

**TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER**



**Annual Financial Report
Fiscal Year 2018**

TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

Annual Financial Report

UNAUDITED

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Organizational Data

August 31, 2018

BOARD OF REGENTS

Term Expires

Tim Lancaster (Chair)	January 31, 2019	Abilene
Christopher M. Huckabee (Vice Chair)	January 31, 2021	Fort Worth
John Esparza.....	January 31, 2019	Austin
L. Frederick (Rick) Francis.....	January 31, 2019	El Paso
Mickey L. Long	January 31, 2021	Midland
Ronnie Hammonds	January 31, 2021	Houston
J. Michael Lewis	January 31, 2023	Dallas
John Steinmetz	January 31, 2023	Dallas
John Walker.....	January 31, 2023	Houston
Jane Gilmore (Student Regent)	May 31, 2019	Dallas

FISCAL OFFICERS

Tedd L. Mitchell, M.D.	Chancellor
Gary Barnes	Vice Chancellor and Chief Financial Officer
Tedd L. Mitchell, M.D.	President
Penny Harkey.....	Vice President and Chief Financial Officer
Michael Crowder	Associate Vice President for Business Affairs
Melody Oliphint	Director of Accounting Services

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TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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FINANCIAL STATEMENTS

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Comparative Statement of Net Position
As of August 31, 2018 and 2017

	2018	<i>Restated</i> 2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 126,860,535.59	\$ 115,602,825.33
Restricted Cash and Cash Equivalents	25,067,744.08	18,461,517.52
Legislative Appropriations	57,933,750.84	52,281,592.86
Receivables:		
Federal	1,718,907.41	4,829,385.25
Patient	13,805,691.69	14,392,843.26
Student	758,663.76	734,387.67
Contracts	15,909,470.95	17,765,210.51
Interest and Dividends	469,246.94	401,883.27
Gifts	1,201,821.21	619,031.14
Other	497,794.64	445,465.08
Due from Other State Agencies	8,644,096.57	8,891,807.06
Due from Other Component Units	6,356.51	19,595.45
Inventories	1,146,910.27	1,024,882.83
Prepaid Items	5,007,665.95	5,618,584.04
Loans and Notes	358,061.50	277,035.06
Total Current Assets	\$ 259,386,717.91	\$ 241,366,046.33
Non-Current Assets:		
Restricted Cash and Cash Equivalents	\$ 22,851.72	\$ 275,331.06
Restricted Investments	143,278,934.00	134,657,129.35
Gifts Receivable	-	48,255.61
Loans and Notes	1,731,497.88	2,023,951.99
Investments	214,570,534.85	218,295,143.94
Capital Assets:		
Non-Depreciable or Non-Amortizable	73,582,337.10	25,150,792.87
Depreciable or Amortizable	542,638,152.27	522,491,627.83
less Accumulated Depreciation and Amortization	(340,894,551.61)	(323,280,082.31)
Total Non-Current Assets	\$ 634,929,756.21	\$ 579,662,150.34
TOTAL ASSETS	\$ 894,316,474.12	\$ 821,028,196.67

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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Comparative Statement of Net Position
As of August 31, 2018 and 2017

	<i>2018</i>	<i>Restated 2017</i>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 31,312,470.28	\$ 23,451,075.86
Payroll Payable	32,788,120.19	30,877,497.00
Unearned Revenue	20,503,524.55	18,641,474.63
Due to Other State Agencies	71,556.55	48,798.66
Due to Other Component Units	11,831.66	7,093.66
Employees' Compensable Leave	2,815,108.16	2,889,794.67
Funds Held for Others	287,614.85	423,491.81
Other Current Liabilities	1,599,725.23	9,036,930.02
Total Current Liabilities	\$ 89,389,951.47	\$ 85,376,156.31
Non-Current Liabilities:		
Employees' Compensable Leave	\$ 22,776,784.22	\$ 21,191,827.63
Other Non-Current Liabilities	59,653.64	63,451.24
Total Non-Current Liabilities	\$ 22,836,437.86	\$ 21,255,278.87
TOTAL LIABILITIES	\$ 112,226,389.33	\$ 106,631,435.18
NET POSITION		
Net Investment in Capital Assets	\$ 275,325,937.76	\$ 224,362,338.39
Restricted:		
Nonexpendable		
Endowments	68,864,593.98	66,726,682.25
Expendable		
Capital Projects	(11,829,471.59)	(5,266,946.16)
Other	100,616,427.36	90,313,452.84
Unrestricted	349,112,597.28	338,261,234.17
TOTAL NET POSITION	\$ 782,090,084.79	\$ 714,396,761.49

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<i>Restated</i> <u>2017</u>
OPERATING REVENUES		
Tuition and Fee Revenue	\$ 1,562,085.54	\$ 1,481,179.39
Tuition and Fee Revenue - Pledged	57,740,314.36	51,585,546.39
Discounts and Allowances	(7,311,589.00)	(6,641,149.26)
Professional Fees	435,377,772.27	420,159,568.21
Professional Fees - Pledged	681,148.84	723,138.22
Discounts and Allowances	(214,521,142.06)	(208,809,668.50)
Auxiliary Enterprises - Pledged	828,063.39	843,128.18
Other Sales and Services	4,645,261.12	4,756,778.37
Other Sales and Services - Pledged	6,439,036.67	6,512,517.06
Federal Grant and Contract Revenue	15,817,470.99	18,095,876.61
Federal Pass-Through Revenue	1,639,986.84	2,285,439.63
State Grant and Contract Revenue	30,460.53	68,211.78
State Grant and Contract Revenue - Pledged	22,813.60	19,992.00
State Grant and Contract Pass-Through Revenue	11,583,941.60	13,722,616.17
Local Grant and Contract Revenue	57,793,840.75	31,036,201.32
Local Grant and Contract Revenue - Pledged	1,133,719.74	1,073,671.55
Private Grant and Contract Revenue	77,445,540.38	98,131,032.57
Private Grant and Contract Revenue - Pledged	2,907,224.59	1,357,908.34
Other Revenues	22,164,178.70	16,850,856.08
Total Operating Revenues	<u>\$ 475,980,128.85</u>	<u>\$ 453,252,844.11</u>
OPERATING EXPENSES		
Salaries and Wages	\$ 367,864,163.75	\$ 356,004,322.11
Payroll Related Costs	93,476,790.56	91,471,008.43
Professional Fees and Services	54,378,847.93	54,079,678.66
Travel	4,762,671.85	5,105,832.06
Materials and Supplies	31,331,387.44	31,979,804.76
Communications and Utilities	14,567,014.95	13,895,329.65
Repairs and Maintenance	9,700,154.79	8,862,932.12
Rentals and Leases	4,356,047.58	3,980,122.74
Printing and Production	1,539,694.51	1,458,292.31
Federal Grant Pass-Through Expense	373,855.64	476,312.20
State Grant Pass-Through Expense	20,017.43	30,557.99
Depreciation and Amortization	20,787,804.87	20,973,237.07
Bad Debt Expense (Recovery)	280,140.42	86,781.32
Interest Expense	9,033.01	6,303.72
Scholarships	3,821,572.66	4,602,054.94
Claims and Judgments	13,652.39	1,352.01
Other Expenses	54,167,246.03	49,411,499.11
Total Operating Expenses	<u>\$ 661,450,095.81</u>	<u>\$ 642,425,421.20</u>
Operating Loss	<u>\$ (185,469,966.96)</u>	<u>\$ (189,172,577.09)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2018 and 2017

