

# **TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**



## **Annual Financial Report Fiscal Year 2016**



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

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*August 31, 2016*

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# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

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TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER™  
Finance and Administration

Office of Accounting Services

November 10, 2016

Tedd L. Mitchell, M.D.  
President  
Texas Tech University Health Sciences Center  
Lubbock, Texas 79430

Dear Dr. Mitchell:

Submitted herein is the *Annual Financial Report* for Texas Tech University Health Sciences Center for the fiscal year ended August 31, 2016.

The accompany *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 Texas Comptroller of Public Accounts.

The accompanying *Annual Financial Report* will be considered for audit by the State Auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report*; therefore, an opinion has not been expressed on the statements and related information contained in the accompanying report.

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

Sincerely,

Melody Oliphint  
Director of Accounting Services

Approved:

Elmo M. Cavin  
Executive Vice President for Finance & Administration



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# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

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### *Organizational Data*

*August 31, 2016*

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#### BOARD OF REGENTS

##### Term Expires

|  |                       |             |
|--|-----------------------|-------------|
| Mickey L. Long ( <b>Chair</b> ).....           | January 31, 2021..... | Midland     |
| Debbie Montford ( <b>Vice Chair</b> ) .....    | January 31, 2017..... | San Antonio |
| Larry K. Anders .....                          | January 31, 2017..... | Dallas      |
| John D. Steinmetz .....                        | January 31, 2017..... | Dallas      |
| John Esparza.....                              | January 31, 2019..... | Austin      |
| L. Frederick (Rick) Francis.....               | January 31, 2019..... | El Paso     |
| Tim Lancaster.....                             | January 31, 2019..... | Abilene     |
| Ronnie Hammonds .....                          | January 31, 2021..... | Houston     |
| Christopher M. Huckabee .....                  | January 31, 2021..... | Fort Worth  |
| Jeremy Stewart ( <b>Student Regent</b> ) ..... | May 31, 2017.....     | El Paso     |

#### FISCAL OFFICERS

|                            |   |
|----------------------------|---|
| Robert L. Duncan .....     | Chancellor  |
| Jim Brunjes.....           | Vice Chancellor and Chief Financial Officer           |
| Tedd L. Mitchell, M.D..... | President   |
| Elmo M. Cavin .....        | Executive Vice President for Finance & Administration |
| Michael Crowder .....      | Associate Vice President for Business Affairs         |
| Melody Oliphint .....      | Director of Accounting Services                       |

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**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
Annual Financial Report  
*UNAUDITED*

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**FINANCIAL STATEMENTS**

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
**Annual Financial Report**  
*UNAUDITED*

***Comparative Statement of Net Position***  
***As of August 31, 2016 and 2015***

|  | <i>2016</i>                     | <i>Restated<br/>2015</i>        |
|--|---------------------------------|---------------------------------|
| <b>ASSETS</b>                                  |                                 |                                 |
| Current Assets:                                |                                 |                                 |
| Cash and Cash Equivalents                      | \$ 58,852,794.43                | \$ 40,399,056.59                |
| Restricted Cash and Cash Equivalents           | 69,674,110.32                   | 69,477,001.88                   |
| Legislative Appropriations                     | 42,061,058.11                   | 45,439,474.49                   |
| Receivables:                                   |                                 |                                 |
| Federal  | 991,854.87                      | 3,039,320.83                    |
| Patient  | 16,539,801.70                   | 16,112,764.62                   |
| Student  | 791,700.32                      | 754,096.39                      |
| Contracts                                      | 22,199,474.30                   | 14,586,847.22                   |
| Interest and Dividends                         | 355,815.27                      | 385,217.05                      |
| Gifts  | 2,009,719.64                    | 338,203.66                      |
| Other  | 442,432.22                      | 797,249.38                      |
| Due from Other State Agencies                  | 8,842,930.79                    | 9,983,859.74                    |
| Due from Other Component Units                 | 83,157.96                       | 70,060.97                       |
| Inventories                                    | 1,034,464.45                    | 1,002,921.49                    |
| Prepaid Items                                  | 5,081,878.05                    | 3,314,912.32                    |
| Loans and Notes                                | 218,590.20                      | 314,266.24                      |
| Total Current Assets                           | <u>\$ 229,179,782.63</u>        | <u>\$ 206,015,252.87</u>        |
| Non-Current Assets:                            |                                 |                                 |
| Cash and Cash Equivalents                      | \$ 2,461.76                     | \$ 327,127.62                   |
| Restricted Investments                         | 70,397,085.42                   | 72,906,686.79                   |
| Gifts Receivable                               | 8,870,970.45                    | 1,767,724.82                    |
| Loans and Notes                                | 2,160,711.35                    | 2,315,495.76                    |
| Unrestricted Investments                       | 272,738,521.98                  | 267,417,635.05                  |
| Capital Assets:                                |                                 |                                 |
| Non-Depreciable or Non-Amortizable             | 14,668,629.83                   | 12,250,020.94                   |
| Depreciable or Amortizable                     | 507,444,899.74                  | 496,086,359.73                  |
| less Accumulated Depreciation and Amortization | <u>(305,418,028.92)</u>         | <u>(287,285,426.89)</u>         |
| Total Non-Current Assets                       | <u>\$ 570,865,251.61</u>        | <u>\$ 565,785,623.82</u>        |
| TOTAL ASSETS                                   | <u><u>\$ 800,045,034.24</u></u> | <u><u>\$ 771,800,876.69</u></u> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
**Annual Financial Report**  
*UNAUDITED*

***Comparative Statement of Net Position***  
***As of August 31, 2016 and 2015***

|   | <i>2016</i>              | <i>Restated<br/>2015</i> |
|---|--------------------------|--------------------------|
| <b>LIABILITIES</b>                              |                          |                          |
| Current Liabilities:                            |                          |                          |
| Payables:                                       |                          |                          |
| Accounts  | \$ 19,236,473.71         | \$ 17,524,839.87         |
| Payroll   | 31,680,307.02            | 31,444,799.84            |
| Due to Other State Agencies                     | 20,170.93                | 43,299.14                |
| Due to Other Component Units                    | 1,297.15                 | 190,663.52               |
| Employees' Compensable Leave                    | 2,694,335.42             | 2,573,297.54             |
| Unearned Revenue                                | 17,280,106.13            | 16,601,173.99            |
| Funds Held for Others                           | 316,694.41               | 264,223.32               |
| Other Current Liabilities                       | 12,220,405.48            | 22,485.49                |
| Total Current Liabilities                       | <u>\$ 83,449,790.25</u>  | <u>\$ 68,664,782.71</u>  |
| Non-Current Liabilities:                        |                          |                          |
| Employees' Compensable Leave                    | \$ 19,758,459.67         | \$ 18,870,848.58         |
| Other Noncurrent Liabilities                    | 78,977.67                | 78,888.52                |
| Total Non-Current Liabilities                   | <u>\$ 19,837,437.34</u>  | <u>\$ 18,949,737.10</u>  |
| TOTAL LIABILITIES                               | <u>\$ 103,287,227.59</u> | <u>\$ 87,614,519.81</u>  |
| <b>NET POSITION</b>                             |                          |                          |
| Invested in Capital Assets, Net of Related Debt | \$ 216,695,500.65        | \$ 221,050,953.78        |
| Restricted for:                                 |                          |                          |
| Capital Projects                                | 7,267,330.92             | 7,258,850.99             |
| Funds Held as Permanent Investments             |                          |                          |
| Nonexpendable                                   | 61,276,729.63            | 61,006,826.80            |
| Other   | 96,586,597.26            | 86,509,832.51            |
| Unrestricted                                    | 314,931,648.19           | 308,359,892.80           |
| TOTAL NET POSITION                              | <u>\$ 696,757,806.65</u> | <u>\$ 684,186,356.88</u> |
| TOTAL LIABILITIES AND NET POSITION              | <u>\$ 800,045,034.24</u> | <u>\$ 771,800,876.69</u> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
**Annual Financial Report**  
**UNAUDITED**

***Comparative Statement of Revenues, Expenses, and Changes in Net Position***  
***For the Years Ended August 31, 2016 and 2015***

|   | <u>2016</u>                | <u>2015</u>                |
|---|----------------------------|----------------------------|
| <b>OPERATING REVENUES</b>                     |                            |                            |
| Tuition and Fee Revenue                       | \$ 1,442,962.17            | \$ 1,377,591.70            |
| Tuition and Fee Revenue - Pledged             | 50,015,394.18              | 46,890,310.31              |
| Discounts and Allowances                      | (6,386,651.59)             | (5,700,401.44)             |
| Net Professional Fees                         | 237,520,304.58             | 226,393,545.61             |
| Net Professional Fees - Pledged               | 681,714.96                 | 789,295.22                 |
| Discounts and Allowances                      | (21,527,191.14)            | (22,015,836.33)            |
| Auxiliary Enterprises - Pledged               | 747,279.53                 | 746,522.17                 |
| Other Sales and Services                      | 3,544,840.27               | 3,524,439.86               |
| Other Sales and Services - Pledged            | 6,430,755.81               | 6,543,810.61               |
| Federal Grant and Contract Revenue            | 15,457,062.80              | 17,448,695.24              |
| Federal Grant Revenue - Pledged               | 3,768,340.27               | 3,650,985.69               |
| Federal Pass-Through Revenue                  | 2,601,424.95               | 2,124,053.74               |
| State Grant and Contract Revenue              | 1,201,736.12               | 1,325,651.11               |
| State Grant and Contract Revenue - Pledged    | 857,567.02                 | 282,294.86                 |
| State Grant and Contract Pass-Through Revenue | 8,104,665.36               | 5,794,148.34               |
| Local Grant and Contract Revenue              | 21,914,877.68              | 19,630,822.54              |
| Local Grant and Contract Revenue - Pledged    | 1,573,332.61               | 1,137,287.00               |
| Private Grant and Contract Revenue            | 99,324,809.78              | 91,915,415.10              |
| Private Grant and Contract Revenue - Pledged  | 2,309,693.43               | 2,202,789.92               |
| Other Revenue                                 | 16,811,372.98              | 16,793,512.98              |
| Total Operating Revenues                      | <u>\$ 446,394,291.77</u>   | <u>\$ 420,854,934.23</u>   |
| <b>OPERATING EXPENSES</b>                     |                            |                            |
| Salaries and Wages                            | \$ 340,483,212.72          | \$ 321,674,837.85          |
| Payroll Related Costs                         | 84,892,945.68              | 77,853,093.05              |
| Professional Fees and Services                | 56,103,308.66              | 49,245,534.55              |
| Travel  | 5,252,092.29               | 5,112,175.98               |
| Materials and Supplies                        | 32,179,636.84              | 29,549,351.43              |
| Communications and Utilities                  | 13,562,063.38              | 13,442,343.68              |
| Repairs and Maintenance                       | 9,996,209.33               | 9,697,161.23               |
| Rentals and Leases                            | 3,199,654.95               | 2,871,473.94               |
| Printing and Production                       | 1,715,111.97               | 1,399,849.51               |
| Federal Grant Pass-Through Expense            | 306,767.31                 | 227,312.28                 |
| State Grant Pass-Through Expense              | 29,817.57                  | -                          |
| Depreciation and Amortization                 | 21,002,417.30              | 21,225,558.59              |
| Bad Debt Expense (Recovery)                   | 312,863.47                 | 184,405.52                 |
| Interest Expense                              | 5,845.83                   | 4,680.08                   |
| Scholarships                                  | 4,287,754.73               | 3,618,485.90               |
| Claims and Judgments                          | 1,000.00                   | 1,284,000.00               |
| Other Expenses                                | 63,097,188.38              | 38,360,135.98              |
| Total Operating Expenses                      | <u>\$ 636,427,890.41</u>   | <u>\$ 575,750,399.57</u>   |
| Operating Loss                                | <u>\$ (190,033,598.64)</u> | <u>\$ (154,895,465.34)</u> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
**Annual Financial Report**  
**UNAUDITED**

