

**TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER**



**Annual Financial Report
Fiscal Year 2020**

TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

Annual Financial Report

UNAUDITED

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August 31, 2020

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Organizational Data

August 31, 2020

BOARD OF REGENTS

Term Expires

Christopher M. Huckabee (**Chair**)January 31, 2021.....Fort Worth, TX
J. Michael Lewis (**Vice Chair**)January 31, 2023.....Dallas, TX
Mickey L. LongJanuary 31, 2021.....Lubbock, TX
Ron HammondsJanuary 31, 2021.....Houston, TX
John SteinmetzJanuary 31, 2023.....Dallas, TX
John WalkerJanuary 31, 2023.....Houston, TX
Mark GriffinJanuary 31, 2025.....Lubbock, TX
Ginger Kerrick.....January 31, 2025.....Webster, TX
Dusty WombleJanuary 31, 2025.....Lubbock, TX
Brooke Walterscheid (**Student Regent**)May 31, 2021.....Muenster, TX

FISCAL OFFICERS

Tedd MitchellChancellor
Gary Barnes Vice Chancellor and Chief Financial Officer
Lori Rice-Spearman.....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

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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Comparative Statement of Net Position
As of August 31, 2020 and 2019

	<i>2020</i>	<i>2019</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 111,022,008.42	\$ 104,943,359.66
Restricted Cash and Cash Equivalents	15,736,528.33	14,451,795.24
Legislative Appropriations	45,830,913.66	55,173,990.49
Receivables:		
Federal	5,346,345.25	2,343,412.76
Patient	11,032,395.83	11,734,990.24
Student	510,803.36	606,957.46
Contracts	20,108,898.88	15,594,256.41
Interest and Dividends	456,674.74	500,148.57
Gifts	606,198.36	580,908.15
Other	389,948.30	4,822,944.29
Due from Other State Agencies	9,990,730.81	7,887,747.09
Due from Other Component Units	13,418.10	10,750.49
Inventories	1,352,159.12	1,238,435.74
Prepaid Items	5,236,854.96	4,898,493.93
Loans and Notes	331,958.69	507,308.66
Total Current Assets	\$ 227,965,836.81	\$ 225,295,499.18
Non-Current Assets:		
Restricted Cash and Cash Equivalents	\$ 13,294.75	\$ 1,955.31
Restricted Investments	134,104,204.11	133,989,022.28
Gifts Receivable	222,376.91	472,878.47
Loans and Notes	1,112,609.46	1,443,175.33
Investments	261,507,542.44	251,238,025.77
Capital Assets:		
Non-Depreciable or Non-Amortizable	15,996,511.47	61,306,409.72
Depreciable or Amortizable	661,770,592.25	601,901,342.53
less Accumulated Depreciation and Amortization	(363,108,679.37)	(352,465,254.26)
Total Non-Current Assets	\$ 711,618,452.02	\$ 697,887,555.15
TOTAL ASSETS	\$ 939,584,288.83	\$ 923,183,054.33

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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Comparative Statement of Net Position
As of August 31, 2020 and 2019

	<i>2020</i>	<i>2019</i>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 25,062,793.77	\$ 22,999,009.48
Payroll Payable	32,728,603.30	34,111,493.09
Unearned Revenue	21,785,634.12	21,563,002.94
Due to Other State Agencies	69,550.69	30,920.24
Due to Other Component Units	22,359.25	6,697.03
Claims Payable	3,968,977.78	7,988,526.00
Employees' Compensable Leave	2,830,342.41	3,339,693.90
Funds Held for Others	689,910.36	275,244.77
Other Current Liabilities	31,780.54	34,621.94
Total Current Liabilities	\$ 87,189,952.22	\$ 90,349,209.39
Non-Current Liabilities:		
Employees' Compensable Leave	\$ 27,183,893.24	\$ 22,350,259.18
Other Non-Current Liabilities	96,467.34	75,428.95
Total Non-Current Liabilities	\$ 27,280,360.58	\$ 22,425,688.13
TOTAL LIABILITIES	\$ 114,470,312.80	\$ 112,774,897.52
NET POSITION		
Net Investment in Capital Assets	\$ 314,658,424.35	\$ 310,742,497.99
Restricted:		
Nonexpendable		
Endowments	70,849,425.19	70,131,704.54
Expendable		
Capital Projects	(93,510.24)	(390,828.16)
Other	76,254,510.15	76,469,763.72
Unrestricted	363,445,126.58	353,455,018.72
TOTAL NET POSITION	\$ 825,113,976.03	\$ 810,408,156.81

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, 2020 and 2019

	<i>2020</i>	<i>2019</i>
OPERATING REVENUES		
Tuition and Fee Revenue	\$ 1,630,381.36	\$ 1,622,056.45
Tuition and Fee Revenue - Pledged	68,959,884.99	64,943,977.85
Discounts and Allowances	(8,650,386.41)	(8,433,121.68)
Professional Fees	443,398,973.54	451,597,918.40
Professional Fees - Pledged	514,914.81	764,425.39
Discounts and Allowances	(211,237,594.36)	(221,268,921.44)
Auxiliary Enterprises - Pledged	763,883.08	836,033.29
Other Sales and Services	4,720,699.13	4,634,883.41
Other Sales and Services - Pledged	7,459,739.61	6,809,125.22
Federal Grant and Contract Revenue	23,093,636.00	19,406,402.26
Federal Pass-Through Revenue	1,287,278.71	1,371,681.00
State Grant and Contract Revenue	270,662.86	80,442.61
State Grant and Contract Revenue - Pledged	26,803.98	12,476.80
State Grant and Contract Pass-Through Revenue	12,854,691.47	10,532,568.78
Local Grant and Contract Revenue	80,017,606.60	71,440,244.45
Local Grant and Contract Revenue - Pledged	1,994,572.36	1,203,859.30
Private Grant and Contract Revenue	58,858,997.22	68,639,518.23
Private Grant and Contract Revenue - Pledged	5,996,762.87	3,055,083.17
Other Revenues	21,921,542.41	13,390,205.65
Total Operating Revenues	\$ 513,883,050.23	\$ 490,638,859.14
OPERATING EXPENSES		
Salaries and Wages	\$ 396,270,424.55	\$ 378,848,961.71
Payroll Related Costs	101,240,718.88	96,416,481.38
Professional Fees and Services	63,771,024.08	57,802,105.01
Travel	3,116,555.72	5,073,357.30
Materials and Supplies	32,255,999.68	31,576,993.61
Communications and Utilities	15,924,360.33	15,913,231.89
Repairs and Maintenance	17,054,609.92	11,954,261.40
Rentals and Leases	3,608,784.79	4,475,749.77
Printing and Production	1,257,192.67	1,508,616.89
Federal Grant Pass-Through Expense	647,652.11	349,941.98
State Grant Pass-Through Expense	-	-
Depreciation and Amortization	23,630,004.69	19,931,847.33
Bad Debt Expense (Recovery)	106,198.39	151,705.11
Interest Expense	2,906.24	4,966.35
Scholarships	4,676,174.21	3,797,210.71
Claims and Judgments	35,215.00	6,859,762.11
Other Expenses	47,795,238.14	48,289,940.30
Total Operating Expenses	\$ 711,393,059.40	\$ 682,955,132.85
Operating Loss	\$ (197,510,009.17)	\$ (192,316,273.71)

