

**TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER AT EL PASO**



**Annual Financial Report
Fiscal Year 2014**

TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER at EL PASO

Annual Financial Report
UNAUDITED

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August 31, 2014

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TEXAS TECH UNIVERSITY
HEALTH SCIENCES CENTER
EL PASO

Office of the President

November 11, 2014

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 El Paso for the year ended August 31, 2014, 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 Melody Miller, Director of Accounting, at (806) 743-7382.

Sincerely,

A handwritten signature in blue ink that reads "Richard Lange".

Richard Lange, M.D., M.B.A.
President



Office of Accounting Services

November 11, 2014

Richard Lange, M.D., M.B.A.
President
Texas Tech University Health Sciences Center El Paso
El Paso, Texas

Dear Dr. Lange:

Submitted herein is the *Annual Financial Report* for Texas Tech University Health Sciences Center El Paso for the fiscal year ended August 31, 2014.

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

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

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

Sincerely,

Melody Miller, CPA
Director of Accounting Services

Approved:

Frank Stout
Assistant Vice President for Fiscal Affairs



TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER at EL PASO

Annual Financial Report
UNAUDITED

Organizational Data
August 31, 2014

BOARD OF REGENTS

Term Expires

Mickey L. Long (Chair).....	January 31, 2015.....	Midland
Larry K. Anders (Vice Chair)	January 31, 2017.....	Dallas
Nancy Neal.....	January 31, 2015.....	Lubbock
John Walker.....	January 31, 2015.....	Houston
Debbie Montford	January 31, 2017.....	San Antonio
John D. Steinmetz	January 31, 2017.....	Lubbock
John Esparza.....	January 31, 2019.....	Austin
L. Frederick (Rick) Francis.....	January 31, 2019.....	El Paso
Tim Lancaster.....	January 31, 2019.....	Abilene
Coby Ray (Student Regent).....	May 31, 2015.....	San Angelo

FISCAL OFFICERS

Robert L. Duncan	Chancellor
Jim Brunjes.....	Vice Chancellor and Chief Financial Officer
Richard Lange, M.D., M.B.A.	President
Frank Stout	Assistant Vice President for Fiscal Affairs
Robert Ortega.....	Senior Director of Accounting Services

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FINANCIAL STATEMENTS

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

UNAUDITED

Statement of Net Position

As of August 31, 2014

	<u>2014</u>
ASSETS	
Current Assets:	
Unrestricted Cash and Cash Equivalents	\$ 84,907,269.16
Restricted Cash and Cash Equivalents	17,044,923.40
Balance of Legislative Appropriations	209,769.00
Receivables:	
Federal	611,120.85
Interest and Dividends	29,757.01
Patient	7,330,476.70
Student	48,084.86
Contracts	12,621,235.95
Pledged Gifts	1,518,953.00
Other	372,283.84
Due from Other State Agencies	573,532.15
Inventories	27,612.07
Prepaid Items	799,971.21
Total Current Assets	<u>\$ 126,094,989.20</u>
Non-Current Assets:	
Restricted Cash and Cash Equivalents	\$ 55.01
Pledged Gifts Receivable	10,505,471.50
Restricted Investments	36,835,489.69
Unrestricted Investments	14,854,252.73
Capital Assets:	
Non-Depreciable or Non-Amortizable	14,310,390.40
Depreciable or Amortizable	184,227,441.86
less Accumulated Depreciation and Amortization	<u>(70,564,237.73)</u>
Total Non-Current Assets	<u>\$ 190,168,863.46</u>
TOTAL ASSETS	<u>\$ 316,263,852.66</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

UNAUDITED

Statement of Net Position

As of August 31, 2014

	<u>2014</u>
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts	\$ 4,577,563.01
Payroll	7,779,560.59
Due to Other State Agencies	86,936.95
Unclaimed Property Due to the State Treasury	12,861.64
Unearned Revenue	3,077,375.44
Capital Lease Obligation	7,447.00
Notes Payable	7,500,000.00
Revenue Bonds Payable	4,845,976.41
Employees' Compensable Leave	781,051.99
Funds Held for Others	86,239.56
Other Current Liabilities	108,387.98
Total Current Liabilities	<u>\$ 28,863,400.57</u>
Non-Current Liabilities:	
Unclaimed Property Due to the State Treasury	\$ 13,794.57
Revenue Bonds Payable	50,054,372.84
Employees' Compensable Leave	5,727,714.57
Total Non-Current Liabilities	<u>\$ 55,795,881.98</u>
TOTAL LIABILITIES	<u>\$ 84,659,282.55</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	\$ 65,457,410.30
Restricted for:	
Capital Projects	306,262.30
Funds Held as Permanent Investments	
Nonexpendable	36,460,850.43
Other	20,637,760.10
Unrestricted	108,742,286.98
TOTAL NET POSITION	<u>\$ 231,604,570.11</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 316,263,852.66</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

UNAUDITED

Statement of Revenues, Expenses, and Changes in Net Position***For the Year Ended of August 31, 2014***

	<u>2014</u>
OPERATING REVENUES	
Tuition and Fee Revenue - Pledged	\$ 6,138,832.86
Discounts and Allowances	(899,620.40)
Net Professional Fees - Pledged	128,878.31
Net Professional Fees	61,080,885.72
Uncollectibles	(8,633,074.87)
Auxiliary Enterprises - Pledged	142,235.84
Other Sales and Services	166,327.02
Other Sales and Services - Pledged	184,598.18
Federal Grant Revenue	4,491,583.87
Federal Grant Revenue - Pledged	1,277,003.85
Federal Pass-Through Revenue	289,437.04
Federal Contract Revenue	254,801.79
State Grant and Contract Revenue	1,548,213.90
State Grant and Contract Revenue - Pledged	113,939.86
State Grant and Contract Pass-Through Revenue	2,673,056.33
Local Grant and Contract Revenue	15,598,247.95
Local Grant and Contract Revenue - Pledged	46,721.54
Private Grant and Contract Revenue	50,315,799.73
Private Grant and Contract Revenue - Pledged	105,009.15
Other Revenue	9,528,177.88
Total Operating Revenues	<u>\$ 144,551,055.55</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 117,127,700.95
Payroll Related Costs	25,402,981.04
Professional Fees and Services	9,065,209.68
Federal Grant Pass-Through Expense	455,590.41
State Grant Pass-Through Expense	78,229.76
Travel	1,571,775.05
Materials and Supplies	5,025,804.17
Communications and Utilities	3,253,491.04
Repairs and Maintenance	3,947,789.27
Rentals and Leases	2,043,356.38
Printing and Production	254,416.33
Depreciation and Amortization	11,210,857.78
Bad Debt Expense (Recovery)	1,195.34
Interest Expense	1,817.54
Scholarships	1,133,013.10
Claims and Judgments	63,000.00
Other Expenses	15,064,225.17
Total Operating Expenses	<u>\$ 195,700,453.01</u>
Operating Loss	<u>\$ (51,149,397.46)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO
Annual Financial Report
UNAUDITED

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended of August 31, 2014

	<i>2014</i>
NON-OPERATING REVENUES (EXPENSES)	
Federal Grant Revenue	\$ 237,340.00
Gifts	2,492,364.93
Gifts - Pledged	2,800.00
Interest and Investment Income	5,901,269.67
Interest and Investment Income - Pledged	1,221,961.42
Interest Expense	(2,519,674.16)
Gain (Loss) Sale of Capital Assets	(134,070.21)
Net Increase in Fair Value of Investments	1,099,208.81
Other Revenues	1,461,360.36
Other Revenues - Pledged	26,375.96
Total Non-Operating Revenues (Expenses)	\$ 9,788,936.78
 CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS	
Capital Contributions	23,290.68
Increases from Interagency Transfers of Capital Assets	126,769,222.86
Decreases from Interagency Transfers of Capital Assets	(98,836.00)
Net Transfers from Texas Tech University Health Sciences Center	145,240,961.94
Net Transfers from Texas Tech University	(86,295.00)
Net Transfers from Texas Tech Foundation Inc.	1,566,846.18
Net Transfers to Texas Tech University System Administration	(430,000.00)
Transfers to Other State Agencies	(20,159.87)
Capital Contributions and Transfers	\$ 272,965,030.79
TOTAL CHANGE IN NET POSITION	\$ 231,604,570.11
Net Assets, September 1st	\$ -
Net Assets, August 31st	\$ 231,604,570.11

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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

