

**TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER**



**Annual Financial Report  
Fiscal Year 2012**



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

---

### *Table of Contents*

*August 31, 2012*

---

LETTERS OF TRANSMITTAL .....	1
ORGANIZATIONAL DATA .....	3

#### FINANCIAL STATEMENTS:

Statement of Net Assets .....	6
Statement of Revenues, Expenses, and Changes in Net Assets.....	8
Matrix of Operating Expenses by Function.....	10
Statement of Cash Flows.....	12

#### NOTES TO THE FINANCIAL STATEMENTS:

Note 1	Summary of Significant Accounting Policies .....	16
Note 2	Capital Assets .....	21
Note 3	Deposits, Investments, and Repurchase Agreements .....	23
Note 4	Short Term Debt .....	27
Note 5	Summary of Long Term Liabilities.....	28
Note 6	Bonded Indebtedness .....	29
Note 7	Derivatives .....	32
Note 8	Leases.....	32
Note 9	Pension Plans .....	34
Note 10	Deferred Compensation.....	34
Note 11	Post Employment Health Care and Life Insurance Benefits.....	34
Note 12	Interfund Balances/Activity.....	34
Note 13	Continuance Subject to Review.....	37
Note 14	Adjustments to Fund Balances and Net Assets .....	37
Note 15	Contingent Liabilities .....	37
Note 16	Subsequent Events .....	38
Note 17	Risk Financing and Related Insurance .....	38
Note 18	Management Discussion and Analysis .....	39
Note 19	The Financial Reporting Entity .....	39
Note 20	Stewardship, Compliance and Accountability .....	39
Note 21	Not Applicable .....	39
Note 22	Donor Restricted Endowments.....	40
Note 23	Special or Extraordinary Items.....	40
Note 24	Disaggregation of Receivable and Payable Balances .....	40
Note 25	Termination Benefits .....	42
Note 26	Segment Information.....	42

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

---

### *Table of Contents*

*August 31, 2012*

---

#### SUPPORTING SCHEDULES:

Schedule 2A: Miscellaneous Bond Information.....	45
Schedule 2B: Changes in Bonded Indebtedness .....	46
Schedule 2C: Debt Service Requirements Schedule.....	48
Schedule 2D: Analysis of Funds Available for Debt Service .....	49
Schedule 2E: Defeased Bonds Outstanding.....	50
Schedule 2F: Early Extinguishment and Refunding .....	51
Schedule 3: Reconciliation of Cash in State Treasury .....	52



TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER™

Office of the President

November 5, 2012

Honorable Rick Perry  
Governor of Texas

Honorable Susan Combs  
Comptroller of Public Accounts

Mr. John Keel, CPA  
State Auditor

Dr. Raymund A. Paredes  
Commissioner, Texas Higher Education Coordinating Board

Ms. Ursula Parks  
Director, Legislative Budget Board

To Agency Heads Addressed:

We are pleased to submit the annual financial report of the Texas Tech University Health Sciences Center for the year ended August 31, 2012, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The annual financial report will be considered for audit by the State Auditor as part of the audit of the *State of Texas Comprehensive Annual Financial Report (CAFR)*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

As indicated by the accompanying letter of transmittal, this report has been prepared by TTUHSC Accounting Services to provide a summary of the institution’s financial records. If you have questions, please contact Todd Bash, Director of Accounting, at (806) 743-7382.

Sincerely,

A handwritten signature in black ink, appearing to read "Tedd L. Mitchell".

Tedd L. Mitchell, M.D.  
President



TEXAS TECH UNIVERSITY  
HEALTH SCIENCES CENTER™  
Finance and Administration

Office of Accounting Services

November 5, 2012

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

Dear Dr. Mitchell:

Submitted herein is the *Annual Financial Report* for Texas Tech University Health Sciences Center for the fiscal year ended August 31, 2012.

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

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

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

Sincerely,

Todd Bash, CPA  
Director of Accounting Services

Approved:

Elmo M. Cavin  
Executive Vice President for Finance & Administration



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

---

### *Organizational Data*

*August 31, 2012*

---

#### BOARD OF REGENTS

##### Term Expires

Jerry E. Turner ( <b>Chair</b> )	January 31, 2013	Blanco
Mickey L. Long ( <b>Vice Chair</b> )	January 31, 2015	Midland
L. Frederick (Rick) Francis	January 31, 2013	El Paso
John Field Scovell	January 31, 2013	Dallas
John Walker	January 31, 2015	Houston
Nancy Neal	January 31, 2015	Lubbock
Larry K. Anders	January 31, 2017	Dallas
Debbie Montford	January 31, 2017	San Antonio
John D. Steinmetz	January 31, 2017	Lubbock
Suzanne Taylor ( <b>Student Regent</b> )	May 31, 2013	Arlington

#### FISCAL OFFICERS

Kent Hance	Chancellor
Jim Brunjes	Vice Chancellor and Chief Financial Officer
Tedd L. Mitchell, M.D.	President
Elmo M. Cavin	Executive Vice President for Finance & Administration
Michael Crowder, CPA	Associate Vice President for Business Affairs
Todd Bash, CPA	Director of Accounting Services

**(This page intentionally left blank)**



**TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER**

Annual Financial Report

*UNAUDITED*

---

**FINANCIAL STATEMENTS**

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

UNAUDITED

### *Comparative Statement of Net Assets*

*As of August 31, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets:		
Unrestricted Cash and Cash Equivalents	\$ 122,296,671.44	\$ 172,835,737.23
Restricted Cash and Cash Equivalents	86,460,034.44	24,100,351.17
Balance of Legislative Appropriations	50,424,529.83	33,838,501.96
Receivables:		
Federal	1,729,198.97	1,844,175.17
Interest and Dividends	234,158.15	218,187.35
Patient	18,490,185.96	16,953,043.08
Student	285,181.34	151,079.13
Contracts	15,012,347.13	13,565,142.35
Pledged Gifts	1,611,189.31	951,471.37
Other	788,676.96	791,757.55
Due from Other State Agencies	5,330,560.59	6,914,526.57
Due from Other Component Units	33,571.70	50,829.33
Inventories	930,671.53	923,385.30
Prepaid Items	4,285,004.68	3,200,243.40
Loans and Notes	447,965.05	391,103.55
Total Current Assets	<u>\$ 308,359,947.08</u>	<u>\$ 276,729,534.51</u>
Non-Current Assets:		
Restricted Cash and Cash Equivalents	\$ 156,750.06	\$ 147,169.12
Pledged Gifts Receivable	4,696,224.21	2,213,389.21
Loans and Notes	2,997,919.94	2,617,385.25
Restricted Investments	97,431,899.65	132,006,578.88
Unrestricted Investments	233,885,291.74	177,880,563.33
Capital Assets:		
Non-Depreciable or Non-Amortizable	13,332,753.30	19,641,122.37
Depreciable or Amortizable	628,915,343.42	599,709,739.59
less Accumulated Depreciation and Amortization	(286,804,886.92)	(262,352,880.70)
Total Non-Current Assets	<u>\$ 694,611,295.40</u>	<u>\$ 671,863,067.05</u>
TOTAL ASSETS	<u>\$ 1,002,971,242.48</u>	<u>\$ 948,592,601.56</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

UNAUDITED

### *Comparative Statement of Net Assets*

*As of August 31, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Payables:		
Accounts	\$ 17,845,132.27	\$ 22,396,341.42
Payroll	30,488,376.46	32,284,727.70
Due to Other State Agencies	52,596.32	12,020.93
Due to Other Component Units	166,492.62	107,035.82
Unclaimed Property Due to the State Treasury	17,476.69	38,676.11
Unearned Revenue	16,140,295.15	14,848,553.81
Capital Lease Obligation	158,096.78	137,485.28
Notes Payable	739,559.49	1,405,000.00
Revenue Bonds Payable	7,249,002.05	7,359,482.26
Claims and Judgments	1,307,405.59	1,593,715.16
Employees' Compensable Leave	2,998,053.87	3,078,881.60
Funds Held for Others	350,295.66	556,879.82
Other Current Liabilities	233,085.94	271,482.88
Total Current Liabilities	<u>\$ 77,745,868.89</u>	<u>\$ 84,090,282.79</u>
Non-Current Liabilities:		
Unclaimed Property Due to the State Treasury	\$ 86,243.37	\$ 57,606.53
Capital Lease Obligation	154,524.51	136,859.43
Revenue Bonds Payable	111,237,251.00	117,997,135.20
Claims and Judgments	14,073,836.67	16,114,231.07
Employees' Compensable Leave	21,985,728.41	22,578,465.10
Other Noncurrent Liabilities	8,550.00	7,950.00
Total Non-Current Liabilities	<u>\$ 147,546,133.96</u>	<u>\$ 156,892,247.33</u>
TOTAL LIABILITIES	<u>\$ 225,292,002.85</u>	<u>\$ 240,982,530.12</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 235,672,482.79	\$ 229,691,392.18
Restricted for:		
Capital Projects	7,289,429.45	7,888,125.93
Funds Held as Permanent Investments		
Nonexpendable	97,632,078.53	99,172,159.74
Other	97,285,783.76	54,662,639.18
Unrestricted	339,799,465.10	316,195,754.41
TOTAL NET ASSETS	<u>\$ 777,679,239.63</u>	<u>\$ 707,610,071.44</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,002,971,242.48</u>	<u>\$ 948,592,601.56</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

UNAUDITED

### *Comparative Statement of Revenues, Expenses, and Changes in Net Assets* For the Years Ended of August 31, 2012 and 2011