	<i>2018</i>	<i>Restated 2017</i>
NON-OPERATING REVENUES (EXPENSES)		
Legislative Appropriations Revenue	\$ 166,507,267.20	\$ 158,541,598.67
Federal Grant and Contract Revenue	2,141,938.00	1,875,839.00
State Pass-Through Revenue	103,125.00	98,125.00
Gifts	9,195,790.26	150,026.84
Gifts - Pledged	20,042.76	30,762.49
Investment Income	6,546,005.82	9,389,517.67
Investment Income - Pledged	6,143,168.04	6,073,434.88
Loss on Sale of Capital Assets	(488,877.35)	(215,223.27)
Net Increase in Fair Value of Investments	3,008,480.38	9,919,896.65
Other Revenues	409,342.01	898,425.34
Other Revenues - Pledged	271,394.31	354,139.84
	\$ 193,857,676.43	\$ 187,116,543.11
 CAPITAL CONTRIBUTIONS AND TRANSFERS		
Capital Appropriations (HEAF)	\$ 23,372,396.00	\$ 23,372,396.00
Capital Contributions	12,723,770.59	650,799.35
Legislative Appropriations Lapsed	-	(1,257,406.00)
Net Legislative Transfers Out	(15,308,055.00)	(7,170,317.93)
Net Decrease from Interagency Transfers of Capital Assets	(573,387.04)	(3,986,195.81)
Net Transfers from Texas Tech Foundation Inc.	4,630,038.26	5,301,207.85
Net Transfers from Texas Tech University	471,180.58	318,050.61
Net Transfers to Texas Tech University Health Sciences Center at El Paso	(85,535.60)	(258,328.02)
Net Transfers from Texas Tech University System Administration	34,042,636.04	8,141,433.72
Net Transfers from Other State Agencies	32,570.00	41,296.00
	\$ 59,305,613.83	\$ 25,152,935.77
 TOTAL CHANGE IN NET POSITION	\$ 67,693,323.30	\$ 23,096,901.79
 Net Position, September 1st	\$ 714,396,761.49	\$ 691,299,859.70
 Net Position, August 31st	\$ 782,090,084.79	\$ 714,396,761.49

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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Comparative Matrix of Operating Expenses by Function
For the Years Ended August 31, 2018 and 2017

<i>OPERATING EXPENSES</i>	<i>INSTRUCTION</i>	<i>RESEARCH</i>	<i>PUBLIC SERVICE</i>	<i>PATIENT CARE</i>	<i>ACADEMIC SUPPORT</i>	<i>STUDENT SERVICES</i>
Salaries and Wages	\$165,669,933.14	\$ 19,988,492.83	\$ 55,968,040.14	\$ 49,521,850.65	\$ 49,218,351.28	\$ 6,408,641.43
Payroll Related Costs	32,804,613.12	4,588,253.43	16,626,294.27	14,401,234.71	15,295,004.95	1,886,854.03
Professional Fees and Services	524,706.62	568,751.39	43,112,221.05	1,355,528.72	4,533,328.51	461,600.14
Travel	533,617.46	469,827.91	574,206.96	94,497.13	2,313,186.07	454,129.28
Materials and Supplies	413,065.66	3,293,469.66	11,647,098.27	9,116,323.96	5,093,516.78	1,317,911.96
Communications and Utilities	165,023.23	51,602.48	244,108.65	445,155.15	5,886,674.11	504,850.87
Maintenance and Repair	83,699.93	743,507.01	287,424.22	308,052.00	2,654,582.21	829,367.87
Rentals and Leases	97,637.64	94,899.24	492,906.53	566,300.42	1,438,654.65	179,395.26
Printing and Production	110,655.54	150,610.05	128,101.01	159,961.83	571,660.38	132,234.57
Federal Grant Pass-Through Expense	23,927.25	83,347.68	266,580.71	-	-	-
State Grant Pass-Through Expense	-	8,949.57	11,067.86	-	-	-
Depreciation and Amortization	-	-	-	-	-	-
Bad Debt Expense	-	-	-	-	-	268,231.00
Interest Expense	4.43	284.14	238.84	290.28	4,779.42	25.44
Scholarships	59,333.00	99,569.28	-	-	356,114.24	2,030.00
Claims and Judgments	-	-	8,016.31	-	5,636.08	-
Other Expenses	<u>1,656,660.85</u>	<u>3,795,602.95</u>	<u>2,679,366.42</u>	<u>2,339,102.45</u>	<u>31,441,952.83</u>	<u>2,736,562.93</u>
For the Year Ended August 31, 2018	<u>\$202,142,877.87</u>	<u>\$ 33,937,167.62</u>	<u>\$132,045,671.24</u>	<u>\$ 78,308,297.30</u>	<u>\$118,813,441.51</u>	<u>\$ 15,181,834.78</u>
For the Year Ended August 31, 2017	<u>\$196,720,755.05</u>	<u>\$ 35,031,946.57</u>	<u>\$129,619,277.31</u>	<u>\$ 73,663,290.69</u>	<u>\$114,636,140.66</u>	<u>\$ 13,861,931.27</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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Comparative Matrix of Operating Expenses by Function
For the Years Ended August 31, 2018 and 2017

<i>OPERATING EXPENSES</i>	<i>INSTITUTIONAL SUPPORT</i>	<i>OPERATION & MAINTENANCE OF PLANT</i>	<i>SCHOLARSHIPS & FELLOWSHIPS</i>	<i>AUXILIARY ENTERPRISES</i>	<i>DEPRECIATION & AMORTIZATION</i>	<i>TOTAL EXPENSES</i>
Salaries and Wages	\$ 15,563,932.74	\$ 5,288,581.94	\$ 13,000.00	\$ 223,339.60	\$ -	\$367,864,163.75
Payroll Related Costs	5,642,928.94	2,139,855.49	958.84	90,792.78	-	93,476,790.56
Professional Fees and Services	2,665,894.70	1,153,304.30	-	3,512.50	-	54,378,847.93
Travel	301,436.93	14,275.35	-	7,494.76	-	4,762,671.85
Supplies and Materials	212,834.13	225,226.19	-	11,940.83	-	31,331,387.44
Communications and Utilities	606,280.83	6,653,590.43	-	9,729.20	-	14,567,014.95
Maintenance and Repair	403,984.12	4,368,962.11	-	20,575.32	-	9,700,154.79
Rentals and Leases	48,955.29	1,434,237.25	-	3,061.30	-	4,356,047.58
Printing and Production	245,524.92	27,143.93	-	13,802.28	-	1,539,694.51
Federal Grant Pass-Through Expense	-	-	-	-	-	373,855.64
State Grant Pass-Through Expense	-	-	-	-	-	20,017.43
Depreciation and Amortization	-	-	-	-	20,787,804.87	20,787,804.87
Bad Debt Expense	11,909.42	-	-	-	-	280,140.42
Interest Expense	3,115.74	294.72	-	-	-	9,033.01
Scholarships and Fellowships	9,500.00	-	3,295,026.14	-	-	3,821,572.66
Claims and Judgments	-	-	-	-	-	13,652.39
Other Expenses	<u>3,656,495.67</u>	<u>5,789,605.48</u>	<u>-</u>	<u>71,896.45</u>	<u>-</u>	<u>54,167,246.03</u>
	<u>\$ 29,372,793.43</u>	<u>\$ 27,095,077.19</u>	<u>\$ 3,308,984.98</u>	<u>\$ 456,145.02</u>	<u>\$ 20,787,804.87</u>	<u>\$661,450,095.81</u>
	<u>\$ 28,711,734.72</u>	<u>\$ 24,812,361.58</u>	<u>\$ 3,969,211.72</u>	<u>\$ 425,534.56</u>	<u>\$ 20,973,237.07</u>	<u>\$642,425,421.20</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, 2018 and 2017

	<u>2018</u>	<u>Restated 2017</u>
Cash Flows from Operating Activities		
Proceeds from Patients and Insurers	\$ 222,125,110.62	\$ 214,218,628.37
Proceeds from Tuition and Fees	53,965,272.66	47,636,810.01
Proceeds from Grants and Contracts	173,616,305.15	165,086,658.35
Proceeds from Loans	4,067,298.34	3,267,838.96
Proceeds from Auxiliaries	828,063.39	843,128.18
Proceeds from Other Operating Revenues	33,131,602.09	28,058,628.19
Payments to Suppliers	(113,414,735.42)	(117,036,932.43)
Payments to Employees for Salaries	(364,657,617.11)	(355,274,222.94)
Payments to Employees for Benefits	(93,262,443.93)	(91,375,090.41)
Payments for Loans Issued	(4,001,619.54)	(3,240,849.26)
Payments for Other Operating Expenses	<u>(64,614,067.42)</u>	<u>(56,258,954.37)</u>
Net Cash Used for Operating Activities	<u>\$ (152,216,831.17)</u>	<u>\$ (164,074,357.35)</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds from Legislative Appropriations	\$ 160,855,109.22	\$ 149,103,167.38
Proceeds from Gifts	8,681,298.56	4,992,504.16
Proceeds from Nonoperating Grants and Contracts	2,109,186.04	1,973,964.00
Proceeds from Other Noncapital Financing Activities	680,736.32	1,359,362.58
Proceeds from Agency Transactions	69,101,308.00	64,151,395.00
Proceeds from Transfers - Texas Tech Foundation, Inc.	4,630,038.26	5,301,207.85
Proceeds from Transfers - Texas Tech University	471,180.58	318,050.61
Proceeds from Transfers - Other State Agencies	89,077.00	6,318,653.00
Payments for Transfers - Texas Tech University Health Sciences Center at El Pas	(85,535.60)	(258,328.02)
Payments for Transfers - Texas Tech University System Administration	(4,471,192.28)	(5,126,959.59)
Payments for Other Uses	<u>(69,101,308.00)</u>	<u>(64,151,395.00)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 172,959,898.10</u>	<u>\$ 163,981,621.97</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Capital Assets	\$ 47,154.45	\$ 140,868.34
Proceeds from Legislative Appropriations for Capital	23,372,396.00	23,372,396.00
Proceeds from Transfers - Texas Tech University System Administration	37,138,691.32	11,835,959.31
Payments for Transfers - Texas Tech University System Administration	(13,989,425.00)	(12,015,240.93)
Payments for Additions to Capital Assets	(60,137,052.49)	(28,521,562.88)
Payments for Additions to Capital Assets - Texas Tech University	<u>-</u>	<u>(3,810,000.00)</u>
Net Cash Used for Capital and Related Financing Activities	<u>\$ (13,568,235.72)</u>	<u>\$ (8,997,580.16)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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Comparative Statement of Cash Flows
For the Year Ended August 31, 2018 and 2017