Matrix of Operating Expenses by Function
For the Year Ended August 31, 2014

<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	\$ 66,484,155.49	\$ 11,831,527.83	\$ 1,671,188.59	\$ 12,339,891.77	\$ 18,476,898.15	\$ 997,048.81
Payroll Related Costs	11,156,219.01	2,654,777.23	411,196.54	3,680,833.60	5,221,173.82	267,872.42
Professional Fees and Services	6,986,126.41	73,128.43	384,231.46	45.57	1,185,343.11	5,554.00
Travel	540,456.55	265,136.99	55,706.31	15,007.13	525,343.78	39,678.55
Supplies and Materials	1,041,953.08	1,655,574.88	100,550.04	411,616.92	1,277,640.22	125,544.61
Communications and Utilities	472,804.60	65,692.03	5,719.56	39,230.46	781,931.88	4,210.69
Maintenance and Repair	229,274.33	885,583.27	1,417.59	68,252.79	1,058,605.69	6,078.00
Rentals and Leases	424,504.84	156,808.92	972.62	12,889.29	1,008,071.61	8,329.00
Printing and Production	61,847.03	32,222.83	20,822.79	8,834.83	99,033.50	7,300.04
Interest Expense	186.56	162.25	-	-	1,050.84	-
Claims and Judgments	-	-	-	-	63,000.00	-
Other Expenses	2,593,674.90	3,066,372.68	421,569.08	211,928.14	4,956,322.43	366,181.24
Bad Debt Expense (Recovery)	-	-	-	-	-	1,195.34
Scholarships and Fellowships	6,000.00	3,688.50	-	-	1,277,907.40	-
Federal Grant Pass-Through Expense	-	455,590.41	-	-	-	-
State Grant Pass-Through Expense	-	-	78,229.76	-	-	-
Depreciation and Amortization	-	-	-	-	-	-
For the Year Ended August 31, 2014	<u>\$ 89,997,202.80</u>	<u>\$ 21,146,266.25</u>	<u>\$ 3,151,604.34</u>	<u>\$ 16,788,530.50</u>	<u>\$ 35,932,322.43</u>	<u>\$ 1,828,992.70</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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

Matrix of Operating Expenses by Function
For the Year Ended August 31, 2014

<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	\$ 3,877,175.32	\$ 1,386,806.08	\$ -	\$ 63,008.91	-	\$ 117,127,700.95
Payroll Related Costs	1,437,099.38	545,343.20	-	28,465.84	-	25,402,981.04
Professional Fees and Services	177,635.86	253,144.84	-	-	-	9,065,209.68
Travel	115,025.15	15,420.59	-	-	-	1,571,775.05
Supplies and Materials	149,348.62	247,869.72	-	15,706.08	-	5,025,804.17
Communications and Utilities	71,381.05	1,801,727.62	-	10,793.15	-	3,253,491.04
Maintenance and Repair	385,796.65	1,290,379.39	-	22,401.56	-	3,947,789.27
Rentals and Leases	105,751.04	316,229.06	-	9,800.00	-	2,043,356.38
Printing and Production	15,930.73	6,766.42	-	1,658.16	-	254,416.33
Interest Expense	362.31	55.58	-	-	-	1,817.54
Claims and Judgments	-	-	-	-	-	63,000.00
Other Expenses	2,614,776.73	811,327.53	-	22,072.44	-	15,064,225.17
Bad Debt Expense	-	-	-	-	-	1,195.34
Scholarships and Fellowships	-	-	(154,582.80)	-	-	1,133,013.10
Federal Grant Pass-Through Expense	-	-	-	-	-	455,590.41
State Grant Pass-Through Expense	-	-	-	-	-	78,229.76
Depreciation and Amortization	-	-	-	-	11,210,857.78	11,210,857.78
	<u>\$ 8,950,282.84</u>	<u>\$ 6,675,070.03</u>	<u>\$ (154,582.80)</u>	<u>\$ 173,906.14</u>	<u>\$ 11,210,857.78</u>	<u>\$ 195,700,453.01</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

U N A U D I T E D

Statement of Cash Flows
For the Year Ended August 31, 2014

	<u>2014</u>
Cash Flows from Operating Activities	
Cash Inflows	
Collections from Student Tuition and Fees	\$ 8,679,831.59
Collections from Grants and Contracts	71,840,337.65
Collections from Patients and Insurers	53,099,079.93
Collections from Auxiliary Enterprises	142,265.84
Collections from Other Operating Activities	9,860,952.27
Cash Outflows	
Payments to Suppliers	(25,589,258.99)
Payments to Employees for Salaries	(110,882,952.17)
Payments to Employees for Benefits	(23,968,076.93)
Payments for Other Operating Activities	<u>(14,991,154.66)</u>
Net Cash Used for Operating Activities	<u>\$ (31,808,975.47)</u>
Cash Flows from Non-Capital Financing Activities	
Cash Inflows	
Proceeds from Net Transfers from Texas Tech University Health Sciences Center	\$ 137,983,906.29
Proceeds from Net Transfers from Texas Tech Foundation, Inc.	1,566,846.18
Proceeds from Agency Transactions	9,641,776.00
Proceeds from Non-Capital Gifts	2,367,018.01
Proceeds from Non-Capital Grants	237,340.00
Proceeds from Other Non-Capital Financing Activities	953,050.91
Cash Outflows	
Payments for Net Transfers to Texas Tech University	(86,295.00)
Payments for Net Transfers to Texas Tech University System	(430,000.00)
Payments for Transfers to Other State Agencies	(20,159.87)
Payments for Other Uses	<u>(9,641,776.00)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 142,571,706.52</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

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

Statement of Cash Flows
For the Year Ended August 31, 2014

	<u>2014</u>
Cash Flows from Capital and Related Financing Activities	
Cash Inflows	
Proceeds from Sale of Capital Assets	\$ 19,158.23
Proceeds from Capital Debt Issuances	6,500,000.00
Cash Outflows	
Payments for Purchases of Capital Assets	(12,644,003.21)
Payments for Principal on Capital Debts	(4,281,245.63)
Payments for Interest on Capital Debts	(2,527,398.64)
Payments for Capital Lease	<u>(89,364.00)</u>
Net Cash Used for Capital and Related Financing Activities	<u>\$ (13,022,853.25)</u>
Cash Flows from Investing Activities	
Cash Inflows	
Proceeds from Sales and Maturities of Investments	\$ 249,029.57
Proceeds from Interest and Dividends on Investments	<u>3,963,340.20</u>
Net Cash Provided by Investing Activities	<u>\$ 4,212,369.77</u>
TOTAL NET CASH FLOWS	<u>\$ 101,952,247.57</u>
Cash and Cash Equivalents, September 1st	<u>\$ -</u>
Cash and Cash Equivalents, August 31st	<u><u>\$ 101,952,247.57</u></u>

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

Statement of Cash Flows
For the Year Ended August 31, 2014

	<u>2014</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	\$ (51,149,397.46)
Adjustments	
Depreciation Expense	11,210,857.78
Decrease (Increase) in Receivables	(4,314,629.05)
Decrease (Increase) in Due from Other Agency	85,294.34
Decrease (Increase) in Merchandise Inventories	16,668.95
Decrease (Increase) in Prepaid Expenses	(58,674.27)
Increase (Decrease) in Payables	9,196,708.13
Increase (Decrease) in Due to Other Agency	(24,494.18)
Increase (Decrease) in Deferred Revenue	3,301,941.78
Increase (Decrease) in Compensable Leave	(99,907.70)
Increase (Decrease) in Other Liabilities	<u>26,656.21</u>
Net Cash Used for Operating Activities	<u>\$ (31,808,975.47)</u>
 Non-Cash Transactions	
Donations of Capital Assets	\$ 23,290.68
Net Increase (Decrease) in Fair Value of Investments	1,099,208.81
Disposal of Capital Assets	(153,228.44)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART TO THIS FINANCIAL STATEMENT

TEXAS TECH UNIVERSITY HEALTH SCIENCE CENTER at EL PASO
Annual Financial Report
UNAUDITED

NOTES TO FINANCIAL STATEMENTS

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TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

UNAUDITED

Notes to the Financial Statements

August 31, 2014

NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) is a component unit of the State of Texas and its financial records reflect compliance with applicable 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*.

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

TTUHSCEP includes within this report all components as determined by an analysis of the relationship to TTUHSCEP.

Blended Component Units

Texas Tech Physician Associates (TTPA) is reported as a blended component unit of TTUHSCEP in this *Annual Financial Report*. TTPA balances and activities are blended with TTUHSCEP balances and activities since the sole purpose of TTPA is to financially support TTUHSCEP. Refer to Note 19 for more detailed information regarding TTPA balances and activities.

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 this *Annual Financial Report*.

Due to the significant changes to 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 this 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.