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, 2020 and 2019

	<i>2020</i>	<i>2019</i>
NON-OPERATING REVENUES (EXPENSES)		
Legislative Appropriations Revenue	\$ 189,554,022.41	\$ 167,937,654.39
Federal Grant and Contract Revenue	3,395,100.61	2,085,933.00
State Pass-Through Revenue	60,677.00	95,000.00
Gifts	7,348,359.24	7,093,648.68
Gifts - Pledged	1,800.00	22,524.35
Investment Income	6,381,949.78	807,772.44
Investment Income - Pledged	6,953,474.58	5,697,551.97
Loss on Sale of Capital Assets	(1,260,353.81)	17,758.38
Net Increase in Fair Value of Investments	(9,047,186.80)	991,087.13
Other Revenues	323,729.99	902,622.19
Other Revenues - Pledged	313,155.41	283,474.62
	\$ 204,024,728.41	\$ 185,935,027.15
 CAPITAL CONTRIBUTIONS AND TRANSFERS		
Capital Appropriations (HEAF)	\$ 23,372,396.00	\$ 23,372,396.00
Capital Contributions	1,516,083.33	2,152,240.64
Contributions to Permanent and Term Endowments	129,969.33	140,626.49
Legislative Appropriations Lapsed	-	-
Net Legislative Transfers Out	(20,898,549.61)	(15,246,160.00)
Net Decrease from Interagency Transfers of Capital Assets	(1,606,731.56)	(202,234.32)
Net Transfers from Texas Tech Foundation Inc.	-	-
Net Transfers from Texas Tech University	463,046.65	539,000.19
Net Transfers to Texas Tech University Health Sciences Center at El Paso	147,435.41	(46,735.58)
Net Transfers from Texas Tech University System Administration	5,016,863.43	23,948,498.16
Net Transfers from Other State Agencies	50,587.00	41,687.00
	\$ 8,191,099.98	\$ 34,699,318.58
 TOTAL CHANGE IN NET POSITION	\$ 14,705,819.22	\$ 28,318,072.02
 Net Position, September 1st	\$ 810,408,156.81	\$ 782,090,084.79
 Net Position, August 31st	\$ 825,113,976.03	\$ 810,408,156.81

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, 2020 and 2019

<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	\$171,185,941.29	\$ 22,704,345.68	\$ 64,779,314.51	\$ 54,660,974.39	\$ 52,559,956.57	\$ 7,833,434.62
Payroll Related Costs	34,072,984.31	5,298,471.97	18,904,979.05	15,976,302.11	16,435,427.12	2,316,281.20
Professional Fees and Services	746,594.90	532,580.93	51,233,220.58	1,037,822.51	4,732,922.30	465,261.57
Travel	268,051.59	213,889.94	531,276.16	109,150.74	1,534,594.02	239,082.28
Materials and Supplies	582,912.93	3,163,527.55	12,479,052.37	9,074,718.38	4,881,737.35	1,615,937.69
Communications and Utilities	174,501.89	93,325.88	344,614.24	562,522.72	6,885,033.32	776,879.95
Maintenance and Repair	97,815.04	617,619.68	298,063.25	407,947.54	3,103,166.80	1,175,044.55
Rentals and Leases	91,022.21	47,439.66	898,773.52	963,715.18	1,146,428.43	84,439.11
Printing and Production	61,508.89	148,073.17	81,020.55	151,219.05	449,620.63	151,469.35
Federal Grant Pass-Through Expense	-	179,445.60	468,206.51	-	-	-
State Grant Pass-Through Expense	-	-	-	-	-	-
Depreciation and Amortization	-	-	-	-	-	-
Bad Debt Expense	-	-	-	-	-	106,198.39
Interest Expense	63.80	333.90	10.01	374.99	259.15	12.82
Scholarships	4,925.20	62,520.62	-	-	634,273.42	4,041.00
Claims and Judgments	-	-	35,215.00	-	-	-
Other Expenses	<u>1,714,283.40</u>	<u>4,824,436.41</u>	<u>3,247,133.35</u>	<u>1,755,151.02</u>	<u>22,546,276.59</u>	<u>2,878,388.81</u>
For the Year Ended August 31, 2020	<u>\$209,000,605.45</u>	<u>\$ 37,886,010.99</u>	<u>\$153,300,879.10</u>	<u>\$ 84,699,898.63</u>	<u>\$114,909,695.70</u>	<u>\$ 17,646,471.34</u>
For the Year Ended August 31, 2019	<u>\$204,707,225.26</u>	<u>\$ 37,994,902.65</u>	<u>\$146,620,179.90</u>	<u>\$ 80,077,632.07</u>	<u>\$111,900,559.30</u>	<u>\$ 16,467,323.45</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, 2020 and 2019