	<u>2018</u>	<u>Restated 2017</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	\$ 50,877,889.43	\$ 53,484,723.25
Proceeds from Interest and Investment Income	13,695,666.39	11,638,018.82
Payments for Acquisition of Investments	<u>(54,136,929.55)</u>	<u>(52,374,327.42)</u>
Net Cash Used for Investing Activities	<u>\$ 10,436,626.27</u>	<u>\$ 12,748,414.65</u>
TOTAL NET CASH FLOWS	<u>\$ 17,611,457.48</u>	<u>\$ 3,658,099.11</u>
Cash and Cash Equivalents, September 1st	<u>\$ 134,339,673.91</u>	<u>\$ 130,681,574.80</u>
Cash and Cash Equivalents, August 31st	<u>\$ 151,951,131.39</u>	<u>\$ 134,339,673.91</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	\$ (185,469,966.96)	\$ (189,172,577.09)
Adjustments		
Depreciation Expense	20,787,804.87	20,973,237.07
Decrease (Increase) in Receivables	5,476,763.32	2,797,971.64
Decrease (Increase) in Loans and Notes Receivable	211,427.67	78,314.50
Decrease (Increase) in Inventories	(122,027.44)	9,581.62
Decrease (Increase) in Due from Other Agency	557,418.17	(1,461,589.29)
Decrease (Increase) in Prepaid Expenses	610,918.09	(536,705.99)
Increase (Decrease) in Payables	9,772,017.61	3,408,173.07
Increase (Decrease) in Deferred Revenue	1,862,049.92	1,361,368.50
Increase (Decrease) in Compensable Leave	1,510,270.08	1,628,827.21
Increase (Decrease) in Due to Other Agency	27,495.89	34,424.24
Increase (Decrease) in Other Liabilities	<u>(7,441,002.39)</u>	<u>(3,195,382.83)</u>
Net Cash Used for Operating Activities	<u>\$ (152,216,831.17)</u>	<u>\$ (164,074,357.35)</u>
Non-Cash Transactions		
Donations of Capital Assets	\$ 12,723,770.59	\$ 650,799.35
Net Increase (Decrease) in Fair Value of Investments	3,008,480.38	9,919,896.65
Disposal of Capital Assets	(536,031.80)	(356,091.61)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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NOTES TO FINANCIAL STATEMENTS

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NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

Texas Tech University Health Sciences Center (TTUHSC) originated as the Texas Tech University School of Medicine was created by the 61st Texas Legislature in 1969. The school later evolved into the Texas Tech University Health Sciences Center, as a separate institution and agency of the State of Texas, pursuant to Texas Education Code, Chapter 110. TTUHSC operates five schools and five satellite campuses across West Texas, as well as multiple online programs. School and locations in which they operate are as follows:

- School of Medicine - located in Amarillo, Lubbock, and Odessa
- School of Nursing - located in Abilene, Lubbock, Odessa, and Dallas
- School of Health Professions - located in Amarillo, Lubbock, Midland, and Odessa
- School of Pharmacy - located in Abilene, Amarillo, Lubbock, and Dallas
- Graduate School of Biomedical Sciences - located in Abilene, Amarillo, and Lubbock

TTUHSC is one of five entities included in the Texas Tech University System (TTUS). 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.

TTUS and TTUHSC are governed by a nine-member Board of Regents (the "Board") appointed by the governor with the advice and consent of the senate for staggered terms of six years each, with the terms of three members expiring on January 31 of each odd-numbered year. In addition to the nine members, there also is a non-voting student regent who is appointed by the governor to serve a one-year term that begins on June 1 of each year.

TTUS is an agency of the State of Texas (the "State") and is reported as one of six university systems and five independent universities that in total are presented as a major enterprise fund in the State's Comprehensive Annual Financial Report.

TTUS and TTUHSC have elected to define TTUHSC's reporting entity to include only activities in TTUHSC's name. TTUHSC's proportional share of liabilities in the name of TTUS are reported by TTUS. Transactions associated with bonds, pensions, and other postemployment benefits related to TTUHSC's activities in the name of TTUS are not reported by TTUHSC. However, TTUHSC has elected to make limited disclosures with respect to these matters in notes 6, 9, and 11. The associated financial activities related to these items and required disclosures are made within TTUS's Annual Financial Report.

This Annual Financial Report includes the results of operations of TTUHSC, 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 (the "Comptroller's AFR Requirements") and with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. The Comptroller's AFR Requirements are designed to assist the

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Texas Comptroller of Public Accounts in compiling and preparing the State's CAFR and, accordingly, have some untraditional elements, such as the prohibition of rounding, specific numbering of Notes, and the inclusion of Note titles when the subject matter does not apply.

As required by GAAP, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the TTUHSC's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the TTUHSC's reporting entity.

Texas Tech Physician Associates (TTPA) is a component unit of TTUHSC, and its financial activities 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 TTUS since it serves the fundraising needs of all entities of TTUS. No balances or activities associated with TTFI are included in the accompanying financial statements for TTUHSC. However, TTFI's financial data attributable to TTUHSC is presented following the notes to the financial statements in the other supplemental information section of this report.

BASIS OF ACCOUNTING

For financial reporting purposes, institutions of higher education are considered proprietary funds, which are used to account for business-type activities. Business-type activities are defined as those that are financed in whole or in part by fees charged to external parties for goods and services. 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 (GASB 35). Under GASB 35, institutions of higher education must follow proprietary fund accounting, and are required to report all funds in a single column instead of by individual fund.

The basis of accounting determines when revenues and expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds use 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 recorded when an obligation has occurred.

Budget and Budgetary Accounting

The State's budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (the "General Appropriations Act"). Additionally, TTUS and TTUHSC prepare an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by TTUS's Board. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

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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, cash 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 known amounts of cash and so near to maturity that they present insignificant risk of valuation changes due to interest rate fluctuations. 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 generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72, Fair Value Measurement and Application. 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 gains (losses) 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*.

Legislative Appropriations

This item represents the balance of General Revenue Funds and Higher Education Assistance Funds at August 31 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

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.

Inventories and Prepaid Items

Inventories include both consumable inventories and merchandise inventories on hand for resale. 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.

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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.

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. Gifts of donated assets are recorded at acquisition value (the price that would be paid to acquire the asset with equivalent service potential in an orderly market transaction) at the date of donation.

The capitalization threshold for personal property, such as furniture, equipment and vehicles is \$5,000. For buildings, building improvements, and facilities and other improvements, the capitalization threshold is \$100,000. Infrastructure has a capitalization threshold of \$500,000. Land, works of art, and historical treasures are capitalized regardless of cost or value.

Intangible capital assets, defined as assets that lack physical substance and that are non-financial in nature, include computer software and land use rights. Purchased computer software is capitalized if the aggregate cost of the purchase meets or exceeds \$100,000. Internally generated computer software has a capitalization threshold of \$1,000,000, and other intangible capital assets must be capitalized if the cost meets or exceeds \$100,000.

Depreciation for capital assets is computed using the straight-line method over the estimated useful lives of the assets. Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the 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. Amortization of intangible assets is based on the estimated useful life of the asset using the straight-line method. Land, works of art, and historical treasures are not depreciated.

