# Texas Tech University
# Health Sciences Center at El Paso

## Annual Financial Report
## Fiscal Year 2016

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

Annual Financial Report

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***August 31, 2016***


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# *Organizational Data*

***August 31, 2016***

## BOARD OF REGENTS

| | Term Expires | |
|---|---|---|
| Mickey L. Long (Chair) | January 31, 2021 | Midland |
| Debbie Montford (Vice Chair) | January 31, 2017 | San Antonio |
| Larry K. Anders | January 31, 2017 | Dallas |
| 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 |
| Ronnie Hammonds | January 31, 2021 | Houston |
| Christopher M. Huckabee | January 31, 2021 | Fort Worth |
| Jeremy Stewart (Student Regent) | May 31, 2017 | Arlington |

## FISCAL OFFICERS

| | |
|---|---|
| Robert L. Duncan | Chancellor |
| Jim Brunjes | Vice Chancellor and Chief Financial Officer |
| Richard A. Lange, MD, MBA | President |
| Sue M. Fuciarelli, MBA, CPA | Vice President for Finance and Administration and Chief Financial Officer |
| Jessica Fisher, MAcc, CPA | Executive Director of Business Affairs |
| Robert Ortega, MAcc, CPA | Senior Director of Accounting Services |

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CERTIFIED PUBLIC ACCOUNTANTS
BELT HARRIS PECHACEK
www.texasauditors.com

# *INDEPENDENT AUDITORS' REPORT*

To the Board of Regents of
Texas Tech University System:

## Report on the Financial Statements

We have audited the accompanying Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows of Texas Tech University Health Sciences Center at El Paso (TTUHSCEP), an Agency of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise TTUHSCEP's basic financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TTUHSCEP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of TTUHSCEP as of August 31, 2016, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Prior Period Financial Statements

We did not audit or review the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; or the related notes to the financial statements of TTUHSCEP as of and for the year ended August 31, 2015.

## Emphasis of Matter

As discussed in Note 1, the financial statements of TTUHSCEP are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Texas that is attributable to the transactions of TTUHSCEP. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2016, the changes in its financial position, or, where applicable, their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of TTUHSCEP's proportionate share of the net pension liability, and schedule of TTUHSCEP's contribution be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TTUHSCEP's basic financial statements. The introductory section, matrix of operating expenses by function, supporting schedules, and supplemental schedules: Texas Tech Foundation, Inc. as listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The matrix of operating expenses by function, supporting schedules, and supplemental schedules: Texas Tech Foundation, Inc. are the responsibility of management and were derived from and relate directly to

the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the matrix of operating expenses by function, supporting schedules, and supplemental schedules: Texas Tech Foundation, Inc. are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016 on our consideration of TTUHSCEP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TTUHSCEP's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
*Certified Public Accountants*
Houston, Texas
December 30, 2016