***Comparative Statement of Revenues, Expenses, and Changes in Net Position***  
***For the Years Ended August 31, 2016 and 2015***

|  | <u>2016</u>                  | <u>2015</u>                  |
|--|------------------------------|------------------------------|
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                                   |                              |                              |
| Legislative Appropriations Revenue   | \$ 158,925,012.61            | \$ 210,148,525.41            |
| Federal Grant and Contract Revenue   | 1,407,864.00                 | 1,606,148.00                 |
| State Pass-Through Revenue   | 58,800.00                    | 51,500.00                    |
| Gifts  | 16,287,835.80                | 3,019,378.28                 |
| Gifts - Pledged  | 416,098.51                   | 530,382.11                   |
| Interest and Investment Income   | 8,196,644.13                 | 7,798,874.42                 |
| Interest and Investment Income - Pledged                                   | 3,565,307.95                 | 1,807,706.75                 |
| Interest Expense   | -                            | (1,714,270.90)               |
| Loss on Sale of Capital Assets   | (122,698.33)                 | (189,218.78)                 |
| Net Decrease in Fair Value of Investments                                  | (639,373.51)                 | (11,949,810.33)              |
| Other Revenues   | 804,802.96                   | 2,671,396.98                 |
| Other Revenues - Pledged   | 600,313.27                   | 759,376.52                   |
| Total Non-Operating Revenues (Expenses)                                    | <u>\$ 189,500,607.39</u>     | <u>\$ 214,539,988.46</u>     |
| <b>CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS</b>                     |                              |                              |
| Capital Contributions  | \$ 461,833.04                | \$ 498,890.10                |
| Capital Appropriations (HEAF)  | 15,581,597.00                | 16,973,569.00                |
| Legislative Appropriations Lapsed  | -                            | (560,056.86)                 |
| Net Legislative Transfers Out  | (7,016,968.00)               | (1,753,337.00)               |
| Net Decreases in Net Assets from Interagency Transfers of Capital Assets   | (717,545.40)                 | (463,968.93)                 |
| Net Transfers to Angelo State University                                   | -                            | (6,000.00)                   |
| Net Transfers from Texas Tech Foundation Inc.                              | 2,586,887.05                 | 2,333,605.95                 |
| Net Transfers from Texas Tech University                                   | 371,733.95                   | 1,111,015.45                 |
| Net Transfers from Texas Tech University Health Sciences Center at El Paso | 2,111,773.55                 | (62,519,669.73)              |
| Net Transfers to Texas Tech University System Administration               | (323,019.80)                 | 2,246,132.75                 |
| Net Transfers from Other State Agencies                                    | 48,149.63                    | (172,049.47)                 |
| Capital Contributions and Transfers  | <u>\$ 13,104,441.02</u>      | <u>\$ (42,311,868.74)</u>    |
| <br>TOTAL CHANGE IN NET POSITION   | <br><u>\$ 12,571,449.77</u>  | <br><u>\$ 17,332,654.38</u>  |
| <br>Net Position, September 1st  | <br><u>\$ 684,186,356.88</u> | <br><u>\$ 666,853,702.50</u> |
| <br>Net Position, August 31st  | <br><u>\$ 696,757,806.65</u> | <br><u>\$ 684,186,356.88</u> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

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

***Comparative Matrix of Operating Expenses by Function***  
***For the Years Ended August 31, 2016 and 2015***

| <i>OPERATING EXPENSES</i>                 | <i>INSTRUCTION</i>              | <i>RESEARCH</i>                | <i>PUBLIC SERVICE</i>           | <i>PATIENT CARE</i>            | <i>ACADEMIC<br/>SUPPORT</i>     | <i>STUDENT<br/>SERVICES</i>    |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| Salaries and Wages                        | \$ 154,669,491.83               | \$ 21,049,618.23               | \$ 52,439,208.66                | \$ 38,947,308.72               | \$ 46,835,612.57                | \$ 5,981,359.76                |
| Payroll Related Costs                     | 29,037,872.91                   | 4,771,810.02                   | 15,607,815.16                   | 12,091,386.14                  | 14,087,164.50                   | 1,751,340.81                   |
| Professional Fees and Services            | 209,196.85                      | 736,833.70                     | 45,190,243.23                   | 2,679,663.75                   | 3,121,549.28                    | 277,357.17                     |
| Travel                                    | 779,307.18                      | 514,098.99                     | 613,093.31                      | 193,997.55                     | 2,387,900.61                    | 400,528.73                     |
| Materials and Supplies                    | 437,414.35                      | 2,851,164.74                   | 13,887,872.70                   | 8,271,711.08                   | 5,020,912.53                    | 1,152,836.23                   |
| Communications and Utilities              | 145,905.81                      | 45,702.72                      | 239,438.66                      | 442,511.64                     | 5,016,052.15                    | 783,687.73                     |
| Maintenance and Repair                    | 182,605.10                      | 620,869.73                     | 533,678.11                      | 274,302.65                     | 3,543,871.07                    | 348,725.94                     |
| Rentals and Leases                        | 143,521.36                      | 75,750.22                      | 633,582.46                      | 434,951.73                     | 988,757.52                      | 113,751.84                     |
| Printing and Production                   | 161,137.86                      | 123,079.74                     | 349,330.15                      | 149,571.20                     | 613,166.73                      | 113,826.72                     |
| Federal Grant Pass-Through Expense        | 21,908.48                       | 95,165.77                      | 189,693.06                      | -                              | -                               | -                              |
| State Grant Pass-Through Expense          | -                               | 11,772.07                      | 18,045.50                       | -                              | -                               | -                              |
| Depreciation and Amortization             | -                               | -                              | -                               | -                              | -                               | -                              |
| Bad Debt Expense                          | -                               | -                              | -                               | -                              | -                               | 312,863.47                     |
| Interest Expense                          | 143.81                          | 270.96                         | 351.56                          | 1,633.83                       | 2,233.48                        | 423.15                         |
| Scholarships                              | 69,448.70                       | 59,877.54                      | -                               | -                              | 674,045.98                      | 31,800.00                      |
| Claims and Judgments                      | -                               | -                              | -                               | -                              | 1,000.00                        | -                              |
| Other Expenses                            | <u>1,629,897.53</u>             | <u>4,322,514.69</u>            | <u>2,444,651.95</u>             | <u>2,691,043.06</u>            | <u>43,030,366.61</u>            | <u>2,289,405.36</u>            |
| <b>For the Year Ended August 31, 2016</b> | <b><u>\$ 187,487,851.77</u></b> | <b><u>\$ 35,278,529.12</u></b> | <b><u>\$ 132,147,004.51</u></b> | <b><u>\$ 66,178,081.35</u></b> | <b><u>\$ 125,322,633.03</u></b> | <b><u>\$ 13,557,906.91</u></b> |
| <b>For the Year Ended August 31, 2015</b> | <b><u>\$ 175,839,460.11</u></b> | <b><u>\$ 35,166,957.10</u></b> | <b><u>\$ 122,110,680.38</u></b> | <b><u>\$ 58,805,594.81</u></b> | <b><u>\$ 93,786,364.88</u></b>  | <b><u>\$ 12,100,263.17</u></b> |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

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

***Comparative Matrix of Operating Expenses by Function***  
***For the Years Ended August 31, 2016 and 2015***

| <i>OPERATING EXPENSES</i>          | <i>INSTITUTIONAL<br/>SUPPORT</i> | <i>OPERATION &amp;<br/>MAINTENANCE<br/>OF PLANT</i> | <i>SCHOLARSHIPS<br/>&amp; FELLOWSHIPS</i> | <i>AUXILIARY<br/>ENTERPRISES</i> | <i>DEPRECIATION<br/>&amp;<br/>AMORTIZATION</i> | <i>TOTAL<br/>EXPENSES</i> |
|------------------------------------|----------------------------------|---|---|----------------------------------|--|---------------------------|
| Salaries and Wages                 | \$ 14,726,009.55                 | \$ 5,634,908.94                                     | \$ 7,800.00                               | \$ 191,894.46                    | -  | \$ 340,483,212.72         |
| Payroll Related Costs              | 5,139,392.05                     | 2,333,961.46  | 488.15                                    | 71,714.48                        | -  | 84,892,945.68             |
| Professional Fees and Services     | 2,707,084.81                     | 1,181,379.87  | -   | -                                | -  | 56,103,308.66             |
| Travel                             | 337,640.82                       | 20,292.00   | -   | 5,233.10                         | -  | 5,252,092.29              |
| Supplies and Materials             | 220,831.50                       | 323,754.85  | -   | 13,138.86                        | -  | 32,179,636.84             |
| Communications and Utilities       | 634,411.26                       | 6,241,763.80  | -   | 12,589.61                        | -  | 13,562,063.38             |
| Maintenance and Repair             | 228,658.40                       | 4,227,111.96  | -   | 36,386.37                        | -  | 9,996,209.33              |
| Rentals and Leases                 | 51,190.66                        | 751,821.18  | -   | 6,327.98                         | -  | 3,199,654.95              |
| Printing and Production            | 146,154.51                       | 46,104.09   | -   | 12,740.97                        | -  | 1,715,111.97              |
| Federal Grant Pass-Through Expense | -                                | -   | -   | -                                | -  | 306,767.31                |
| State Grant Pass-Through Expense   | -                                | -   | -   | -                                | -  | 29,817.57                 |
| Depreciation and Amortization      | -                                | -   | -   | -                                | 21,002,417.30                                  | 21,002,417.30             |
| Bad Debt Expense                   | -                                | -   | -   | -                                | -  | 312,863.47                |
| Interest Expense                   | 420.32                           | 368.72  | -   | -                                | -  | 5,845.83                  |
| Scholarships and Fellowships       | 6,000.00                         | -   | 3,446,582.51                              | -                                | -  | 4,287,754.73              |
| Claims and Judgments               | -                                | -   | -   | -                                | -  | 1,000.00                  |
| Other Expenses                     | <u>1,726,904.31</u>              | <u>4,910,801.52</u>                                 | <u>-</u>                                  | <u>51,603.35</u>                 | <u>-</u>                                       | <u>63,097,188.38</u>      |
|                                    | <u>\$ 25,924,698.19</u>          | <u>\$ 25,672,268.39</u>                             | <u>\$ 3,454,870.66</u>                    | <u>\$ 401,629.18</u>             | <u>\$ 21,002,417.30</u>                        | <u>\$ 636,427,890.41</u>  |
|                                    | <u>\$ 27,854,078.29</u>          | <u>\$ 25,311,463.91</u>                             | <u>\$ 3,199,958.51</u>                    | <u>\$ 350,019.82</u>             | <u>\$ 21,225,558.59</u>                        | <u>\$ 575,750,399.57</u>  |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**