Payables

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending. Payroll payable includes accrued salaries, wages, and benefits.

Unearned Revenue

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

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Employees' Compensable Leave

Employees' compensable leave represents the liability that becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid. These liabilities are reported separately as either current or noncurrent in the *Comparative Statement of Net Position*, and are explained in more detail in Note 5.

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 6.

Funds Held for Others

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

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.

Invested In Capital Assets consists of capital assets, net of accumulated depreciation and amortization.

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*).

Expendable – net position use is subject to externally imposed stipulations that can be fulfilled by actions pursuant to those stipulations, or that expire by the passage of time.

Nonexpendable – net position is subject to externally imposed stipulations that they be maintained permanently. Such assets include the principal of permanent endowment funds.

Unrestricted Net Position consists of net resources that do not meet the definition of the two preceding categories. These resources may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties.

Interfund Activity and Transactions

TTUHSC 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.

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Operating and Nonoperating Revenues and Expenses

Operating Revenues and Expenses include activities such as student tuition and fees, net sales and services of auxiliary enterprises, exchange basis federal, state, and local grants and contracts, and related expenses, including depreciation. Also included are scholarships and fellowships, impairment losses, and insurance recovery in the year of the loss.

Nonoperating Revenues and Expenses include activities such as gifts and contributions, insurance recoveries received in years subsequent to the loss, State appropriations, investment income, nonexchange basis federal and state grants and contracts, and other nonoperating items defined by GASB.

NOTE 2
Capital Assets

A summary of changes in capital assets for the year ended August 31, 2018 is presented below.

Capital Asset Category	Balance 09/01/17	Adjustments	Completed CIP	Reclassifications		Additions	Deletions	Balance 08/31/18
				Increases – Interagency Transfers	Decreases – Interagency Transfers			
BUSINESS-TYPE ACTIVITIES								
Non-Depreciable/Non-Amortizable Assets:								
Land and Land Improvements	\$ 10,864,832.86	\$ -	\$ -	\$ -	\$ -	\$ 287,000.00	\$ -	\$ 11,151,832.86
Construction In Progress	12,694,242.04	-	(264,820.00)	-	-	48,256,914.23	-	60,686,336.27
Other	1,591,717.97	-	-	-	-	152,450.00	-	1,744,167.97
Total Non-Depreciable/Non-Amortizable Assets	\$ 25,150,792.87	\$ -	\$ (264,820.00)	\$ -	\$ -	\$ 48,696,364.23	\$ -	\$ 73,582,337.10
Depreciable Assets:								
Buildings and Improvements	\$ 374,581,710.96	\$ -	\$ 264,820.00	\$ -	\$ -	\$ 15,763,014.64	\$ -	\$ 390,609,545.60
Infrastructure	8,216,484.49	-	-	-	-	-	-	8,216,484.49
Facilities & Other Improvements	11,080,694.47	-	-	-	-	2,252,957.42	-	13,333,651.89
Furniture and Equipment	85,963,858.28	-	-	-	(599,678.79)	4,894,325.99	(3,127,114.24)	87,131,391.24
Vehicles	1,900,263.40	-	-	35,469.00	-	53,365.00	(65,824.38)	1,923,273.02
Other	33,060,236.00	-	-	-	-	55,149.00	(424,085.00)	32,691,300.00
Total Depreciable Assets at Cost	\$ 514,803,247.60	\$ -	\$ 264,820.00	\$ 35,469.00	\$ (599,678.79)	\$ 23,018,812.05	\$ (3,617,023.62)	\$ 533,905,646.24
Less Accumulated Depreciation for:								
Buildings and Improvements	\$ (218,071,621.44)	\$ -	\$ -	\$ -	\$ -	\$ (12,097,466.84)	\$ -	\$ (230,169,088.28)
Infrastructure	(3,606,301.29)	-	-	-	-	(371,781.36)	-	(3,978,082.65)
Facilities & Other Improvements	(5,522,759.00)	-	-	-	-	(538,054.28)	-	(6,060,813.28)
Furniture and Equipment	(61,602,558.33)	-	-	-	26,291.75	(6,159,297.48)	3,015,167.44	(64,720,396.62)
Vehicles	(1,424,282.62)	-	-	(35,469.00)	-	(152,713.26)	65,824.38	(1,546,640.50)
Other	(26,543,952.42)	-	-	-	-	(10,101,855.52)	-	(27,554,137.94)
Total Accumulated Depreciation	\$ (316,771,475.10)	\$ -	\$ -	\$ (35,469.00)	\$ 26,291.75	\$ (20,329,498.74)	\$ 3,080,991.82	\$ (334,029,159.27)
Depreciable Assets - Net	\$ 198,031,772.50	\$ -	\$ 264,820.00	\$ -	\$ (573,387.04)	\$ 2,689,313.31	\$ (536,031.80)	\$ 199,876,486.97
Amortizable Assets:								
Computer Software	\$ 7,057,778.63	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (101,521.00)	\$ 6,956,257.63
Other	630,601.60	-	-	-	-	1,145,646.80	-	1,776,248.40
Total Amortizable Assets	\$ 7,688,380.23	\$ -	\$ -	\$ -	\$ -	\$ 1,145,646.80	\$ (101,521.00)	\$ 8,732,506.03
Less Accumulated Amortization for:								
Computer Software	\$ (6,441,866.56)	\$ -	\$ -	\$ -	\$ -	\$ (399,273.31)	\$ 101,521.00	\$ (6,739,618.87)
Other	(66,740.65)	-	-	-	-	(59,032.82)	-	(125,773.47)
Total Accumulated Amortization	\$ (6,508,607.21)	\$ -	\$ -	\$ -	\$ -	\$ (458,306.13)	\$ 101,521.00	\$ (6,865,392.34)
Amortizable Assets - Net	\$ 1,179,773.02	\$ -	\$ -	\$ -	\$ -	\$ 687,340.67	\$ -	\$ 1,867,113.69
Capital Assets - Net	\$ 224,362,338.39	\$ -	\$ -	\$ -	\$ (573,387.04)	\$ 52,073,018.21	\$ (536,031.80)	\$ 275,325,937.76

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NOTE 3

Deposits, Investments and Repurchase Agreements

TUHSC investments balances consist primarily of amounts invested in the portfolio that is managed at the consolidated level by Texas Tech University System Administration (TTUSA). TTUHSC's investment portfolio is invested pursuant to the parameters of applicable Texas law and the Board's Investment Policies. Under Texas law, TTUHSC investments may be "any kind of investment that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Under Texas law, TTUHSC is required to invest its institutional funds according to written investment policies adopted by the Board. No person may invest TTUHSC funds without express written authority from the Board.

The governing investment policy is Regents' Rules Chapter 09, "Investment and Endowments." The majority of TTUHSC 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. Other assets include securities gifted to TTUHSC with donor instructions to maintain in their original form, and debt proceeds.

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

Commercial paper, both taxable and non-taxable 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

Compensable Leave

A State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Under state law, the hours accumulated are limited based on the employee's length of service. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Comparative Statement of Net Position. This obligation is paid from a central vacation pool account which collects the funding from the

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same funding source(s) from which the employee’s salary or wage compensation was paid. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

Claims and Judgments

Medical malpractice claims and judgements result in the regular course of providing medical services. Claims and judgments include estimates for both known medical malpractice claims and estimates, and are actuarially determined for incurred but not reported (IBNR) liability. Both of TTUS’s component institutions which provide medical services, TTUHSC and TTUHSCPEP, have self-insured arrangements for medical malpractice coverage through a medical malpractice self-insurance plan (the “Medical Malpractice Self Insurance Plan”) which is managed by TTUS’s Office of General Counsel. Funding for future claim payments will come from the Medical Malpractice Self Insurance Plan. TTUHSC does not report its proportional share of the medical malpractice claims and judgements or the Medical Malpractice Self Insurance Plan, but rather such amounts are reported by TTUS and details are available in TTUS *Annual Financial Report* in Notes 5 and 17.

Bonds Payable

See Note 6 Bonded Indebtedness for a disclosure of bond related long-term debt.