	<i>2012</i>	<i>2011</i>
<b>OPERATING REVENUES</b>		
Tuition and Fee Revenue - Pledged	\$ 42,649,742.71	\$ 36,079,314.70
Discounts and Allowances	(5,226,446.46)	(4,556,548.91)
Tuition and Fee Revenue	1,661,921.86	1,291,900.47
Net Professional Fees - Pledged	1,383,730.84	-
Net Professional Fees	247,383,353.42	275,138,710.19
Uncollectibles	(25,887,682.47)	(36,828,857.78)
Auxiliary Enterprises - Pledged	793,808.92	648,307.88
Other Sales and Services	2,918,661.28	3,012,323.67
Other Sales and Services - Pledged	6,221,204.55	6,383,084.53
Federal Grant Revenue	15,205,647.12	15,544,435.70
Federal Grant Revenue - Pledged	4,621,196.87	4,386,603.96
Federal Pass-Through Revenue	1,135,718.40	3,733,080.61
Federal Contract Revenue	3,604,651.85	3,168,683.25
State Grant and Contract Revenue	3,844,383.91	5,161,455.07
State Grant and Contract Revenue - Pledged	557,755.13	265,357.02
State Grant and Contract Pass-Through Revenue	6,632,660.65	5,459,737.87
Local Grant and Contract Revenue	50,695,309.00	49,631,502.52
Local Grant and Contract Revenue - Pledged	1,167,555.82	1,178,333.44
Private Grant and Contract Revenue	93,179,568.49	80,483,914.53
Private Grant and Contract Revenue - Pledged	2,173,434.49	2,222,585.77
Total Operating Revenues	\$ 454,716,176.38	\$ 452,403,924.49
<b>OPERATING EXPENSES</b>		
Salaries and Wages	\$ 363,882,924.99	\$ 359,230,386.07
Payroll Related Costs	81,143,151.76	81,375,077.31
Professional Fees and Services	51,665,536.49	61,877,263.10
Federal Grant Pass-Through Expense	198,835.65	734,492.22
State Grant Pass-Through Expense	247,145.57	-
Travel	4,944,118.43	4,339,313.42
Materials and Supplies	30,342,370.39	30,711,805.63
Communications and Utilities	15,034,072.30	16,623,832.09
Repairs and Maintenance	11,064,629.16	11,119,150.24
Rentals and Leases	4,218,567.42	4,007,287.96
Printing and Production	1,746,687.77	1,896,638.95
Depreciation and Amortization	28,400,609.22	26,602,072.01
Bad Debt Expense (Recovery)	255,834.92	316,256.70
Interest Expense	6,348.07	8,215.66
Scholarships	3,970,530.16	3,089,554.50
Claims and Judgments	1,236,542.00	1,326,460.31
Other Expenses	34,697,882.21	35,907,077.51
Total Operating Expenses	\$ 633,055,786.51	\$ 639,164,883.68
Operating Loss	\$ (178,339,610.13)	\$ (186,760,959.19)

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

UNAUDITED

### *Comparative Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended of August 31, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Legislative Appropriations Revenue	\$ 187,708,244.04	\$ 193,176,938.95
Federal Grant Revenue	1,159,840.00	1,014,530.00
Federal Pass-Through Revenue	-	2,559,117.76
State Pass-Through Revenue	2,000.00	-
Gifts	7,674,194.43	1,350,812.86
Gifts - Pledged	3,846,167.75	-
Interest and Investment Income	4,829,717.36	9,404,705.56
Interest and Investment Income - Pledged	3,842,553.39	2,006,249.04
Interest Expense	(6,638,332.16)	(6,091,675.00)
Gain (Loss) Sale of Capital Assets	(655,700.47)	(698,449.21)
Net Increase in Fair Value of Investments	5,862,847.32	8,146,282.34
Other Expenses	(409,218.26)	-
Other Revenues	11,812,227.18	15,609,088.81
Other Revenues - Pledged	226,511.98	155,571.68
Total Non-Operating Revenues (Expenses)	<u>\$ 219,261,052.56</u>	<u>\$ 226,633,172.79</u>
<b>CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS</b>		
Capital Contributions	634,358.27	459,468.67
Legislative Appropriations Revenue for Capital (HEAF)	16,973,569.00	16,973,569.00
Increases from Interagency Transfers of Capital Assets	21,735.86	289,089.99
Decreases from Interagency Transfers of Capital Assets	(117,441.61)	(456,684.31)
Net Transfers from Texas Tech University	997,581.74	1,234,997.39
Net Transfers from Texas Tech Foundation Inc.	17,533,000.92	1,706,973.30
Net Transfers to Texas Tech University System Administration	(1,778,989.52)	(1,849,529.69)
Transfers to Other State Agencies	(3,448,251.90)	(3,963,130.26)
Legislative Transfers Out (System Administration Support)	(1,667,837.00)	(1,667,837.00)
Capital Contributions and Transfers	<u>\$ 29,147,725.76</u>	<u>\$ 12,726,917.09</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ 70,069,168.19</u>	<u>\$ 52,599,130.69</u>
Net Assets, September 1st	<u>\$ 707,610,071.44</u>	<u>\$ 655,010,940.75</u>
Net Assets, August 31st	<u>\$ 777,679,239.63</u>	<u>\$ 707,610,071.44</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

### *Matrix of Operating Expenses by Function*

*For the Year Ended August 31, 2012*

OPERATING EXPENSES	INSTRUCTION	RESEARCH	PUBLIC SERVICE	PATIENT CARE	ACADEMIC SUPPORT	STUDENT SERVICES
Salaries and Wages	\$ 172,688,452.09	\$ 27,374,457.36	\$ 43,374,284.32	\$ 38,877,145.12	\$ 53,739,558.27	\$ 5,203,800.68
Payroll Related Costs	30,434,636.46	5,951,855.77	10,729,582.55	10,821,120.50	14,853,630.27	1,447,867.65
Professional Fees and Services	5,410,112.48	402,580.12	38,581,333.77	1,739,943.23	3,721,804.49	202,564.02
Travel	1,064,506.35	627,379.17	439,936.24	123,735.87	2,118,711.68	258,665.45
Supplies and Materials	2,031,125.38	5,049,967.25	11,993,330.74	5,211,927.26	4,110,125.78	1,229,820.82
Communications and Utilities	860,817.58	133,802.45	148,434.19	205,208.86	4,978,079.41	310,422.20
Maintenance and Repair	258,702.77	1,668,421.14	306,700.18	166,412.53	3,144,526.43	514,015.09
Rentals and Leases	401,972.60	367,005.35	524,937.43	372,853.36	2,307,446.68	176,479.68
Printing and Production	288,716.39	139,452.34	292,234.92	77,167.86	596,262.17	144,350.72
Interest Expense	254.76	21.62	229.52	294.62	1,669.80	952.77
Claims and Judgments	50,000.00	-	15,000.00	-	1,171,542.00	-
Other Expenses	3,791,533.69	6,490,133.51	3,148,632.21	1,372,407.87	10,014,604.42	2,067,326.06
Bad Debt Expense (Recovery)	-	-	-	-	100,545.51	155,642.57
Scholarships and Fellowships	64,814.00	44,804.06	3,384.65	-	1,007,666.83	-
Federal Grant Pass-Through Expense	56,308.95	56,190.15	86,336.55	-	-	-
State Grant Pass-Through Expense	-	-	247,145.57	-	-	-
Depreciation and Amortization	-	-	-	-	-	-
	<u>\$ 217,401,953.50</u>	<u>\$ 48,306,070.29</u>	<u>\$ 109,891,502.84</u>	<u>\$ 58,968,217.08</u>	<u>\$ 101,866,173.74</u>	<u>\$ 11,711,907.71</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

### *Matrix of Operating Expenses by Function*

*For the Year Ended August 31, 2012*

OPERATING EXPENSES	INSTITUTIONAL SUPPORT	OPERATION & MAINTENANCE OF PLANT	SCHOLARSHIPS & FELLOWSHIPS	AUXILIARY ENTERPRISES	DEPRECIATION & AMORTIZATION	TOTAL EXPENSES
Salaries and Wages	\$ 16,110,142.16	\$ 6,325,826.36	\$ 11,400.00	\$ 177,858.63	-	\$ 363,882,924.99
Payroll Related Costs	4,457,919.46	2,381,074.98	761.22	64,702.90	-	81,143,151.76
Professional Fees and Services	275,746.26	1,324,854.37	-	6,597.75	-	51,665,536.49
Travel	228,311.73	75,461.70	-	7,410.24	-	4,944,118.43
Supplies and Materials	232,160.07	467,172.49	-	16,740.60	-	30,342,370.39
Communications and Utilities	349,683.98	8,029,164.90	-	18,458.73	-	15,034,072.30
Maintenance and Repair	934,036.06	4,042,028.77	-	29,786.19	-	11,064,629.16
Rentals and Leases	33,171.30	18,255.42	-	16,445.60	-	4,218,567.42
Printing and Production	166,488.01	20,802.32	-	21,213.04	-	1,746,687.77
Interest Expense	496.54	2,382.51	-	45.93	-	6,348.07
Claims and Judgments	-	-	-	-	-	1,236,542.00
Other Expenses	3,211,621.90	4,549,710.42	-	51,912.13	-	34,697,882.21
Bad Debt Expense	(353.16)	-	-	-	-	255,834.92
Scholarships and Fellowships	-	-	2,849,860.62	-	-	3,970,530.16
Federal Grant Pass-Through Expense	-	-	-	-	-	198,835.65
Federal Grant Pass-Through Expense	-	-	-	-	-	247,145.57
Depreciation and Amortization	-	-	-	-	28,400,609.22	28,400,609.22
	<u>\$ 25,999,424.31</u>	<u>\$ 27,236,734.24</u>	<u>\$ 2,862,021.84</u>	<u>\$ 411,171.74</u>	<u>\$ 28,400,609.22</u>	<u>\$ 633,055,786.51</u>