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

***Comparative Statement of Cash Flows***  
***For the Year Ended August 31, 2016 and 2015***

|   | <u>2016</u>                | <u>2015</u>                |
|---|----------------------------|----------------------------|
| <b>Cash Flows from Operating Activities</b>                                       |                            |                            |
| Proceeds from Patients and Insurers   | \$ 216,248,691.32          | \$ 203,858,334.97          |
| Proceeds from Tuition and Fees  | 45,480,432.04              | 43,479,938.09              |
| Proceeds from Grants and Contracts  | 152,147,749.41             | 142,400,858.99             |
| Proceeds from Loan Programs   | 2,836,965.31               | 1,922,135.71               |
| Proceeds from Auxiliaries   | 747,279.53                 | 775,484.16                 |
| Proceeds from Other Operating Revenues  | 27,141,786.22              | 26,145,714.72              |
| Payments to Suppliers   | (124,129,179.82)           | (117,666,364.98)           |
| Payments to Employees for Salaries  | (337,998,001.35)           | (319,138,679.21)           |
| Payments to Employees for Benefits  | (86,134,000.90)            | (76,701,532.83)            |
| Payments for Loans Provided   | (2,484,629.81)             | (1,933,651.45)             |
| Payments for Other Operating Expenses   | <u>(53,923,161.69)</u>     | <u>(42,159,253.90)</u>     |
| Net Cash Used for Operating Activities  | \$ <u>(160,066,069.74)</u> | \$ <u>(139,017,015.73)</u> |
| <b>Cash Flows from Non-Capital Financing Activities</b>                           |                            |                            |
| Proceeds from Legislative Appropriations  | \$ 160,263,919.53          | \$ 209,048,412.52          |
| Proceeds from Gifts   | 7,929,172.70               | 4,663,707.03               |
| Proceeds from Nonoperating Grants and Contracts                                   | 1,466,664.00               | 1,657,648.00               |
| Proceeds from Other Noncapital Financing Activities                               | 1,457,587.32               | 3,394,409.45               |
| Proceeds from Agency Transactions   | 61,181,037.00              | 61,805,869.00              |
| Proceeds from Transfers - Texas Tech Foundation, Inc.                             | 2,586,887.05               | 2,333,605.95               |
| Proceeds from Transfers - Texas Tech University                                   | 371,733.95                 | 1,111,015.45               |
| Proceeds from Transfers - Texas Tech University Health Sciences Center at El Paso | 2,111,773.55               | (58,074,728.78)            |
| Proceeds from Transfers - Other State Agencies                                    | 117,695.63                 | (172,049.47)               |
| Payments for Transfers - Angelo State University                                  | -                          | (6,000.00)                 |
| Payments for Transfers - Texas Tech University System Administration              | (2,578,493.38)             | (27,640,823.39)            |
| Payments for Other Uses   | <u>(61,181,037.00)</u>     | <u>(61,805,869.00)</u>     |
| Net Cash Provided by Non-Capital Financing Activities                             | \$ <u>173,726,940.35</u>   | \$ <u>136,315,196.76</u>   |
| <b>Cash Flows from Capital and Related Financing Activities</b>                   |                            |                            |
| Proceeds from Sale of Capital Assets  | \$ 137,384.51              | \$ 77,184.04               |
| Proceeds from Legislative Appropriations for Capital                              | 15,581,597.00              | 16,973,569.00              |
| Proceeds from Transfers - Texas Tech University System Administration             | 863,689.58                 | 2,230.75                   |
| Payments for Transfers - Texas Tech University System Administration              | (5,694,730.00)             | (310,431.09)               |
| Payments for Additions to Capital Assets  | (17,162,759.37)            | (14,775,969.11)            |
| Payments for Principal on Capital Debt  | -                          | (4,543,186.88)             |
| Payments for Interest on Capital Debt   | -                          | (1,804,730.86)             |
| Payments for Capital Lease  | <u>-</u>                   | <u>(9,617.05)</u>          |
| Net Cash Used for Capital and Related Financing Activities                        | \$ <u>(6,274,818.28)</u>   | \$ <u>(4,390,951.20)</u>   |

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT**



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

### *Comparative Statement of Cash Flows*

*For the Year Ended August 31, 2016 and 2015*

|   | <u>2016</u>                     | <u>2015</u>                     |
|---|---------------------------------|---------------------------------|
| <b>Cash Flows from Investing Activities</b>       |                                 |                                 |
| Proceeds from Sales and Maturities of Investments | \$ 72,159,434.81                | \$ 97,421,287.77                |
| Proceeds from Interest and Investment Income      | 14,365,375.04                   | 9,342,901.69                    |
| Payments for Acquisition of Investments           | <u>(75,584,681.76)</u>          | <u>(54,693,347.95)</u>          |
| Net Cash Used for Investing Activities            | <u>\$ 10,940,128.09</u>         | <u>\$ 52,070,841.51</u>         |
| <br>TOTAL NET CASH FLOWS                          | <br><u>\$ 18,326,180.42</u>     | <br><u>\$ 44,978,071.34</u>     |
| Cash and Cash Equivalents, September 1st          | <u>\$ 110,203,186.09</u>        | <u>\$ 65,225,114.75</u>         |
| Cash and Cash Equivalents, August 31st            | <u><u>\$ 128,529,366.51</u></u> | <u><u>\$ 110,203,186.09</u></u> |

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

|   |                                   |                                   |
|---|-----------------------------------|-----------------------------------|
| Operating Loss                                    | \$ (190,033,598.64)               | \$ (154,895,465.34)               |
| Adjustments                                       |                                   |                                   |
| Depreciation Expense                              | 21,002,417.30                     | 21,225,558.59                     |
| Bad Debt Expense                                  | -                                 | -                                 |
| Decrease (Increase) in Receivables                | (5,674,984.97)                    | (4,223,361.01)                    |
| Decrease (Increase) in Loans and Notes Receivable | 250,460.45                        | 300,960.12                        |
| Decrease (Increase) in Inventories                | (31,542.96)                       | 107,665.82                        |
| Decrease (Increase) in Due from Other Agency      | 567,908.12                        | (863,726.32)                      |
| Decrease (Increase) in Prepaid Expenses           | (1,766,965.73)                    | (194,935.73)                      |
| Increase (Decrease) in Payables                   | 1,946,850.75                      | 2,082,341.25                      |
| Increase (Decrease) in Deferred Revenue           | 678,932.14                        | 1,035,706.19                      |
| Increase (Decrease) in Compensable Leave          | 1,008,648.97                      | 1,723,941.91                      |
| Increase (Decrease) in Claims Payable             | -                                 | (5,305,685.03)                    |
| Increase (Decrease) in Due to Other Agency        | (212,494.58)                      | (55,926.69)                       |
| Increase (Decrease) in Other Liabilities          | <u>12,198,299.41</u>              | <u>45,910.51</u>                  |
| Net Cash Used for Operating Activities            | <u><u>\$ (160,066,069.74)</u></u> | <u><u>\$ (139,017,015.73)</u></u> |

### **Non-Cash Transactions**

|  |               |                 |
|--|---------------|-----------------|
| Donations of Capital Assets                          | \$ 461,833.04 | \$ 498,890.10   |
| Net Increase (Decrease) in Fair Value of Investments | (639,373.51)  | (11,949,810.33) |
| Disposal of Capital Assets                           | (260,082.84)  | (266,402.82)    |
| Other  | -             | 28,441,819.38   |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
Annual Financial Report  
*UNAUDITED*

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**NOTES TO FINANCIAL STATEMENTS**

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# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2016*

#### NOTE 1

#### Summary of Significant Accounting Policies

##### **REPORTING ENTITY**

Texas Tech University Health Sciences Center (TTUHSC) is a component unit 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' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

TTUHSC is one of five entities included in the Texas Tech University System. The other entities are Angelo State University (ASU), Texas Tech University Health Sciences Center at El Paso (TTUHSCEP), Texas Tech University (TTU) and Texas Tech University System Administration (TTUSA). The balances and activities of the other four entities are reported separately, and are therefore not included in this *Annual Financial Report*.

This *Annual Financial Report* includes the results of operations of TTUHSC, a separate institution established pursuant to Texas Education Code, Chapter 110. On May 18, 2013, the Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) was established as a separate component unit of the State of Texas under Texas Senate Bill 120. However, TTUHSCEP was not included in the General Appropriations Act for appropriating money to the various agencies of the State of Texas until the 2016-2017 Biennium. Thus, this *Annual Financial Report* includes transfers to TTUHSCEP in support of TTUHSCEP's operations for the year ended August 31, 2015.

TTUHSC includes within this report all components as determined by an analysis of the relationship to TTUHSC. Because of the closeness of the relationship with TTUHSC, the balances and activities of the Texas Tech Physician Associates (TTPA), a component unit of TTUHSC, are blended as though they are part of TTUHSC. This blended component unit is described in more detail in Note 19. Texas Tech Foundation, Inc. (TTFI) is a component unit of the consolidated Texas Tech University System since it serves the fundraising needs of all entities of the Texas Tech University System. No balances or activities associated with TTFI are included in the accompanying financial statements for TTUHSC. However, supplemental schedules are included with this *Annual Financial Report* that reflect TTFI balances and activities for the benefit of TTUHSC.

Due to the statewide requirements embedded in 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 the statement. The financial report is considered for audit by the state auditor as part of the audit of the State's *Comprehensive Annual Financial Report* (CAFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

##### **BASIS OF ACCOUNTING**

The accompanying financial statements are prepared from transactions recorded on a fund basis. GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an Amendment of GASB Statement No. 34*, establishes accounting and financial reporting standards for universities within the financial reporting guidelines of GASB 34 as mentioned above. Under GASB 35, institutions of higher education are considered proprietary funds and must follow proprietary fund accounting. As such, balances and activities of all funds are combined and reported in a single column.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

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### *Notes to the Financial Statements*

*August 31, 2016*

#### NOTE 1 (continued)

#### Summary of Significant Accounting Policies

##### **BASIS OF ACCOUNTING (continued)**

Proprietary funds are used to account for business-type activities. Business type activities are those activities that are financed in whole or in part by fees charged to external parties for goods and services, and whose focus is on determining operating income, changes in net position, and cash flows. Proprietary funds are reported using the flow of economic resources measurement focus (whether or not the entity is economically better off as a result of the events and transactions that occurred during the fiscal period reported), and the full accrual basis of accounting (meaning revenues are recognized when earned and expenses are reported when an obligation has been incurred).