As an institution of higher education of the State of Texas, the income of TTUHSCEP is generally exempt from income taxes. However, income unrelated to the exempt purpose of TTUHSCEP 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, 2014.

TTUHSCEP offers graduate and undergraduate programs in two schools: the Paul L. Foster School of Medicine and the Gayle Greve Hunt School of Nursing. Major ancillary operations include correctional health care, grant and contract activities, and clinical operations.

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER at EL PASO

Annual Financial Report

UNAUDITED

Notes to the Financial Statements

August 31, 2014

NOTE 1 (continued)

Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

During the course of normal operations, the fiscal records of TTUHSCEP are maintained using a modified accrual basis of accounting, and most internal financial reports utilize this basis. However, financial balances and amounts are converted to the full accrual basis in compliance with Governmental Accounting Standards Board (GASB) statements 34 and 35 for most external reporting, including this *Annual Financial Report*. Under the full accrual basis of accounting, revenues are recognized when earned and expenses are recognized when an obligation has been incurred.

For reporting purposes, TTUHSCEP is considered as a special-purpose government engaged only in business-type activities. Business type activities are those activities that are financed in whole or in part by fees charged to external parties for goods and services, and whose focus is on determining operating income, changes in net position, and cash flows. Accordingly, TTUHSCEP's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

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.

Cash and Cash Equivalents

Cash and cash equivalents are defined as all cash on hand, demand deposits in banks, reimbursements due from the State Treasury, local balances of legislative appropriations (held in the State Treasury), and short-term highly liquid investments with original maturities of 90 days or less. TTUHSCEP utilizes bank deposits and eligible investment pools as cash equivalents in its Short/Intermediate Term Investment Fund.

Investments

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

Restricted Assets

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

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August 31, 2014

NOTE 1 (continued)

Summary of Significant Accounting Policies

Inventories and Prepaid Items

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

Receivables

The most significant categories of TTUHSCEP 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

Assets such as furniture, equipment and vehicles with an aggregate cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), and facilities and other improvements (\$100,000). Capital assets are recorded at cost at the date of acquisition or, in the case of gifts, at fair value as of the date of acquisition. 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.

Capital assets are depreciated over the estimated useful life of the asset using the straight line method based on allocation methods and estimated lives prescribed by the Statewide Property Accounting (SPA) system. Depreciation is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation expense is not allocated to functional categories for this *Annual Financial Report*.

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

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NOTE 1 (continued)

Summary of Significant Accounting Policies

Payables

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

Compensable Leave

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the *Comparative Statement of Net Position*. Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time, which 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 a limited annual leave balance.

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 since such leave is not paid out to terminating employees.

Capital Lease Obligations

Capital lease obligations represent the liability for future lease payments under capital lease contracts. Liabilities are reported separately as either current or noncurrent in the *Comparative Statement of Net Position*. 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.

Notes and Loans Payable

Notes payable represents amounts owed for commercial paper that was issued during the current period. Notes payable balances are explained further in Note 5.

Bonds Payable

TTUHSCEP has a number of bond issues outstanding which are supported either directly or indirectly by tuition revenue. These payables are reported as current liabilities for amounts due within one year and non-current liabilities for amounts due thereafter in the *Comparative Statement of Net Position*. The bonds are reported at par, net of unamortized premiums, discounts, issuance costs and gains/ (losses) on bond refunding activities. Detailed information regarding bonds payable can be found in Note 6.

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.

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Notes to the Financial Statements

August 31, 2014

NOTE 1 (continued)

Summary of Significant Accounting Policies

Net Position (continued)

Invested In Capital Assets, Net Of Related Debt:

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

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.

Unrestricted Net Position:

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

Interfund Activity and Transactions

TTUHSCEP 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 Position*; included in this *Annual Financial Report*.

NOTE 2

Capital Assets

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

Depreciation of capital assets is recorded as a periodic expense and accumulated as an offset to the asset book values. Depreciation of capital assets is based on allocation methods and estimated lives prescribed by the State Property Accounting (SPA) system. Accumulated depreciation is classified by capital asset category, providing for an estimation of the net book value of each asset category.

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NOTE 2 (continued)
Capital Assets

Capital asset changes for the year ended August 31, 2014 are summarized in the following table.

Capital Asset Category	Balance 09/01/13	Adjust-ments	Reclassifications			Additions	Deletions	Balance 08/31/14
			Comple-ted CIP	Increases – Interagency Transfers	Decreases – Interagency Transfers			
Non-Depreciable or Non-Amortizable Assets:								
Land and Land Improvements	\$ -	\$ -	\$ -	\$ 3,728,230.85	\$ -	\$ -	\$ -	\$ 3,728,230.85
Construction In Progress	-	-	-	936,784.37	-	8,841,845.18	-	9,778,629.55
Other	-	-	-	799,530.00	-	4,000.00	-	803,530.00
Total Non-Depreciable or Non-Amortizable Assets	\$ -	\$ -	\$ -	\$ 5,464,545.22	\$ -	\$ 8,845,845.18	\$ -	\$ 14,310,390.40
Depreciable Assets:								
Buildings and Improvements	\$ -	\$ -	\$ -	\$ 135,875,017.72	\$ -	\$ -	\$ -	\$ 135,875,017.72
Infrastructure	-	-	-	-	-	-	-	-
Furniture and Equipment	-	-	-	35,474,699.14	-	2,490,274.94	(944,627.31)	37,020,346.77
Vehicles	-	-	-	851,199.02	-	201,863.00	(48,628.00)	1,004,434.02
Facilities and Other Improvements	-	-	-	4,210,567.53	-	479,518.77	-	4,690,086.30
Other	-	-	-	3,517,894.00	-	3,956.00	-	3,521,850.00
Total Depreciable Assets at Cost	\$ -	\$ -	\$ -	\$ 179,929,377.41	\$ -	\$ 3,175,612.71	\$ (993,255.31)	\$ 182,111,734.8
Less Accumulated Depreciation for:								
Buildings and Improvements	\$ -	\$ -	\$ -	\$ (39,535,360.37)	\$ -	\$ (6,129,351.72)	\$ -	\$ (45,664,712.09)
Infrastructure	-	-	-	-	-	-	-	-
Furniture and Equipment	-	-	-	(15,833,517.49)	-	(4,257,976.25)	791,398.87	(19,300,094.87)
Vehicles	-	-	-	(396,254.30)	-	(114,792.47)	48,628.00	(462,418.77)
Facilities and Other Improvements	-	-	-	(1,082,679.95)	-	(250,384.07)	-	(1,333,064.02)
Other	-	-	-	(2,632,560.95)	-	(130,664.44)	-	(2,763,225.39)
Total Accumulated Depreciation	\$ -	\$ -	\$ -	\$ (59,480,373.06)	\$ -	\$ (10,883,168.95)	\$ 840,026.87	\$ (69,523,515.14)
Depreciable Assets - Net	\$ -	\$ -	\$ -	\$ 120,449,004.35	\$ -	\$ (7,707,556.24)	\$ (153,228.44)	\$ 112,588,219.67
Amortizable Assets:								
Computer Software	\$ -	\$ -	\$ -	\$ 1,602,901.05	\$ (98,836.00)	\$ 645,836.00	\$ (34,194.00)	\$ 2,115,707.05
Total Amortizable Assets	\$ -	\$ -	\$ -	\$ 1,602,901.05	\$ (98,836.00)	\$ 645,836.00	\$ (34,194.00)	\$ 2,115,707.05
Less Accumulated Amortization for:								
Computer Software	\$ -	\$ -	\$ -	\$ (747,227.76)	\$ -	\$ (327,688.83)	\$ 34,194.00	\$ (1,040,722.59)
Total Accumulated Amortization	\$ -	\$ -	\$ -	\$ (747,227.76)	\$ -	\$ (327,688.83)	\$ 34,194.00	\$ (1,040,722.59)
Amortizable Assets - Net	\$ -	\$ -	\$ -	\$ 855,673.29	\$ (98,836.00)	\$ 318,147.17	\$ -	\$ 1,074,984.46
Capital Assets - Net	\$ -	\$ -	\$ -	\$ 126,769,222.86	\$ (98,836.00)	\$ 1,456,436.11	\$ (153,228.44)	\$ 127,973,594.53

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August 31, 2014

NOTE 3

Deposits, Investments and Repurchase Agreements

TTUHSCEP's investment portfolio is invested pursuant to the parameters of applicable Texas law and the governing board's Investment Policies. Under Texas law, TTUHSCEP 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, TTUHSCEP is required to invest its institutional funds according to written investment policies adopted by the Board of Regents. No person may invest TTUHSCEP funds without express written authority from the governing board.