# 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, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Cash Inflows		
Collections from Student Tuition and Fees	\$ 40,259,618.42	\$ 35,084,691.46
Collections from Grants and Contracts	182,818,908.63	171,918,419.70
Collections from Patients and Insurers	221,342,258.91	238,510,798.47
Collections of Loan Program Proceeds	63,710,567.53	57,531,865.59
Collections from Auxiliary Enterprises	802,592.03	648,307.88
Collections from Other Operating Activities	9,128,811.18	8,855,372.67
Cash Outflows		
Payments to Suppliers	(128,591,810.36)	(134,037,000.88)
Payments to Employees for Salaries	(366,432,911.98)	(358,847,570.04)
Payments to Employees for Benefits	(80,430,420.03)	(80,357,028.00)
Payments for Loans Provided to Students	(63,848,589.77)	(56,277,430.94)
Payments for Unemployment Benefits	(632,660.40)	(441,557.49)
Payments for Other Operating Activities	(39,115,123.98)	(38,084,962.80)
Net Cash Used for Operating Activities	<u>\$ (160,988,759.82)</u>	<u>\$ (155,496,094.38)</u>
Cash Flows from Non-Capital Financing Activities		
Cash Inflows		
Proceeds from Legislative Appropriations	\$ 171,122,216.17	\$ 197,363,016.05
Proceeds from Net Transfers from Texas Tech University	997,581.74	1,234,997.39
Proceeds from Net Transfers from Texas Tech Foundation, Inc.	17,533,000.92	1,706,973.30
Proceeds from Non-Capital Gifts	5,580,616.89	2,944,671.90
Proceeds from Non-Capital Grants	1,161,840.00	3,573,647.76
Proceeds from Other Non-Capital Financing Activities	11,252,900.34	15,917,971.70
Cash Outflows		
Payments for Net Transfers to Texas Tech University System	(3,446,826.52)	(3,517,366.69)
Payments for Transfers to Other State Agencies	(3,448,251.90)	(3,963,130.26)
Payments for Refunds to Grantors	(155,652.20)	-
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 200,597,425.44</u>	<u>\$ 215,260,781.15</u>



# 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, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
Cash Flows from Capital and Related Financing Activities		
Cash Inflows		
Proceeds from Sale of Capital Assets	\$ 133,338.30	\$ 27,394.37
Proceeds from Capital Debt Issuances	44,090,826.10	-
Proceeds from Legislative Appropriations for Capital	16,973,569.00	16,973,569.00
Cash Outflows		
Payments for Purchases of Capital Assets	(24,121,973.71)	(27,519,972.04)
Payments for Capital Debt Refinancing	(39,975,000.00)	-
Payments for Principal on Capital Debts	(9,146,735.03)	(7,890,084.35)
Payments for Interest on Capital Debts	(8,602,370.43)	(6,125,061.23)
Payments for Capital Lease	(235,973.72)	(104,794.19)
Payments for Other Costs on Debt Issuance	(253,566.06)	-
Net Cash Used for Capital and Related Financing Activities	<u>\$ (21,137,885.55)</u>	<u>\$ (24,638,948.44)</u>
Cash Flows from Investing Activities		
Cash Inflows		
Proceeds from Sales and Maturities of Investments	\$ 150,342,110.29	\$ 40,279,764.46
Proceeds from Interest and Dividends on Investments	15,842,219.56	12,696,819.70
Cash Outflows		
Payments for Purchases of Investments	(172,824,911.50)	(76,769,057.45)
Net Cash Used for Investing Activities	<u>\$ (6,640,581.65)</u>	<u>\$ (23,792,473.29)</u>
TOTAL NET CASH FLOWS	<u>\$ 11,830,198.42</u>	<u>\$ 11,333,265.04</u>
Cash and Cash Equivalents, September 1st	<u>\$ 197,083,257.52</u>	<u>\$ 185,749,992.48</u>
Cash and Cash Equivalents, August 31st	<u>\$ 208,913,455.94</u>	<u>\$ 197,083,257.52</u>

# 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, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	\$ (178,339,610.13)	\$ (186,760,959.19)
Adjustments		
Depreciation Expense	28,400,609.22	26,602,072.01
Bad Debt Expense	97,192.35	316,256.70
Decrease (Increase) in Receivables	(3,000,393.08)	473,736.90
Decrease (Increase) in Due from Other Agency	1,330,903.35	890,469.22
Decrease (Increase) in Due from Other Component Unit	-	10,172.14
Decrease (Increase) in Merchandise Inventories	(7,286.23)	2,696.46
Decrease (Increase) in Prepaid Expenses	(1,084,761.28)	(525,743.94)
Decrease (Increase) in Loans and Notes Receivable	(437,396.19)	(23,237.35)
Increase (Decrease) in Payables	(6,340,122.97)	3,909,349.60
Increase (Decrease) in Due to Other Agency	100,032.19	(154,668.44)
Increase (Decrease) in Due to Other Component Unit	-	(122,228.20)
Increase (Decrease) in Deferred Revenue	1,291,741.34	2,328,444.90
Increase (Decrease) in Compensable Leave	(673,564.42)	(1,771,718.85)
Increase (Decrease) in Claims Payable	(2,326,703.97)	(625,255.17)
Increase (Decrease) in Other Liabilities	600.00	(45,481.17)
Net Cash Used for Operating Activities	<u>\$ (160,988,759.82)</u>	<u>\$ (155,496,094.38)</u>
Non-Cash Transactions		
Donations of Capital Assets	\$ 3,334,358.27	\$ 459,468.67
Net Increase (Decrease) in Fair Value of Investments	5,862,847.32	8,146,282.34
Borrowing Under Capital Lease Purchase	274,250.30	97,880.12
Disposal of Capital Assets	(789,038.77)	(725,843.58)

**TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER**

Annual Financial Report

*UNAUDITED*

---

**NOTES TO FINANCIAL STATEMENTS**

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### 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 reflect compliance with applicable state statutes and regulations. This *Annual Financial Report* includes all accounts of TTUHSC, a separate institution established pursuant to Texas Education Code, Chapter 110. TTUHSC is under the direction, management, and control of the Texas Tech University System Board of Regents which acts separately and independently on all matters affecting TTUHSC.

As an institution of higher education of the State of Texas, the income of TTUHSC is generally exempt from income taxes. However, income unrelated to the exempt purpose of TTUHSC would be subject to tax under § 511(a)(2)(B) of the Internal Revenue Code. Management does not believe that there is any material unrelated income for the year ended August 31, 2012.

TTUHSC is one of four entities included in the Texas Tech University System. The other three entities, reported separately as additional component units of the State of Texas are Angelo State University, Texas Tech University (TTU) and Texas Tech University System Administration (TTUSA).

TTUHSC offers graduate and undergraduate programs in seven schools: the School of Allied Health Sciences, the School of Medicine, the Paul L. Foster School of Medicine, the Anita Thigpen Perry School of Nursing, the Gayle Greve Hunt School of Nursing, the School of Pharmacy, and the Graduate School of Biomedical Sciences. Major ancillary operations include correctional health care, grant and contract activities, and clinical operations.

TTUHSC operates several campuses located in Abilene, Amarillo, Dallas, El Paso, Highland Lakes, Lubbock, Midland and Odessa. The School of Medicine is represented at a majority of the campuses while other schools have a presence at only select campuses. Most administrative functions are centralized at the Lubbock campus.

##### **FUND STRUCTURE**

###### **Blended Component Units**

Texas Tech Physician Associates (TPPA) is reported as a blended component unit of TTUHSC. TPPA is a certified non-profit health corporation authorized under the Medical Practice Act § 5.01(a), article 4495b of the State of Texas. TPPA was created for the purpose of entering into prepaid capitation agreements for physician and other medical services. TPPA is exempt from tax under Internal Revenue Code § 501(c)(3). The TPPA board consists of nine directors appointed by TTUHSC.

Although legally separate from TTUHSC, TPPA is reported as a component unit because TTUHSC can impose its will on TPPA. TPPA balances and activities are blended with TTUHSC balances and activities since the sole purpose of TPPA is to financially support TTUHSC. Independent financial statements for TPPA can be obtained from the Health Care Systems division of TTUHSC at 3601 4<sup>th</sup> Street, Lubbock, Texas 79430.

Texas Tech Foundation, Inc. (TTFI) is a component unit of the consolidated Texas Tech University System as it serves the fundraising needs of TTUHSC, TTU, and TTUSA. No balances or activities associated with TTFI are included in the Financial Statements.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

---

### *Notes to the Financial Statements*

*August 31, 2012*

---

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

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

#### **BASIS OF ACCOUNTING**

The fiscal records of TTUHSC are maintained using a modified accrual basis of accounting. Most internal financial reports utilize this basis. However, balances and activities included in most external reports, including this *Annual Financial Report*, are converted to a full accrual basis of accounting in compliance with Governmental Accounting Standards Board (GASB) statements 34 and 35.

Under the full accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. For reporting purposes, operating activities are distinguished from non-operating activities. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the principal ongoing operations. Operating expenses include administrative expenses and depreciation on capital assets, among others.

#### **RESTRICTED NET ASSETS**

In cases where both restricted and unrestricted net assets are available for use, restricted resources are used first and then unrestricted resources are used as needed.

#### **BUDGETS AND BUDGETARY ACCOUNTING**

Budgets are established and monitored for most TTUHSC funds though some fund areas have a more restrictive budget structure than do other fund areas. Many of the budgets are based on legislative appropriations. No budgetary information is presented in this *Annual Financial Report*.

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

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

Current assets are those that are readily available to meet current operational requirements. Non-current assets are those that are not readily available to meet current operational requirements and, instead, are intended to support longer-term institutional needs. In some cases highly liquid assets (including cash and cash equivalents) that are not expendable and therefore not available for current operational needs are classified as non-current assets.

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

Cash and cash equivalents are defined as all cash on hand, cash in banks, reimbursements due from the State Treasury, local balances of legislative appropriations (held in the State Treasury), and temporary investments with original maturities of 90 days or less. TTUHSC utilizes bank deposits and eligible investment pools as cash equivalents in its Short/Intermediate Term Investment Fund. Per policy and state statute all bank deposits are fully collateralized. Eligible investment pools must maintain a \$1 net asset value and be continuously rated no lower than AAA or AAA-m by at least one nationally recognized rating service. TTUHSC currently utilizes TexPool and TexStar as eligible investment pools.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

##### **Investments**

Investments are reported at fair value in this *Annual Financial Report* with the following exceptions: (1) non-participating contracts, such as non-negotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure provided that the fair value of those contracts is not significantly affected by the financial institution's credit standing or other relevant factors; and (2) money market investments and participating interest-earning investment contracts that mature within one year of the date of their acquisition may be reported at amortized cost assuming that the investment is not affected by the financial institution's credit standing or other relevant factors.

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.

##### **Receivables**

The most significant categories of TTUHSC receivables are patient receivables and contract receivables. Details regarding Current and Non-current receivables are presented in Note 24. Patient receivables are reported net of allowances for contractual and similar adjustments.