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services, or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and capital asset depreciation and amortization.

##### **ASSETS, LIABILITIES, AND FUND EQUITY**

##### **Current and Non-Current**

Current amounts are those amounts that are expected to be collected or incurred within the next fiscal year, and are therefore available for current operational requirements. Non-current amounts are those amounts that are expected to be collected or incurred beyond the next fiscal year, and are therefore intended for longer-term institutional requirements.

##### **Cash and Cash Equivalents**

For reporting purposes, cash includes cash on hand, cash in transit, demand deposits in local banks, reimbursements due from the State Treasury, and cash held in the State Treasury. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to cash, and so near to maturity that the risks of valuation changes due to interest rate fluctuations are insignificant. Investments with an original maturity of three months or less that are used for cash management, rather than investing activities, are considered cash equivalents.

##### **Investments**

Investments are reported at fair value in this *Annual Financial Report*. Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the accompanying *Comparative Statement of Revenues, Expenses, and Changes in Net Position*.

##### **Restricted Assets**

Restricted assets include monies or other resources restricted by legal or contractual requirements, including proceeds from revenue bonds and other revenues set aside for statutory or contractual requirements. Cash and cash equivalents that are held for endowments or for special programs are reported as restricted since they are restricted for a specific use by an external party and are not available for current operations.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

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### *Notes to the Financial Statements*

*August 31, 2016*

#### NOTE 1 (continued)

##### Summary of Significant Accounting Policies

#### **ASSETS, LIABILITIES, AND FUND EQUITY (continued)**

##### **Inventories and Prepaid Items**

Inventories include both consumable inventories and merchandise inventories on hand for resale. Consumable inventories include supplies and postage that are on hand and available for consumption. Merchandise inventories include materials, supplies, and other items on hand and for sale. Inventories are valued at cost generally utilizing the first-in/first-out method. Inventories and prepaid items are reported using the consumption method. Under the consumption method, the cost of these items is expensed when the inventories or prepaid items are used or consumed.

##### **Receivables**

The most significant categories of TTUHSC receivables are patient receivables, contract receivables and pledged gift receivables. Patient receivables are reported net of allowances for contractual, uncollectible and similar adjustments. Gift receivables are accounted for at their estimated net realizable value, which consists of the present value of long-term pledges and a reduction for any allowance for uncollectible pledges.

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

Receivables that are not expected to be collected within one year are reported as non-current assets and include portions of pledged gifts receivable and loans and notes receivable. Details regarding Current and Non-current receivables are presented in Note 24.

##### **Capital Assets**

Capital assets, defined as assets held for use in operations with a value equal to or greater than the capitalization threshold established for that asset type and an initial useful life of more than one year are recorded at cost at the date of acquisition or, in the case of gifts, at acquisition value (i.e. the price that would be paid to acquire an asset with equivalent service potential). The capitalization threshold for personal property, such as furniture, equipment and vehicles is \$5,000. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), and facilities and other improvements (\$100,000).

Capital assets are depreciated over the estimated useful life of the asset using the straight line method based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system. .

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. Land use rights and other intangible assets 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.

Intangible assets are amortized based on the estimated useful life of the asset using the straight-line method.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

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### *Notes to the Financial Statements*

*August 31, 2016*

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|                           |
|---------------------------|
| <b>NOTE 1 (continued)</b> |
|---------------------------|

|   |
|---|
| <b>Summary of Significant Accounting Policies</b> |
|---|

#### **Payables**

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending. Major categories of TTUHSC accounts payable include general accounts payable and payroll payable. Details regarding payable balances can be found in Note 24.

#### **Compensable Leave**

Employees' compensable leave balances represent the approximate value of unused employee vacation time and other compensated time that becomes "due" upon the occurrence of relevant events such as resignations, retirements and uses of leave balances by covered employees. Compensable leave balances are accrued in a manner consistent with State of Texas rules and guidelines and in accordance with generally accepted accounting principles. Within the framework of those guidelines, employees are eligible to carry forward a limited annual leave balance. Liabilities are reported separately as either current or noncurrent in the *Comparative Statement of Net Position*.

#### **Unearned Revenue**

Unearned revenues includes amounts for tuition and fees and amounts from grant and contract sponsors that were received prior to the end of the fiscal year, but related to and earned in a subsequent accounting period.

#### **Bonds Payable**

TTUHSC has a number of bond issues outstanding which are supported either directly or indirectly by tuition revenue. Detailed information regarding bonds payable can be found in Note 5 and Note 6.

#### **Funds Held for Others**

Current balances in funds held for others result from TTUHSC acting as an agent for fiduciary for other organizations.

#### **Other Liabilities**

Other current liabilities include estimated repayments related to Physician Supplemental Payments and Section 1115 Waiver Payments. More information related to these amounts can be found in Note 15.

#### **Net Position**

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is divided into three categories as described below.

#### **Invested In Capital Assets, Net Of Related Debt:**

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances for bond, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2016*

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

##### **Net Position (continued)**

##### **Restricted Net Position:**

Restricted net position results when constraints placed on net resources are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. Such constraints are either permanent in nature (*Nonexpendable*), or can be satisfied by specified actions or due to passage of time (*Expendable*).

##### **Unrestricted Net Position:**

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

##### **Interfund Activity and Transactions**

The System is regularly involved in both interfund activity and interfund transactions. Interfund activity refers to financial interaction between funds (including blended component units) and is related to internal events. Interfund transactions refer to interactions with outside parties (discretely presented component units, other governments, other legally separate entities and individuals) and are restricted to external events. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

#### NOTE 2 Capital Assets

Capital assets are categorized as (1) Land and Land Improvements, (2) Buildings and Building Improvements, (3) Infrastructure, (4) Furniture and Equipment, (5) Vehicles, (6) Construction in Progress, (7) Other Capital Assets, (8) Facilities and Other Improvements, or (9) Computer Software. Non-depreciable capital assets include Land and Land Improvements, Construction in Progress, and Other Capital Assets (representing primarily artwork). All other capital asset categories are either depreciated or amortized.

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 State 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.

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**  
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***Notes to the Financial Statements***  
***August 31, 2016***

**NOTE 2 (continued)**  
**Capital Assets**

Capital asset changes for the year ended August 31, 2016 are summarized in the following table.

| Capital Asset Category                                   | Balance 09/01/15                  | Adjustments        | Completed CIP      | Reclassifications                       |   | Additions                        | Deletions                       | Balance 08/31/16                  |
|--|-----------------------------------|--------------------|--------------------|---|---|----------------------------------|---------------------------------|-----------------------------------|
|  |                                   |                    |                    | Increases –<br>Interagency<br>Transfers | Decreases –<br>Interagency<br>Transfers |                                  |                                 |                                   |
| <b><u>Non-Depreciable or Non-Amortizable Assets:</u></b> |                                   |                    |                    |   |   |                                  |                                 |                                   |
| Land and Land Improvements                               | \$ 10,802,532.86                  | \$ -               | \$ -               | \$ -                                    | \$ -                                    | \$ -                             | \$ -                            | \$ 10,802,532.86                  |
| Construction In Progress                                 | 182,879.16                        | -                  | -                  | -                                       | -                                       | 2,312,893.89                     | -                               | 2,495,773.05                      |
| Other  | <u>1,264,608.92</u>               | <u>-</u>           | <u>-</u>           | <u>-</u>                                | <u>-</u>                                | <u>105,715.00</u>                | <u>-</u>                        | <u>1,370,323.92</u>               |
| <b>Total Non-Depreciable or Non-Amortizable Assets</b>   | <b><u>\$ 12,250,020.94</u></b>    | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>                      | <b><u>\$ -</u></b>                      | <b><u>\$ 2,418,608.89</u></b>    | <b><u>\$ -</u></b>              | <b><u>\$ 14,668,629.83</u></b>    |
| <b><u>Depreciable Assets:</u></b>                        |                                   |                    |                    |   |   |                                  |                                 |                                   |
| Buildings and Improvements                               | \$ 357,359,947.83                 | \$ -               | \$ -               | \$ -                                    | \$ -                                    | \$ 6,524,218.57                  | \$ -                            | \$ 363,884,166.40                 |
| Infrastructure   | 7,009,374.49                      | -                  | -                  | -                                       | -                                       | 1,207,110.00                     | -                               | 8,216,484.49                      |
| Facilities & Other Improvements                          | 8,913,571.07                      | -                  | -                  | -                                       | -                                       | 1,162,718.31                     | -                               | 10,076,289.38                     |
| Furniture and Equipment                                  | 79,030,098.34                     | -                  | -                  | 27,543.73                               | (575,916.73)                            | 5,755,708.64                     | (1,938,223.32)                  | 82,299,210.66                     |
| Vehicles   | 1,810,867.40                      | -                  | -                  | 18,555.00                               | (18,981.00)                             | 240,901.00                       | (131,315.00)                    | 1,920,027.40                      |
| Other  | <u>32,301,554.00</u>              | <u>-</u>           | <u>-</u>           | <u>-</u>                                | <u>-</u>                                | <u>315,327.00</u>                | <u>(33,619.00)</u>              | <u>32,583,262.00</u>              |
| Total Depreciable Assets at Cost                         | <b><u>\$ 486,425,413.13</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 46,098.73</u></b>              | <b><u>\$ (594,897.73)</u></b>           | <b><u>\$ 15,205,983.52</u></b>   | <b><u>\$ (2,103,157.32)</u></b> | <b><u>\$ 498,979,440.33</u></b>   |
| <b><u>Less Accumulated Depreciation for:</u></b>         |                                   |                    |                    |   |   |                                  |                                 |                                   |
| Buildings and Improvements                               | \$ (194,841,815.09)               | \$ -               | \$ -               | \$ -                                    | \$ -                                    | \$ (11,474,057.60)               | \$ -                            | \$ (206,315,872.69)               |
| Infrastructure   | (2,918,064.50)                    | -                  | -                  | -                                       | -                                       | (316,455.43)                     | -                               | (3,234,519.93)                    |
| Facilities & Other Improvements                          | (4,611,525.64)                    | -                  | -                  | -                                       | -                                       | (426,878.54)                     | -                               | (5,038,404.18)                    |
| Furniture and Equipment                                  | (52,539,699.10)                   | -                  | -                  | (23,230.37)                             | 20,715.17                               | (6,501,250.81)                   | 1,858,516.91                    | (57,184,948.20)                   |
| Vehicles   | (1,184,443.70)                    | -                  | -                  | (18,555.00)                             | 18,981.00                               | (200,506.79)                     | 131,315.00                      | (1,253,209.49)                    |
| Other  | <u>(24,331,345.70)</u>            | <u>-</u>           | <u>-</u>           | <u>-</u>                                | <u>-</u>                                | <u>(1,160,503.21)</u>            | <u>-</u>                        | <u>(25,491,848.91)</u>            |
| Total Accumulated Depreciation                           | <b><u>\$ (280,426,893.73)</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ (41,785.37)</u></b>            | <b><u>\$ 39,696.17</u></b>              | <b><u>\$ (20,079,652.38)</u></b> | <b><u>\$ 1,989,831.91</u></b>   | <b><u>\$ (298,518,803.40)</u></b> |
| <b>Depreciable Assets - Net</b>                          | <b><u>\$ 205,998,519.40</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 4,313.36</u></b>               | <b><u>\$ (555,201.56)</u></b>           | <b><u>\$ (4,873,668.86)</u></b>  | <b><u>\$ (113,325.41)</u></b>   | <b><u>\$ 200,460,636.93</u></b>   |
| <b><u>Amortizable Assets:</u></b>                        |                                   |                    |                    |   |   |                                  |                                 |                                   |
| Computer Software  | \$ 9,349,187.91                   | \$ -               | \$ -               | \$ -                                    | \$ (166,657.20)                         | \$ -                             | \$ (1,028,829.99)               | \$ 8,153,700.72                   |
| Other  | <u>311,758.69</u>                 | <u>-</u>           | <u>-</u>           | <u>-</u>                                | <u>-</u>                                | <u>-</u>                         | <u>-</u>                        | <u>311,758.69</u>                 |
| Total Amortizable Assets                                 | <b><u>\$ 9,660,946.60</u></b>     | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>                      | <b><u>\$ (166,657.20)</u></b>           | <b><u>\$ -</u></b>               | <b><u>\$ (1,028,829.99)</u></b> | <b><u>\$ 8,465,459.41</u></b>     |
| <b><u>Less Accumulated Amortization for:</u></b>         |                                   |                    |                    |   |   |                                  |                                 |                                   |
| Computer Software  | \$ (6,836,017.29)                 | \$ -               | \$ -               | \$ -                                    | \$ -                                    | \$ (901,981.04)                  | \$ 882,072.56                   | \$ (6,855,925.77)                 |
| Other  | <u>(22,515.87)</u>                | <u>-</u>           | <u>-</u>           | <u>-</u>                                | <u>-</u>                                | <u>(20,783.88)</u>               | <u>-</u>                        | <u>(43,299.75)</u>                |
| Total Accumulated Amortization                           | <b><u>\$ (6,858,533.16)</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>                      | <b><u>\$ -</u></b>                      | <b><u>\$ (922,764.92)</u></b>    | <b><u>\$ 882,072.56</u></b>     | <b><u>\$ (6,899,225.52)</u></b>   |
| <b>Amortizable Assets - Net</b>                          | <b><u>\$ 2,802,413.44</u></b>     | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>                      | <b><u>\$ (166,657.20)</u></b>           | <b><u>\$ (922,764.92)</u></b>    | <b><u>\$ (146,757.43)</u></b>   | <b><u>\$ 1,566,233.89</u></b>     |
| <b>Capital Assets - Net</b>                              | <b><u>\$ 221,050,953.78</u></b>   | <b><u>\$ -</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 4,313.36</u></b>               | <b><u>\$ (721,858.76)</u></b>           | <b><u>\$ (3,377,824.89)</u></b>  | <b><u>\$ (260,082.84)</u></b>   | <b><u>\$ 216,695,500.65</u></b>   |