The following changes occurred in long-term liabilities for the year ended August 31, 2018:

Category	Balance 09/01/17	Additions	Reductions	Restatement/ Adjustment	Balance 08/31/18	Amounts Due Within One Year	Amounts Due Thereafter
Compensable Leave	<u>\$ 24,081,622.30</u>	<u>\$ 1,510,270.08</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,591,892.38</u>	<u>\$ 2,815,108.16</u>	<u>\$ 22,776,784.22</u>
Total Long Term Liabilities	<u>\$ 24,081,622.30</u>	<u>\$ 1,510,270.08</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,591,892.38</u>	<u>\$ 2,815,108.16</u>	<u>\$ 22,776,784.22</u>

**NOTE 6
Bonded Indebtedness**

The Board established TTUS’s Revenue Financing System (RFS) to provide a financing structure for all revenue supported indebtedness of TTUS’s component institutions. The source of revenues for debt service issued under the RFS includes pledged general tuition, pledged tuition fee, pledged general fee, and any other revenues, income, receipts, rentals, rates, charges, fees including interest or other income, and balances lawfully available to TTUS component institutions. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, and practice plan funds.

All bonded indebtedness associated with TTUHSC activities is issued by TTUSA through RFS. TTUHSC

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does not report its proportional share of the debt, but rather it is reported by TTUSA. TTUHSC revenues, as defined above, are pledged to support the debt. A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. TTUSA and TTUHSC expects future Legislative appropriations to meet debt service requirements for Tuition Revenue Bonds, historically funded through General Revenue Appropriations.

Required information related to consolidated TTUS bonded indebtedness and pledged revenue is included in Note 6 and in Supporting Schedules 2A through 2F of the consolidated TTUS *Annual Financial Report*.

NOTE 7 Derivatives

TTUHSC, through its participation in the TTUS Office of the Treasury's consolidation of investments, periodically holds some interest throughout the year in derivative investments. Required information related to consolidate TTUS derivative investing is included in Note 3 and Note 7 of the consolidated TTUS *Annual Financial Report*.

NOTE 8 Leases

OPERATING LEASES

TTUHSC has entered into various operating leases for buildings and equipment. 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 \$3,378,913.54 and \$3,143,777.80 for the years ended August 31, 2018 and 2017 respectively. Future minimum lease payments are as follows:

For years ending August 31	Minimum Future Lease Payments
2019	\$ 2,813,568.48
2020	2,557,930.58
2021	1,984,344.08
2022	1,645,687.63
2023	1,349,443.63
2024-2028	1,326,072.16
2029-2033	665,000.00
2034-2038	665,000.00
2039-2043	665,000.00
2044-2048	177,333.32
Total Minimum Future Lease Payments	\$ 13,849,379.88

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TTUHSC also has operating lease income for leased building space to outside parties under various operating leases. Total operating lease income under these agreements was \$1,357,444.77 and \$1,203,589.58 for the years ended August 31, 2018 and 2017 respectively. The net carrying value of the assets associated with these leases was \$8,163,723.99 as of August 31, 2018, and consists of historical cost of \$20,970,426.88 less related accumulated depreciation of \$12,806,702.89. Future minimum lease income over the next five years is as follows:

For years ending August 31	Minimum Future Lease Income
2019	\$ 1,299,002.26
2020	1,299,002.26
2021	1,297,139.26
2022	1,291,550.26
2023	1,291,550.26
Total Minimum Future Lease Income	\$ 6,478,244.30

NOTE 9

Defined Benefit Pension Plans and Defined Contribution Plan

DEFINED BENEFIT PENSION PLAN

TTUHSC participates in one of the three retirement systems in the State's financial reporting entity - the Teacher Retirement System (TRS). The accounting and reporting for the TTUHSC's proportionate share of the TRS net pension liability is not included in this report. Instead, full reporting and disclosures of the plans as required by GASB 68 Accounting and Financial Reporting for Pensions are included in TTUS's *Annual Financial Report*. The following disclosures are intended for overview purposes only:

TRS is the administrator of the TRS Plan, a cost-sharing, multiple employer defined benefit pension plan with a special funding situation. The employers of the TRS Plan include the State; TRS; the State's public schools, education service centers, charter schools, and community and junior colleges. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLAs).

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The amount of TTUHSC's contributions to TRS, excluding the State match, was \$6,029,668.34 for the year ended August 31, 2018, and \$5,762,700.52 for the year ended August 31, 2017. Contributions made by the state on behalf of TTUHSC to the TRS program amounted to \$6,365,093.36 for the year ended August 31, 2018 and \$5,851,313.38 for the year ended August 31, 2017.

An audited Comprehensive Annual Financial Report for TRS may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

DEFINED CONTRIBUTION PENSION PLAN

The State has established an Optional Retirement Program (ORP), authorized by Texas Government Code, Chapter 830. Full-time faculty, librarians, and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan. The Texas Higher Education Coordinating Board develops policies, practices, and procedures to provide greater uniformity in the administration of the ORP.

ORP is a defined contribution plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the State has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year and one day of participation. Individual accounts are maintained at the insurance and investment companies selected by each ORP participant.

Additional information for ORP is included in the ORP Participation Report Summary published annually by the Texas Higher Education Coordinating Board. The report can be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, Texas 78711

The contributory percentage of participant salaries by the members (employees) was 6.65% for both fiscal years 2018 and 2017. The contributory percentage of participant salaries by the employer was 6.8% in both fiscal years 2018 and 2017. For those employees who were participating in the ORP on or before August 31, 1995, the employer contribution rate was 8.5% for both fiscal years 2018 and 2017, and will remain so subject to legislative change.

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ORP contributions made by plan members and the employer for the years ending August 31, 2018 and 2017 are detailed in the following table.

For the Year Ended:	08/31/18	08/31/17
Member Contributions	\$ 7,720,786.09	\$ 7,920,141.50
Employer Contributions	8,221,589.05	8,496,511.05
Total ORP Contributions	<u>\$ 15,942,375.14</u>	<u>\$ 16,416,652.55</u>

NOTE 10

Deferred Compensation (administering agencies only)

TTUHSC does not serve as an administrative agency as defined by the Texas Comptroller with respect to its Note 10.

NOTE 11

Post-Employment Benefits Other Than Pensions

In addition to providing pension benefits, the State of Texas contributes to a plan administered by Employees Retirement System of Texas (ERS) that provides other postemployment health benefits (OPEB) in the form of health care, life, and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. ERS implemented GASB Statement No. 74, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans, in fiscal year 2017. Complete disclosure of the State's OPEB can be found in the State of Texas' Comprehensive Annual Financial Report.

OPEB liabilities for retired TTUHSC employees, and full disclosures of the related plans as required by GASB 75, are reported by TTUS.

NOTE 12

Interfund Activity and Transactions

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, 2018, TTUHSC had outstanding due from/to other agencies with other component units of TTUS and other State agencies.

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. Remaining Due from/to Other Agencies balances are primarily for federal and state pass through agreements.

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Details about these Due From/To Other Agencies balances for the years ended August 31, 2018 and 2017 are shown in the following table.

Agency Name	Agency Nbr	D23 Fund	As of 08/31/18		As of 08/31/17	
			Due from	Due to	Due from	Due to
Governor - Fiscal	300	9999	\$ 101,338.09	\$ -	\$ 4,581.16	\$ -
Commission of State Emergency Communications	477	9999	61,530.28	-	67,654.40	-
Texas Health & Human Services	529	9999	45,639.54	-	23,472.09	-
Department of Family and Protective Services	530	9999	167,719.01	-	239,001.59	-
Department of State Health Services	537	9999	99,528.59	-	70,184.43	-
Cancer Prevention & Research Institute of Texas	542	9999	2,112,007.97	-	2,671,479.88	-
Department of Agriculture	551	9999	-	-	3,994.52	-
University of Texas System	720	0810	6,052,541.53	-	5,756,072.79	-
University of Texas System	720	9999	-	5,771.42	-	16,743.21
University of Texas - Austin	721	9999	2,901.69	-	17,150.03	-
University of Texas Medical Branch at Galveston	723	9999	-	-	-	12,612.68
University of Texas Southwestern Medical Center	729	9999	889.87	352.19	1,495.00	2,989.75
Texas Woman's University	731	9999	-	53,366.88	-	-
West Texas A&M University	757	9999	-	12,066.06	-	16,453.02
University of North Texas Health Sciences Center	763	9999	-	-	4,952.05	-
Texas Higher Education Coordinating Board	781	9999	-	-	31,769.12	-
Subtotal - Due from Other Agencies			<u>\$ 8,644,096.57</u>	<u>\$ 71,556.55</u>	<u>\$ 8,891,807.06</u>	<u>\$ 48,798.66</u>
Texas Tech University	733	9999	6,356.51	11,831.66	19,595.45	7,093.66
Subtotal - Due from Other Component Units			<u>\$ 6,356.51</u>	<u>\$ 11,831.66</u>	<u>\$ 19,595.45</u>	<u>\$ 7,093.66</u>
Total Due from/to Other Agencies			<u>\$ 8,650,453.08</u>	<u>\$ 83,388.21</u>	<u>\$ 8,911,402.51</u>	<u>\$ 55,892.32</u>

TRANSFERS IN/OUT

For the year ended August 31, 2018, TTUHSC had various Transfers In and Transfers Out from and to other TTUS components and other State agencies. Details about these Transfers In and Transfers Out for the years ended August 31, 2018 and 2017 are shown in the following table.