Allowances for uncollectibles 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.

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

Inventories include both consumable inventories and merchandise inventories. Consumable inventories include supplies and postage that are on hand and available for consumption. Merchandise inventories include materials, supplies, equipment, and other items on hand and for sale. Inventories are valued at cost generally utilizing the first-in / first-out method.

Inventories and prepaid items are reported using the consumption method. Under the consumption method, inventories and prepaid items are recorded as assets deferring the recognition of expenditures until the period in which the inventories or prepaid items are used or consumed.

##### **Restricted Assets**

Cash and cash equivalents that are held for endowments or for special programs are reported as restricted because they are not available for current operations. All such cash and cash equivalents are associated with programs that are restricted by an external party.

##### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition or, in the case of gifts, at fair value as of the date of donation.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

##### **Capital Assets (continued)**

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system as summarized in the table on the following page.

Capital Asset Category	Useful Life
Buildings and Building Improvements	22 Years
Infrastructure	20 Years
Furniture and Equipment	3-15 Years
Vehicles	5-7 Years
Facilities and Other Improvements	10-23 Years

Depreciation expense is not allocated to functional categories for this *Annual Financial Report*.

TTUHSC has adopted the federal standard of capitalizing furniture and equipment assets that exceed an aggregate cost threshold of \$5,000. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), facilities and other improvements (\$100,000), and vehicles (\$5,000).

For fabricated assets financed by debt, construction period interest is capitalized as part of the capital asset cost. The capitalized interest is combined with the other costs associated with constructing the asset and depreciated over the appropriate useful life beginning when the asset is placed into service.

As a result of limitations in the SPA system, capital asset betterments that do not individually exceed the full capitalization threshold described above are not capitalized and instead are reported as an expense of the period.

##### **Payables**

Major categories of TTUHSC payables include bonds payable, claims payable and general accounts payable (including payroll). Additional categories of payables include deposits payable and unclaimed property due to the State Treasury. Details regarding payables can be found in Note 5.

##### **Compensable Leave**

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time. Annual vacation leave and other compensated time are accrued in a manner consistent with State of Texas rules and guidelines and in accordance with generally accepted accounting principles. Within the framework of those guidelines employees are eligible to carry forward a limited annual leave balance.

##### **Overtime and Compensatory Leave**

Non-exempt employees who work in excess of 40 hours in a week generally have the option of requesting compensation for the additional hours worked at a rate equal to 1½ times the usual hourly wage or, if provided by department policy, they may request compensatory leave for the additional hours worked at a rate of 1½ hours of added leave for each extra hour worked.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

<b>NOTE 1 (continued)</b> <b>Summary of Significant Accounting Policies</b>
--

#### **Employee Sick Leave**

Employee sick leave is accrued in a manner consistent with State of Texas rules and guidelines and in accordance with generally accepted accounting principles. Within the framework of those guidelines employees are eligible to carry forward an unlimited sick leave balance. Accumulated sick leave balances are not recognized as an institutional liability because sick leave is not paid out to terminating employees.

#### **Capital Lease Obligations**

Where material, capital leases are appropriately recorded as liabilities associated with the acquisition of capital assets in compliance with the full accrual basis of accounting set forth by GASB statements 34 and 35. For purposes of complying with this requirement a capital lease is defined by fulfilling any of the following four conditions: (1) the ownership of the asset transfers to the lessee at the end of the lease; (2) the lessee has the option of purchasing the leased asset at the end of the lease for a bargain price; (3) the term of the lease represents 75% or more of the useful life of the leased asset; or (4) the discounted present value of all future lease payments at the inception of the lease represent 90% or more of the fair value of the leased asset.

#### **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding are reported as reservations of net assets and do not constitute expenditures or liabilities.

#### **Net Assets**

Net assets represent the excess of assets over liabilities. As a result of the amounts restricted by external parties and also amounts invested in capital assets, net of related debt, the excess of assets over liabilities does not generally represent spendable resources.

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

TTUHSC is regularly involved in both interfund activity and interfund transactions. Interfund activity is defined as financial interaction between internal funds, including blended component units.

Interfund transactions are defined as financial interactions between legally separate entities. Interfund activity and interfund transactions are both clearly identifiable and are eliminated where appropriate.

Interfund transfers represent the flow of assets without equivalent flow of assets in return or a requirement for repayment. Transfers are reported after non-operating revenues and expenses in the *Comparative Statement of Revenues, Expenses and Changes in Net Assets* included in this *Annual Financial Report*.

#### **Risk Financing**

Liabilities are reported when it is probable that a loss has occurred and when the amount of the loss can be reasonably estimated. Identified liabilities include amounts for claims that have been incurred but not reported.



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 2 Capital Assets

##### GENERAL INTRODUCTION

Capital assets are categorized as either (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, or (8) facilities and other improvements. Non-depreciable capital assets include land and land improvements, construction in progress, and other capital assets (representing artwork). All other capital asset categories are depreciated.

Adjustments include loss recovery, restatements, corrections of errors and changes in asset type. Reclassifications include completion of construction in progress and interagency transfers of capitalized property at book value.

Capital asset changes for the year ended August 31, 2012 for non-depreciable and depreciable capital assets are summarized in the following table.

Capital Asset Category	Balance 09/01/11	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/12
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
<b><u>Non-Depreciable</u></b>								
Land and Land Improvements	\$ 7,648,317.92	\$ -	\$ -	\$ -	\$ -	\$ 3,573,974.91	\$ -	\$ 11,222,292.83
Construction In Progress	10,009,913.27	-	(9,943,168.49)	-	-	32,800.51	-	99,545.29
Other	1,982,891.18	-	-	-	-	28,024.00	-	2,010,915.18
Total Non-Depreciable Assets	<u>\$ 19,641,122.37</u>	<u>\$ -</u>	<u>\$ (9,943,168.49)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,634,799.42</u>	<u>\$ -</u>	<u>\$ 13,332,753.30</u>
<b><u>Depreciable</u></b>								
Buildings and Improvements	\$ 443,813,359.25	\$ -	\$ 9,943,168.49	\$ -	\$ -	\$ 8,784,884.81	\$ (227,258.00)	\$ 462,314,154.55
Infrastructure	6,013,239.72	-	-	-	-	-	-	6,013,239.72
Furniture and Equipment	94,370,752.04	-	-	26,775.44	(119,095.72)	12,870,727.96	(4,285,138.11)	102,864,021.61
Vehicles	2,076,603.18	-	-	-	-	255,032.45	(196,979.13)	2,134,656.50
Facilities and Other Improvements	11,524,853.55	-	-	-	-	162,842.00	-	11,687,695.55
Other	35,377,573.00	-	-	-	-	320,441.00	(297.00)	35,697,717.00
Total Depreciable Assets	<u>\$ 593,176,380.74</u>	<u>\$ -</u>	<u>\$ 9,943,168.49</u>	<u>\$ 26,775.44</u>	<u>\$ (119,095.72)</u>	<u>\$ 22,393,928.22</u>	<u>\$ (4,709,672.24)</u>	<u>\$ 620,711,484.93</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 2 (continued) Capital Assets

Capital asset changes for the year ended August 31, 2012 for amortizable capital assets are summarized below.

Capital Asset Category	Balance 09/01/11	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/12
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
<b><u>Amortizable</u></b>								
Computer Software	\$ 6,533,358.85	\$ -	\$ -	\$ -	\$ -	\$ 1,701,854.64	\$ (31,355.00)	\$ 8,203,858.49
Total Amortizable Assets	<u>\$ 6,533,358.85</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,701,854.64</u>	<u>\$ (31,355.00)</u>	<u>\$ 8,203,858.49</u>

Accumulated depreciation and accumulated amortization changes for the year ended August 31, 2012 are summarized in the following table.

Capital Asset Category	Balance 09/01/11	Adjustments	Reclassifications			Additions	Deletions	Balance 08/31/12
			Completed CIP	Increases - Interagency Transfers	Decreases - Interagency Transfers			
<b><u>Accumulated Depreciation</u></b>								
Buildings and Improvements	\$ (179,115,711.11)	\$ -	\$ -	\$ -	\$ -	\$ (15,679,171.98)	\$ 46,613.71	\$ (194,748,269.38)
Infrastructure	(1,817,629.64)	-	-	-	-	(261,620.34)	-	(2,079,249.98)
Furniture and Equipment	(50,349,221.77)	-	-	(5,039.58)	1,654.11	(9,136,021.30)	3,696,318.32	(55,792,310.22)
Vehicles	(1,379,385.30)	-	-	-	-	(191,889.53)	179,709.44	(1,391,565.39)
Facilities and Other Improvements	(3,659,960.43)	-	-	-	-	(604,876.55)	-	(4,264,836.98)
Other	(21,288,589.55)	-	-	-	-	(1,570,298.89)	-	(22,858,888.44)
Total Accumulated Depreciation	<u>\$ (257,610,497.80)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,039.58)</u>	<u>\$ 1,654.11</u>	<u>\$ (27,443,878.59)</u>	<u>\$ 3,922,641.47</u>	<u>\$ (281,135,120.39)</u>
<b><u>Accumulated Amortization</u></b>								
Computer Software	\$ (4,742,382.90)	\$ -	\$ -	\$ -	\$ -	\$ (956,730.63)	\$ 29,347.00	\$ (5,669,766.53)
Total Accumulated Amortization	<u>\$ (4,742,382.90)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (956,730.63)</u>	<u>\$ 29,347.00</u>	<u>\$ (5,669,766.53)</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

TTUHSC's investment portfolio is invested pursuant to the parameters of applicable Texas law and the governing 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 of Regents. No person may invest TTUHSC funds without express written authority from the governing 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, a fixed income fund. Other assets include securities gifted to TTUHSC with donor instructions to maintain the assets in their original form, and bond proceeds invested in external investment pools.

#### DEPOSITS OF CASH IN BANK

The carrying amount of deposits as of August 31, 2012 is presented in the below table.