The governing investment policy is Regents' Rules Chapter 09, "Investment and Endowments." The majority of TTUHSCEP assets are invested in two investment pools; the Long Term Investment Fund (LTIF) and the Short/Intermediate Term Investment Fund (STIF), both having their own stand-alone investment policies. Endowment funds and certain eligible long-term institutional funds are invested in the LTIF, which invests in equity and fixed income securities, as well as alternative investments such as hedge funds and private equity, and is operated using a total return philosophy. Other institutional funds not in the LTIF are invested in the STIF. Other assets include securities gifted to TTUHSCEP with donor instructions to maintain 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, 2014 was \$92,241,500.60 as presented in the table below.

Proprietary Funds	<u>As of 8/31/14</u>
CASH IN BANK - CARRYING VALUE	\$ 92,241,500.60
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>\$ 92,241,500.60</u>
Proprietary Funds Current Assets Cash in Bank	\$ 75,196,572.19
Proprietary Funds Current Assets Restricted Cash in Bank	17,044,873.40
Proprietary Funds Non-Current Assets Restricted Cash in Bank	55.01
Cash in Bank per AFR	<u>\$ 92,241,500.60</u>

The amounts in the previous table consist of all cash in local banks. The amounts are included on the *Comparative Statement of Net Position* as part of the current unrestricted and restricted "Cash and Cash Equivalents" and non-current restricted "Cash and Cash Equivalents."

As of August 31, 2014, the total bank balance for Business-Type Activities was \$92,586,923.88.

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August 31, 2014

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

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. TTUHSCEP's policy is to require collateralization of bank balances in excess of FDIC protection. TTUHSCEP did not have any funds considered to be uninsured or uncollateralized as of August 31, 2014.

INVESTMENTS

The fair value of investments as of August 31, 2014 is summarized below:

Proprietary Funds	As of 8/31/14
U.S. Government	
U.S. Treasury Securities	\$ -
U.S. Treasury Strips	-
U.S. Treasury TIPS	-
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	-
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)	-
Corporate Obligations	-
Corporate Asset and Mortgage Backed Securities	-
Equity	-
International Obligations	452,752.06
Repurchase Agreement	-
Fixed Income Money Market and Bond Mutual Fund	6,088,229.39
Mutual Funds-Domestic	-
Other Commingled Funds	5,674,625.43
Other Commingled Funds (TexPool)	-
International Other Commingled Funds	5,647,916.45
Commercial Paper	-
Securities Lending Collateral Investment Pool	211,891.93
Real Estate	1,632,709.35
Derivatives	86,845.42
Externally Managed Investments	
Domestic	31,764,181.90
International	130,590.49
Miscellaneous	-
Total Investments	\$ 51,689,742.42

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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 Position*.

	As of 08/31/14
Proprietary Funds	
Non-Current Investments	\$ 51,689,742.42
Items in Cash and Equivalents	
Repurchase Agreements	-
Money Market Funds	-
Texpool & TexSTAR Investments	-
Total Investments	<u>\$ 51,689,742.42</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TTUHSCEP's investment policy limits fixed income securities held by the STIF to those issued by the U.S. or its agencies and instrumentalities. As of August 31, 2014, TTUHSCEP's credit quality distribution for securities with credit risk exposure was as follows.

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	Unrated
05	9999	U.S. Government Agency Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co)	-	-	-	-	-	-
		Corporate Obligations	-	-	-	-	-	-
		Corporate Asset and Mortgage Backed Securities	-	-	-	-	-	-
05	9999	International Obligation	-	7,470.41	86,883.12	232,805.11	37,804.80	87,788.62
			<u>AAAf</u>	<u>Aaf</u>	<u>Af</u>	<u>-</u>	<u>-</u>	<u>Unrated</u>
05	9999	Fixed Income Money and Bond Mutual Fund	-	-	-	-	-	6,088,229.39

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. All exposures are through funds managed by external investment managers. The exposure to foreign currency risk as of August 31, 2014, is as follows.

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NOTE 3 (continued)
Deposits, Investments and Repurchase Agreements

<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	583.90	39,930.36	-
05	9999	Australian dollar	-	-	12.55
05	9999	Bermudan dollar	8,823.61	-	-
05	9999	Brazilian real	53,516.04	404,008.48	-
05	9999	Bulgarian lev	1,760.27	-	-
05	9999	Canadian dollar	1,407.53	66,631.98	-
05	9999	Cayman dollar	13,832.16	-	-
05	9999	CFA Franc	-	-	-
05	9999	Chilean Peso	7,074.76	14,844.40	-
05	9999	Chinese yuan	1,231.16	476,462.10	-
05	9999	Colombian peso	49,640.88	-	-
05	9999	Czech koruna	1,893.83	29,849.58	-
05	9999	Danish krone	-	11,164.78	-
05	9999	Dominican peso	-	-	-
05	9999	Egyptian pound	-	41,370.47	-
05	9999	Euro	23,502.73	920,886.61	82,229.10
05	9999	Hong Kong dollar	3,349.31	157,528.14	-
05	9999	Hungarian forint	-	908.33	-
05	9999	Indian rupee	38,380.34	271,413.62	22,795.83
05	9999	Indonesian rupiah	1,475.54	57,469.01	-
05	9999	Iraqi dinar	-	-	-
05	9999	Israeli shekel	352.74	-	-
05	9999	Japanese yen	-	537,030.82	-
05	9999	Jordanian dinar	-	-	-
05	9999	Kazakhstan tenge	3,008.55	8,390.31	-
05	9999	Latvian lats	-	-	-
05	9999	Lithuanian litas	-	-	-
05	9999	Malaysian ringgit	20,657.34	77,619.08	-
05	9999	Mexican peso	95,880.33	215,429.70	1,564.14
05	9999	New Zealand dollar	-	-	-
05	9999	Nigerian naira	17,991.88	-	-
05	9999	Norwegian krone	-	7,443.18	1,564.14
05	9999	Pakistani rupee	-	-	-
05	9999	Panamanian balboa	215.75	-	-
05	9999	Peruvian nuevo sol	21,887.29	11,617.36	-
05	9999	Phillippino peso	140.41	25,911.80	-
05	9999	Polish zloty	-	21,679.66	-
05	9999	Pound sterling	9,898.95	523,347.36	17,732.31
05	9999	Qatari riyal	-	22,301.92	-
05	9999	Romanian leu	876.71	-	-
05	9999	Russian ruble	9,066.43	53,881.37	-
05	9999	Singapore dollar	1,486.30	39,696.98	-
05	9999	South African rand	32,651.92	220,658.54	-
05	9999	South Korean won	566.78	465,103.55	-
05	9999	Swedish krona	4,260.27	50,231.13	-
05	9999	Swiss franc	-	250,858.63	4,692.42
05	9999	Taiwan dollar	-	416,929.11	-
05	9999	Thai baht	23.97	51,071.69	-
05	9999	Turkish lira	24,841.78	96,997.40	-
05	9999	UAE dirham	2,472.60	59,249.00	-
05	9999	Uruguay peso	-	-	-
05	9999	Venzuelan bolivar	-	-	-
		Total	<u>\$ 452,752.06</u>	<u>\$ 5,647,916.45</u>	<u>\$ 130,590.49</u>

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Notes to the Financial Statements

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NOTE 3 (continued)

Deposits, Investments and Repurchase Agreements

Derivative Investing

TTUHSCEP's Investment Policy Statement for the LTIF allows investments in certain derivative securities. A derivative security is a financial instrument which derives its value from another security, currency, commodity or index.

TTUHSCEP entered into futures contracts, options, and swaps as efficient substitutes for traditional securities to reduce portfolio risks created by other securities, or in fully hedged positions to take advantage of market anomalies. The derivatives entered into during fiscal year 2014 all had as its underlying securities market indices, in order to gain and reduce market exposure in an efficient manner. The contracts are valued daily and TTUHSCEP's net equity in the contracts, representing unrealized gain or loss, is reported on the *Statement of Net Position* as derivative instruments.

These instruments involve market and/or credit risk in excess of the amount recognized in the *Statement of Net Position*. Risks arise from the possibility that counterparties will be unable to meet the terms of their contracts and from movement in index values. Futures contracts have reduced counterparty credit risk since they are exchange-traded and the exchange's clearinghouse, as counterparty to all exchange-traded futures, guarantees them against default. Counterparty risk for swaps and options is mitigated by master netting agreements between TTUHSCEP and its counterparties, and by the posting of collateral on a daily basis.

TTUHSCEP's gross counterparty exposure, as of August 31, 2014, is as presented below.

