.50 | \$ 65,191.62 | \$ 6,780.72 |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System’s investment policy limits fixed income securities held by the STIF to those issued by the U.S. or its agencies and instrumentalities. Fixed income mutual funds in the STIF must hold securities that are at least rated investment grade. As of August 31, 2011, the System’s credit quality distribution for securities with credit risk exposure was as follows.

| Fund Type | GAAP Fund | Investment Type | AAA | AA | A | BBB | BB | Unrated |
|-----------|-----------|--|--------------|------------|-----------|-----------|-----------|----------------|
| 05 | 9999 | U.S. Government Agency Obligations | \$ 95,024.99 | | | | | |
| 05 | 9999 | International Obligations | | \$ 88.29 | \$ 121.22 | \$ 510.31 | \$ 333.72 | \$ 442.96 |
| | | | AAAf | Aaf | Af | | | Unrated |
| 05 | 9999 | Fixed Income Money Market and Bond Mutual Fund | \$ 67,975.51 | | | | | \$ 458,641.04 |

Derivative Investing

Texas Tech University System Administration has no material direct derivative investments. Investment managers in invested vehicles such as hedge funds do employ derivatives, and the values associated with those managers reflect those securities.

Note 4: Short-Term Debt

Texas Tech University System Administration has no short-term debt outstanding as of August 31, 2011.

Note 5: Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2011, the following changes occurred in liabilities.

| Business-Type Activities | Balance 9/1/2010 | Additions | Reductions | Balance 8/31/2011 | Amounts due within one year | Amounts Due Thereafter |
|---------------------------------------|------------------------|----------------|----------------------|------------------------|-----------------------------|------------------------|
| Notes and Loans Payable | \$ 969,235.68 | | | \$ 969,235.68 | \$ 969,235.68 | \$ 0.00 |
| Compensable Leave Payable | 1,108,518.44 | | 104,970.15 | \$1,003,548.29 | 120,425.79 | \$ 883,122.50 |
| Total Business-Type Activities | \$ 2,077,754.12 | \$ 0.00 | \$ 104,970.15 | \$ 1,972,783.97 | \$ 1,089,661.47 | \$ 883,122.50 |

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. This obligation is paid from a central vacation pool account which collects the funding from the same funding source(s) from which the employee’s salary or wage compensation was paid.

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Notes and Loans Payable

Commercial paper was issued during the fiscal year to finance various construction and equipment projects. Debt service for the obligation is provided in general appropriation for tuition revenue bonds and revenue from various projects. All commercial paper outstanding at 8/31/11 will mature in fiscal year 2012. Commercial paper has short maturities up to 270 days with interest ranging from .10% to .32%.

Summary of Debt Service Requirements for Notes Payable

| Fiscal Year | Balance Principal | Interest | Total |
|---------------------------|------------------------------|--------------------|----------------------|
| 2012 | \$ 969,235.68 | \$ 2,907.71 | \$ 972,143.39 |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| All Other Years | | | |
| Total Requirements | \$ 969,235.68 | \$ 2,907.71 | \$ 972,143.39 |

Note 6: Bonded Indebtedness

The Texas Tech University System Administration has no bonded indebtedness.

Note 7: Derivative Instruments

Texas Tech University System Administration held no derivative instruments subject to reporting requirements as of August 31, 2011.

Note 8: Leases

Texas Tech University System Administration had no outstanding capital leases as of August 31, 2011.

Texas Tech University System Administration has entered into various operating leases for buildings and equipment. Expenses for operating lease obligations included in the financial statements were \$32,880.00 for the fiscal year ended August 31, 2011.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2011 are as follows:

| Fiscal Year Ended August 31, | |
|---|---------------------|
| 2012 | \$ 32,880.00 |
| 2013 | 0.00 |
| 2014 | 0.00 |
| 2015 | 0.00 |
| 2016 | 0.00 |
| Total Minimum Future Lease Rental Payments | \$ 32,880.00 |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Note 9: Pension Plans