<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	\$ 16,646,558.63	\$ 5,607,981.90	\$ 8,000.00	\$ 283,916.96	\$ -	\$396,270,424.55
Payroll Related Costs	5,982,860.71	2,147,353.08	564.99	105,494.34	-	101,240,718.88
Professional Fees and Services	2,847,611.68	2,172,112.83	-	2,896.78	-	63,771,024.08
Travel	208,127.45	10,648.49	-	1,735.05	-	3,116,555.72
Supplies and Materials	250,729.82	243,950.51	-	(36,566.92)	-	32,255,999.68
Communications and Utilities	622,266.37	6,459,223.32	-	5,992.64	-	15,924,360.33
Maintenance and Repair	386,500.69	10,917,812.00	-	50,640.37	-	17,054,609.92
Rentals and Leases	38,630.41	337,637.27	-	699.00	-	3,608,784.79
Printing and Production	183,128.70	23,310.85	-	7,841.48	-	1,257,192.67
Federal Grant Pass-Through Expense	-	-	-	-	-	647,652.11
State Grant Pass-Through Expense	-	-	-	-	-	-
Depreciation and Amortization	-	-	-	-	23,630,004.69	23,630,004.69
Bad Debt Expense	-	-	-	-	-	106,198.39
Interest Expense	908.89	871.42	-	71.26	-	2,906.24
Scholarships and Fellowships	2,000.00	-	3,968,413.97	-	-	4,676,174.21
Claims and Judgments	-	-	-	-	-	35,215.00
Other Expenses	<u>3,897,404.43</u>	<u>6,879,356.52</u>	<u>-</u>	<u>52,807.61</u>	<u>-</u>	<u>47,795,238.14</u>
	<u>\$ 31,066,727.78</u>	<u>\$ 34,800,258.19</u>	<u>\$ 3,976,978.96</u>	<u>\$ 475,528.57</u>	<u>\$ 23,630,004.69</u>	<u>\$711,393,059.40</u>
	<u>\$ 30,647,384.35</u>	<u>\$ 30,822,712.66</u>	<u>\$ 3,278,944.77</u>	<u>\$ 506,421.11</u>	<u>\$ 19,931,847.33</u>	<u>\$682,955,132.85</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, 2020 and 2019

	<i>2020</i>	<i>Restated 2019</i>
Cash Flows from Operating Activities		
Proceeds from Patients and Insurers	\$ 233,379,119.12	\$ 233,163,029.08
Proceeds from Tuition and Fees	62,168,789.05	58,936,814.24
Proceeds from Grants and Contracts	175,070,280.65	176,389,303.95
Proceeds from Loans	4,836,486.22	4,496,069.33
Proceeds from Fiduciary Activities	73,667,850.94	73,062,163.60
Proceeds from Auxiliaries	763,883.08	836,033.29
Proceeds from Other Operating Revenues	38,501,815.93	20,423,628.80
Payments to Suppliers	(141,330,422.85)	(129,902,281.59)
Payments to Employees for Salaries	(392,775,507.56)	(377,819,387.06)
Payments to Employees for Benefits	(101,794,243.09)	(96,024,622.43)
Payments for Loans Issued	(4,215,409.92)	(4,383,491.61)
Payments for Fiduciary Activities	(73,584,765.27)	(73,140,502.60)
Payments for Other Operating Expenses	(51,293,565.05)	(59,612,367.57)
Net Cash Used for Operating Activities	\$ (176,605,688.75)	\$ (173,575,610.57)
Cash Flows from Non-Capital Financing Activities		
Proceeds from Legislative Appropriations	\$ 198,897,099.24	\$ 170,697,414.74
Proceeds from Gifts	7,705,339.92	7,404,834.11
Proceeds from Nonoperating Grants and Contracts	3,455,777.61	2,180,933.00
Proceeds from Other Noncapital Financing Activities	968,465.32	1,252,065.73
Proceeds from Agency Transactions	-	-
Proceeds from Transfers - Texas Tech Foundation, Inc.	-	-
Proceeds from Transfers - Texas Tech University	463,046.65	539,000.19
Proceeds from Transfers - Other State Agencies	2,621,839.29	113,250.00
Payments for Transfers - Texas Tech University Health Sciences Center at El Paso	147,435.41	(46,735.58)
Payments for Transfers - Texas Tech University System Administration	(2,112,787.04)	(4,656,279.50)
Payments for Other Uses	-	-
Net Cash Provided by Non-Capital Financing Activities	\$ 212,146,216.40	\$ 177,484,482.69
Cash Flows from Capital and Related Financing Activities		
Proceeds from Sale of Capital Assets	\$ 61,593.80	\$ 99,295.06
Proceeds from Legislative Appropriations for Capital	23,372,396.00	23,372,396.00
Proceeds from Capital Gifts - Texas Tech Foundation, Inc.	1,333,332.00	250,000.00
Proceeds from Transfers - Texas Tech University System Administration	5,891,303.47	27,229,640.66
Payments for Transfers - Texas Tech University System Administration	(22,231,454.90)	(13,942,586.00)
Payments for Additions to Capital Assets	(30,291,858.89)	(53,729,937.92)
Net Cash Used for Capital and Related Financing Activities	\$ (21,864,688.52)	\$ (16,721,192.20)

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, 2020 and 2019

	<u>2020</u>	<i>Restated</i> <u>2019</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	\$ 113,241,730.74	\$ 71,373,495.76
Proceeds from Interest and Investment Income	15,379,775.83	15,922,522.08
Payments for Acquisition of Investments	<u>(134,922,624.41)</u>	<u>(107,037,718.94)</u>
Net Cash Used for Investing Activities	<u>\$ (6,301,117.84)</u>	<u>\$ (19,741,701.10)</u>
TOTAL NET CASH FLOWS	<u>\$ 7,374,721.29</u>	<u>\$ (32,554,021.18)</u>
Cash and Cash Equivalents, September 1st	<u>\$ 119,397,110.21</u>	<u>\$ 151,951,131.39</u>
Cash and Cash Equivalents, August 31st	<u>\$ 126,771,831.50</u>	<u>\$ 119,397,110.21</u>