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### *Notes to the Financial Statements* *August 31, 2016*

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

TTUHSC investments balances consist primarily of amounts invested in the portfolio that is managed at the consolidated level by TTUSA. The portfolio is invested pursuant to the parameters of applicable Texas law and the governing board's Investment Policies. Under Texas law, 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, TTUSA is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest TTUSA funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investment and Endowments." The majority of TTUSA assets are invested in two investment pools; the Long Term Investment Fund (LTIF) and the Short/Intermediate Term Investment Fund (SITIF), 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 SITIF.

Required information related to consolidated TTUS deposits and investments is included in Note 3 of the consolidated TTUS *Annual Financial Report*.

#### NOTE 4 Short Term Debt

Short term commercial paper is periodically issued as an interim financing source for long term construction projects in advance of issuing authorized bonded indebtedness. TTUSA oversees the central administration of the Texas Tech University System's Revenue Financing System revenue bonded indebtedness for all TTUS components, including the issuance of commercial paper. Required information related to any consolidated TTUS short term commercial paper is included in Note 4 of the consolidated TTUS *Annual Financial Report*.

#### NOTE 5 Long Term Liabilities

The following changes occurred in long-term liabilities for the year ended August 31, 2016:

| Category                    | Balance<br>09/01/15     | Additions              | Reductions  | Restatement/<br>Adjustment | Balance<br>08/31/16     | Amounts Due<br>Within One Year | Amounts Due<br>Thereafter |
|-----------------------------|-------------------------|------------------------|-------------|----------------------------|-------------------------|--------------------------------|---------------------------|
| Compensable Leave           | \$ 21,444,146.12        | \$ 1,008,648.97        | \$ -        | \$ -                       | \$ 22,452,795.09        | \$ 2,694,335.42                | \$ 19,758,459.67          |
| Total Long Term Liabilities | <u>\$ 21,444,146.12</u> | <u>\$ 1,008,648.97</u> | <u>\$ -</u> | <u>\$ -</u>                | <u>\$ 22,452,795.09</u> | <u>\$ 2,694,335.42</u>         | <u>\$ 19,758,459.67</u>   |

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### *Notes to the Financial Statements*

*August 31, 2016*

#### **NOTE 5 (continued) Long Term Liabilities**

##### **COMPENSABLE LEAVE**

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2016. Past experience has demonstrated that approximately 12% of TTUHSC compensable leave balances will mature within one year. Therefore, the non-current portion of the liability as of August 31, 2016 was at \$19,758,459.67 out of a total liability of \$22,452,795.09. Funding for future leave balance payments will be from the same source as annualized salary expense.

#### **NOTE 6 Bonded Indebtedness**

TTUSA oversees the central administration of the Texas Tech University System's Revenue Financing System revenue bonded indebtedness for all TTUS components. Required information related to consolidated TTUS bonded indebtedness is included in Note 6 and in Supporting Schedules 2A through 2F of the consolidated TTUS *Annual Financial Report*.

#### **NOTE 7 Derivative Instruments**

Required information related to consolidated TTUS derivative investing is included in Note 3 and Note 7 of the consolidated TTUS *Annual Financial Report*.

#### **NOTE 8 Leases**

##### **OPERATING LEASES**

TTUHSC leases some buildings and equipment under operating lease agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in this *Annual Financial Report*. Total rental expense under these agreements was \$2,297,590.91 and \$2,416,519.94 for the years ended August 31, 2016 and 2015 respectively.

TTUHSC also leases space to others under operating lease agreements. Leased space comprises approximately 6.89% of the total building space. The net carrying value of the assets associated with these leases was \$5,938,040.49 as of August 31, 2016, and consists of historical cost of \$15,517,638.78 less related accumulated depreciation of \$9,579,598.29. There were no reported contingent rental revenues. Total operating lease income under these agreements was \$1,178,536.58 and \$1,189,370.58 for the years ended August 31, 2016 and 2015 respectively.

TTUHSC structures all leases to allow for cancellation within the current period. Most of the cancellation clauses are based on a 30-day notice condition or on the condition of continuing appropriations. However, there is little or no historical precedence for lease cancellations at TTUHSC.

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*Notes to the Financial Statements*

*August 31, 2016*

**NOTE 8 (continued)**  
**Leases**

**OPERATING LEASES (continued)**

The table below provides the estimated minimum lease payments and the estimated minimum lease income for TTUHSC operating leases for the next five fiscal years.

| For years ending<br>August 31 | Minimum Lease<br>Payments | Minimum Lease<br>Income |
|-------------------------------|---------------------------|-------------------------|
| 2017                          | \$ 1,774,394.73           | \$ 1,178,536.58         |
| 2018                          | 1,398,720.31              | 1,178,536.58            |
| 2019                          | 1,165,633.49              | 1,178,536.58            |
| 2020                          | 973,848.18                | 1,178,536.58            |
| 2021                          | 917,820.85                | 1,178,536.58            |

**CAPITAL LEASES**

As of August 31, 2016, TTUHSC had no material outstanding leases that satisfy the requirements for capitalization.

**NOTE 9**  
**Retirement Plans**

The State of Texas has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the Teacher Retirement System of Texas (TRS) program and is available to certain eligible employees. ORP is a defined contribution pension plan that provides for the purchase of annuity and custodial mutual fund contracts. Current contributory percentages for employees who participated before September 1, 1995 are 8.5% provided by the State, and 6.65% provided by each participant, of annual participant compensation. The state's contribution is comprised of 6.4% from the ORP appropriation and 2.1% from other sources. The 6.4% contribution is mandatory, with the other contributions being at the discretion of the governing board of TTUHSC, which has approved the additional contributions for TTUHSC employees. Current contributory percentages for employees who participated after August 31, 1995, are 6.6% provided by the State, and 6.65% provided by each participant, of annual participant compensation. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program. ORP contributions made by plan members and the employer for the years ending August 31, 2016 and 2015 are detailed in the following table.

| For the Year Ended:     | 08/31/16                | 08/31/15                |
|-------------------------|-------------------------|-------------------------|
| Member Contributions    | \$ 7,699,999.65         | \$ 7,435,613.66         |
| Employer Contributions  | 8,242,343.87            | 7,970,243.41            |
| Total ORP Contributions | <u>\$ 15,942,343.52</u> | <u>\$ 15,405,857.07</u> |

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### *Notes to the Financial Statements* *August 31, 2016*

#### NOTE 10 Deferred Compensation (administering agencies only)

Per the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Note 10 is not applicable to TTUHSC for the year ended August 31, 2016.

#### NOTE 11 Post-Employment Health Care and Life Insurance Benefits (administering agencies only)

Per the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Note 11 is not applicable to TTUHSC for the year ended August 31, 2016.

#### NOTE 12 Interfund Activity and Balances

As explained in Note 1, TTUHSC has interfund activities and transactions within its internal funds and with other State agencies.