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# FINANCIAL STATEMENTS

## *Comparative Statement of Net Position*

***As of August 31, 2016 and 2015***

| | 2016 | *Restated* 2015 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Unrestricted Cash and Cash Equivalents | $ 23,049,367.36 | $ 17,412,802.14 |
| Restricted Cash and Cash Equivalents | 18,065,048.65 | 17,619,418.50 |
| Balance of Legislative Appropriations | 13,603,713.17 | - |
| Receivables: | | |
| Federal | 449,286.41 | 424,348.27 |
| Interest and Dividends | 120,364.26 | 57,399.00 |
| Patient | 6,598,508.62 | 6,254,020.32 |
| Student | 20,829.85 | 16,607.86 |
| Contracts | 9,499,721.56 | 15,319,397.52 |
| Pledged Gifts | 1,893,641.44 | 1,834,075.70 |
| Other | 426,580.16 | 12,553.13 |
| Due from Other State Agencies | 4,270,991.59 | 998,728.26 |
| Inventories | 29,878.50 | 3,079.84 |
| Prepaid Items | 2,250,278.53 | 1,678,927.81 |
| Loans and Notes | 159,372.73 | - |
| Total Current Assets | $ 80,437,582.83 | $ 61,631,358.35 |
| Non-Current Assets: | | |
| Restricted Cash and Cash Equivalents | $ 115.00 | $ 60.01 |
| Other Accounts Receivable (Contracts) | 4,063,274.58 | - |
| Pledged Gifts Receivable | 12,406,660.10 | 14,234,089.59 |
| Loans and Notes | 1,066,571.37 | 1,146,000.00 |
| Restricted Investments | 33,503,151.57 | 34,958,573.29 |
| Unrestricted Investments | 106,600,177.91 | 95,030,451.24 |
| Capital Assets: | | |
| Non-Depreciable or Non-Amortizable | 8,248,811.61 | 4,676,851.35 |
| Depreciable or Amortizable | 203,543,838.41 | 200,875,620.11 |
| Less Accumulated Depreciation and Amortization | (91,098,155.19) | (82,515,997.53) |
| Total Non-Current Assets | $ 278,334,445.36 | $ 268,405,648.06 |
| TOTAL ASSETS | $ 358,772,028.19 | $ 330,037,006.41 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Outflows of Resources | $ 3,930,561.59 | $ 2,829,349.30 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | $ 3,930,561.59 | $ 2,829,349.30 |

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

## *Comparative Statement of Net Position*

***As of August 31, 2016 and 2015***

| | 2016 | Restated 2015 |
|---|---|---|
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Payables: | | |
| Accounts | $ 8,016,057.54 | $ 1,671,466.34 |
| Payroll | 11,251,889.78 | 8,149,250.32 |
| Due to Other State Agencies | 91,057.18 | 36,924.43 |
| Unclaimed Property Due to the State Treasury | 6,988.97 | 7,660.05 |
| Unearned Revenue | 3,284,478.30 | 3,113,616.95 |
| Employees' Compensable Leave | 885,247.66 | 824,367.19 |
| Funds Held for Others | 61,581.62 | 42,717.72 |
| Other Current Liabilities | 2,755,678.39 | - |
| Total Current Liabilities | $ 26,352,979.44 | $ 13,846,003.00 |
| Non-Current Liabilities: | | |
| Unclaimed Property Due to the State Treasury | $ 19,091.45 | $ 11,925.37 |
| Employees' Compensable Leave | 6,491,816.15 | 6,045,359.42 |
| Net Pension Liability | 19,283,134.45 | 16,737,715.91 |
| Total Non-Current Liabilities | $ 25,794,042.05 | $ 22,795,000.70 |
| TOTAL LIABILITIES | $ 52,147,021.49 | $ 36,641,003.70 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows of Resources | $ 3,301,603.22 | $ 5,116,150.07 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | $ 3,301,603.22 | $ 5,116,150.07 |
| **NET POSITION** | | |
| Invested in Capital Assets, Net of Related Debt | $ 120,694,494.83 | $ 123,036,473.93 |
| Restricted for: | | |
| Expendable: | | |
| Capital Projects | 1,754,746.09 | - |
| Other | 28,080,321.86 | 26,796,268.26 |
| Nonexpendable: | | |
| Endowments | 28,322,340.84 | 28,319,542.54 |
| Unrestricted | 128,402,061.45 | 112,956,917.21 |
| TOTAL NET POSITION | $ 307,253,965.07 | $ 291,109,201.94 |