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	\$ (197,510,009.17)	\$ (192,316,273.71)
Adjustments		
Depreciation Expense	23,630,004.69	19,931,847.33
Decrease (Increase) in Receivables	(2,285,830.46)	(2,412,032.71)
Decrease (Increase) in Loans and Notes Receivable	505,915.84	139,075.39
Decrease (Increase) in Inventories	(113,723.38)	(91,525.47)
Decrease (Increase) in Due from Other Agency	(1,857,520.60)	581,587.31
Decrease (Increase) in Prepaid Expenses	(338,361.03)	109,172.02
Increase (Decrease) in Payables	680,894.50	(6,990,087.90)
Increase (Decrease) in Deferred Revenue	222,631.18	1,059,478.39
Increase (Decrease) in Compensable Leave	4,324,282.57	98,060.70
Increase (Decrease) in Due to Other Agency	54,292.67	(45,770.94)
Increase (Decrease) in Fiduciary Funds Held 3 Months or Less	83,085.67	(78,339.00)
Increase (Decrease) in Other Liabilities	<u>18,196.99</u>	<u>(1,549,327.98)</u>
Net Cash Used for Operating Activities	<u>\$ (176,605,688.75)</u>	<u>\$ (173,575,610.57)</u>

Non-Cash Transactions

Donations of Capital Assets	\$ 182,751.33	\$ 1,925,737.31
Net Increase (Decrease) in Fair Value of Investments	(9,047,186.80)	991,087.13
Disposal of Capital Assets	(1,321,947.61)	(81,536.68)

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TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER
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NOTES TO FINANCIAL STATEMENTS

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TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2020

NOTE 1

Summary of Significant Accounting Policies

GENERAL INTRODUCTION

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. This *Annual Financial Report* includes the results of operations of TTUHSC, a separate institution established pursuant to Texas Education Code, Chapter 110. The other entities are Angelo State University (ASU), Texas Tech University Health Sciences Center at El Paso (TTUHSCPE), 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*.

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.

Effective August 31, 2020, the TTUHSC had a change in accounting policy due to the implementation of GASB Statement No. 84 Fiduciary Activities (GASB 84). GASB 84 allows business-type activities to report activities that would otherwise be considered custodial funds in its Combined Statement of Net Position and Combined Statement of Cash Flows as an operating activity if upon receipt, the funds are normally expected to be held for three months or less. These fiduciary activities were reclassified to the operating activities portion of the Combined Statement of Cash Flows at August 31, 2020 and 2019, respectively.

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

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 – an Amendment of*

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Notes to the Financial Statements

August 31, 2020

NOTE 1 (continued)

Summary of Significant Accounting Policies

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 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.

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, 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 reported at fair value in the *Comparative Statement of Net Position*. All investment income, including changes in the fair value of investments, is reported in the *Comparative Statement of Revenues, Expenses, and Changes in Net Position*. Investments are addressed in more detail in Note 3.

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.

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Notes to the Financial Statements

August 31, 2020

NOTE 1 (continued)

Summary of Significant Accounting Policies

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 merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the first-in/first-out method. Changes in inventories are recorded using the consumption method, with the inventories being reported as assets when they are purchased, and the expense recognized in the period in which the inventories are used or consumed. The consumption method of accounting is used to account for inventories and prepaid items benefiting more than one accounting period. The cost of these items is expensed when the 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. 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 nonfinancial 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.

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Notes to the Financial Statements

August 31, 2020

NOTE 1 (continued)

Summary of Significant Accounting Policies

Capital Assets (continued)

Depreciation for capital assets is computed using the straight-line method over the estimated useful lives of the assets. 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 salary, wages and benefits. Details regarding payable balances can be found in Note 24.

Claims and Judgments

Claims and judgments include estimates for legal judgments and both known medical malpractice claims and those that have not yet been made against the insured participants. These liabilities are reported separately as either current or noncurrent in the Combined Statement of Net Position. Claims and judgments activity is shown in Note 5.

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 related to and earned in a subsequent accounting period.

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 and the funds upon receipt are normally expected to be held for three months or less. This is a change in accounting policy effective fiscal year 2020 due to the implementation of GASB 84 which is described in more detail above in the general introduction section of Note 1.

Other Liabilities

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

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2020

NOTE 1 (continued)

Summary of Significant Accounting Policies

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:

Invested in capital assets consists of capital assets, net of accumulated depreciation and amortization.

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. 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.

Reporting Considerations for Coronavirus Aid, Relief and Economic Security (CARES) Act

In response to the COVID-19 pandemic, Congress passed the following:

- Coronavirus Aid, Relief and Economic Security (CARES) Act
- CARES Act for the Higher Education Emergency Relief Fund (HEERF), which provides budgetary relief to higher education institutions through numerous provisions
- CARES Act for the Provider Relief Fund (PRF), which reimburses eligible providers for healthcare related expenses or lost revenues attributable to COVID-19

The Act provides economic grants to offset some additional expenses and forgone revenue in response to COVID-19. During fiscal year 2020, TTUHSC received \$1,429,623.61 from HEERF and \$2,332,159.79 from PRF.

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.

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NOTE 2 (continued)
Capital Assets

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the 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.

A summary of changes in capital assets for the year ended August 31, 2020 is presented below.