#### DUE FROM/TO OTHER STATE AGENCIES

As of August 31, 2016, TTUHSC had outstanding due to/from other agencies with other component units of the Texas Tech University System and other State agencies. Details about these Due To/From Other Agencies balances for the years ended August 31, 2016 and 2015 are shown in the following table.

| Agency Name                                     | Agency<br>Nbr | D23<br>Fund | As of 08/31/16  |              | As of 08/31/15   |               |
|---|---------------|-------------|-----------------|--------------|------------------|---------------|
|   |               |             | Due from        | Due to       | Due from         | Due to        |
| Governor - Fiscal                               | 300           | 9999        | \$ 137,617.58   | \$ -         | \$ 75,726.25     | \$ -          |
| Texas Workforce Commission                      | 320           | 0239        | -               | -            | -                | 178.44        |
| Texas Workforce Commission                      | 320           | 9999        | -               | -            | 14,013.95        | -             |
| Texas Workforce Commission                      | 320           | 9999        | -               | -            | -                | 89.22         |
| Employees Retirement System of Texas            | 327           | 0239        | 2,039,509.46    | -            | -                | -             |
| Commission of State Emergency Communications    | 477           | 9999        | 126,294.08      | -            | 132,541.87       | -             |
| Texas Health & Human Services                   | 529           | 9999        | -               | -            | 155,272.53       | -             |
| Department of Family and Protective Services    | 530           | 9999        | 262,568.51      | -            | -                | -             |
| Department of State Health Services             | 537           | 9999        | 167,541.69      | -            | 246,763.19       | -             |
| Cancer Prevention & Research Institute of Texas | 542           | 9999        | 725,455.07      | -            | 1,422,594.85     | -             |
| Department of Agriculture                       | 551           | 9999        | 4,308.63        | -            | -                | -             |
| University of Texas System                      | 720           | 0810        | 5,192,838.86    | -            | 7,792,272.16     | -             |
| University of Texas System                      | 720           | 9999        | -               | 12,244.39    | -                | 21,081.58     |
| University of Texas - Austin                    | 721           | 9999        | 91,517.20       | -            | 58,701.89        | -             |
| University of Texas Medical Branch at Galveston | 723           | 9999        | -               | 7,926.54     | -                | 6,055.04      |
| University of Texas Southwestern Medical Center | 729           | 9999        | 8,748.80        | -            | 8,445.18         | -             |
| West Texas A&M University                       | 757           | 9999        | -               | -            | -                | 15,894.86     |
| Texas Higher Education Coordinating Board       | 781           | 9999        | 33,711.91       | -            | 32,153.87        | -             |
| Comptroller - State Fiscal                      | 902           | 0210        | 52,819.00       | -            | 45,374.00        | -             |
| Subtotal - Due from Other Agencies              |               |             | \$ 8,842,930.79 | \$ 20,170.93 | \$ 9,983,859.74  | \$ 43,299.14  |
| Texas Tech University                           | 733           | 0001        | \$ -            | \$ -         | \$ -             | \$ 190,663.52 |
| Texas Tech University                           | 733           | 9999        | 83,157.96       | 1,297.15     | 70,060.97        | -             |
| Subtotal - Due from Other Component Units       |               |             | \$ 83,157.96    | \$ 1,297.15  | \$ 70,060.97     | \$ 190,663.52 |
| Total Due from/to Other Agencies                |               |             | \$ 8,926,088.75 | \$ 21,468.08 | \$ 10,053,920.71 | \$ 233,962.66 |

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### *Notes to the Financial Statements* *August 31, 2016*

#### NOTE 12 (continued) Interfund Activity and Balances

##### DUE FROM/TO OTHER STATE AGENCIES (continued)

TTUHSC had a net due from other agencies balance with the University of Texas Investment Management Company (UTIMCO) which represents undistributed earnings from investment assets of the Permanent Health Fund for Higher Education. In addition, TTUHSC had a net Due from Other Agencies balance with Employees Retirement System of Texas which represents a refund of overpaid fringes in prior years. Remaining Due to/from Other Agencies balances are primarily for federal and state pass through agreements.

##### TRANSFERS IN/OUT

For the year ended August 31, 2016, TTUHSC had various Transfers In and Transfers Out from and to other components of the Texas Tech University System and other State agencies. Details about these Transfers In and Transfers Out for the years ended August 31, 2016 and 2015 are shown in the following table.

| Agency Name                                 | Agency<br>Nbr | D23<br>Fund | For the Year Ended 08/31/16 |                        | For the Year Ended 08/31/15 |                          |
|---|---------------|-------------|-----------------------------|------------------------|-----------------------------|--------------------------|
|   |               |             | Transfers In                | Transfers Out          | Transfers In                | Transfers Out            |
| Texas Higher Education Coordinating Board   | 781           | 5103        | \$ -                        | \$ 4,750.20            | \$ -                        | \$ 157,250.59            |
| Texas Higher Education Coordinating Board   | 781           | 5144        | -                           | (80.83)                | -                           | 60,172.88                |
| Comptroller - State Fiscal                  | 902           | 0210        | 52,819.00                   | -                      | 45,374.00                   | -                        |
| Total Transfers In/Out Other State Agencies |               |             | <u>\$ 52,819.00</u>         | <u>\$ 4,669.37</u>     | <u>\$ 45,374.00</u>         | <u>\$ 217,423.47</u>     |
| TTU   | 733           | 9999        | \$ 592,099.10               | \$ 220,365.15          | \$ 1,354,696.25             | \$ 243,680.80            |
| ASU   | 737           | 9999        | -                           | -                      | -                           | 6,000.00                 |
| TTUSA                                       | 768           | 0001        | 2,861,481.79                | 3,184,501.59           | 42,276,623.24               | 40,030,490.49            |
| TTUHSCEP                                    | 774           | 9999        | 2,615,209.52                | 503,435.97             | 9,414,107.01                | 71,933,776.74            |
| Texas Tech Foundation, Inc. (HSC)           |               | 9999        | 2,509,357.05                | -                      | 2,239,745.95                | 200.00                   |
| Texas Tech Foundation, Inc. (TTU/TTUSA)     |               | 9999        | 77,530.00                   | -                      | 94,060.00                   | -                        |
| Total Transfers In/Out Component Units      |               |             | <u>\$ 8,655,677.46</u>      | <u>\$ 3,908,302.71</u> | <u>\$ 55,379,232.45</u>     | <u>\$ 112,214,148.03</u> |

The transfers to the Texas Higher Education Coordinating Board are for B-On-Time set-asides. The transfer in from the Comptroller is for Hazelwood exemptions for Veterans and/or their dependents. The net transfers with TTU, TTUSA and TTUHSCEP are primarily comprised of transfers pursuant to normal operations for the year ended August 31, 2016. Net transfers in from the Texas Tech Foundation Inc. (TTFI) are comprised of earnings from endowments held by TTFI.

##### LEGISLATIVE TRANSFERS IN/OUT

For the years ended August 31, 2016 and 2015, TTUHSC recorded a legislative transfer out to TTUSA for system administration support. For the year ended August 31, 2016, TTUHSCEP also recorded a legislative transfer out to TTUSA for payments on bonded indebtedness of the Texas Tech University System's Revenue Financing System. Additionally, a legislative transfer in from the Texas Veterans Commission was recorded for Hazelwood exemptions for Veterans and/or their dependents.

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***Notes to the Financial Statements***  
***August 31, 2016***

**NOTE 12 (continued)**  
**Interfund Balances / Activity**

**LEGISLATIVE TRANSFERS IN/OUT (continued)**

Details about TTUHSC's Legislative Transfers Out for the years ended August 31, 2016 and 2015 are shown in the following tables.

| Agency Name                     | Agency Nbr | D23 Fund | For the Year Ended 08/31/16 |                           | For the Year Ended 08/31/15 |                           |
|---------------------------------|------------|----------|-----------------------------|---------------------------|-----------------------------|---------------------------|
|                                 |            |          | Legislative Transfers In    | Legislative Transfers Out | Legislative Transfers In    | Legislative Transfers Out |
| Texas Veterans Commission       | 403        | 0001     | \$ 69,546.00                | \$ -                      | \$ -                        | \$ -                      |
| TTUSA                           | 768        | 0001     | -                           | 7,086,514.00              | -                           | 1,753,337.00              |
| Total Legislative Transfers Out |            |          | <u>\$ 69,546.00</u>         | <u>\$ 7,086,514.00</u>    | <u>\$ -</u>                 | <u>\$ 1,753,337.00</u>    |

**INTERAGENCY CAPITAL ASSET TRANSFERS IN/OUT**

TTUHSC also recorded a decrease for the year ended August 31, 2016 in net position due to transfers out of capital assets to other State agencies. The Interagency Capital Asset transfer activity is included in Note 2 and is summarized in the following table for the years ended August 31, 2016 and 2015.

| Agency Name                                  | Agency Nbr | For the Year Ended 08/31/16            |   | For the Year Ended 08/31/15            |   |
|--|------------|--|---|--|---|
|  |            | Interagency Capital Asset Transfers In | Interagency Capital Asset Transfers Out | Interagency Capital Asset Transfers In | Interagency Capital Asset Transfers Out |
| TTU  | 733        | \$ 4,313.36                            | \$ 721,858.76                           | \$ -                                   | \$ 427,451.02                           |
| TTUHSCEP                                     | 774        | -                                      | -                                       | -                                      | 36,517.91                               |
| Total Transfers from/to Other State Agencies |            | <u>\$ 4,313.36</u>                     | <u>\$ 721,858.76</u>                    | <u>\$ -</u>                            | <u>\$ 463,968.93</u>                    |

**NOTE 13**  
**Continuance Subject to Review**

TTUHSC is not subject to the Texas Sunset Act.

**NOTE 14**  
**Adjustments to Fund Balances/Net Position**

Certain amounts for the year ended August 31, 2015 have been restated in the *Comparative Statement of Net Position*. These restatements are related to an overstatement of \$6,375,784.86 in the net appreciation of TTUHSC endowments as reported in Note 22 of the *Annual Financial Report* for the year ended August 31, 2015. This overstatement occurred due to the inclusion of a certain endowment balance in the amount reported for TTUHSC that should have been reported for TTUHSCEP. As a result of the overstatement, the amount reported in the *Comparable Statement of Net Position* as Net Position Restricted for Funds Held as Permanent Investments Nonexpendable was understated by \$6,375,784.86, and the amount reported as Net Position Restricted for Other was overstated by the same amount. The restatement has no impact on the Total Net Position as previously reported.



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### *Notes to the Financial Statements*

*August 31, 2016*

#### **NOTE 14 (continued)** **Adjustments to Fund Balances/Net Position**

The following table summarizes the effect of this restatement on the accompanying *Comparative Statement of Net Position*.

| Description   | As Reported<br>08/31/15 | Correction        | As Restated<br>08/31/15 |
|---|-------------------------|-------------------|-------------------------|
| Net Position - Restricted for Funds Held as Permanent Investments |                         |                   |                         |
| Nonexpendable   | \$ 54,631,041.94        | \$ 6,375,784.86   | \$ 61,006,826.80        |
| Net Position - Restricted for Other                               | \$ 92,885,617.37        | \$ (6,375,784.86) | \$ 86,509,832.51        |

#### **NOTE 15** **Contingencies and Commitments**

##### **PENDING LITIGATION**

Required information related to pending litigation (if any) that could result in an additional liability to TTUHSC is included in Note 15 of the consolidated TTUS *Annual Financial Report*.

##### **INVESTMENT FUNDS**

TTUHSC investments balances consist primarily of amounts invested in the portfolio that is managed at the consolidated level by TTUSA. Thus, required information related to commitments with external investment managers and risks associated with derivative investment instruments is included in Note 15 of the consolidated TTUS *Annual Financial Report*.

##### **CONSTRUCTION CONTRACT COMMITMENTS**

Numerous large contracts have been entered into for the purposes of planning, constructing, and equipping building additions and other projects. Outstanding commitment amounts totaled \$6,380,777.77 as of August 31, 2016. These commitments will be funded by donor contributions, appropriations from the state, issuance of revenue bonds, and other borrowings.