	As of 08/31/12
<b>Enterprise Funds</b>	
CASH IN BANK - CARRYING VALUE	\$ 30,696,496.06
Less: Certificates of Deposit included in carrying value and reported as Cash Equivalent	-
Less: Uninvested Securities Lending Cash Collateral included in carrying value and reported as Securities Lending Collateral	-
Less: Securities Lending CD Collateral included in carrying value and reported as Securities Lending Collateral	-
Cash in Bank per AFR	<u>\$ 30,696,496.06</u>
Enterprise Funds Current Assets Cash in Bank	\$ (54,358,406.28)
Enterprise Funds Current Assets Restricted Cash in Bank	84,898,152.28
Enterprise Funds Non-Current Assets Restricted Cash in Bank	<u>156,750.06</u>
Cash in Bank per AFR	<u>\$ 30,696,496.06</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 3 (continued) Deposits, Investments and Repurchase Agreements

These amounts consist of all cash in local banks. These amounts are included on the *Comparative Statement of Net Assets* as part of the "Cash and Cash Equivalents" accounts. As of August 31, 2012, the total bank balance was \$37,121,553.99.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TTUHSC's policy is to require collateralization of bank balances in excess of FDIC protection. As of August 31, 2012, TTUHSC did not have any funds considered to be uninsured or uncollateralized.

#### INVESTMENTS

The carrying value and fair value of investments as of August 31, 2012 is summarized in the following tables.

<b>Enterprise Funds</b>	<b>As of 08/31/12</b>
U.S. Government	
U.S. Treasury Securities	\$ 17,845,589.95
U.S. Treasury Strips	-
U.S. Treasury TIPS	2,022,847.38
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	34,052,541.61
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)	-
Corporate Obligations	-
Corporate Asset and Mortgage Backed Securities	-
Equity	13,170,265.60
International Obligations	3,379,745.80
Fixed Income Money Market and Bond Mutual Fund	154,673,448.96
Mutual Funds	12,456,636.65
Other Commingled Funds	25,904,336.44
Other Commingled Funds (TexPool)	96,096,936.32
International Other Commingled Funds	24,899,150.02
Commercial Paper	-
Securities Lending Collateral Investment Pool	-
Real Estate	6,714,154.64
Derivatives	-
Externally Managed Investments	
Domestic	92,408,741.18
International	1,396,193.81
Miscellaneous	153,925.77
<b>Total Investments</b>	<b>\$ 485,174,514.13</b>

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* August 31, 2012

**NOTE 3 (continued)**  
**Deposits, Investments and Repurchase Agreements**

The carrying value and fair value of investments are classified as follows in the accompanying *Comparative Statement of Net Assets*.

	<b>As of</b>
	<b>08/31/12</b>
<b>Enterprise Funds</b>	
<b>Non-Current Investments</b>	\$ 331,317,191.39
<b>Items in Cash and Equivalents</b>	
Money Market Funds	56,204,135.38
Texpool & TexSTAR Investments	97,653,187.36
<b>Total Investments</b>	<b>\$ 485,174,514.13</b>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table summarizes the credit rating for these securities.

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	Unrated
05	9999	U.S. Government Agency Obligations	\$ 53,920,978.94	\$ -	\$ -	\$ -	\$ -	\$ -
		U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	-	-	-	-	-	-
		Corporate Obligations	-	-	-	-	-	-
		Corporate Asset and Mortgage Backed Securities	-	-	-	-	-	-
		International Obligations	-	179,126.53	358,253.05	1,490,467.90	601,594.75	750,303.57
		Repurchase Agreement	-	-	-	-	-	-
		Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	-	-	-	-	-	-
		Alternative Investments	-	-	-	-	-	-
		Miscellaneous	-	-	-	-	-	-

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### Notes to the Financial Statements

August 31, 2012

#### NOTE 3 (continued)

#### Deposits, Investments and Repurchase Agreements

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The exposure to foreign currency risk as of August 31, 2012, is as follows.

<u>Fund Type</u>	<u>GAAP Fund</u>	<u>Foreign Currency</u>	<u>International Obligation</u>	<u>International Other Commingled Funds</u>	<u>International Externally Managed Investments</u>
05	9999	Argentine peso	\$ 71,546.77	\$ 274,714.78	-
05	9999	Australian dollar	-	186,472.57	2,481.68
05	9999	Bermudan dollar	-	-	-
05	9999	Brazilian real	291,913.47	2,051,551.54	-
05	9999	Bulgarian lev	-	-	-
05	9999	Canadian dollar	2,303.71	254,888.55	-
05	9999	Cayman dollar	16,586.74	-	-
05	9999	CFA Franc	94,386.45	-	-
05	9999	Chilean Peso	235,373.74	135,171.90	-
05	9999	Chinese yuan	20,930.89	1,899,192.79	63.63
05	9999	Colombian peso	227,212.01	-	-
05	9999	Czech koruna	-	212,178.08	-
05	9999	Danish krone	-	66,670.96	-
05	9999	Dominican peso	44,428.77	-	-
05	9999	Egyptian pound	-	153,363.80	-
05	9999	Euro	249,261.86	3,070,989.17	1,281,578.44
05	9999	Hong Kong dollar	16,323.46	412,114.32	-
05	9999	Hungarian forint	-	-	-
05	9999	Indian rupee	-	1,196,518.29	112,070.06
05	9999	Indonesian rupiah	343,582.48	492,352.01	-
05	9999	Iraqi dinar	27,249.64	-	-
05	9999	New Israel shekel	-	70,595.73	-
05	9999	Japanese yen	-	2,290,450.34	-
05	9999	Jordanian dinar	-	-	-
05	9999	Kazakhstani tenge	88,133.51	94,032.63	-
05	9999	Latvian lats	136,379.86	-	-
05	9999	Lithuanian litas	111,433.93	-	-
05	9999	Malaysian ringgit	592.38	50,475.66	-
05	9999	Mexican peso	128,481.42	1,370,942.98	-
05	9999	Moroccan dirham	-	-	-
05	9999	New Zealand dollar	-	-	-
05	9999	Norwegian krone	-	103,853.02	-
05	9999	Pakistani rupee	-	-	-
05	9999	Panamanian balboa	22,839.68	35,654.41	-
05	9999	Peruvian nuevo sol	62,595.20	230,666.34	-
05	9999	Phillippino peso	246,299.93	202,891.53	-
05	9999	Polish zloty	-	-	-
05	9999	Pound sterling	26,657.26	1,879,828.82	-

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

**NOTE 3 (continued)**  
**Deposits, Investments and Repurchase Agreements**

The exposure to foreign currency risk as of August 31, 2012, continues as follows.

<u>Fund Type</u>	<u>GAAP Fund</u>	<u>Foreign Currency</u>	<u>International Obligation</u>	<u>International Other Commingled Funds</u>	<u>International Externally Managed Investments</u>
05	9999	Qatari riyal	85,171.60	-	-
05	9999	Romanian leu	-	-	-
05	9999	Russian ruble	42,783.26	303,157.74	-
05	9999	Singapore dollar	-	303,251.50	-
05	9999	South African rand	109,130.22	1,397,773.71	-
05	9999	South Korean won	22,576.40	1,962,276.50	-
05	9999	Swedish krona	-	194,620.75	-
05	9999	Swiss franc	-	1,394,174.64	-
05	9999	New Taiwan dollar	-	1,328,828.22	-
05	9999	Thai baht	592.38	655,838.16	-
05	9999	New Turkish lira	-	537,298.38	-
05	9999	UAE dirham	11,847.67	86,360.20	-
05	9999	Uruguay peso	139,934.17	-	-
05	9999	Venzuelan bolivar	503,196.94	-	-
		Total	<u>\$ 3,379,745.80</u>	<u>\$ 24,899,150.02</u>	<u>\$ 1,396,193.81</u>

**NOTE 4**  
**Short Term Debt**

TTUHSC has at times over the past several years issued short term commercial paper to serve as an interim financing source for long term construction projects in advance of issuing authorized bonds. Because this commercial paper was purchased to pay construction costs that were financed by a bond issue, the commercial paper payable is represented in Note 5 as a long-term liability.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

<b>NOTE 5</b>
<b>Long Term Liabilities</b>

As indicated in the table below, several categories of long term liabilities are reported including bonds payable, commercial paper payable, claims payable and compensable leave payable.

Category	Balance 09/01/11	Increases	Decreases	Balance 08/31/12	Current Portion
Capital Lease Obligation	\$ 274,344.71	\$ 274,250.30	\$ 235,973.72	\$ 312,621.29	\$ 158,096.78
Notes Payable	1,405,000.00	-	665,440.51	739,559.49	739,559.49
Revenue Bonds Payable	125,356,617.46	45,053,646.77	51,924,011.18	118,486,253.05	7,249,002.05
Claims and Judgments	17,707,946.23	-	2,326,703.97	15,381,242.26	1,307,405.59
Compensable Leave	<u>25,657,346.70</u>	<u>-</u>	<u>673,564.42</u>	<u>24,983,782.28</u>	<u>2,998,053.87</u>
Total Long Term Liabilities	<u>\$ 170,401,255.10</u>	<u>\$ 45,327,897.07</u>	<u>\$ 55,825,693.80</u>	<u>\$ 159,903,458.37</u>	<u>\$ 12,452,117.78</u>

#### **CAPITAL LEASE OBLIGATION**

Refer to Note 8 for detailed information on capital lease balances, transactions and lease terms.

#### **NOTES PAYABLE**

Notes Payable represents commercial paper payable, which is used as an interim financing source for long term construction projects in advance of issuing authorized bonds. Because this commercial paper was issued to pay construction costs that were financed by a bond issue, indicating the intent of long term financing, the commercial paper payable is reported as a long-term liability. Debt service for the commercial paper obligation is provided by general appropriations for tuition revenue bonds. Commercial paper maturities extend up to 270 days from the date of issuance with interest rates ranging from 0.08% to 0.18%. All commercial paper outstanding at August 31, 2012 will mature within one year. For 2013, debt service for the commercial paper obligation is \$741,778.17 which is comprised of \$739,559.49 in principal and \$2,218.68 in interest.

#### **REVENUE BONDS PAYABLE**

Refer to Note 6 for detailed information on bond liability balances, transactions and funding source. Details regarding revenues pledged to outstanding indebtedness can be found in *Schedule 2D* of this *Annual Financial Report*.