	<u>Assets Notional</u>	<u>Liabilities Notional</u>	<u>Assets Fair Value as of 08/31/14</u>	<u>Liabilities Fair Value as of 08/31/14</u>	<u>Counterparty Rating</u>
Futures	\$ 8,058,671.55	\$ 499,517.70	\$ 68,380.05	\$ 14,010.46	A
Options	4,619,683.21	2,794,680.14	177,359.49	143,410.10	A
Swaps	750,733.98	-	-	1,473.55	A

NOTE 4

Short Term Debt

TTUHSCEP 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.

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NOTE 5
Long Term Liabilities

The following changes occurred in long-term liabilities for the year ended August 31, 2014:

Category	Balance as of 09/01/13	Additions	Reductions	Other Changes	Balance as of 08/31/14	Amounts Due Within One Year	Amounts Due Thereafter
Capital Lease Obligation	\$ -	\$ -	\$ (89,364.00)	\$ 96,811.00	\$ 7,447.00	\$ 7,447.00	\$ -
Compensable Leave	-	-	(99,907.70)	6,608,674.26	6,508,766.56	781,051.99	5,727,714.57
Notes Payable	-	6,500,000.00	(131,245.63)	1,131,245.63	7,500,000.00	7,500,000.00	-
Revenue Bonds Payable	-	-	(4,150,000.00)	59,050,349.25	54,900,349.25	4,845,976.41	50,054,372.84
Total Long Term Liabilities	<u>\$ -</u>	<u>\$ 6,500,000.00</u>	<u>\$ (4,470,517.33)</u>	<u>\$ 66,887,080.14</u>	<u>\$ 68,916,562.81</u>	<u>\$ 13,134,475.40</u>	<u>\$ 55,782,087.41</u>

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.

CAPITAL LEASE OBLIGATION

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

COMPENSABLE LEAVE

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2014. Past experience has demonstrated that approximately 12% of TTUHSCEP compensable leave balances will mature within one year. Therefore, the non-current portion of the liability as of August 31, 2014 was estimated at \$5,727,714.57 out of a total liability of \$6,508,766.56. Funding for future leave balance payments will be from the same source as annualized salary expense.

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 0.04% to 0.14%.

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Notes to the Financial Statements
August 31, 2014

NOTE 5 (continued)
Long Term Liabilities

The following schedule summarizes debt service requirements related to commercial paper payable.

Fiscal Year	Principal	Interest	Total
2015	\$ 7,500,000.00	\$ 35,250.00	\$ 7,535,250.00
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
All Other Years	-	-	-
Total Requirements	<u>\$ 7,500,000.00</u>	<u>\$ 35,250.00</u>	<u>\$ 7,535,250.00</u>

REVENUE BONDS PAYABLE

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

NOTE 6
Bonded Indebtedness

GENERAL INFORMATION

Detailed supplemental bond information is disclosed in Schedules 2A through 2D. Several bond issues were outstanding as of August 31, 2014, as summarized in the paragraphs that follow. These bonds were issued prior to TTUHSCEP becoming a separate institution. Thus, summary of purpose for each bond issue may include information related to both TTUHSC and TTUHSCEP.

REVENUE FINANCING SYSTEM BONDS, 9th 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 (\$38,385,000.00) have been issued

Revenue Source: Debt service source of revenue is Fund 0001 Appropriation

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**NOTE 6 (continued)
Bonded Indebtedness**

REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 10th 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, 7th Series 2001

Issued: February 1, 2006; all authorized bonds (\$43,720,000.00) have been issued which includes \$45,000,000 of new bonds and premium proceeds for the project

Revenue Source: Debt service source of revenue is Fund 0001 Appropriation

REVENUE FINANCING SYSTEM REFUNDING AND IMPROVEMENT BONDS, 12th 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 (\$4,015,000.00) have been issued which includes \$4,015,000 of new bonds for the projects.

Revenue Source: Debt service source of revenue is Fund 0001 Appropriation

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 (\$21,895,000.00) have been issued.

Revenue Source: Debt service source of revenue is Fund 0001 Appropriation

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.

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**NOTE 6 (continued)
Bonded Indebtedness**

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 TTUHSCEP's revenue bonds.

For the Year Ended:	Business-Type Activities 08/31/14
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 66,811,631.25
Term of Commitment Year Ending 08/31	2029
Percentage of Revenues Pledged	100%
Current Year Pledged Revenue	\$ 16,197,001.24
Current Year Principal and Interest Paid	\$ 6,674,117.50
Pledged Revenue Sources:	
Tuition and Fees, TRB State Appropriations, Auxiliary Revenues, Other Sales and Services Revenues, Investment Income, Unrestricted Contracts/Grants Revenues	

DEFEASED BONDS OUTSTANDING

TTUHSCEP had no defeased bonds outstanding as of August 31, 2014.

**NOTE 7
Derivatives**

The System Investment Policy Statement for the LTIF allows investment in certain derivative securities. Derivatives are financial instruments whose values are derived in whole or in part from the value of any one or more underlying assets or index of asset values. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. These include future contracts, options, and swaps.

The following table summarizes Texas Tech University Health Sciences Center at El Paso's derivative activity as reported in the financial statements.

Investment Derivatives	<u>Changes in Fair Value</u>		<u>Fair Value at August 31, 2014</u>		
	Classification	Amount	Classification	Amount	Notional
Futures	Investment Revenue	\$ 54,369.58	Investments	\$ 54,369.58	\$ 7,559,153.85
Options	Investment Revenue	33,949.39	Investments	33,949.39	1,825,003.07
Swaps	Investment Revenue	(1,473.55)	Investments	(1,473.55)	750,733.98

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NOTE 7 (continued)
Derivatives

FAIR VALUE

Derivative instruments are recorded at fair value. Futures contracts are marked-to-market daily and valued at closing market prices on valuation date. A daily variation margin between the daily value of the contracts and the value on the previous day is recorded and settled in cash with the broker the following morning. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

INVESTMENT DERIVATIVES

Investment derivatives expose TTUHSCEP to certain investment related risks. More information regarding investment derivatives is disclosed in Note 3 to these financial statements.

NOTE 8
Leases

OPERATING LEASES

TTUHSCEP leases various buildings and equipment under operating lease agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in this *Annual Financial Report*. Total rental expense under these agreements was \$1,897,467.76 for the year ended August 31, 2014. The table below provides the estimated minimum lease payments for operating leases for the next five fiscal years.

For years ending August 31	Minimum Lease Payments
2015	\$ 747,024.56
2016	744,253.63
2017	526,700.06
2018	326,422.56
2019	326,422.56

TTUHSCEP has operating lease income of \$72,493.78 for the year ended August 31, 2014. Leased space comprises approximately 12.6% of the total building space. The net carrying value of the assets associated with these leases was \$2,844,340.64 as of August 31, 2014, and consists of historical cost of \$3,198,668.68 less related accumulated depreciation of \$354,328.04. There were no reported contingent rental revenues. The table below provides the estimated minimum lease income for the next five fiscal years.

For years ending August 31	Minimum Lease Income
2015	\$ 54,267.80
2016	54,267.80
2017	54,267.80
2018	54,267.80
2019	54,267.80

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NOTE 8 (continued)

Leases

OPERATING LEASES (continued)

TTUHSCEP 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 TTUHSCEP.

CAPITAL LEASES

TTUHSCEP has entered into three long-term capital leases for the purchase of durable medical and office equipment located in El Paso, Texas. The terms of each of the leases require monthly payments over the next 2 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 \$268,092.00. As of August 31, 2014, the assets are recorded at a carrying value of \$198,464.13, which is net of accumulated depreciation in the amount of \$69,627.87. The asset and liability balances associated with these leases are included in the *Comparative Statement of Net Position* 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
2015	7,447.00	-	7,447.00
	\$ 7,447.00	\$ -	\$ 7,447.00
Minimum Lease Payments			\$ 7,447.00
Less: The amount representing interest at TTUHSCEP's incremental borrowing rate of interest			\$ -
Present Value of Minimum Lease Payments			\$ 7,447.00

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 Teacher Retirement System of Texas (TRS) program and is available to certain eligible employees. ORP is a defined contribution pension plan that provides for the purchase of annuity and custodial mutual fund contracts. Current contributory percentages for employees who participated before September 1, 1995 are 8.5% provided by the State, and 6.65% provided by each participant, of annual participant compensation. The state's contribution is comprised of 6.4% from the ORP appropriation and 2.1% from

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August 31, 2014

NOTE 9 (continued)
Pension Plans

other sources. The 6.4% contribution is mandatory, with the other contributions being at the discretion of the governing board of TTUHSCEP, which has approved the additional contributions for TTUHSCEP employees. Current contributory percentages for employees who participated after August 31, 1995, are 6.6% provided by the State, and 6.65% provided by each participant, of annual participant compensation. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

ORP contributions made by plan members and the employer for the year ending August 31, 2014 are detailed in the following table.