Capital Asset Category	Balance 09/01/19	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/20
			Completed CIP	Increases – Interagency Transfers	Decreases – Interagency Transfers			
BUSINESS-TYPE ACTIVITIES								
Non-Depreciable/Non-Amortizable Assets:								
Land and Land Improvements	\$ 11,206,522.38	\$ -	\$ -	\$ -	\$ (1,620,000.00)	\$ 1,251,250.00	\$ -	\$ 10,837,772.38
Construction In Progress	47,473,754.49	-	(47,997,763.39)	-	-	3,056,615.14	-	2,532,606.24
Other	2,626,132.85	-	-	-	-	-	-	2,626,132.85
Total Non-Depreciable/Non-Amortizable Assets	\$ 61,306,409.72	\$ -	\$ (47,997,763.39)	\$ -	\$ (1,620,000.00)	\$ 4,307,865.14	\$ -	\$ 15,996,511.47
Depreciable Assets:								
Buildings and Improvements	\$ 448,339,503.69	\$ -	\$ 47,506,058.29	\$ -	\$ -	\$ 13,446,784.65	\$ -	\$ 509,292,346.63
Infrastructure	8,931,273.49	-	-	-	-	-	-	8,931,273.49
Facilities & Other Improvements	14,290,726.39	-	-	-	-	4,991,895.00	-	19,282,621.39
Furniture and Equipment	92,362,064.12	-	491,705.10	123,357.95	(106,376.14)	7,577,361.39	(2,899,984.94)	97,548,127.48
Vehicles	2,235,643.77	-	-	53,854.64	-	149,012.79	(96,661.65)	2,341,849.55
Other	29,829,300.00	-	-	-	-	1,701.25	(9,864,838.12)	19,966,163.13
Total Depreciable Assets at Cost	\$ 595,988,511.46	\$ -	\$ 47,997,763.39	\$ 177,212.59	\$ (106,376.14)	\$ 26,166,755.08	\$ (12,861,484.71)	\$ 657,362,381.67
Less Accumulated Depreciation for:								
Buildings and Improvements	\$ (24,155,137.49)	\$ -	\$ -	\$ -	\$ -	\$ (4,769,290.95)	\$ -	\$ (25,624,428.44)
Infrastructure	(4,352,842.30)	-	-	-	-	(407,520.84)	-	(4,760,363.14)
Facilities & Other Improvements	(6,691,414.42)	-	-	-	-	(914,376.31)	-	(7,605,790.73)
Furniture and Equipment	(69,307,124.56)	-	-	(55,353.85)	48,476.20	(6,420,337.64)	2,840,054.44	(72,894,285.41)
Vehicles	(1,709,579.27)	-	-	(50,700.36)	-	(183,656.03)	95,560.85	(1,848,374.81)
Other	(24,598,615.82)	-	-	-	-	(858,759.73)	9,864,838.12	(15,592,537.43)
Total Accumulated Depreciation	\$ (348,210,675.86)	\$ -	\$ -	\$ (106,054.21)	\$ 48,476.20	\$ (23,553,941.50)	\$ 12,800,453.41	\$ (359,021,741.96)
Depreciable Assets - Net	\$ 247,777,835.60	\$ -	\$ 47,997,763.39	\$ 71,158.38	\$ (57,899.94)	\$ 2,612,813.58	\$ (6,103,130)	\$ 298,340,639.71
Amortizable Assets:								
Computer Software	\$ 4,136,582.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (47,215.00)	\$ 4,089,367.67
Other	1,776,248.40	-	-	-	-	-	(1,457,405.49)	318,842.91
Total Amortizable Assets	\$ 5,912,831.07	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,504,620.49)	\$ 4,408,210.58
Less Accumulated Amortization for:								
Computer Software	\$ (3,999,760.41)	\$ -	\$ -	\$ -	\$ -	\$ (36,082.26)	\$ 47,215.00	\$ (3,988,627.67)
Other	(254,817.99)	-	-	-	-	(39,980.93)	196,489.18	(98,309.74)
Total Accumulated Amortization	\$ (4,254,578.40)	\$ -	\$ -	\$ -	\$ -	\$ (76,063.19)	\$ 243,704.18	\$ (4,086,937.41)
Amortizable Assets - Net	\$ 1,658,252.67	\$ -	\$ -	\$ -	\$ -	\$ (76,063.19)	\$ (1,260,916.31)	\$ 321,273.17
Capital Assets - Net	\$ 310,742,497.99	\$ -	\$ -	\$ 71,158.38	\$ (1,677,899.94)	\$ 6,844,615.53	\$ (1,321,947.61)	\$ 314,658,424.35

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

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Notes to the Financial Statements

August 31, 2020

NOTE 3 (continued)

Deposits, Investments and Repurchase Agreements

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, TTUS is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest TTUS funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investments and Endowments." The majority of TTUS assets are invested in three investment pools; the Long Term Investment Fund (LTIF), the Intermediate Term Investment Fund (ITIF) and the Short Term Investment Fund (STIF), each 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 either the ITIF or STIF. Other assets include securities gifted to TTUS with donor instructions to maintain in their original form.

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

Claims and Judgments

TTUHSC has self-insured arrangements for medical malpractice coverage through a medical malpractice self-insurance plan. Required information related to the liability for associated claims and judgments is included in Note 5 of the consolidated TTUS *Annual Financial Report*.

As previously disclosed, on April 29, 2019, the United States Court of Appeals for the Fifth Circuit affirmed the March 28, 2018 judgment of the United States District Court for the Northern District of Texas - Lubbock Division that pursuant to the decision of the Department of Health and Human Services Departmental Appeals Board, Texas Tech Physician Associates (TTPA) must return \$7,988,526 in fees that it received from the Centers for Medicare and Medicaid Services (CMS) during its participation in a Medicare demonstration project. Pursuant to a related Subcontract Agreement between TTPA and TrailBlazer Health Enterprises, LLC (TrailBlazer), TrailBlazer is at risk for up to, but not more than, the full amount of fees received from

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Notes to the Financial Statements

August 31, 2020

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

TTPA and will reduce the amount owed by TTPA by 54.55%. In October 2020 subsequent to year end, a settlement was reached for \$8,000,000, comprised of the original judgment amount plus interest, with TrailBlazer agreeing to pay \$4,031,022.22 for its portion of the settlement and the remaining \$3,968,977.78 to be paid by TTPA. A related liability in the amount of \$3,968,977.78 is reflected in the System's financial statements and in the condensed financial statements for TTPA presented in Note 19.

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 employees' 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 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.