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

#### CLAIMS AND JUDGMENTS

Claims and Judgments include estimates for both known medical malpractice claims and those that have not yet been made against the insured participants. The liability is actuarially estimated to reflect the anticipated future claims for past medical services. Some of these claims are in process, while others are expected to be filed in the future. The liability estimate does not consider the probability of payment on a claim-by-claim basis, and instead considers overall probability of payment for medical malpractice claims. Funding for future claim payments will be from a self-insurance reserve managed by the office of General Counsel.

Description	Balance 09/01/11	Increases	Decreases	Balance 08/31/12	Current Portion
TTUHSC	\$ 17,707,946.23	\$ -	\$ 2,326,703.97	\$ 15,381,242.26	\$ 1,307,405.59
Total Claims	\$ 17,707,946.23	\$ -	\$ 2,326,703.97	\$ 15,381,242.26	\$ 1,307,405.59

#### COMPENSABLE LEAVE

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2012. Past experience has demonstrated that approximately 12% of TTUHSC compensable leave balances will mature within one year. Therefore, the non-current portion of the liability as of August 31, 2012 was estimated at \$21,985,728.41 out of a total liability of \$24,983,782.28. Funding for future leave balance payments will be from the same source as annualized salary expense.

#### NOTE 6 Bonded Indebtedness

#### GENERAL INFORMATION

At August 31, 2012, TTUHSC had outstanding bonds payable of \$113,041,131.36, which does not include an unamortized premium of \$7,370,763.02 or an unamortized loss on refunding of \$1,925,641.33. The combined total of these three amounts is reflected in the *Comparative Statement of Net Assets* as Revenue Bonds Payable.

Several bond issues were outstanding as of August 31, 2012, as summarized in the paragraphs that follow.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 6 (continued) Bonded Indebtedness

##### REVENUE FINANCING SYSTEM BONDS, 9<sup>th</sup> SERIES 2003

Purpose:	Financing for projects in El Paso and Lubbock, the costs of issuing the bonds, and the retirement of outstanding commercial paper
Issued:	September 24, 2003; all authorized bonds (\$64,270,000.00) have been issued
Outstanding:	\$6,710,000.00 outstanding as of August 31, 2012
Interest Rates:	4.00% to 5.25%
Maturity Dates:	2006 through 2023
Balance Changes:	\$0 issued; \$3,005,000.00 retired; \$39,000,000.00 advance refunded

##### REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 10<sup>th</sup> SERIES 2006

Purpose:	Financing for Medical Education Building project in El Paso, the costs of issuing the bonds, and the advance refunding of a portion of the Revenue Financing System Bonds, Series 1999 and Revenue Financing System Bonds, 7 <sup>th</sup> Series 2001
Issued:	February 1, 2006; all authorized bonds (\$59,694,524.01) have been issued which includes \$45,000,000 of new bonds for the project
Outstanding:	\$47,559,587.32 outstanding as of August 31, 2012
Interest Rates:	4.00% to 5.00%
Maturity Dates:	2006 through 2029
Balance Changes:	\$0 issued; \$1,794,427.96 retired

##### REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 12<sup>th</sup> SERIES 2009

Purpose:	Financing for the El Paso Medical Facility, Amarillo Pharmacy and Amarillo Research Building projects, and the advance refunding of the Revenue Financing System Bonds, Series 1999.
Issued:	March 3, 2009; all authorized bonds (\$30,842,818.83) have been issued which includes \$26,195,000 of new bonds for the projects.
Outstanding:	\$22,341,544.04 outstanding as of August 31, 2012
Interest Rates:	3.00% to 5.00%
Maturity Dates:	2009 through 2028
Balance Changes:	\$0 issued; \$1,546,866.56 retired

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

**NOTE 6 (continued)**  
**Bonded Indebtedness**

**REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 14th SERIES 2012A**

Purpose:	For a partial current refunding of \$975,000 of Revenue Financing System Bonds Series 2001 and for a partial advanced refunding of \$39,000,000 of Revenue Financing System Bonds Series 2003.
Issued:	February 1, 2012; all authorized bonds (\$37,640,000.00) have been issued.
Outstanding:	\$36,430,000.00 outstanding as of August 31, 2012
Interest Rates:	2.00% to 5.00%
Maturity Dates:	2012 through 2022
Balance Changes:	\$37,640,000.00 issued; \$1,210,000.00 retired

**PLEDGED FUTURE REVENUES**

On October 21, 1993, the governing board of the Texas Tech University System (System) established a Revenue Financing System to provide a financing structure for revenue supported indebtedness of System components. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition and fees, and any other revenues or income, including interest or other income, and balances lawfully available to System components. Excluded from the revenues described above are amounts received under Article 7, § 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Texas Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The following table provides the pledged future revenue information for TTUHSC's revenue bonds.

	Business-Type Activities
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 149,666,666.53
Term of Commitment Year Ending 08/31	2029
Percentage of Revenues Pledged	Unable to Estimate
Current Year Pledged Revenue	\$ 81,356,809.73
Current Year Principal and Interest Paid	\$ 14,177,288.16
Pledged Revenue Sources:	
Tuition and Fees, TRB State Appropriations, Auxiliary Revenues, Other Sales and Services Revenues, Investment Income, Unrestricted Contracts/Grants Revenues	

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

#### NOTE 6 (continued) Bonded Indebtness

##### DEFEASED BONDS OUTSTANDING

As of August 31, 2012, a total of \$39,000,000 of defeased bonds were outstanding related to an advance refunding of a portion of the Revenue Financing System Bonds, 9<sup>th</sup> Series, 2003.

#### NOTE 7 Derivatives

TTUHSC holds no derivative instruments, neither for hedging nor investment purposes.

#### NOTE 8 Leases

##### OPERATING LEASES

TTUHSC leases various buildings and equipment under operating lease rental agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in this *Annual Financial Report*. Total rental expense under these agreements was \$4,022,089.95 for the year ended August 31, 2012. The table below provides the estimated minimum lease payments for operating leases for TTUHSC for the next five fiscal years.

For years ending August 31	Minimum Lease Payments
2013	\$ 4,082,421.30
2014	4,143,657.62
2015	4,205,812.48
2016	4,268,899.67
2017	4,332,933.17

TTUHSC has operating lease income of \$610,314.15 for the year ended August 31, 2012. The table below provides the estimated minimum lease income for TTUHSC for the next five fiscal years. The carrying value of the assets was \$5,675,485.27. The historical cost of the leased buildings was \$12,813,281.18 and related accumulated depreciation was \$7,137,795.91. There were no reported contingent rental revenues.

For years ending August 31	Minimum Lease Income
2013	\$ 619,468.86
2014	628,760.90
2015	638,192.31
2016	647,765.19
2017	657,481.67

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 8 (Continued) Leases

##### OPERATING LEASES (continued)

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

##### CAPITAL LEASES

TTUHSC has entered into nine long-term capital leases for the purchase of durable medical and office equipment located in El Paso, Texas and Lubbock, Texas. The terms of each the leases require monthly payments over the next 12-36 months, and either contain a bargain purchase option at the end of the lease, or provide for minimum lease payments in excess of 90% of the fair market value of the underlying asset. The original cost of the assets under the capital lease agreements was \$690,812.72. As of August 31, 2012, the assets are recorded at a carrying value of \$552,332.63, which is net of accumulated depreciation in the amount of \$138,480.09. The asset and liability balances associated with these leases are included in the *Comparative Statement of Net Assets* as Depreciable Capital Assets and Capital Lease Obligation, respectively. Additionally, the related assets and accumulated depreciation are included in Furniture and Equipment in Note 2 of the *Annual Financial Report*.

The following is a schedule of the future minimum payments for the capital leases:

Year Ending August 31	Principal	Interest	Total
2013	158,096.78	9,114.22	167,211.00
2014	118,938.29	4,816.24	123,754.53
2015	<u>35,586.22</u>	<u>1,933.77</u>	<u>37,519.99</u>
	<u>\$ 312,621.29</u>	<u>\$ 15,864.23</u>	<u>\$ 328,485.52</u>
Minimum Lease Payments			\$ 328,485.52
Less: The amount representing interest at TTUHSC's incremental borrowing rate of interest			<u>\$ (15,864.23)</u>
Present Value of Minimum Lease Payments			<u>\$ 312,621.29</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### **NOTE 9** **Pension Plans**

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

ORP contributions made by plan members and the employer are detailed in the following table.

For the Year Ended:	08/31/12	08/31/11
Member Contributions	\$ 9,524,174.74	\$ 9,660,668.86
Employer Contributions	<u>9,884,178.49</u>	<u>10,067,482.73</u>
Total ORP Contributions	<u>\$ 19,408,353.23</u>	<u>\$ 19,728,151.59</u>

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

Per the Reporting Requirements for *Annual Financial Report* of State Agencies and Universities, Note 10 is not applicable for the year ended August 31, 2012.

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

Per the Reporting Requirements for *Annual Financial Report* of State Agencies and Universities, Note 11 is not applicable for the year ended August 31, 2012.

#### **NOTE 12** **Interfund Activity and Balances**

As of August 31, 2012, TTUHSC had outstanding interfund receivables/payables from other component units of the Texas Tech University System and other state agencies. TTUHSC had an outstanding interfund receivable from the University of Texas Investment Management Company (UTIMCO) as of August 31, 2012, representing undistributed earnings from the investment assets of the Permanent Health Fund for Higher Education. In addition, TTUHSC had a net interfund payable to Texas Tech University which represents payments for shared services. The interfund receivables/payables from other state agencies are for federal pass through agreements.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

Details about these interfund receivables/payables are shown in the following table.