For the Year Ended:	08/31/14
Member Contributions	\$ 3,209,789.40
Employer Contributions	<u>3,452,261.11</u>
Total ORP Contributions	<u>\$ 6,662,050.51</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 TTUHSCEP for the year ended August 31, 2014.

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

Per the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Note 11 is not applicable to TTUHSCEP for the year ended August 31, 2014.

NOTE 12
Interfund Activity and Balances

As explained in Note 1, TTUHSCEP has interfund activities and transactions within its internal funds and with other State agencies. At year-end, amounts to be received and/or paid related to these interfund activities and transactions are reported as: Due from Other Agencies or Due to Other Agencies, Transfers In or Transfers Out, Legislative Transfers In or Legislative Transfers Out.

As of August 31, 2014, TTUHSCEP had outstanding Due to/from Other Agencies with other State agencies primarily for federal and state pass through agreements.

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Notes to the Financial Statements
August 31, 2014

NOTE 12 (continued)
Interfund Balances / Activity

Details about these Due To/From Other Agencies balances for the year ended August 31, 2014 are shown in the following tables.

Agency Name	Agency Nbr	D23 Fund	As of 08/31/14	
			Due from	Due to
University of Texas System	720	9999	-	84,408.36
Department of State Health Services	537	9999	90,689.88	-
Cancer Prevention & Research Institute of Texas	542	9999	460,269.14	-
University of Texas - Austin	721	9999	2,744.36	-
University of Texas - El Paso	724	9999	19,828.77	-
University of Texas Health HSC-Houston	744	9999	-	2,528.10
Texas Higher Education Coordinating Board	781	9999	-	0.49
Subtotal - Due from Other Agencies			<u>\$ 573,532.15</u>	<u>\$ 86,936.95</u>
Total Due from/to Other Agencies			<u>\$ 573,532.15</u>	<u>\$ 86,936.95</u>

Also, for the year ended August 31, 2014, TTUHSC had various Transfers In and Transfers Out from and to other components of the Texas Tech University System and other State agencies. The transfer in from TTUHSC is comprised of net assets transferred to TTUHSC and transfers pursuant to normal operations for the year ended August 31, 2014. The majority of the net transfers in from TTU are for servicing of outstanding bonded indebtedness for which appropriations are shared. Net transfers in from the Texas Tech Foundation Inc. (TTFI) are comprised primarily of earnings from endowments held by the Foundation. The majority of the net transfers out to TTUSA are to support system administrative functions. The transfers to the Texas Higher Education Coordinating Board are for 2% Medical Loan and B-On-Time set-asides. Details about these Transfers In and Transfers Out for the years ended August 31, 2014 is shown in the following table.

Agency Name	Agency Nbr	D23 Fund	For the Year Ended 08/31/14	
			Transfers In	Transfers Out
Texas Higher Education Coordinating Board	781	5144	-	20,159.87
Total Transfers In/Out Other State Agencies			<u>\$ -</u>	<u>\$ 20,159.87</u>
Texas Tech University System Administration	768	0001	-	430,000.00
Texas Tech University Health Sciences Center	739	9999	150,846,156.43	5,605,194.49
Texas Tech University	733	9999	-	86,295.00
Texas Tech Foundation, Inc. (HSC)	768	9999	1,816,596.22	249,750.04
Total Transfers In/Out Component Units			<u>\$ 152,662,752.65</u>	<u>\$ 6,371,239.53</u>

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Notes to the Financial Statements
August 31, 2014

NOTE 12 (continued)
Interfund Balances / Activity

TTUHSCEP also recorded an increase for the year ended August 31, 2014 in net position due to transfers in of capital assets from other State agencies. This Interagency Capital Asset transfer activity is included in Note 2 and is summarized in the following tables for the year ended August 31, 2014.

Agency Name	Agency Nbr	D23 Fund	For the Year Ended 08/31/14	
			Interagency Capital Asset Transfers In	Interagency Capital Asset Transfers Out
Texas Tech University Health Sciences Center	739		\$ 126,761,158.77	\$ 98,836.00
University Health Sciences Center at San Antonio	745		\$ 8,064.09	\$ -
Total Transfers from/to Other State Agencies			<u>\$ 126,769,222.86</u>	<u>\$ 98,836.00</u>

NOTE 13
Continuance Subject to Review

TTUHSCEP is not subject to the Texas Sunset Act.

NOTE 14
Adjustments to Fund Balances and Net Position

TTUHSCEP had no material prior-period adjustments to Net Position for the year ended August 31, 2014.

NOTE 15
Contingencies and Commitments

PENDING LITIGATION

At August 31, 2014, various lawsuits and claims involving TTUHSCEP were pending. While the ultimate liability with respect to litigation and other claims asserted against TTUHSCEP 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 TTUHSCEP.

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Notes to the Financial Statements

August 31, 2014

NOTE 15 (continued)
Contingencies and Commitments

INVESTMENT FUNDS

TTUHSCEP entered into capital commitments with investment managers for future funding of investment funds as shown in the table below. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers.

Description	As of 8/31/14
Total Unfunded Commitments	\$ 6,596,150.98
Fair Value - Domestic	31,764,181.90
Fair Value - International	130,590.49

REBATABLE ARBITRAGE

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government.

As of August 31, 2014, TTUHSCEP had no outstanding bond issues with an associated outstanding rebatable arbitrage liability.

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 \$4,203,246.96 as of August 31, 2014. These commitments will be funded by donor contributions, appropriations from the state, issuance of revenue bonds, and other borrowings. As of August 31, 2014, the amount of legislative appropriations for capital from the state available for these commitments totaled \$135,964.20.

DIRECT LENDING

TTUHSCEP participates in the federal Direct Loan Program, which provides loans from the federal government to qualifying students and their families for educational purposes. While TTUHSCEP 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, 2014 was \$9,622,016.

NOTE 16
Subsequent Events

Texas Tech University System intends to issue Revenue Financing Bonds totaling \$111.2 million in February of 2015. TTUHSCEP's portion of that issuance could total approximately \$9.1 million, with \$7.5 million already issued in commercial paper as of August 31, 2014.

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**NOTE 17
Risk Management**

TTUHSCEP has self-insured arrangements for medical malpractice coverage through a medical malpractice self-insurance plan with TTUHSC. 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. TTUHSC records an IBNR liability on its *Annual Financial Report*. Texas Tech Physician Associates, a blended component unit, had no accrued IBNR at August 31, 2014.

The TTUHSCEP 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 TTUHSCEP as an institution.

TTUHSCEP has self-insured arrangements for Unemployment Compensation Fund coverage with the Texas State Comptroller of Public Accounts under TTUHSC. The *General Appropriations Act* of the 82nd Texas Legislature provides that TTUHSCEP must reimburse the General Revenue Fund, from TTUHSCEP 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. TTUHSCEP must also reimburse the General Revenue Fund for all of the cost of unemployment claims paid for any employees. Such reimbursements are paid from non-state funds held in local bank accounts or from local balances of legislative appropriations held in the State Treasury. TTUHSCEP payments for Unemployment Compensation were paid for by TTUHSC for fiscal year 2014. No material outstanding claims were pending as of August 31, 2014.

For workers compensation, TTUHSCEP is required by State law to be a participant in the Worker's Compensation Program and Pool managed by the State Office of Risk Management (SORM). SORM assesses fees based upon claims cost, claim count, payroll and FTE. The assessed fees are remitted, from both appropriated and unappropriated fund types, to SORM. TTUHSCEP was included in the assessment for TTUHSC for fiscal year 2014. Total estimated payments made by TTUHSC to SORM on behalf of TTUHSCEP for fiscal year ended 2014 amounted to \$84,103.62. SORM assumes the responsibility for paying all workers compensation claims for current and former employees of TTUHSCEP.

**NOTE 18
Management Discussion and Analysis**

On May 18, 2013, the Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) was established as a separate component unit of the State of Texas under Texas Senate Bill 120, and is one of five entities included in the Texas Tech University System. TTUHSCEP expects to receive appropriated funds for the 2016-2017 Biennium

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NOTE 18 (Continued)
Management Discussion and Analysis

under the General Appropriations Act. The results of operations for the year ended August 31, 2014 for TTUHSCEP are incorporated within this *Annual Financial Report*. The net financial position for TTUHSCEP reflects a net asset transfer of \$214,353,136.62 which is comprised of \$125,811,966.25 of capital assets, \$81,284,114.72 of cash and equivalents, and \$7,257,055.65 of other net assets. Further, this financial report contains certain allocations for reporting purposes between TTUHSCEP and TTUHSC that are reflected as net transfers.