Agency Name	Agency Nbr	D23 Fund	For the Year Ended 08/31/18		For the Year Ended 08/31/17	
			Transfers In	Transfers Out	Transfers In	Transfers Out
Comptroller - State Fiscal	902	0210	\$ 32,570.00	\$ -	\$ 41,296.00	\$ -
Total Transfers In/Out Other State Agencies			<u>\$ 32,570.00</u>	<u>\$ -</u>	<u>\$ 41,296.00</u>	<u>\$ -</u>
TTU	733	9999	\$ 625,370.91	\$ 154,190.33	\$ 558,673.34	\$ 240,622.73
TTUSA	768	0001	37,339,804.47	3,297,168.43	11,835,959.31	3,694,525.59
TTUHSCEP	774	9999	229,933.90	315,469.50	910,421.33	1,168,749.35
Texas Tech Foundation, Inc. (HSC)		9999	4,624,088.48	10,255.22	5,234,177.85	-
Texas Tech Foundation, Inc. (TTU/TTUSA)		9999	21,530.00	5,325.00	71,530.00	4,500.00
Total Transfers In/Out Component Units			<u>\$ 42,840,727.76</u>	<u>\$ 3,782,408.48</u>	<u>\$ 18,610,761.83</u>	<u>\$ 5,108,397.67</u>

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The transfer in from the Comptroller is for Hazelwood exemptions for Veterans and/or their dependents. The net transfers with TTU and TTUHSC are primarily comprised of transfers pursuant to normal operations for the year ended August 31, 2018. The net transfers from TTUSA are primarily comprised of bond proceeds to fund expenditures on related construction projects as well as transfers pursuant to normal operations. Net transfers in from the Texas Tech Foundation Inc. (TTFI) are comprised of earnings from endowments held by TTFI and TTFI gifts transferred to TTUHSC for spending.

LEGISLATIVE TRANSFERS IN/OUT

Details about TTUHSC's Legislative Transfers Out for the years ended August 31, 2018 and 2017 are shown in the following table.

Agency Name	Agency Nbr	D23 Fund	For the Year Ended 08/31/18		For the Year Ended 08/31/17	
			Legislative Transfers In	Legislative Transfers Out	Legislative Transfers In	Legislative Transfers Out
Texas Veterans Commission	403	0001	\$ -	\$ -	\$ 71,525.00	\$ -
TTUSA	768	0001	-	15,364,562.00	-	13,447,674.93
Texas Comptroller of Public Accounts	902	0001	56,507.00	-	-	-
Texas Higher Education Coordinating Board	781	0001	-	-	6,205,832.00	-
Total Legislative Transfers Out			<u>\$ 56,507.00</u>	<u>\$ 15,364,562.00</u>	<u>\$ 6,277,357.00</u>	<u>\$ 13,447,674.93</u>

For the year ended August 31, 2018, TTUHSC recorded a legislative transfer out to TTUSA for system administration support. TTUHSC 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 Higher Education Coordinating Board was recorded for Hazelwood exemptions for Veterans and/or their dependents.

INTERAGENCY CAPITAL ASSET TRANSFERS IN/OUT

TTUHSC also recorded a decrease for the year ended August 31, 2018 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, 2018 and 2017.

Agency Name	Agency Nbr	D23 Fund	For the Year Ended 08/31/18		For the Year Ended 08/31/17	
			Interagency Capital Asset Transfers In	Interagency Capital Asset Transfers Out	Interagency Capital Asset Transfers In	Interagency Capital Asset Transfers Out
TTU	733		\$ -	\$ 573,387.04	\$ (3,806,700.00)	\$ 113,633.46
TTUSA	768		-	-	-	131,368.48
TTUHSC	774		-	-	65,506.13	-
Total Transfers from/to Other State Agencies			<u>\$ -</u>	<u>\$ 573,387.04</u>	<u>\$ (3,741,193.87)</u>	<u>\$ 245,001.94</u>

NOTE 13
Continuance Subject to Review

TTUHSC is not subject to continuance subject to review (the Texas Sunset Act) with respect to its Note 13.

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NOTE 14

Adjustments to Fund Balances and Net Position

During fiscal year 2018, certain accounting changes and adjustments were made that required the restatement of net position for fiscal year 2017 in the *Comparative Statement of Net Position* and *Comparative Statement of Revenues, Expenses and Changes in Net Position* in order to provide comparative statements.

Restatement of amounts for the year ended August 31, 2017 are related to the exchange of Texas Tech Foundation, Inc. (TTFI) cash and cash equivalents for unrestricted short and intermediate term investments (SITIF) so that such investments are reported proportionately between TTUHSC funds and TTFI funds for the benefit of TTUHSC. In the *Comparative Statement of Net Position*, Cash and Cash Equivalents have been increased and Investments have been decreased by \$2,152,208.29 for the cost basis of pooled SITIF investments attributable to TTFI. Additionally, Investments and Unrestricted Net Position have been decreased by \$56,258.44 for TTFI's proportionate share of the cumulative fair market valuation adjustment of the investments prior to fiscal year 2017. Finally, Investments have been decreased in the *Comparative Statement of Net Position* and Net Increase in Fair Values of Investments has been decreased in the *Comparative Statement of Revenues, Expenses and Changes in Net Position* by \$51,771.27 for TTFI's proportionate share of the fiscal year 2017 fair market valuation adjustment related to the investments.

Reclassifications have no impact on the total Net Position as previously reported. Reclassifications for the year ended August 31, 2017 included the following:

- Reclassification of Higher Education Funds (HEF) cash and net position previously reported as Restricted for Capital Projects to Unrestricted.
- Reclassification of Quasi endowment cash, investments and net position previously reported as Unrestricted to Restricted Other when restricted donor funds are endowed, or to Restricted Nonexpendable Endowments when funds are endowed pursuant to a donor imposed match restriction.
- Reclassification of cash, investments and net position associated with the exchange of restricted cash for unrestricted short and intermediate term investments so that such investments are reported proportionately within unrestricted and restricted funds.

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The effects of these changes are presented in the table below.

Description	As Reported 08/31/17	Reclassification	Restatement	As Corrected 08/31/17
Statement of Net Position				
Current Assets				
Cash and Cash Equivalents	\$ 55,910,167.26	\$ 57,540,449.78	\$ 2,152,208.29	\$ 115,602,825.33
Restricted Cash and Cash Equivalents	76,001,967.30	(57,540,449.78)	-	18,461,517.52
Noncurrent Assets				
Investments	\$ 279,017,898.61	\$ (58,462,516.67)	\$ (2,260,238.00)	\$ 218,295,143.94
Restricted Investments	76,194,612.68	58,462,516.67	-	134,657,129.35
Net Position				
Restricted Nonexpendable Endowments	\$ 61,782,346.44	\$ 4,944,335.81	-	\$ 66,726,682.25
Restricted Expendable Capital Projects	4,819,129.38	(10,086,075.54)	-	(5,266,946.16)
Restricted Expendable Other	108,017,183.52	(17,703,730.68)	-	90,313,452.84
Unrestricted	315,523,793.47	22,845,470.41	(108,029.71)	338,261,234.17
Statement of Revenues, Expenses and Changes in Net Position				
Non-Operating Revenues (Expenses)				
Net Increase in Fair Value of Investments	\$ 9,971,667.92	-	\$ (51,771.27)	\$ 9,919,896.65

<p>NOTE 15 Contingencies and Commitments</p>
--

CLAIMS AND JUDGEMENTS

As of yearend, various non-medical malpractice lawsuits and claims involving TTUHSC were pending. While the ultimate liability, if any, with respect to litigation and other claims asserted against TTUHSC cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on TTUHSC's financial statements. Note 5 more fully discusses TTUHSC's reporting and disclosure of claims and judgements related to medical malpractice.