Texas Tech University Health Sciences Center Due from/to Other State Agencies and Other Component Units				
Agency Name	Agency Nbr	D23 Fund	Due from	Due to
University of Texas System	720	0810	\$ 5,073,932.72	\$ -
Department of State Health Services	537	9999	182,908.98	-
University of Texas SW Medical Center - Dallas	729	9999	32,868.62	-
University of Texas - Austin	721	9999	27,053.04	-
West Texas A&M University	757	0001	-	44,360.77
West Texas A&M University	757	9999	-	7,015.05
University of Texas - El Paso	724	9999	7,689.94	-
University of Texas HSC - San Antonio	745	9999	2,361.62	1,220.50
University of North Texas Health Science Center	763	9999	3,745.67	-
Subtotal - Due from Other State Agencies			<u>\$ 5,330,560.59</u>	<u>\$ 52,596.32</u>
Texas Tech University	733	0001	\$ -	\$ 166,492.62
Texas Tech University	733	9999	\$ 33,571.70	\$ -
Subtotal - Due from Other Component Units			<u>\$ 33,571.70</u>	<u>\$ 166,492.62</u>
Total Due from/to Other State Agencies			<u>\$ 5,364,132.29</u>	<u>\$ 219,088.94</u>

Also, for the year ended August 31, 2012, TTUHSC had various transfers to and from other components of the Texas Tech University System and other state agencies. The majority of the net transfers in from TTU are for servicing of outstanding bonded indebtedness for which appropriations are shared. The majority of the net transfers out to TTUSA are to support system administrative functions. The transfer to the Texas Department of State Health is for the UPL program amount due to Covenant Medical Center. The transfers to the Texas Higher Education Coordinating Board are for 2% Medical Loan and B-On-Time set-asides.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

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

Details about these transfers are shown in the following table.

Texas Tech University Health Sciences Center Transfers from/to Other State Agencies				
Agency Name	Agency Nbr	D23 Fund	Transfers In	Transfers Out
Texas Department of State Health Services	529	0001	\$ -	\$ 3,200,000.00
Texas Higher Education Coordinating Board	781	0542	-	97,975.48
Texas Higher Education Coordinating Board	781	5103	-	150,276.42
Total Transfers to Other State Agencies			<u>\$ -</u>	<u>\$ 3,448,251.90</u>
Texas Tech University System Administration	768	0001	59,150.48	1,838,140.00
Texas Tech University	733	9999	1,263,269.69	265,687.95
Texas Tech Foundation, Inc.	768	9999	17,666,118.83	133,117.91
Total Transfers from/to Other State Agencies			<u>\$ 18,988,539.00</u>	<u>\$ 2,236,945.86</u>

For the year ended August 31, 2012, TTUHSC recorded a Legislative transfer out to TTUSA for system administration support. Details of that transfer are shown in the following table.

Texas Tech University Health Sciences Center Interfund Balances/Activity				
Agency Name	Agency Nbr	D23 Fund	Transfers In	Transfers Out
Texas Tech University System Administration	768	0001	\$ -	\$ 1,667,837.00
Total Legislative Transfers from/to Other State Agencies			<u>\$ -</u>	<u>\$ 1,667,837.00</u>



# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

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

For the year ended August 31, 2012, TTUHSC recorded an increase in net assets due to transfers in of capital assets from other State agencies. Interagency capital asset transfer activity is summarized in the following table.

Texas Tech University Health Sciences Center Interagency Capital Asset Transfers				
Agency Name	Agency Nbr	Increase Assets	Net	Decrease Net Assets
Texas Tech University	733	\$ 21,735.86		\$ 117,441.61
Total Transfers from/to Other State Agencies		\$ 21,735.86		\$ 117,441.61

#### NOTE 13 Continuance Subject to Review

TTUHSC is not subject to the Texas Sunset Act.

#### NOTE 14 Adjustments to Fund Balances and Net Assets

TTUHSC had no material prior-period adjustments for the year ended August 31, 2012.

#### NOTE 15 Contingencies and Commitments

##### PENDING LITIGATION

At August 31, 2012, various lawsuits and claims involving TTUHSC were pending. While the ultimate liability 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, is not likely to have a material impact on TTUHSC.

##### REBATABLE ARBITRAGE

As of August 31, 2012, TTUHSC had no outstanding bond issues with an associated outstanding rebatable arbitrage liability.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

### *Notes to the Financial Statements*

*August 31, 2012*

#### NOTE 15 (continued) Contingencies and 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 \$3,215,517.00 as of August 31, 2012. These commitments will be funded by donor contributions, appropriations from the state, issuance of revenue bonds, and other borrowings. As of August 31, 2012, the amount of legislative appropriations for capital from the state available for these commitments totaled \$1,883,023.05.

##### 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 year ended August 31, 2012 was \$61,743,946.00.

#### NOTE 16 Subsequent Events

TTUHSC had no material subsequent events after August 31, 2012.

#### NOTE 17 Risk Management

TTUHSC has self-insured arrangements for coverage in the areas of unemployment compensation and medical malpractice. The medical malpractice plan had an actuarially determined accrued incurred but not reported (IBNR) liability at August 31, 2012, of \$15,381,242.26. Texas Tech Physician Associates, a blended component unit, had no accrued IBNR at August 31, 2012. A reconciliation of IBNR is provided in the table in Note 5.

The TTUHSC medical malpractice self insurance plan, an occurrence based plan, was established in 1985. Claim limits associated with the plan are \$400,000 per occurrence and \$1,200,000 aggregate per annum for services provided by faculty physicians (unless lower limits are set by law, in which case the lower limits set by law apply), \$100,000 per occurrence and \$300,000 aggregate per annum for services provided by resident physicians, and \$25,000 per occurrence and \$75,000 aggregate per annum for services provided by students.

As of September 1, 2003, providers of health care (physicians) are no longer exempted from the statutory limits of liability set for public servants as set out in § 108.002 of the Texas Civil Practices and Remedies Code. Public servants are limited in liability to \$100,000 to a single person and \$300,000 for a single occurrence. There is also a \$250,000 per person and \$500,000 per occurrence statutory limit in place for tort claims against TTUHSC as an institution.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report

UNAUDITED

---

### *Notes to the Financial Statements*

*August 31, 2012*

---

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

##### **Risk Management**

The State of Texas provides coverage for workers compensation and unemployment benefits from appropriations made to other state agencies for TTUHSC employees. The *General Appropriations Act* of the 82<sup>nd</sup> Texas Legislature provides that TTUHSC must reimburse the General Revenue Fund, from TTUHSC appropriations, one-half of the unemployment benefits expected to be paid for former and current employees. The Texas Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. TTUHSC must also reimburse the General Revenue Fund for all of the cost for unemployment compensation for any employees paid from funds held in local bank accounts or from local balances of legislative appropriations held in the State Treasury. Total payments for Unemployment Compensation for fiscal year 2012 amounted to \$579,260.64. No material outstanding claims were pending as of August 31, 2012.

For workers compensation, TTUHSC remits an assessed amount from both appropriated and unappropriated fund types to the State Office of Risk Management (SORM). Total payments to SORM for fiscal year 2012 amounted to \$666,796.12. SORM assumes the responsibility for paying all workers compensation claims for current and former employees of TTUHSC.

#### **NOTE 18**

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

TTUHSC does not issue an audited AFR or have material amounts to disclose.

#### **NOTE 19**

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

TTUHSC is a component unit of the State of Texas. The accompanying financial statements reflect inclusion of one blended component unit described in detail in Note 1. TTUHSC has no other related organizations, joint ventures or jointly governed organizations.

#### **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 Report* of State Agencies and Universities, Note 21 is not applicable for the year ended August 31, 2012.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

#### NOTE 22 Donor Restricted Endowments

TTUHSC endowments are categorized as either true endowments or funds functioning as endowments. As of August 31, 2012, TTUHSC had no term endowments. Expenditure of true endowment funds is not permitted without the express consent of the donor. Most TTUHSC endowments are held in perpetuity. In many cases, a portion of the endowment earnings are expendable for student financial assistance or other purposes as designated by the donor or associated agreement. In other cases, endowment earnings are fully reinvested.

Endowment assets are invested predominantly in the Long Term Investment Fund (LTIF), described in more detail in Note 3. The LTIF allows for quarterly spendable income distributions amounting to 1.125% of the 12-quarter rolling average unitized balance. Spendable income can be supported by both realized earnings and by unrealized earnings.

The cumulative effect of valuation changes assignable to endowment fund assets are summarized in the table below.

For the Fiscal Year Ended 08/31/12		
Endowment Category	Net Appreciation	Statement of Net Assets Reporting Section
True Endowments	<u>\$11,106,887.80</u>	Restricted / Nonexpendable

#### NOTE 23 Extraordinary and Special Items

TTUHSC had no special or extraordinary items during the year ended August 31, 2012.

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

##### RECEIVABLES

Components of receivables as of August 31, 2012, including current and non-current receivables, are summarized in the following table.

# TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER

## Annual Financial Report UNAUDITED

### *Notes to the Financial Statements* *August 31, 2012*

**NOTE 24 (continued)**  
**Disaggregation of Receivable and Payable Balances**

Description	As of 08/31/12		
	Gross Receivables	Allowances	Net Receivables
Federal Receivable	\$ 1,729,198.97	\$ -	\$ 1,729,198.97
Interest and Dividends Receivable	234,158.15	-	234,158.15
Patient Accounts Receivable	45,970,360.35	(27,480,174.39)	18,490,185.96
Student Accounts Receivable	378,225.00	(93,043.66)	285,181.34
Contract Accounts Receivable	15,012,347.13	-	15,012,347.13
Pledged Gifts Receivable	6,502,488.16	(195,074.64)	6,307,413.52
Loans and Notes Receivable	4,227,325.64	(781,440.65)	3,445,884.99
Other	951,458.44	(162,781.48)	788,676.96
<b>Total Receivables</b>	<b>\$ 75,005,561.84</b>	<b>\$ (28,712,514.82)</b>	<b>\$ 46,293,047.02</b>

**Contractual Arrangements and Concentrations of Credit Risk**

TTUHSC provides care to patients covered by various third party payers such as Medicare, Medicaid, and private insurance companies and health maintenance organizations (HMOs).

TTUHSC provides primary, secondary, and tertiary health care services to counties in west Texas, eastern New Mexico and the Oklahoma panhandle region as well as border regions in southwest Texas. Patient care centers are located in the Texas cities of Abilene, Amarillo, El Paso, Lubbock, Midland and Odessa.

Concentrations of gross patient accounts receivable are depicted in the following table. Management does not believe there are significant credit risks associated with the listed payers, other than the self-pay and medically indigent category. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivables are reported in this *Annual Financial Report* net of allowances for bad debts, contractual adjustments, and charity care.