NOTE 19
The Financial Reporting Entity

TTUHSCEP 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 described in detail in Note 1. TTUHSCEP has no other related organizations, joint ventures or jointly governed organizations.

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

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

Texas Tech Physician Associates	
Condensed Statement of Net Position	
	<u>As of 08/31/14</u>
Total Assets	\$ <u> -</u>
Total Liabilities	\$ <u> -</u>
Net Position:	
Unrestricted	\$ <u> -</u>
Total Net Position	\$ <u> -</u>
Total Liabilities and Net Position	\$ <u> -</u>

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August 31, 2014

NOTE 19 (continued)
The Financial Reporting Entity

Texas Tech Physician Associates	
Condensed Statement of Revenues, Expenses and Changes in Net Position	
	<u>For the Year Ended</u>
	<u>08/31/14</u>
Operating Revenues	
Professional Fees	\$ 11,337,770.48
Federal Contracts	-
Private Contracts and Grants	-
Operating Expenses	
Public Service	-
Operating Income (Loss)	<u>\$ 11,337,770.48</u>
Non-operating Revenue (Expense)	
Investment Income	\$ -
Total Non-operating Revenues and Expenses	<u>\$ -</u>
Other Revenues, Expenses, Gains, Losses and Transfers	
Transfers to Components	<u>\$ (11,337,770.48)</u>
Total Change in Net Position	\$ -
Beginning Net Position	<u>\$ -</u>
Ending Net Position	<u><u>\$ -</u></u>

Texas Tech Physician Associates	
Condensed Statement of Cash Flows	
	<u>For the Year Ended</u>
	<u>08/31/14</u>
Net Cash Provided by Operating Activities	\$ 11,337,770.48
Net Cash Used for Non-capital Financing Activities	\$ (11,337,770.48)
Net Cash Provided by Capital and Related Financing Activities	\$ -
Net Cash Provided by Investing Activities	<u>\$ -</u>
Total Net Cash Flows	\$ -
Cash and Cash Equivalents, September 1st	<u>\$ -</u>
Cash and Cash Equivalents, August 31st	<u><u>\$ -</u></u>

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Notes to the Financial Statements

August 31, 2014

NOTE 20

Stewardship, Compliance, and Accountability

TTUHSCEP 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, 2014.

NOTE 22

Donor Restricted Endowments

TTUHSCEP endowments are categorized as either true endowments or funds functioning as endowments. As of August 31, 2014, TTUHSCEP had no term endowments. Expenditure of true endowment funds is not permitted without the express consent of the donor. Most TTUHSCEP 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 has experienced varying performance since its inception. The net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by TTUHSCEP.

Donor-Restricted Endowments	Reported in Net Position	Amounts of Net Appreciation* 08/31/14
True Endowments	Restricted for Expendable	\$ <u>374,694.27</u>

*There was a positive fair value adjustment totaling \$178,202.04 for fiscal 2014.

The TTUS spending policy for endowments reflects an objective to distribute as much of the total return as is consistent with overall investment objectives while protecting the inflation adjusted value of the endowment principal for future users. The following factors are considered in the spending policy: the duration and preservation of the LTIF, the purposes of the TTUS and the LTIF, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of the System and the overall investment policy. The distribution of spendable earnings shall not exceed 6% nor be less than 4% of the average net asset value of the LTIF over the preceding 12 quarters.

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Notes to the Financial Statements
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NOTE 23
Extraordinary and Special Items

TTUHSCEP had no special or extraordinary items during the year ended August 31, 2014.

NOTE 24
Disaggregation of Receivable and Payable Balances

RECEIVABLES

Components of receivables as of August 31, 2014 are summarized in the following tables.

Description	As of 08/31/14		
	Gross Receivables	Allowances	Net Receivables
Federal Receivable	\$ 611,120.85	\$ -	\$ 611,120.85
Interest and Dividends Receivable	29,757.01	-	29,757.01
Patient Accounts Receivable	18,723,926.62	(11,393,449.92)	7,330,476.70
Student Accounts Receivable	49,280.20	(1,195.34)	48,084.86
Contract Accounts Receivable	12,621,235.95	-	12,621,235.95
Pledged Gifts Receivable	1,565,930.93	(46,977.93)	1,518,953.00
Other	394,918.21	(22,634.37)	372,283.84
Subtotal - Current	<u>33,996,169.77</u>	<u>(11,464,257.56)</u>	<u>22,531,912.21</u>
Pledged Gifts Receivable	10,830,382.99	(324,911.49)	10,505,471.50
Subtotal - Non-Current	<u>10,830,382.99</u>	<u>(324,911.49)</u>	<u>10,505,471.50</u>
Total Receivables	<u>\$ 44,826,552.76</u>	<u>\$ (11,789,169.05)</u>	<u>\$ 33,037,383.71</u>

PAYABLES

Short-term payables as of August 31, 2014 were comprised of the elements noted in the following table.

Description	Short Term Payables
	as of 08/31/14
Vendor Accounts Payable	\$ 3,348,603.95
Patient Refunds Payable	1,228,959.06
Payroll Payable	7,779,560.59
Subtotal - Current Payables	<u>\$ 12,357,123.60</u>
Accrued Interest Payable	\$ 108,387.98
Subtotal - Other Current Liabilities	<u>\$ 108,387.98</u>
Total Short Term Payables	<u>\$ 12,465,511.58</u>

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Notes to the Financial Statements

August 31, 2014

NOTE 24 (continued)
Disaggregation of Receivable and Payable Balances

Contractual Arrangements and Concentrations of Credit Risk

TTUHSCEP provides care to patients covered by various third party payers such as Medicare, Medicaid, and private insurance companies and health maintenance organizations (HMOs). Management does not believe there is significant credit risk associated with the listed payers, other than the self-pay and medically indigent category. Further, patient receivable balances are monitored and reserves and allowances associated with these receivables are adjusted accordingly. 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, 2014 are depicted in the following table:

Description	Gross Patient Receivables as of 08/31/14
Medicare	\$ 3,508,007.29
Medicaid	3,906,376.93
Managed Care, including Blue Cross	4,437,744.76
Commerical	1,623,590.84
Self Pay and Medically Indigent	5,169,845.56
Other	<u>78,361.24</u>
Total Gross Patient Accounts Receivable	<u>\$ 18,723,926.62</u>

NOTE 25
Termination Benefits

TTUHSCEP had no reportable termination benefits during the year ended August 31, 2014.

NOTE 26
Segment Information

TTUHSCEP had no reportable segments during the year ended August 31, 2014.

NOTE 27
Service Concession Arrangements

TTUHSCEP had no reportable service concession arrangements during the year ended August 31, 2014.

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Notes to the Financial Statements

August 31, 2014

NOTE 28

Deferred Outflows and Deferred Inflows of Resources

TTUHSCEP had no deferred outflows and deferred inflows of resources the year ended August 31, 2014.

NOTE 29

Trouble Debt Restructuring

TTUHSCEP had no outstanding receivables whose terms were modified pursuant to troubled debt restructuring for the year ended August 31, 2014.

NOTE 30

Non-Exchange Financial Guarantees

TTUHSCEP had no outstanding non-exchange financial guarantees for the year ended August 31, 2014.