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

## *Comparative Statement of Revenues, Expenses, and Changes in Net Position*

***For the Years Ended of August 31, 2016 and 2015***

| | ***2016*** | *Restated* ***2015*** |
|---|---|---|
| **OPERATING REVENUES** | | |
| Tuition and Fee Revenue - Pledged | $ 8,613,172.46 | $ 6,948,188.15 |
| Discounts and Allowances | (1,292,625.20) | (1,087,811.06) |
| Tuition and Fee Revenue | 361,107.66 | 370,890.84 |
| Net Professional Fees - Pledged | - | 3,430.00 |
| Net Professional Fees | 54,484,012.95 | 58,019,251.11 |
| Uncollectibles | (9,004,733.85) | (8,528,110.49) |
| Auxiliary Enterprises - Pledged | 229,976.51 | 222,227.37 |
| Other Sales and Services | 137,101.92 | 299,414.33 |
| Other Sales and Services - Pledged | 252,582.09 | 247,318.06 |
| Federal Grant Revenue | 2,124,010.05 | 2,093,808.89 |
| Federal Grant Revenue - Pledged | 976,587.11 | 953,982.94 |
| Federal Pass-Through Revenue | 226,238.31 | 225,061.85 |
| Federal Contract Revenue | 228,772.67 | 313,392.01 |
| State Grant and Contract Revenue | 1,639,851.16 | 1,453,515.94 |
| State Grant and Contract Revenue - Pledged | 113,913.99 | 94,771.10 |
| State Grant and Contract Pass-Through Revenue | 3,864,280.64 | 3,698,855.19 |
| Local Grant and Contract Revenue | 15,691,332.38 | 13,723,322.43 |
| Local Grant and Contract Revenue - Pledged | 43,432.72 | 33,857.89 |
| Private Grant and Contract Revenue | 61,033,302.25 | 51,728,286.53 |
| Private Grant and Contract Revenue - Pledged | 192,561.22 | 130,689.47 |
| Other Revenue | 14,621,234.27 | 11,453,536.78 |
| Total Operating Revenues | $ 154,536,111.31 | $ 142,397,879.33 |
| **OPERATING EXPENSES** | | |
| Salaries and Wages | $ 126,144,655.48 | $ 118,267,580.63 |
| Payroll Related Costs | 29,198,173.37 | 27,006,467.70 |
| Professional Fees and Services | 6,442,240.00 | 5,217,904.26 |
| Federal Grant Pass-Through Expense | 2,580.36 | 12,167.26 |
| State Grant Pass-Through Expense | 20,332.25 | 35,406.71 |
| Travel | 1,814,344.00 | 1,627,276.34 |
| Materials and Supplies | 4,786,756.86 | 4,903,321.19 |
| Communications and Utilities | 4,560,059.98 | 4,351,610.79 |
| Repairs and Maintenance | 3,684,389.10 | 4,083,437.22 |
| Rentals and Leases | 2,834,662.06 | 2,402,184.52 |
| Printing and Production | 289,800.19 | 285,094.51 |
| Depreciation and Amortization | 11,629,181.89 | 11,853,356.79 |
| Bad Debt Expense (Recovery) | (1,005,151.44) | 1,009,322.75 |
| Interest Expense | 7,748.99 | 1,673.82 |
| Scholarships | 1,668,793.44 | 1,621,391.04 |
| Claims and Judgments | 823,678.22 | - |
| Other Expenses | 21,249,949.32 | 12,864,458.48 |
| Total Operating Expenses | $ 214,152,194.07 | $ 195,542,654.01 |
| Operating Loss | $ (59,616,082.76) | $ (53,144,774.68) |