PHYSICIAN SUPPLEMENTAL PAYMENTS

The U.S. Department of Health and Human Services Office of Inspector General audited the Texas Health and Human Services Commission (HHSC) calculation of supplemental payments to institutions in accordance with Federal regulations and the State plan. As a result of the audit, it was determined that HHSC miscalculated and overpaid many institutions, including TTUHSC. During 2018, TTUHSC repaid \$6,723,477.44 to resolve the matter.

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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. TTUHSC expects to receive a 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 \$1,565,000 for the DY2 recoupment amount has been recorded in the *Comparative Statement of Net Position*.

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.

ARBITRAGE

Rebatable arbitrage is defined by Internal Revenue Code, Section, 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. As previously noted, TTUHSC, does not report its proportional share of bonds issued through RFS and, accordingly, does not report any associated arbitrage liability. However, such liabilities are considered immaterial.

INVESTMENT COMMITMENTS

TTUHSC's investment portfolio is managed by TTUS. In the regular course of business, TTUS makes commitments with investment managers for the future purchase of investment. While commitments exist, future purchases are based on prevailing market values, and accordingly, there is no material market risk associated with the commitments.

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 \$52,217,755.76 as of August 31, 2018. 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, 2018 and 2017 were \$69,003,308 and \$63,860,959 respectively.

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NOTE 16
Subsequent Events

TTUHSC had not subsequent events to report with respect to its Note 16.

NOTE 17
Risk Management

TTUHSC is exposed to a variety of civil claims resulting from the performance of its duties. It is TTUHSC's policy to periodically assess the proper combination of participation in risk pools, commercial insurance, and retention of risk to cover losses to which it may be exposed. As discussed in Note 5, TTUHSC participates in the Medical Malpractice Self Insurance Plan, which is managed by TTUS's Office of General Counsel. TTUHSC assumes substantially all risks associated with other tort and liability claims due to the performance of its duties. Additionally, TTUHSC manages limited risk with the participation in risk pools and purchase of commercial insurance. TTUHSC's only material obligation in its participation in risk pools is the payment of future premiums. TTUHSC incurred no material losses during the fiscal year.

TTUHSC, by State law, is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). TTUHSC is assessed fees by SORM based upon claims experience, claim incidences, payroll size and full-time equivalent (FTE). SORM pays all workers' compensation insurance claims. Total payments to SORM for fiscal years ended 2018 and 2017 amounted to \$581,977.13 and \$568,901.67 respectively.

TTUHSC has self-insured arrangements for Unemployment Compensation Fund coverage. The State pays 50% of claims for employees paid from state funds. TTUHSC pays the remainder for employees paid from state funds and 100% of the claims paid from non-state funds. The claims for employees paid from non-state funds are funded by non-state funds held in local bank accounts or from local balances held in the State Treasury. Total payments for Unemployment Compensation for fiscal years 2018 and 2017 were \$187,628.79 and \$144,362.92 respectively.

The Texas Motor Vehicle Safety Responsibility Act requires that every nongovernmental vehicle operated on a state highway be insured for minimum liability in the amount of \$20,000/\$40,000 bodily injury and \$15,000 property damage. However, TTUHSC has chosen to carry liability insurance on its licensed vehicles of a combined single liability amount of \$500,000 in Texas and \$1,000,000 out-of-state. The coverage exceeds the extent of the waivers of State immunity specified in the tort claims act.

NOTE 18
Management Discussion and Analysis (MD&A)

TTUHSC does not issue independently audited financial statements and therefore, management discussion and analysis is not included in the accompanying notes to this *Annual Financial Report*.

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NOTE 19

The Financial Reporting Entity

See Note 1 for details regarding the reporting entity. Additional details regarding Texas Tech Physician Associates (TPPA) is as follows:

TPPA is a certified non-profit health corporation authorized under the Medical Practice Act Section 5.01(a), article 4495b of the State of Texas. TPPA was organized and is operated exclusively for the benefit of, to perform the function of, or to carry out the purposes of TTUHSC and TTUHSCEP, and its financial records are blended with both TTUHSC and TTUHSCEP. TPPA is exempt from tax under Internal Revenue Service code section 501(c)(3). TTUHSC and TTUHSCEP have the sole and exclusive right to appoint the nine-member Board of Directors, and control all financial and operational transactions of TPPA including developing and approving the annual and capital budgets of TPPA, appointing and removing directors and officers of the Board, entering into contracts, sales or leases, giving or seeking grants, and approving financial expenditures. Therefore, the financial transactions of TPPA have been blended into the financial statements of TTUHSC. TPPA's fiscal year end is August 31. TPPA's complete financial statements can be obtained from:

Texas Tech Physician Associates
.3601 4th Street
Lubbock, Texas 79430

Condensed financial statements for TPPA are presented in the below tables.

Texas Tech Physician Associates		
Condensed Statement of Net Position		
	<u>As of 08/31/18</u>	<u>As of 08/31/17</u>
Total Assets	\$ 4,239,378.84	\$ 4,143,593.83
Total Liabilities	\$ 1,673,533.45	\$ 1,663,899.75
Net Position:		
Unrestricted	2,565,845.39	2,479,694.08
Total Net Position	2,565,845.39	2,479,694.08
Total Liabilities and Net Position	\$ 4,239,378.84	\$ 4,143,593.83

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Texas Tech Physician Associates		
Condensed Statement of Revenues, Expenses and Changes in Net Position		
	<u>For the Year Ended</u>	
	<u>08/31/18</u>	<u>08/31/17</u>
Operating Revenues		
Professional Fees	\$ 17,262,048.46	\$ 13,054,462.42
Federal Contracts	182,897.84	194,784.40
Operating Expenses		
Professional Services and Fees	(493,619.16)	(495,893.19)
Materials and Supplies		(7.78)
Rentals and Leases		(20.00)
Other Expenses	20,872.64	170,435.33
Operating Income (Loss)	<u>\$ 16,972,199.78</u>	<u>\$ 12,923,761.18</u>
Non-operating Revenue (Expense)		
Investment Income	\$ 75,838.07	\$ 61,285.59
Total Non-operating Revenues and Expenses	<u>\$ 75,838.07</u>	<u>\$ 61,285.59</u>
Other Revenues, Expenses, Gains, Losses and Transfers		
Transfers to Components	\$ (16,961,886.54)	\$ (12,892,790.50)
Total Change in Net Position	\$ 86,151.31	\$ 92,256.27
Beginning Net Position	<u>2,479,694.08</u>	<u>2,387,437.81</u>
Ending Net Position	<u>\$ 2,565,845.39</u>	<u>\$ 2,479,694.08</u>

Texas Tech Physician Associates		
Condensed Statement of Cash Flows		
	<u>For the Year Ended</u>	
	<u>08/31/18</u>	<u>08/31/17</u>
Net Cash Provided by Operating Activities	\$ 16,983,452.60	\$ 12,939,395.48
Net Cash Used for Non-capital Financing Activities	(16,961,886.54)	(12,892,790.50)
Net Cash Provided by Capital and Related Financing Activities	-	-
Net Cash Provided by Investing Activities	<u>75,838.07</u>	<u>61,285.59</u>
Total Net Cash Flows	\$ 97,404.13	\$ 107,890.57
Cash and Cash Equivalents, September 1st	<u>4,112,575.54</u>	<u>4,004,684.97</u>
Cash and Cash Equivalents, August 31st	<u>\$ 4,209,979.67</u>	<u>\$ 4,112,575.54</u>

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NOTE 20
Stewardship, Compliance, and Accountability

TTUHSC has no material stewardship, compliance or accountability issues.

NOTE 21
Undefined by Texas Comptroller

Reserved for future use by Texas Comptroller.

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, 2018.

NOTE 24
Disaggregation of Receivable and Payable Balances

RECEIVABLES

Components of receivables as of August 31, 2018, and net receivable balances as of August 31, 2018 and 2017 are summarized in the following table.