The following changes occurred in long-term liabilities for the year ended August 31, 2020:

Category	Balance 09/01/19	Additions	Reductions	Restatement/ Adjustment	Balance 08/31/20	Amounts Due Within One Year	Amounts Due Thereafter
Claims and Judgments	\$ 7,988,526.00	\$ -	\$ (4,019,548.22)	\$ -	\$ 3,968,977.78	\$ 3,968,977.78	\$ -
Compensable Leave	\$ 25,689,953.08	\$ 4,324,282.57	\$ -	\$ -	\$ 30,014,235.65	\$ 2,830,342.41	\$ 27,183,893.24
Total Long Term Liabilities	\$ 25,689,953.08	\$ 4,324,282.57	\$ -	\$ -	\$ 30,014,235.65	\$ 2,830,342.41	\$ 27,183,893.24

**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
Derivatives**

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

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Notes to the Financial Statements

August 31, 2020

NOTE 8

Leases

OPERATING LEASES

TTUHSC has entered into various operating leases for building space. 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 \$629,069.63 and \$3,579,176.54 for the years ended August 31, 2020 and 2019 respectively. Future minimum lease payments are as follows:

For years ending August 31	Future Minimum Lease Payments
2021	\$ 1,050,570.51
2022	1,193,081.39
2023	1,105,348.64
2024	978,908.30
2025	709,229.36
2026-2030	3,238,781.44
2031-2035	3,160,000.00
2036-2040	3,160,000.00
2041-2045	3,160,000.00
2046-2049	2,212,000.00
Total Future Minimum Lease Payments	\$ 19,967,919.64

TTUHSC also has operating lease income for leased building space and land to outside parties under various operating leases. Total operating lease income under these agreements was \$263,832.36 and \$1,293,918.72 for the years ended August 31, 2020 and 2019 respectively. The net carrying value of the assets associated with these leases was \$559,736.12 as of August 31, 2020, and consists of historical cost of \$1,711,259.74 less related accumulated depreciation of \$1,151,523.62. There were no reported contingent rental revenues. Future minimum lease income is as follows:

For years ending August 31	Future Minimum Lease Income
2021	\$ 322,555.57
2022	348,832.40
2023	348,832.40
2024	348,832.40
2025	244,513.50
2026-2069	10,443,764.74
Total Future Minimum Lease Income	\$ 12,057,331.01

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Notes to the Financial Statements

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NOTE 9

Defined Benefit Pension Plans and Defined Contribution Plan
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DEFINED BENEFIT PENSION PLAN

TTUHSC participates in one of the three retirement systems in the State of Texas' 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 *Annual Financial Report*. Instead, the net pension liability is reported at the System level and included in the consolidated TTUS *Annual Financial Report*.

The Teacher Retirement System of Texas 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 of Texas, 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).

The amount of TTUHSC's contributions to TRS, excluding the State match, was \$7,236,193.66 for the year ended August 31, 2020, and \$6,395,835.71 for the year ended August 31, 2019. Contributions made by the state on behalf of TTUHSC to the TRS program amounted to \$8,033,669.37 for the year ended August 31, 2020 and \$6,737,636.35 for the year ended August 31, 2019.

DEFINED CONTRIBUTION PENSION PLAN

The State has also established an Optional Retirement Program (ORP), which is an optional defined contribution retirement program for institutions of higher education and is 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 participation in the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is an individualized 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. ORP is administered by each employer. Participants vest in ORP after one year of participation. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of the ORP. The contributory percentage of participant salaries by the members (employees) was 6.65% for both fiscal years 2020 and 2019. The contributory percentage of participant salaries by the employer was 6.8% in both fiscal years 2020 and 2019. 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 2020 and 2019, and will remain so subject to legislative change.

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Notes to the Financial Statements

August 31, 2020

NOTE 9 (continued)

Defined Benefit Pension Plans and Defined Contribution Plan

ORP contributions made by plan members and the employer for the years ending August 31, 2020 and 2019 are detailed in the following table.

For the Year Ended:	08/31/20	08/31/19
Member Contributions	\$ 7,934,585.00	\$ 7,762,035.00
Employer Contributions	8,384,699.00	8,285,428.00
Total ORP Contributions	<u>\$ 16,319,284.00</u>	<u>\$ 16,047,463.00</u>

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, 2020.

NOTE 11

Post-Employment Benefits Other Than Pensions

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, 2020.

NOTE 12

Interfund Activity and Transactions

As explained in Note 1 on interfund activities and transactions, there are numerous transactions between funds and agencies. Interfund activity refers to financial interactions between funds and/or blended component institutions and units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

At year-end, amounts to be received or paid are reported as:

- Interfund Receivables or Interfund Payables
- Due from Other State Agencies or Due to Other State Agencies
- Transfers In or Transfers Out
- Interagency Capital Asset Transfers
- Legislative Transfers In or Legislative Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances occurs within one year from the date of the financial statement.

TTUHSC had no interfund receivable or interfund payables as of August 31, 2020. Tables included in previous years detailing the other types of interfund activity and transactions above are an optional presentation and are not included in this note.

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NOTE 13

Continuance Subject to Review

TTUHSC is not subject to the Texas Sunset Act.

NOTE 14

Adjustments to Fund Balances and Net Position

During fiscal year 2020, certain reclassifications resulted in the restatement of comparative financial statement balances for the year ended August 31, 2019. These reclassifications required no restatement of fund balances or net position. The table below summarizes these reclassifications.

<u>Statement</u>	<u>Description</u>	<u>As Reported</u> <u>08/31/19</u>	<u>Reclassifications</u>	<u>As Corrected</u> <u>08/31/19</u>
Cash Flow	Proceeds from Fiduciary Activities (3 months or less)	\$ -	\$ 73,062,163.60	\$ 73,062,163.60
Cash Flow	Payments for Fiduciary Activities (3 months or less)	\$ -	\$ (73,140,502.60)	\$ (73,140,502.60)
	Net Cash Used by Operating Activities		\$ (78,339.00)	
Cash Flow	Proceeds from Other Financing Activities	\$ 1,173,726.73	\$ 78,339.00	\$ 1,252,065.73
Cash Flow	Proceeds from Agency Transactions	\$ 72,191,988.00	\$ (72,191,988.00)	\$ -
Cash Flow	Payments for Other Uses	\$ (72,191,988.00)	\$ 72,191,988.00	\$ -
	Net Cash Provided by Noncapital Financing Activities		\$ 78,339.00	

NOTE 15

Contingencies and Commitments

UNPAID CLAIMS AND LAWSUITS

At August 31, 2020, various non-medical malpractice lawsuits involving the TTUHSC were pending. While the ultimate liability with respect to most litigation and 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.