The State has established an Optional Retirement Program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the Teacher Retirement System of Texas and is available to certain eligible employees. The contributions made by plan members and the employer for the fiscal year ended August 31, 2011 are:

| Description | Year Ended 8/31/2011 |
|----------------------------|-------------------------|
| Member Contributions | \$ 197,313.82 |
| Employer Contributions | 228,369.27 |
| Total Contributions | \$ 425,683.09 |

Note 10: Deferred Compensation (administering agencies only)

Not applicable

Note 11: Post Employment Health Care and Life Insurance Benefits (UT, A&M, TRS and ERS only)

Not applicable

Note 12: Interfund Activity and Transactions

As explained in Note 1 on interfund activities and transactions, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

- Due from Other Agencies or Due to Other Agencies
- Interfund Receivables or Interfund Payables
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2011, follows:

Due from / to Other State Agencies

| Agency Name | Agency Number | D23 Fund | Due from Other State Agencies | Due to Other State Agencies |
|---|------------------|-------------|-------------------------------------|-----------------------------------|
| Office of the Governor | 300 | 5524 | | \$ 400,000.00 |
| Total Due from / Due to Other State Agencies | | | | \$ 400,000.00 |

Legislative Transfers In / Out

| Agency Name | Agency Number | D23 Fund | Legislative Transfers In | Legislative Transfers Out |
|--|---------------|----------|--------------------------|---------------------------|
| Texas Tech University | 733 | 0001 | \$ 1,667,837.00 | |
| Texas Tech University Health Sciences Center | 739 | 0001 | 1,667,837.00 | |
| Angelo State University | 737 | 0001 | 120,628.00 | |
| Total Legislative Transfers In / Out | | | \$ 3,456,302.00 | |

Note 13: Continuance Subject to Review

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

Note 14: Adjustments to Fund Balances/Net Assets

The System Administration has no restatement of Fund Balance/Net Assets as of August 31, 2011.

Note 15: Contingencies and Commitments

At August 31, 2011, no material lawsuits or claims involving the Texas Tech University System Administration were pending.

Note 16: Subsequent Events

The Texas Tech University System Administration has no material subsequent events to disclose.

Note 17: Risk Management

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. Total payments to SORM for fiscal year 2011 totaled \$31,117.41. SORM pays all WCI claims. The Worker’s Compensation plan for the fiscal year was funded by a .25 percent charge on non-educational and general gross payroll for paying its proportionate share of the SORM assessment.

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. Total payments for unemployment compensation for fiscal year 2011 amounted to \$36,465.78. The claims for employees paid from non-state funds are funded by interest earnings on the Unemployment Compensation Fund balance and utilization of fund balance.

Note 18: Management Discussion and Analysis

The Texas Tech University System is composed of a central administrative unit, the Texas Tech University System Administration, and three component institutions – Texas Tech University, Texas Tech University Health Sciences Center, and Angelo State University. These three separate academic institutions are governed by the ten-member Board of Regents. The Regents are appointed by the Governor of the State of Texas to six-year terms with the exception of a student Regent who is appointed to a one-year term. The Chancellor is the chief executive officer of the System and is appointed by and reports directly to the Board

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

of Regents. The Chancellor and his staff are supported by the administrative agency, the Texas Tech University System Administration.

Texas Tech University, based in Lubbock, is one of the state's largest major comprehensive universities. Over 32,000 students enroll annually, coming from 50 states and more than 80 foreign countries. These students choose from among 152 undergraduate, 107 masters, and 64 doctoral programs.

Texas Tech University Health Sciences Center has an enrollment of approximately 4,000 students in its schools of medicine, nursing, allied health, pharmacy, and the graduate school of biomedical sciences. The Lubbock campus serves as the administrative hub for the Health Sciences Center, with regional campuses located in Amarillo, El Paso and the Permian Basin (Odessa/Midland), and with academic centers in Dallas and Abilene.

Angelo State University, based in San Angelo, was established in 1928 as San Angelo College; in 1965 new legislation was passed to create Angelo State College. ASU's campus covers more than 268 acres and enrolls more than 7,000 students from 210 of Texas' 254 counties, 41 other states, and 22 countries. The Texas Legislature (80th Regular Session) passed H.B. 3564 and pursuant to the statute, the governance, control, management and property of Angelo State University were transferred from the Texas State University System to the Texas Tech University System, effective September 1, 2007.