Description	As of 08/31/18			As of 08/31/17
	Gross Receivables	Allowances	Net Receivables	Net Receivables
Federal Receivable	\$ 1,718,907.41	\$ -	\$ 1,718,907.41	\$ 4,829,385.25
Patient Accounts Receivable	36,307,288.07	(22,501,596.38)	13,805,691.69	14,392,843.26
Student Accounts Receivable	1,358,264.59	(599,600.83)	758,663.76	734,387.67
Contract Accounts Receivable	15,909,534.95	(64.00)	15,909,470.95	17,765,210.51
Interest and Dividends Receivable	469,246.94	-	469,246.94	401,883.27
Gifts Receivable	1,300,672.30	(98,851.09)	1,201,821.21	619,031.14
Other Receivables	667,402.50	(169,607.86)	497,794.64	445,465.08
Subtotal - Current	<u>57,731,316.76</u>	<u>(23,369,720.16)</u>	<u>34,361,596.60</u>	<u>39,188,206.18</u>
Gifts Receivable	\$ -	\$ -	\$ -	\$ 48,255.61
Subtotal - Non-Current	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,255.61</u>
Total Receivables	<u>\$ 57,731,316.76</u>	<u>\$ (23,369,720.16)</u>	<u>\$ 34,361,596.60</u>	<u>\$ 39,236,461.79</u>

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Current and Non-Current Loans and Notes Receivables as of August 31, 2018, and net receivable balances as of August 31, 2018 and 2017 are summarized in the following table.

Description	As of 08/31/18			As of 08/31/17
	Gross Receivables	Allowances	Net Receivables	Net Receivables
Loans and Notes Receivable				
Current	\$ 576,410.19	\$ (218,348.69)	\$ 358,061.50	\$ 277,035.06
Non-Current	2,414,614.44	(409,963.56)	1,731,497.88	2,023,951.99
Total Loans and Notes Receivable	<u>\$ 2,717,871.63</u>	<u>\$ (628,312.25)</u>	<u>\$ 2,089,559.38</u>	<u>\$ 2,300,987.05</u>

NOTE 25
Termination Benefits

TTUHSC had no reportable termination benefits during the year ended August 31, 2018.

NOTE 26
Segment Information

TTUHSC had no reportable segments during the year ended August 31, 2018.

NOTE 27
Service Concession Arrangements

TTUHSC had no reportable service concession arrangements during the year ended August 31, 2018.

NOTE 28
Deferred Outflows and Deferred Inflows of Resources

TTUHSC had no deferred outflows and deferred inflows of resources the year ended August 31, 2018.

NOTE 29
Trouble Debt Restructuring

TTUHSC had no outstanding receivables whose terms were modified pursuant to troubled debt restructuring for the year ended August 31, 2018.

NOTE 30
Non-Exchange Financial Guarantees

TTUHSC had no outstanding non-exchange financial guarantees for the year ended August 31, 2018.

NOTE 31
Tax Abatements

TTUHSC had no tax abatements to disclose for the year ended August 31, 2018.

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NOTE 32

Governmental Fund Balances

Disclosure of restrictions/covenants which cause governmental fund balances to be committed and restricted does not apply to TTUHSC as a proprietary fund of the State of Texas.

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TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
Annual Financial Report
UNAUDITED

SUPPLEMENTAL SCHEDULES

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TEXAS TECH FOUNDATION, INC. for TTUHSC

Annual Financial Report

UNAUDITED

Comparative Statement of Net Position

As of August 31, 2018 and 2017

	<u>2018</u>	<i>Restated</i> <u>2017</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 160,545.68	\$ 148,101.32
Restricted Cash and Cash Equivalents	7,309.36	1,041.48
Receivables:		
Gifts	1,561,466.34	3,065,826.97
Interest and Dividends	973.20	849.68
Total Current Assets	<u>\$ 1,730,294.58</u>	<u>\$ 3,215,819.45</u>
Non-Current Assets:		
Restricted Cash and Cash Equivalents	\$ 958,509.15	\$ 799,861.35
Restricted Investments	65,042,978.25	62,553,201.31
Gifts Receivable	721,760.19	5,505,218.14
Unrestricted Investments	330,931.55	352,732.14
Total Non-Current Assets	<u>\$ 67,054,179.14</u>	<u>\$ 69,211,012.94</u>
TOTAL ASSETS	<u>\$ 68,784,473.72</u>	<u>\$ 72,426,832.39</u>
LIABILITIES		
Current Liabilities:		
Other Current Liabilities	\$ -	\$ 496.00
Total Current Liabilities	<u>\$ -</u>	<u>\$ 496.00</u>
Non-Current Liabilities:		
Other Non-Current Liabilities		
Total Non-Current Liabilities	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 496.00</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources	<u>\$ 551,587.81</u>	<u>\$ 525,217.40</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 551,587.81</u>	<u>\$ 525,217.40</u>
NET POSITION		
Restricted:		
Nonexpendable		
Endowments	\$ 56,531,332.10	\$ 55,650,777.45
Expendable		
Other	11,209,103.38	15,749,154.40
Unrestricted	<u>492,450.43</u>	<u>501,187.14</u>
TOTAL NET POSITION	<u>\$ 68,232,885.91</u>	<u>\$ 71,901,118.99</u>

TEXAS TECH FOUNDATION, INC. for TTUHSC
Annual Financial Report
UNAUDITED

Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended of August 31, 2018 and 2017

	<i>2018</i>	<i>Restated 2017</i>
OPERATING REVENUES		
Other Revenues	\$ -	\$ -
Total Operating Revenues	\$ -	\$ -
OPERATING EXPENSES		
Materials and Supplies	\$ -	\$ 22,400.00
Rentals and Leases	541.00	750.00
Printing and Production	13,597.12	43,773.65
Interest Expense	-	140.88
Other Expenses	112,649.69	164,021.85
Total Operating Expenses	\$ 126,787.81	\$ 231,086.38
Operating Loss	\$ (126,787.81)	\$ (231,086.38)
NON-OPERATING REVENUES (EXPENSES)		
Gifts	\$ (3,460,442.80)	\$ 10,493,127.46
Investment Income	1,834,723.19	4,566,702.15
Net Increase in Fair Value of Investments	2,598,107.60	2,330,004.99
Total Non-Operating Revenues (Expenses)	\$ 972,387.99	\$ 17,389,834.60
CAPITAL CONTRIBUTIONS AND TRANSFERS		
Net Transfers from (to) Texas Tech Foundation Inc.	\$ 100,000.00	\$ (100,000.00)
Net Transfers to Texas Tech University Health Sciences Center	(4,613,833.26)	(5,234,177.85)
Total Capital Contributions and Transfers	\$ (4,513,833.26)	\$ (5,334,177.85)
TOTAL CHANGE IN NET POSITION	\$ (3,668,233.08)	\$ 11,824,570.37
Net Assets, September 1st	\$ 71,901,118.99	\$ 60,076,548.62
Restatement of Beginning Net Assets	\$ -	
Net Assets, August 31st	\$ 68,232,885.91	\$ 71,901,118.99

TEXAS TECH FOUNDATION, INC. for TTUHSC

Annual Financial Report

U N A U D I T E D

Comparative Statement of Cash Flows

For the Year Ended August 31, 2018 and 2017

	<u>2018</u>	<u>Restated 2017</u>
Cash Flows from Operating Activities		
Payments to Suppliers	\$ (14,634.12)	\$ (66,568.53)
Payments for Other Operating Activities	<u>(112,649.69)</u>	<u>(164,021.85)</u>
Net Cash Used for Operating Activities	\$ <u>(127,283.81)</u>	\$ <u>(230,590.38)</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds from Gifts	\$ 2,827,375.78	\$ 4,812,462.07
Proceeds from (for) Transfers - Texas Tech Foundation Inc.	100,000.00	(100,000.00)
Payments for Transfers - Texas Tech University Health Sciences Center	<u>(4,613,833.26)</u>	<u>(5,234,177.85)</u>
Net Cash used for Non-Capital Financing Activities	\$ <u>(1,686,457.48)</u>	\$ <u>(521,715.78)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	\$ 406,437.70	\$ 221,467.74
Proceeds from Interest and Investment Income	2,693,741.77	2,634,701.81
Payments for Acquisition of Investments	<u>(1,109,078.14)</u>	<u>(3,210,264.88)</u>
Net Cash Provided by Investing Activities	\$ <u>1,991,101.33</u>	\$ <u>(354,095.33)</u>
TOTAL NET CASH FLOWS	\$ <u>177,360.04</u>	\$ <u>(1,106,401.49)</u>
Cash and Cash Equivalents, September 1st	\$ <u>949,004.15</u>	\$ <u>2,055,405.64</u>
Cash and Cash Equivalents, August 31st	\$ <u><u>1,126,364.19</u></u>	\$ <u><u>949,004.15</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	\$ (126,787.81)	\$ (231,086.38)
Increase (Decrease) in Payables	<u>(496.00)</u>	<u>496.00</u>
Net Cash Used for Operating Activities	\$ <u><u>(127,283.81)</u></u>	\$ <u><u>(230,590.38)</u></u>
Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	\$ 2,598,107.60	\$ 2,330,004.99