##### **DIRECT LENDING**

TTUHSC participates in the federal Direct Loan Program, which provides loans from the federal government to qualifying students and their families for educational purposes. While TTUHSC helps students to obtain these loans, the institution is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers. The amount of direct loans issued during the years ended August 31, 2016 and 2015 were \$61,053,788 and \$61,582,835 respectively.

##### **FEDERAL ASSISTANCE**

TTUHSC receives federal grants for specific purposes that are subject to review or audit by federal grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, would be immaterial.

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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### *Notes to the Financial Statements*

*August 31, 2016*

#### **NOTE 15 (continued)** **Contingencies and Commitments**

##### **PHYSICIAN SUPPLEMENTAL PAYMENTS**

The U.S. Department of Health and Human Services Office of Inspector General is in the process of auditing physician supplemental payments to determine if the Texas Health and Human Services Commission (HHSC) calculated supplemental payments to TTUHSC in accordance with Federal regulations and the State plan. Based on audit findings for other similar State agencies, it is likely that the HHSC will request repayment from TTUHSC for overpayments within the next year. TTUHSC has determined that a reasonable estimate of the potential repayment is approximately \$9,419,586.54 and has recorded a contingent liability of that amount in the *Comparative Statement of Net Position*.

##### **SECTION 1115 WAIVER PAYMENTS**

The Texas Health and Human Services Commission (HHSC) annually completes a reconciliation of Section 1115 Transformation Waiver Uncompensated Care payments to allowable uncompensated costs reported by participating hospitals/physicians. HHSC notified TTUHSC on September 23, 2016 that a recoupment related to Demonstration Year 1 (DY1) was due from TTUHSC related to excess uncompensated care payments received by its Odessa campus in the amount of \$1,191,423.73. TTUHSC expects to receive a similar notification for Demonstration Year 2 (DY2) related to excess uncompensated care payments received by its Lubbock and Odessa campuses. TTUHSC estimates that the DY2 recoupment will be approximately \$1,565,000. A contingent liability in the amount of \$2,756,423.73 for the combined DY1 and DY2 recoupment amount has been recorded in the *Comparative Statement of Net Position*.

#### **NOTE 16** **Subsequent Events**

Subsequent events disclosures for TTUHSC generally include information regarding future bond issuances. TTUSA oversees the central administration of the Texas Tech University System's Revenue Financing System revenue bonded indebtedness for all TTUS components. Information related to any future issuance of consolidated TTUS bonded indebtedness is included in Note 16 of the consolidated TTUS *Annual Financial Report*.

#### **NOTE 17** **Risk Management**

TTUHSC is self-insured for medical malpractice coverage through a medical malpractice self-insurance plan. The plan is managed by the Office of General Counsel, and the associated liability is adjusted annually based on actuarially estimated incurred but not reported (IBNR) liability to reflect the anticipated future claims related to past medical services. TTUSA oversees administration of the plan, and activity related to actual claims paid and the IBNR adjustment is included in the consolidated TTUS *Annual Financial Report*.

TTUHSC has self-insured arrangements for Unemployment Compensation Fund coverage with the State of Texas. The State of Texas pays all unemployment benefits to eligible TTUHSC employees. TTUHSC reimburses the State for one-half of the unemployment benefits paid to any TTUHSC employee who is paid from TTUHSC appropriated State funds. Such reimbursements are also paid from TTUHSC appropriated

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### *Notes to the Financial Statements*

*August 31, 2016*

#### **NOTE 17 (continued)**

##### **Risk Management**

State funds. TTUHSC reimburses the State for all of the unemployment benefits paid to any TTUHSC employee who is paid from local funds, including local balances of legislative appropriations held in the State Treasury. Such reimbursements are paid from non-state funds held in local bank accounts, or from local balances of legislative appropriations held in the State Treasury. Total payments for Unemployment Compensation for fiscal years 2016 and 2015 were \$135,140.70 and \$166,764.50 respectively.

For workers compensation, TTUHSC is required by State law to be a participant in the Worker's Compensation Program and Pool managed by the State Office of Risk Management (SORM). SORM assesses fees based upon claims experience, claim incidences, payroll size and full-time equivalent (FTE). TTUHSC then remits the assessed fees, from both appropriated and unappropriated fund types, to SORM. Total payments to SORM for fiscal years ended 2016 and 2015 amounted to \$566,072.48 and \$622,221.92 respectively. SORM assumes the responsibility for paying all workers compensation claims for current and former employees of TTUHSC.

#### **NOTE 18**

##### **Management Discussion and Analysis**

On May 18, 2013, the Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) was established as a separate component unit of the State of Texas under Texas Senate Bill 120, and is one of five entities included in the Texas Tech University System. The results of operations for TTUHSCEP for the years ended August 31, 2016 and 2015 are reported in a separate *Annual Financial Report*. This financial report contains certain allocations for reporting purposes between TTUHSCEP and TTUHSC that are reflected as net transfers for the year ended August 31, 2015. For the fiscal year ended August 31, 2016, TTUHSCEP received appropriated funds under the General Appropriations Act for the 2016-2017 Biennium.

#### **NOTE 19**

##### **The Financial Reporting Entity**

TTUHSC is an agency of the State of Texas, and is one of five components of the Texas Tech University System. The accompanying financial statements reflect inclusion of one blended component unit as described below. TTUHSC has no other related organizations, joint ventures or jointly governed organizations.

Texas Tech Physician Associates (TTPA) is a certified non-profit health corporation authorized under the Medical Practice Act § 5.01(a), article 4495b of the State of Texas. TTPA is exempt from tax under Internal Revenue Code § 501(c)(3). The TTPA board consists of nine directors appointed by TTUHSC and, thus, TTUHSC can impose its will on TTPA. Further, TTPA was created for the purpose of entering into prepaid capitation agreements for physician and other medical services. Therefore, although it is a legally separate entity, TTPA is reported as a blended component unit since its sole purpose is to financially support TTUHSC. Independent financial statements for TTPA can be obtained from Provider Payer Relations, 3601 4<sup>th</sup> Street, Mail Stop 8300, Lubbock, Texas 79430.

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#### NOTE 19 (continued) The Financial Reporting Entity

Condensed financial statements for TTPA are presented in the below tables. Balances and amounts shown in these tables are included in balances and amounts shown on the financial statement in this *Annual Financial Report*.

| Texas Tech Physician Associates<br>Condensed Statement of Net Position |                 |                 |
|--|-----------------|-----------------|
|  | As of 08/31/16  | As of 08/31/15  |
| Total Assets   | \$ 4,043,559.81 | \$ 4,021,731.73 |
| Total Liabilities  | \$ 1,656,122.00 | \$ 1,679,539.06 |
| Net Position:  |                 |                 |
| Unrestricted   | 2,387,437.81    | 2,342,192.67    |
| Total Net Position   | 2,387,437.81    | 2,342,192.67    |
| Total Liabilities and Net Position                                     | \$ 4,043,559.81 | \$ 4,021,731.73 |

| Texas Tech Physician Associates<br>Condensed Statement of Revenues, Expenses and Changes in Net Position |                    |                    |
|--|--------------------|--------------------|
|  | For the Year Ended |                    |
|  | 08/31/16           | 08/31/15           |
| Operating Revenues   |                    |                    |
| Professional Fees  | \$ 11,625,314.96   | \$ 10,491,296.70   |
| Federal Contracts  | 253,616.00         | 251,520.00         |
| Private Contracts and Grants   | -                  | 97.75              |
| Operating Expenses   |                    |                    |
| Professional Services and Fees   | (517,988.46)       | (553,264.42)       |
| Travel   | -                  | (1,166.85)         |
| Materials and Supplies   | -                  | -                  |
| Rentals and Leases   | -                  | (20.00)            |
| Other Expenses   | 130,989.44         | (14,316.53)        |
| Operating Income (Loss)  | \$ 11,491,931.94   | \$ 10,174,146.65   |
| Non-operating Revenue (Expense)  |                    |                    |
| Investment Income  | \$ 50,317.53       | \$ 39,770.29       |
| Total Non-operating Revenues and Expenses  | \$ 50,317.53       | \$ 39,770.29       |
| Other Revenues, Expenses, Gains, Losses and Transfers  |                    |                    |
| Transfers to Components  | \$ (11,497,004.33) | \$ (10,274,873.42) |
| Total Change in Net Position   | \$ 45,245.14       | \$ (60,956.48)     |
| Beginning Net Position   | 2,342,192.67       | 2,403,149.15       |
| Ending Net Position  | \$ 2,387,437.81    | \$ 2,342,192.67    |

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***Notes to the Financial Statements***  
***August 31, 2016***

**NOTE 19 (continued)**  
**The Financial Reporting Entity**

| Texas Tech Physician Associates<br>Condensed Statement of Cash Flows |                    |                  |
|--|--------------------|------------------|
|  |                    |                  |
|  | For the Year Ended |                  |
|  | 08/31/16           | 08/31/15         |
| Net Cash Provided by Operating Activities                            | \$ 11,475,196.53   | \$ 10,220,878.75 |
| Net Cash Used for Non-capital Financing Activities                   | (11,497,004.33)    | (10,274,873.42)  |
| Net Cash Provided by Capital and Related Financing Activities        | -                  | -                |
| Net Cash Provided by Investing Activities                            | 50,317.53          | 39,770.29        |
| Total Net Cash Flows   | \$ 28,509.73       | \$ (14,224.38)   |
| Cash and Cash Equivalents, September 1st                             | 3,976,175.24       | 3,990,399.62     |
| Cash and Cash Equivalents, August 31st                               | \$ 4,004,684.97    | \$ 3,976,175.24  |

**NOTE 20**  
**Stewardship, Compliance, and Accountability**

TTUHSC has no material stewardship, compliance or accountability issues.

**NOTE 21**  
**Not Applicable**

Per the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Note 21 is not applicable for the year ended August 31, 2016.

**NOTE 22**  
**Donor Restricted Endowments**

Information regarding donor restricted endowments is included in Note 22 of the consolidated TTUS *Annual Financial Report*.

**NOTE 23**  
**Extraordinary and Special Items**

TTUHSC had no special or extraordinary items during the year ended August 31, 2016.