Concentrations of gross patient accounts receivable as of August 31, 2012 and 2011 are as follows:

Description	Gross Receivables	
	08/31/12	08/31/11
Medicare	\$ 5,811,779.50	\$ 5,315,930.03
Medicaid	11,245,351.97	8,728,119.78
Managed Care, including Blue Cross	8,491,777.65	7,859,945.37
Commerical	4,917,328.15	3,962,689.07
Self Pay and Medically Indigent	15,347,787.76	17,149,460.11
Other	156,335.32	60,207.50
<b>Total Gross Patient Accounts Receivable</b>	<b>\$ 45,970,360.35</b>	<b>\$ 43,076,351.86</b>

**TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER**

Annual Financial Report

UNAUDITED

***Notes to the Financial Statements***

***August 31, 2012***

**NOTE 24 (continued)  
Disaggregation of Receivable and Payable Balances**

**PAYABLES**

Short-term payables as of August 31, 2012 and 2011 were comprised of the elements noted in the following table.

Description	Accounts Payable	
	08/31/12	08/31/11
Vendor Accounts Payable	\$ 14,758,886.59	\$ 19,748,649.84
Patient Refunds Payable	3,086,245.68	2,647,691.58
Payroll Payable	30,488,376.46	32,284,727.70
Accrued Interest Payable	<u>233,085.94</u>	<u>271,482.88</u>
Total Short Term Payables	<u>\$ 48,566,594.67</u>	<u>\$ 54,952,552.00</u>

**NOTE 25  
Termination Benefits**

TTUHSC had no reportable termination benefits during the year ended August 31, 2012.

**NOTE 26  
Segment Information**

TTUHSC had no reportable segments during the year ended August 31, 2012.

**(This page intentionally left blank)**

**TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER**

Annual Financial Report

*UNAUDITED*

---

**SUPPORTING SCHEDULES**



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

### *Schedule 2A: Miscellaneous Bond Information*

*For the Fiscal Year Ended August 31, 2012*

Description of Issue	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Year	
Rev Fin Sys Bonds 7th Series 2001	19,510,000.00	3.00% - 5.50%	2002	2013	2/15/2012
Rev Fin Sys Bonds 9th Series 2003	64,270,000.00	4.00% - 5.25%	2006	2023	8/15/2013
Rev Fin Sys Ref & Imp Bonds Series 2006	59,694,524.01	4.00% - 5.00%	2006	2029	2/15/2016
Rev Fin Sys Ref & Imp Bonds Series 2009	30,842,818.83	3.00% - 5.00%	2009	2028	2/15/2019
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	37,640,000.00	2.00% - 5.00%	2012	2022	8/15/2021
	<u>\$ 211,957,342.84</u>				

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

Annual Financial Report

U N A U D I T E D

---

***Schedule 2B: Changes in Bonded Indebtedness***

*For the Fiscal Year Ended August 31, 2012*

---

<u>Description of Issue</u>	<u>Bonds Outstanding 9/01/2011</u>	<u>Bonds Issued</u>	<u>Bonds Matured or Retired</u>	<u>Bonds Refunded or Extinguished</u>
Rev Fin Sys Bonds 7th Series 2001	1,900,000.00	-	925,000.00	975,000.00
Rev Fin Sys Bonds 9th Series 2003	48,715,000.00	-	3,005,000.00	39,000,000.00
Rev Fin Sys Ref & Imp Bonds Series 2006	49,354,015.28	-	1,794,427.96	-
Rev Fin Sys Ref & Imp Bonds Series 2009	23,888,410.60	-	1,546,866.56	-
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	-	37,640,000.00	1,210,000.00	-
	<u>\$ 123,857,425.88</u>	<u>\$ 37,640,000.00</u>	<u>\$ 8,481,294.52</u>	<u>\$ 39,975,000.00</u>

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

Annual Financial Report

UNAUDITED

***Schedule 2B: Changes in Bonded Indebtedness***

*For the Fiscal Year Ended August 31, 2012*

Description of Issue	Bonds Outstanding 08/31/2012	Unamortized Premium	Unamortized Gain/(Loss) on Refunding	Net Bonds Outstanding 08/31/2012	Amounts Due Within One Year
Rev Fin Sys Bonds 7th Series 2001	-	-	-	-	-
Rev Fin Sys Bonds 9th Series 2003	6,710,000.00	-	-	6,710,000.00	3,165,000.00
Rev Fin Sys Ref & Imp Bonds Series 2006	47,559,587.32	-	-	47,559,587.32	1,881,326.36
Rev Fin Sys Ref & Imp Bonds Series 2009	22,341,544.04	1,411,003.84	-	23,752,547.88	1,698,007.23
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	36,430,000.00	5,959,759.18	(1,925,641.33)	40,464,117.85	504,668.46
	<u>\$ 113,041,131.36</u>	<u>\$ 7,370,763.02</u>	<u>\$ (1,925,641.33)</u>	<u>\$ 118,486,253.05</u>	<u>\$ 7,249,002.05</u>

Note: The 2009 12th Series amount due within one year includes bond premium amortization of \$88,187.74. The 2012A 14th Series amount due within one year includes bond premium amortization of \$945,309.79 and loss on refunding amortization of (\$1,925,641.33).

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

### *Schedule 2C: Debt Service Requirements*

*For the Fiscal Year Ended August 31, 2012*

Description of Issue	Year	Principal	Interest
Revenue Bonds	2013	\$ 3,165,000.00	\$ 264,975.00
Revenue Financing System Bonds	2014	3,330,000.00	98,437.50
9th Series 2003	2015	20,000.00	10,500.00
	2016	20,000.00	9,450.00
	2017	20,000.00	8,400.00
	2018-2022	125,000.00	23,250.00
	2023	30,000.00	750.00
		\$ 6,710,000.00	\$ 415,762.50
Revenue Bonds	2013	\$ 1,881,326.36	\$ 2,221,028.90
Revenue Financing System Refunding and	2014	3,046,822.15	2,097,825.19
Improvement Bonds - 10th Series 2006	2015	3,203,998.79	1,941,554.67
	2016	3,354,306.15	1,777,597.05
	2017	3,538,546.49	1,605,275.73
	2018-2022	18,601,785.21	5,525,547.80
	2023-2027	13,139,004.21	1,598,814.34
	2028-2029	793,797.96	40,044.95
		\$ 47,559,587.32	\$ 16,807,688.63
Revenue Bonds	2013	\$ 1,609,819.49	\$ 1,035,431.89
Revenue Financing System Refunding and	2014	1,667,536.46	978,222.45
Improvement Bonds - 12th Series 2009	2015	1,734,188.09	909,854.70
	2016	970,000.00	842,250.00
	2017	1,020,000.00	792,500.00
	2018-2022	5,945,000.00	3,121,125.00
	2023-2027	7,630,000.00	1,433,000.00
	2028	1,765,000.00	44,125.00
		\$ 22,341,544.04	\$ 9,156,509.04
Revenue Bonds	2013	\$ 1,485,000.00	\$ 1,543,700.00
Revenue Financing System Refunding and	2014	480,000.00	1,514,000.00
Improvement Bonds - 14th Series 2012A	2015	3,885,000.00	1,499,600.00
	2016	4,005,000.00	1,383,050.00
	2017	4,125,000.00	1,262,900.00
	2018-2022	22,450,000.00	3,042,325.00
		\$ 36,430,000.00	\$ 10,245,575.00

**TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER**

Annual Financial Report

U N A U D I T E D

***Schedule 2D: Analysis of Funds Available for Debt Service***

*For the Fiscal Year Ended August 31, 2012*

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2012			
	Net Available for			
	Debt Service			
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Debt Service	
		Principal	Interest	
Rev Fin Sys Bonds 7th Series 2001		925,000.00	50,875.00	
Rev Fin Sys Bonds 9th Series 2003		3,005,000.00	419,225.00	
Rev Fin Sys Ref & Imp Bonds Series 2006		1,794,427.96	2,312,922.76	
Rev Fin Sys Ref & Imp Bonds Series 2009		1,546,866.56	1,098,565.61	
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A		1,210,000.00	1,814,405.27	
	\$ 81,356,809.73	\$ -	\$ 8,481,294.52	\$ 5,695,993.64

(a) Beginning Balances as of 09/01/2011 of \$100,405,925.09 are not included in *Total Pledged and Other Sources*

(b) Expenditures associated with pledged sources totaled \$36,917,145.08

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report

UNAUDITED

---

***Schedule 2E: Defeased Bonds Outstanding***

*For the Fiscal Year Ended August 31, 2012*

---

<u>Description of Issue</u>	<u>Year Defeased</u>	<u>Par Value Outstanding</u>
Rev Fin Sys Bonds 9th Series 2003	2012	\$ 39,000,000.00
		<u>\$ 39,000,000.00</u>

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Annual Financial Report  
UNAUDITED

*Schedule 2F: Early Extinguishment and Refunding*  
*For the Fiscal Year Ended August 31, 2012*

Description of Issue	Category	Amount Extinguished or Refunded	For Refunding Only		
			Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Rev Fin Sys Bonds 7th Series 2001	Current Refunding	975,000.00	940,000.00	35,000.00	69,463.43
Rev Fin Sys Bonds 9th Series 2003	Advance Refunding	39,000,000.00	36,700,000.00	2,300,000.00	5,936,976.54
		<u>\$ 39,975,000.00</u>	<u>\$ 37,640,000.00</u>	<u>\$ 2,335,000.00</u>	<u>\$ 6,006,439.97</u>

# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Annual Financial Report

U N A U D I T E D

---

### *Schedule 3: Reconciliation of Cash in the State Treasury*

*As of August 31, 2012*

---

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Local Revenue (Fund 0239)	\$ 11,891,669.66	\$ -	\$ 11,891,669.66
Permanent Health Fund - El Paso Campus (Fund 0820)	8,889,716.74	-	8,889,716.74
Permanent Health Fund - Other Campuses (Fund 0821)	<u>3,367,770.37</u>	<u>-</u>	<u>3,367,770.37</u>
TOTAL CASH IN THE STATE TREASURY	<u>\$ 24,149,156.77</u>	<u>\$ -</u>	<u>\$ 24,149,156.77</u>