The Texas Tech University System employs more than 18,000 faculty and staff. The annual combined budget of the System totals is approximately \$1.5 billion; approximately \$377 million of these funds are provided by the State's General Revenue and ARRA funds. The total enrollment across all components is more than 43,000 students.

The Texas Tech University System is committed to providing the highest quality and most efficient resources and services to its components. Throughout all institutions and centers, the System strives to increase accessibility, enhance instruction and infrastructure formula funding, provide necessary financial aid, produce and commercialize new technologies, strengthen academic quality and reputation, advance research, improve productivity and efficiency, and further the quality and availability of health care for all Texans.

Note 19: The Financial Reporting Entity

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.

Related Parties – Relationship with Texas Tech University System Administration

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

The Texas Tech University System (TTUS), created in 1999, is composed of one health related and two general academic institutions. The components are Texas Tech University System Administration (TTUSA); Texas Tech University (TTU); Texas Tech University Health Sciences Center (TTUHSC) and Angelo State University (ASU).

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Note 20: Stewardship, Compliance and Accountability

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

Note 21: N/A

Note 22: Donor-Restricted Endowments

Expenditure of endowed funds is not allowed without the express consent of the donor. Most of System Administration's endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF). The LTIF has experienced varying performance since its inception. The cumulative effect of valuation changes assignable to endowment fund assets by the System are summarized in the following table:

| Donor-Restricted Endowment | Amount of Net Appreciation | Reported in Net Assets |
|-----------------------------------|---------------------------------------|-------------------------------|
| True Endowments | \$ 16,286.76 | Restricted Nonexpendable |

Note 23: Extraordinary and Special Items

Texas Tech University System Administration has no special or extraordinary items to disclose for the year ended August 31, 2011.

Note 24: Disaggregation of Receivable and Payable Balances

Receivables

Components of receivables as of August 31, 2011 are summarized below.

| Type | Net Amount |
|---|---------------------|
| Interest and Dividends Receivable | \$ 11,565.07 |
| Gift Receivables, Current and Non-current | 33,906.42 |
| Accounts Receivable | 46,178.87 |
| Other Receivables | 5,065.50 |
| Total Receivables | \$ 96,715.86 |

UNAUDITED

Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

Payables

Components of payables as of August 31, 2011 are summarized below.

| Type | Net Amount |
|-----------------------|------------------------------------|
| Accounts Payable | \$ 22,778.51 |
| Payroll Payable | <u>957,540.23</u> |
| Total Payables | <u><u>\$ 980,318.74</u></u> |

Note 25: Termination Benefits

The Texas Tech University System Administration has no reportable voluntary or involuntary termination benefits as of August 31, 2011.

Note 26: Segment Information

The Texas Tech University System Administration has no reportable segments.

UNAUDITED
TEXAS TECH UNIVERSITY
SYSTEM ADMINISTRATION (768)

SUPPORTING SCHEDULES

UNAUDITED

Texas Tech University System Administration (768)
Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies
For the Year Ended August 31, 2011

Pass-through from:

| Agency Number | Agency Name Grant ID / Grant Description | Amount |
|------------------|---|---------------------------|
| 781 | Texas Higher Education Coordinating Board 781.0026 College Readiness Initiative | \$ <u><u>(165.05)</u></u> |

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2A - Miscellaneous Bond Information
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2B - Changes in Bonded Indebtedness
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2C - Debt Service Requirements Schedule
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2D - Analysis of Funds Available for Debt Service
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2E - Schedule of Defeased Bonds Outstanding
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 2F- Schedule of Early Extinguishment and Refunding
For the Year Ended August 31, 2011

Schedule Not Applicable

UNAUDITED

Texas Tech University System Administration (768)
Schedule 3 - Reconciliation of Cash in State Treasury
For the Year Ended August 31, 2011

Schedule Not Applicable