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SUPPORTING SCHEDULES

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Schedule 2A: Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2014

Description of Issue	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Date	
Rev Fin Sys Bonds 9th Series 2003	38,385,000.00	4.00% - 5.25%	2006	2/15/2023	8/15/2013
Rev Fin Sys Ref & Imp Bonds Series 2006	43,720,000.00	4.00% - 5.00%	2006	2/15/2029	2/15/2016
Rev Fin Sys Ref & Imp Bonds Series 2009	4,015,000.00	3.00% - 5.00%	2009	2/15/2028	2/15/2019
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	21,895,000.00	2.00% - 5.00%	2012	8/15/2022	8/15/2021
	<u>\$ 108,015,000.00</u>				

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Schedule 2B: Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2014

Description of Issue	Bonds Outstanding 9/01/2013	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2014
Rev Fin Sys Bonds 9th Series 2003	2,135,000.00	-	1,990,000.00	-	145,000.00
Rev Fin Sys Ref & Imp Bonds Series 2006	30,505,000.00	-	1,740,000.00	-	28,765,000.00
Rev Fin Sys Ref & Imp Bonds Series 2009	2,940,000.00	-	135,000.00	-	2,805,000.00
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	20,845,000.00	-	285,000.00	-	20,560,000.00
	<u>\$ 56,425,000.00</u>	<u>\$ -</u>	<u>\$ 4,150,000.00</u>	<u>\$ -</u>	<u>\$ 52,275,000.00</u>

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Schedule 2B: Changes in Bonded Indebtedness

For the Fiscal Year Ended August 31, 2014

Description of Issue	Unamortized Premium	Unamortized Discount	Other Adjustments	Net Bonds Outstanding 08/31/2014	Amounts Due Within One Year
Rev Fin Sys Bonds 9th Series 2003	-	-	-	145,000.00	15,000.00
Rev Fin Sys Ref & Imp Bonds Series 2006	-	-	-	28,765,000.00	1,830,000.00
Rev Fin Sys Ref & Imp Bonds Series 2009	175,085.12	-	-	2,980,085.12	152,506.08
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A	2,450,264.13	-	-	23,010,264.13	2,848,470.33
	<u>\$ 2,625,349.25</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,900,349.25</u>	<u>\$ 4,845,976.41</u>

Note: The 2009 12th Series amount due within one year includes bond premium amortization of \$12,506.08. The 2012A 14th Series amount due within one year includes bond premium amortization of \$533,470.33

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Schedule 2C: Debt Service Requirements
For the Fiscal Year Ended August 31, 2014

Description of Issue	Year	Principal	Interest
Revenue Bonds	2015	\$ 15,000.00	\$ 7,043.75
Revenue Financing System Bonds	2016	15,000.00	6,256.25
9th Series 2003	2017	15,000.00	5,468.75
	2018	15,000.00	4,681.25
	2019	15,000.00	3,893.75
	2020-2023	70,000.00	7,500.00
		<u>\$ 145,000.00</u>	<u>\$ 34,843.75</u>
Revenue Bonds	2015	\$ 1,830,000.00	\$ 1,329,630.00
Revenue Financing System Refunding and	2016	1,920,000.00	1,235,880.00
Improvement Bonds - 10th Series 2006	2017	2,020,000.00	1,137,380.00
	2018	2,115,000.00	1,042,465.00
	2019	2,205,000.00	951,193.75
	2020-2024	12,665,000.00	3,116,738.75
	2025-2029	6,010,000.00	304,250.00
		<u>\$ 28,765,000.00</u>	<u>\$ 9,117,537.50</u>
Revenue Bonds	2015	\$ 140,000.00	\$ 136,750.00
Revenue Financing System Refunding and	2016	150,000.00	129,500.00
Improvement Bonds - 12th Series 2009	2017	155,000.00	121,875.00
	2018	165,000.00	113,875.00
	2019	175,000.00	105,375.00
	2020-2024	1,010,000.00	383,750.00
	2025-2028	1,010,000.00	104,000.00
		<u>\$ 2,805,000.00</u>	<u>\$ 1,095,125.00</u>
Revenue Bonds	2015	\$ 2,315,000.00	\$ 894,737.50
Revenue Financing System Refunding and	2016	2,385,000.00	825,287.50
Improvement Bonds - 14th Series 2012A	2017	2,460,000.00	753,737.50
	2018	2,590,000.00	630,737.50
	2019	2,715,000.00	501,237.50
	2020-2022	8,095,000.00	683,387.50
		<u>\$ 20,560,000.00</u>	<u>\$ 4,289,125.00</u>

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Schedule 2D: Analysis of Funds Available for Debt Service
For the Fiscal Year Ended August 31, 2014

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2014			
	Net Available for			
	Debt Service			
	Total Pledged and Other Sources	Operating Expenses/ Expenditures and Capital Outlay	Debt Service	
		Principal	Interest	
Rev Fin Sys Bonds 9th Series 2003		1,990,000.00	59,675.00	
Rev Fin Sys Ref & Imp Bonds Series 2006		1,740,000.00	1,418,880.00	
Rev Fin Sys Ref & Imp Bonds Series 2009		135,000.00	142,275.00	
Rev Fin Sys Ref & Imp Bonds 14th Series 2012A		285,000.00	903,287.50	
	\$ 16,197,001.24	\$ -	\$ 4,150,000.00	\$ 2,524,117.50

- (a) Beginning Balances as of 09/01/2013 of \$34,281,614.35 are not included in *Total Pledged and Other Sources*
 (b) Expenditures associated with pledged sources totaled \$6,336,997.24

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Schedule 3: Reconciliation of Cash in the State Treasury
As of August 31, 2014

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Permanent Health Fund - El Paso Campus (Fund 0820)	<u>8,285,633.35</u>	<u>-</u>	<u>8,285,633.35</u>
TOTAL CASH IN THE STATE TREASURY	<u>\$ 8,285,633.35</u>	<u>\$ -</u>	<u>\$ 8,285,633.35</u>

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SUPPLEMENTAL SCHEDULES

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TEXAS TECH FOUNDATION, INC. for TTUHSC at EL PASO
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Statement of Net Position
As of August 31, 2014

	<i>2014</i>
ASSETS	
Current Assets:	
Restricted Cash and Cash Equivalents	\$ 12,226.91
Receivables:	
Pledged Gifts	813,470.83
Total Current Assets	\$ 825,697.74
Non-Current Assets:	
Restricted Cash and Cash Equivalents	\$ (150,473.88)
Pledged Gifts Receivable	7,156,604.91
Investments	47,651,979.67
Total Non-Current Assets	\$ 54,658,110.70
TOTAL ASSETS	\$ 55,483,808.44
LIABILITIES	
Current Liabilities:	
Payables	\$ -
Total Current Liabilities	\$ -
Non-Current Liabilities:	
Other Non-Current Liabilities	\$ -
Total Non-Current Liabilities	\$ -
TOTAL LIABILITIES	\$ -
NET ASSETS	
Restricted for:	
Funds Held as Permanent Investments	
Nonexpendable	\$ 48,611,023.34
Other	6,872,785.10
Unrestricted	-
TOTAL NET POSITION	\$ 55,483,808.44
TOTAL LIABILITIES AND NET POSITION	\$ 55,483,808.44

TEXAS TECH FOUNDATION, INC. for TTUHSC at EL PASO
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Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended of August 31, 2014

	<i>2014</i>
OPERATING REVENUES	
Other Revenues	\$ -
Total Operating Revenues	\$ -
OPERATING EXPENSES	
Other Expenses	\$ 113.42
Total Operating Expenses	\$ 113.42
Operating Loss	\$ (113.42)
NON-OPERATING REVENUES (EXPENSES)	
Gifts	\$ 326,140.36
Interest and Investment Income (Loss)	4,752,980.43
Net Increase in Fair Value of Investments	979,795.86
Total Non-Operating Revenues and Gains	\$ 6,058,916.65
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS	
Net Transfers from Texas Tech University Health Sciences Center TTF	\$ 50,991,851.39
Net Transfers to Texas Tech University Health Sciences Center	(1,566,846.18)
Net Other Revenues, Expenses, Gains, Losses, and Transfers	\$ 49,425,005.21
TOTAL CHANGE IN NET POSITION	\$ 55,483,808.44
Net Assets, September 1st	\$ -
Net Assets, August 31st	\$ 55,483,808.44

TEXAS TECH FOUNDATION, INC. for TTUHSC at EL PASO
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Statement of Cash Flows
For the Year Ended August 31, 2014

	<i>2014</i>
Cash Flows from Operating Activities	
Cash Outflows	
Payments for Other Operating Activities	(113.42)
Net Cash Used for Operating Activities	\$ (113.42)
Cash Flows from Non-Capital Financing Activities	
Cash Inflows	
Proceeds from Non-Capital Gifts	\$ 599,621.10
Proceeds From Transfers from Texas Tech University Health Sciences Center TTF	(138,786.97)
Cash Outflows	
Payments for Transfers to Texas Tech University Health Sciences Center	(1,566,846.18)
Net Cash Provided by Non-Capital Financing Activities	\$ (1,106,012.05)
Cash Flows from Investing Activities	
Cash Inflows	
Proceeds from Sales and Maturities of Investments	\$ 1,261,188.87
Proceeds from Interest and Dividends on Investments	1,896,080.60
Cash Outflows	
Payments for Purchases of Investments	(2,189,390.97)
Net Cash Provided by Investing Activities	\$ 967,878.50
TOTAL NET CASH FLOWS	\$ (138,246.97)
Cash and Cash Equivalents, September 1st	\$ -
Cash and Cash Equivalents, August 31st	\$ (138,246.97)
<hr/>	
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	\$ (113.42)
Adjustments	-
Net Cash Used for Operating Activities	\$ (113.42)
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Non-Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ 979,795.86

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