Texas Tech Physician Associates:

As previously disclosed on April 29, 2019, the United States Court of Appeals for the Fifth Circuit affirmed the March 28, 2018 judgment of the United States District Court for the Northern District of Texas – Lubbock Division that pursuant to the decision of the Department of Health and Human Services Departmental Appeals Board, Texas Tech Physician Associates (TTPA) must return \$7,988,526 in fees that it received from the Centers for Medicare and Medicaid Services (CMS) during its participation in a Medicare demonstration project. Pursuant to a related Subcontract Agreement between TTPA and TrailBlazer Health Enterprises, LLC (TrailBlazer), TrailBlazer is at risk for up to, but not more than, the full amount of fees received from TTPA and will reduce the amount owed by TTPA by 54.55%. In October 2020 subsequent to year end, a settlement was reached for \$8,000,000, comprised of the original judgment amount plus interest, with

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NOTE 15 (continued)
Contingencies and Commitments

TrailBlazer agreeing to pay \$4,031,022.22 for its portion of the settlement, and the remaining \$3,968,977.78 to be paid by TTPA. A related liability in the amount of \$3,968,977.78 is reflected in the comparative financial statements for the year ended August 31, 2020 and in the condensed financial statements for TTPA presented in Note 19.

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.

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, 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 2020 and 2019 amounted to \$606,241.63 and \$495,637.53 respectively.

TTUHSC has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas 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 2020 and 2019 were \$365,338.47 and \$146,573.30 respectively.

TTUHSC has self-insured arrangements 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*.

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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*.

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 (TPPA), whose principal office and financial records are located at Provider Payor Relations, 3601 4th St. Lubbock, TX 79430, 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 TTUHSCPEP, and its financial records are blended with both TTUHSC and TTUHSCPEP. TPPA is exempt from tax under Internal Revenue Service code section 501(c)(3). TTUHSC and TTUHSCPEP 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.

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

Texas Tech Physician Associates		
Condensed Statement of Net Position		
	<u>As of 08/31/20</u>	<u>As of 08/31/19</u>
Total Assets	\$ 5,059,751.12	\$ 8,732,666.14
Total Liabilities	\$ 3,983,977.78	\$ 8,557,274.27
Net Position:		
Unrestricted	1,075,773.34	175,391.87
Total Net Position	1,075,773.34	175,391.87
Total Liabilities and Net Position	\$ 5,059,751.12	\$ 8,732,666.14

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NOTE 19 (continued)
The Financial Reporting Entity

Texas Tech Physician Associates		
Condensed Statement of Revenues, Expenses and Changes in Net Position		
	For the Year Ended	
	08/31/20	08/31/19
Operating Revenues		
Professional Fees	\$ 17,505,948.07	\$ 18,353,732.72
Federal Contracts	168,527.01	163,056.84
Nongovernmental Grants and Contracts	220,614.67	4,637,218.34
Operating Expenses		
Professional Services and Fees	(432,931.05)	(739,725.18)
Materials and Supplies	-	(7.45)
Claims and Judgments	(20,215.00)	(6,844,762.11)
Other Expenses	(20,731.77)	(17,763.81)
Operating Income (Loss)	<u>\$ 17,421,211.93</u>	<u>\$ 15,551,749.35</u>
Non-operating Revenue (Expense)		
Private Gifts	\$ 75,000.00	\$ 675.00
Investment Income	96,788.65	95,243.81
Total Non-operating Revenues and Expenses	<u>\$ 171,788.65</u>	<u>\$ 95,918.81</u>
Other Revenues, Expenses, Gains, Losses and Transfers		
Transfers to Components	\$ (16,692,619.11)	\$ (18,038,121.68)
Total Change in Net Position	\$ 900,381.47	\$ (2,390,453.52)
Beginning Net Position	<u>175,391.87</u>	<u>2,565,845.39</u>
Ending Net Position	<u><u>\$ 1,075,773.34</u></u>	<u><u>\$ 175,391.87</u></u>

Texas Tech Physician Associates		
Condensed Statement of Cash Flows		
	For the Year Ended	
	08/31/20	08/31/19
Net Cash Provided by Operating Activities	\$ 17,211,709.97	\$ 18,059,172.16
Net Cash Used for Non-capital Financing Activities	(16,692,619.11)	(18,038,121.68)
Net Cash Provided by Capital and Related Financing Activities	-	-
Net Cash Provided by Investing Activities	<u>171,788.65</u>	<u>95,918.81</u>
Total Net Cash Flows	\$ 690,879.51	\$ 116,969.29
Cash and Cash Equivalents, September 1st	<u>4,326,514.12</u>	<u>4,209,544.83</u>
Cash and Cash Equivalents, August 31st	<u><u>\$ 5,017,393.63</u></u>	<u><u>\$ 4,326,514.12</u></u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

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Notes to the Financial Statements

August 31, 2020

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, 2020.

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, 2020.

NOTE 24

Disaggregation of Receivable and Payable Balances

Components of net current receivables as of August 31, 2020, and net current receivables as of August 31, 2019 as reported in the Combined Statement of Net Position are summarized by type the table below. TTUHSC has no other reportable disaggregation of any other receivable or payable balances as of August 31, 2020, nor as of August 31, 2019.

Description	As of 08/31/20			As of 08/31/19
	Gross Receivables	Allowances	Net Receivables	Net Receivables
Receivables:				
Federal Receivable	\$ 5,346,345.25	\$ -	\$ 5,346,345.25	\$ 2,343,412.76
Patient Accounts Receivable	3,126,153.53	(20,230,757.70)	11,032,395.83	11,734,990.24
Student Accounts Receivable	1,188,113.69	(677,310.33)	510,803.36	606,957.46
Contract Accounts Receivable	20,108,998.88	(100.00)	20,108,898.88	15,594,256.41
Interest and Dividends Receivable	456,674.74	-	456,674.74	500,148.57
Gifts Receivable	679,594.57	(73,396.21)	606,198.36	580,908.15
Other Receivables	565,586.25	(175,637.95)	389,948.30	4,822,944.79
Loans and Notes	617,481.72	(285,523.03)	331,958.69	507,308.66
Total Current Accounts/Other Receivables	<u>\$ 60,225,948.63</u>	<u>\$ (21,442,725.22)</u>	<u>\$ 38,783,223.41</u>	<u>\$ 36,690,927.04</u>

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Notes to the Financial Statements

August 31, 2020

**NOTE 25
Termination Benefits**

TTUHSC has voluntary and involuntary terminations in the ordinary course of business. Payments for related termination benefits, when offered, were immaterial. Thus, the System has no reportable benefits as of August 31, 2020.