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***Notes to the Financial Statements***  
***August 31, 2016***

**NOTE 24**  
**Disaggregation of Receivable and Payable Balances**

**RECEIVABLES**

Components of receivables as of August 31, 2016, and net receivable balances as of August 31, 2016 and 2015 are summarized in the following tables.

| Description                       | As of 08/31/16       |                    |                    | As of 08/31/15     |
|-----------------------------------|----------------------|--------------------|--------------------|--------------------|
|                                   | Gross<br>Receivables | Allowances         | Net<br>Receivables | Net<br>Receivables |
| Federal Receivable                | \$ 991,854.87        | \$ -               | \$ 991,854.87      | \$ 3,039,320.83    |
| Patient Accounts Receivable       | 40,779,088.14        | (24,239,286.44)    | 16,539,801.70      | 16,112,764.62      |
| Student Accounts Receivable       | 1,209,497.66         | (417,797.34)       | 791,700.32         | 754,096.39         |
| Contract Accounts Receivable      | 22,199,534.30        | (60.00)            | 22,199,474.30      | 14,586,847.22      |
| Interest and Dividends Receivable | 355,815.27           | -                  | 355,815.27         | 385,217.05         |
| Pledged Gifts Receivable          | 2,133,460.34         | (123,740.70)       | 2,009,719.64       | 338,203.66         |
| Other Receivables                 | 605,827.30           | (163,395.08)       | 442,432.22         | 797,249.38         |
| Subtotal - Current                | 68,275,077.88        | (24,944,279.56)    | 43,330,798.32      | 36,013,699.15      |
| Pledged Gifts Receivable          | 9,417,166.08         | (546,195.63)       | 8,870,970.45       | 1,767,724.82       |
| Subtotal - Non-Current            | 9,417,166.08         | (546,195.63)       | 8,870,970.45       | 1,767,724.82       |
| Total Receivables                 | \$ 77,692,243.96     | \$ (25,490,475.19) | \$ 52,201,768.77   | \$ 37,781,423.97   |

| Description                      | As of 08/31/16      |                 |                   | As of 08/31/15    |
|----------------------------------|---------------------|-----------------|-------------------|-------------------|
|                                  | Gross<br>Receivable | Allowances      | Net<br>Receivable | Net<br>Receivable |
| Loans and Notes Receivable       |                     |                 |                   |                   |
| Current                          | \$ 479,577.68       | \$ (260,987.48) | \$ 218,590.20     | \$ 314,266.24     |
| Non-Current                      | 2,454,465.30        | (293,753.95)    | 2,160,711.35      | 2,315,495.76      |
| Total Loans and Notes Receivable | 2,934,042.98        | (554,741.43)    | 2,379,301.55      | 2,629,762.00      |

**NOTE 25**  
**Termination Benefits**

TTUHSC had no reportable termination benefits during the year ended August 31, 2016.

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### *Notes to the Financial Statements*

*August 31, 2016*

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| <b>NOTE 26</b><br><b>Segment Information</b> |
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TTUHSC had no reportable segments during the year ended August 31, 2016.

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| <b>NOTE 27</b><br><b>Service Concession Arrangements</b> |
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TTUHSC had no reportable service concession arrangements during the year ended August 31, 2016.

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| <b>NOTE 28</b><br><b>Deferred Outflows and Deferred Inflows of Resources</b> |
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TTUHSC had no deferred outflows and deferred inflows of resources the year ended August 31, 2016.

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|---|
| <b>NOTE 29</b><br><b>Trouble Debt Restructuring</b> |
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TTUHSC had no outstanding receivables whose terms were modified pursuant to troubled debt restructuring for the year ended August 31, 2016.

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| <b>NOTE 30</b><br><b>Non-Exchange Financial Guarantees</b> |
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TTUHSC had no outstanding non-exchange financial guarantees for the year ended August 31, 2016.

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**SUPPORTING SCHEDULES**

\*\*\*\*\*TEXAS TECH FOUNDATION, INC. for TTUHSC

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*Comparative Statement of Net Position*

*As of August 31, 2016 and 2015*

|                                      | <u>2016</u>                    | <u>2015</u>                    |
|--------------------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                        |                                |                                |
| Current Assets:                      |                                |                                |
| Restricted Cash and Cash Equivalents | \$ 1,688,644.71                | \$ 740,641.86                  |
| Receivables:                         |                                |                                |
| Gifts                                | 732,721.84                     | 753,525.95                     |
| Interest and Dividends               | 900.71                         | 778.64                         |
| Total Current Assets                 | <u>\$ 2,422,267.26</u>         | <u>\$ 1,494,946.45</u>         |
| Non-Current Assets:                  |                                |                                |
| Restricted Cash and Cash Equivalents | \$ 2,518,969.22                | \$ 2,436,556.25                |
| Gifts Receivable                     | 2,742,998.81                   | 46,923.49                      |
| Investments                          | 54,087,240.17                  | 55,949,451.43                  |
| Total Non-Current Assets             | <u>\$ 59,349,208.20</u>        | <u>\$ 58,432,931.17</u>        |
| TOTAL ASSETS                         | <u><u>\$ 61,771,475.46</u></u> | <u><u>\$ 59,927,877.62</u></u> |
| <b>LIABILITIES</b>                   |                                |                                |
| Current Liabilities:                 |                                |                                |
| Other Current Liabilities            | \$ -                           | \$ -                           |
| Total Current Liabilities            | <u>\$ -</u>                    | <u>\$ -</u>                    |
| Non-Current Liabilities:             |                                |                                |
| Other Non-Current Liabilities        | \$ -                           | \$ -                           |
| Total Non-Current Liabilities        | <u>\$ -</u>                    | <u>\$ -</u>                    |
| TOTAL LIABILITIES                    | <u>\$ -</u>                    | <u>\$ -</u>                    |
| <b>NET POSITION</b>                  |                                |                                |
| Restricted for:                      |                                |                                |
| Funds Held as Permanent Investments  |                                |                                |
| Nonexpendable                        | \$ 54,121,430.28               | \$ 54,157,009.71               |
| Other                                | 7,650,045.18                   | 5,770,867.91                   |
| Unrestricted                         | <u>-</u>                       | <u>-</u>                       |
| TOTAL NET POSITION                   | <u>\$ 61,771,475.46</u>        | <u>\$ 59,927,877.62</u>        |
| TOTAL LIABILITIES AND NET POSITION   | <u><u>\$ 61,771,475.46</u></u> | <u><u>\$ 59,927,877.62</u></u> |

.....TEXAS TECH FOUNDATION, INC. for TTUHSC

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***Comparative Statement of Revenues, Expenses, and Changes in Net Position***  
***For the Year Ended of August 31, 2016 and 2015***

|   | <u>2016</u>                 | <u>2015</u>                 |
|---|-----------------------------|-----------------------------|
| <b>OPERATING REVENUES</b>                                     |                             |                             |
| Other Revenues  | \$ -                        | \$ -                        |
| Total Operating Revenues                                      | <u>\$ -</u>                 | <u>\$ -</u>                 |
| <b>OPERATING EXPENSES</b>                                     |                             |                             |
| Travel  | \$ -                        | \$ 2,699.65                 |
| Printing and Production                                       | -                           | 1,363.00                    |
| Other Expenses  | 693.04                      | 4,156.20                    |
| Total Operating Expenses                                      | <u>\$ 693.04</u>            | <u>\$ 8,218.85</u>          |
| Operating Loss  | <u>\$ (693.04)</u>          | <u>\$ (8,218.85)</u>        |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                      |                             |                             |
| Gifts   | \$ 4,368,795.32             | \$ 6,843,764.45             |
| Interest and Investment Income                                | 2,623,666.22                | 1,637,740.41                |
| Net Decrease in Fair Value of Investments                     | <u>(2,684,981.41)</u>       | <u>(2,054,438.02)</u>       |
| Total Non-Operating Revenues (Expenses)                       | <u>\$ 4,307,480.13</u>      | <u>\$ 6,427,066.84</u>      |
| <b>CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS</b>        |                             |                             |
| Net Transfers from Texas Tech Foundation Inc.                 | \$ 96,167.80                | \$ 174,412.74               |
| Net Transfers to Texas Tech University                        | (50,000.00)                 | -                           |
| Net Transfers to Texas Tech University Health Sciences Center | <u>(2,509,357.05)</u>       | <u>(2,239,545.95)</u>       |
| Net Other Revenues, Expenses, Gains, Losses, and Transfers    | <u>\$ (2,463,189.25)</u>    | <u>\$ (2,065,133.21)</u>    |
| <br>TOTAL CHANGE IN NET POSITION                              | <br><u>\$ 1,843,597.84</u>  | <br><u>\$ 4,353,714.78</u>  |
| <br>Net Assets, September 1st                                 | <br><u>\$ 59,927,877.62</u> | <br><u>\$ 55,574,162.84</u> |
| <br>Net Assets, August 31st                                   | <br><u>\$ 61,771,475.46</u> | <br><u>\$ 59,927,877.62</u> |

.....TEXAS TECH FOUNDATION, INC. for TTUHSC  
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***Comparative Statement of Cash Flows***  
***For the Year Ended August 31, 2016 and 2015***

|   | <u>2016</u>                | <u>2015</u>                |
|---|----------------------------|----------------------------|
| <b>Cash Flows from Operating Activities</b>   |                            |                            |
| Payments to Suppliers   | \$ -                       | \$ (4,062.65)              |
| Payments for Other Operating Activities   | (693.04)                   | (4,156.20)                 |
| Net Cash Used for Operating Activities  | <u>\$ (693.04)</u>         | <u>\$ (8,218.85)</u>       |
| <b>Cash Flows from Non-Capital Financing Activities</b>                               |                            |                            |
| Proceeds from Gifts   | \$ 1,693,524.11            | \$ 7,013,714.44            |
| Proceeds from Transfers - Texas Tech Foundation Inc.                                  | 96,167.80                  | 174,412.74                 |
| Payments for Transfers - Texas Tech University  | (50,000.00)                | -                          |
| Payments for Transfers - Texas Tech University Health Sciences Center                 | <u>(2,509,357.05)</u>      | <u>(2,239,545.95)</u>      |
| Net Cash used for Non-Capital Financing Activities                                    | <u>\$ (769,665.14)</u>     | <u>\$ 4,948,581.23</u>     |
| <b>Cash Flows from Investing Activities</b>   |                            |                            |
| Proceeds from Sales and Maturities of Investments                                     | \$ 29,278.82               | \$ 53,769.09               |
| Proceeds from Interest and Dividends on Investments                                   | 2,607,968.83               | 2,397,441.32               |
| Payments for Purchases of Investments   | <u>(836,473.65)</u>        | <u>(7,440,756.09)</u>      |
| Net Cash Provided by Investing Activities   | <u>\$ 1,800,774.00</u>     | <u>\$ (4,989,545.68)</u>   |
| <br>TOTAL NET CASH FLOWS  | <br><u>\$ 1,030,415.82</u> | <br><u>\$ (49,183.30)</u>  |
| <br>Cash and Cash Equivalents, September 1st  | <br><u>\$ 3,177,198.11</u> | <br><u>\$ 3,226,381.41</u> |
| <br>Cash and Cash Equivalents, August 31st  | <br><u>\$ 4,207,613.93</u> | <br><u>\$ 3,177,198.11</u> |
| <br><b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b> |                            |                            |
| Operating Loss  | \$ (693.04)                | \$ (8,218.85)              |
| Net Cash Used for Operating Activities  | <u>\$ (693.04)</u>         | <u>\$ (8,218.85)</u>       |
| <br><b>Non-Cash Transactions</b>  |                            |                            |
| Net Increase (Decrease) in Fair Value of Investments                                  | \$ (2,684,981.41)          | \$ (2,054,438.02)          |