**NOTE 26
Segment Information**

TTUHSC had no reportable segments during the year ended August 31, 2020.

**NOTE 27
Service Concession Arrangements**

TTUHSC had no reportable service concession arrangements during the year ended August 31, 2020.

**NOTE 28
Deferred Outflows and Deferred Inflows of Resources**

TTUHSC had no deferred outflows and deferred inflows of resources the year ended August 31, 2020.

**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, 2020.

**NOTE 30
Non-Exchange Financial Guarantees**

TTUHSC had no outstanding non-exchange financial guarantees for the year ended August 31, 2020.

**NOTE 31
Tax Abatements**

TTUHSC had no tax abatements to disclose for the year ended August 31, 2020.

**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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SUPPLEMENTAL SCHEDULES

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TEXAS TECH FOUNDATION, INC. for TTUHSC

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Comparative Statement of Net Position

As of August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 111,633.39	\$ 104,011.84
Restricted Cash and Cash Equivalents	68.19	4,129.59
Receivables:		
Gifts	1,216,851.18	2,038,863.81
Interest and Dividends	831.01	958.66
Total Current Assets	<u>\$ 1,329,383.77</u>	<u>\$ 2,147,963.90</u>
Non-Current Assets:		
Restricted Cash and Cash Equivalents	\$ 599,964.86	\$ 618,714.81
Restricted Investments	64,057,806.16	64,104,979.26
Gifts Receivable	276,471.79	219,943.71
Unrestricted Investments	347,867.50	331,291.61
Total Non-Current Assets	<u>\$ 65,282,110.31</u>	<u>\$ 65,274,929.39</u>
TOTAL ASSETS	<u>\$ 66,611,494.08</u>	<u>\$ 67,422,893.29</u>
LIABILITIES		
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>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources	\$ 585,145.48	\$ 524,873.72
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 585,145.48</u>	<u>\$ 524,873.72</u>
NET POSITION		
Restricted:		
Nonexpendable		
Endowments	\$ 60,693,717.21	\$ 58,538,883.62
Expendable		
Other	4,872,146.28	7,922,873.84
Unrestricted	460,485.11	436,262.11
TOTAL NET POSITION	<u>\$ 66,026,348.60</u>	<u>\$ 66,898,019.57</u>

TEXAS TECH FOUNDATION, INC. for TTUHSC
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Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended August 31, 2020 and 2019

	<i>2020</i>	<i>2019</i>
OPERATING REVENUES		
Other Revenues	\$ -	\$ -
Total Operating Revenues	\$ -	\$ -
OPERATING EXPENSES		
Materials and Supplies	\$ -	\$ 14,247.34
Rentals and Leases	-	-
Printing and Production	-	-
Interest Expense	-	-
Other Expenses	72,700.26	161,143.13
Distributions to Component Institutions	7,434,592.28	4,872,433.72
Total Operating Expenses	\$ 7,507,292.54	\$ 5,047,824.19
Operating Loss	\$ (7,507,292.54)	\$ (5,047,824.19)
NON-OPERATING REVENUES (EXPENSES)		
Gifts	\$ 3,773,128.93	\$ 2,023,233.30
Investment Income	1,629,250.07	(2,507,586.22)
Net Increase in Fair Value of Investments	(854,658.18)	2,029,753.68
Other Revenues	-	24,560.00
Total Non-Operating Revenues (Expenses)	\$ 4,547,720.82	\$ 1,569,960.76
CAPITAL CONTRIBUTIONS AND TRANSFERS		
Contributions to Permanent and Term Endowments	\$ 1,981,235.82	\$ 2,042,997.09
Net Transfers from (to) Texas Tech Foundation Inc.	106,664.93	100,000.00
Total Capital Contributions and Transfers	\$ 2,087,900.75	\$ 2,142,997.09
TOTAL CHANGE IN NET POSITION	\$ (871,670.97)	\$ (1,334,866.34)
Net Assets, September 1st	\$ 66,898,019.57	\$ 68,232,885.91
Restatement of Beginning Net Assets	\$ -	
Net Assets, August 31st	\$ 66,026,348.60	\$ 66,898,019.57

TEXAS TECH FOUNDATION, INC. for TTUHSC
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Comparative Statement of Cash Flows
For the Year Ended August 31, 2020 and 2019

	<i>2020</i>	<i>2019</i>
Cash Flows from Operating Activities		
Payments to Suppliers	\$ (41,313.12)	\$ (14,247.34)
Payments for Other Operating Activities	(31,387.14)	(161,143.13)
Payments for Distributions to Components	(7,434,592.28)	(4,872,433.72)
Net Cash Used for Operating Activities	\$ (7,507,292.54)	\$ (5,047,824.19)
Cash Flows from Non-Capital Financing Activities		
Proceeds from Gifts	\$ 6,519,849.30	\$ 4,090,649.40
Proceeds from (for) Transfers - Texas Tech Foundation Inc.	106,664.93	100,000.00
Payments for Transfers - Texas Tech University Health Sciences Center	-	-
Proceeds from Other Non-Capital Financing Activities	-	24,560.00
Net Cash used for Non-Capital Financing Activities	\$ 6,626,514.23	\$ 4,215,209.40
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	\$ 1,011,910.18	\$ 708,707.84
Proceeds from Interest and Investment Income	2,987,032.80	2,959,787.06
Payments for Acquisition of Investments	(3,133,354.47)	(3,235,388.06)
Net Cash Provided by Investing Activities	\$ 865,588.51	\$ 433,106.84
 TOTAL NET CASH FLOWS	 \$ (15,189.80)	 \$ (399,507.95)
 Cash and Cash Equivalents, September 1st	 \$ 726,856.24	 \$ 1,126,364.19
 Cash and Cash Equivalents, August 31st	 \$ 711,666.44	 \$ 726,856.24
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	\$ (7,507,292.54)	\$ (5,047,824.19)
Increase (Decrease) in Payables	-	-
Net Cash Used for Operating Activities	\$ (7,507,292.54)	\$ (5,047,824.19)
 Non-Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	\$ (854,658.18)	\$ 2,029,753.68