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

## *Comparative Statement of Revenues, Expenses, and Changes in Net Position*

***For the Years Ended of August 31, 2016 and 2015***

| | 2016 | *Restated* 2015 |
|---|---|---|
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Legislative Appropriations Revenue | $ 72,390,571.70 | $ - |
| Federal Grant Revenue | 442,473.00 | 327,031.00 |
| Gifts | 834,795.09 | 6,464,546.74 |
| Gifts - Pledged | 3,280.00 | - |
| Interest and Investment Income (Expense) | 5,401,465.56 | 2,784,310.00 |
| Interest and Investment Income (Expense) - Pledged | (81,460.75) | 775,400.47 |
| Interest Expense | - | (2,019,552.35) |
| Gain (Loss) Sale of Capital Assets | (290,733.18) | (67,579.85) |
| Net Increase (Decrease) in Fair Value of Investments | (704,662.28) | (4,351,969.98) |
| Other Revenues | 1,854,905.81 | 1,036,432.57 |
| Other Revenues - Pledged | 5,863.89 | 275,394.53 |
| Total Non-Operating Revenues (Expenses) | $ 79,856,498.84 | $ 5,224,013.13 |
| **CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS** | | |
| Capital Contributions | - | 8,924.36 |
| Legislative Appropriations Revenue for Capital (HEAF) | 4,156,050.00 | - |
| Increases from Interagency Transfers of Capital Assets | 23,922.04 | 39,178.26 |
| Decreases from Interagency Transfers of Capital Assets | (75,603.93) | (4,397.40) |
| Net Transfers from (to) Texas Tech University Health Sciences Center | (2,111,773.55) | 62,519,669.73 |
| Net Transfers from (to) Texas Tech University | (6,100.00) | (34,300.00) |
| Net Transfers from (to) Texas Tech Foundation Inc. | 2,091,460.84 | 1,951,621.84 |
| Net Transfers from (to) Texas Tech University System Administration | (988,097.35) | 61,944,129.51 |
| Transfers from (to) Other State Agencies | - | (39,398.95) |
| Legislative Transfers Out (System Administration Support) | (7,185,511.00) | - |
| Capital Contributions and Transfers | $ (4,095,652.95) | $ 126,385,427.35 |
| TOTAL CHANGE IN NET POSITION | $ 16,144,763.13 | $ 78,464,665.80 |
| Net Position, September 1st | $ 291,109,201.94 | $ 231,604,570.11 |
| Restatement of Beginning Net Position | $ - | $ (18,960,033.97) |
| Net Position, August 31st | $ 307,253,965.07 | $ 291,109,201.94 |

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

## *Comparative Statement of Cash Flows*

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

| | *2016* | *Restated 2015* |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash Inflows | | |
| Collections from Student Tuition and Fees | $ 7,848,294.28 | $ 6,300,181.78 |
| Collections from Grants and Contracts | 88,135,515.21 | 71,725,543.40 |
| Collections from Patients and Insurers | 45,134,790.80 | 50,571,027.00 |
| Collections of Loan Program Proceeds | 571,543.85 | 584,897.83 |
| Collections from Auxiliary Enterprises | 233,346.78 | 269,640.56 |
| Collections from Other Operating Activities | 15,595,288.12 | 11,299,253.34 |
| Cash Outflows | | |
| Payments to Suppliers | (19,738,451.95) | (26,883,131.25) |
| Payments to Employees for Salaries | (125,163,871.93) | (117,732,415.29) |
| Payments to Employees for Benefits | (26,722,425.49) | (26,595,122.47) |
| Payments for Loans Provided to Students | (671,639.95) | (650,897.83) |
| Payments for Unemployment Benefits | (104,872.95) | (151,378.08) |
| Payments for Other Operating Activities | (19,976,005.28) | (14,340,399.24) |
| Net Cash Used for Operating Activities | $ (34,858,488.51) | $ (45,602,800.25) |
| Cash Flows from Non-Capital Financing Activities | | |
| Cash Inflows | | |
| Proceeds from Legislative Appropriations | $ 58,786,858.53 | $ - |
| Proceeds from Net Transfers from Texas Tech University Health Sciences Center | - | 58,074,728.78 |
| Proceeds from Net Transfers from Texas Tech Foundation, Inc. | 2,091,460.84 | 1,951,621.84 |
| Proceeds from Agency Transactions | 12,368,343.00 | 10,998,456.00 |
| Proceeds from Non-Capital Gifts | 2,605,938.84 | 2,420,805.95 |
| Proceeds from Non-Capital Grants | 442,473.00 | 327,031.00 |
| Proceeds from Other Non-Capital Financing Activities | 1,879,633.60 | 1,268,305.26 |
| Cash Outflows | | |
| Payments for Net Transfers to Texas Tech University | (6,100.00) | (34,300.00) |
| Payments for Net Transfers to Texas Tech University System | (850,472.48) | (248,560.60) |
| Payments for Net Transfers to Texas Tech University Health Sciences Center | (2,111,773.55) | - |
| Payments for Transfers to Other State Agencies | - | (39,398.95) |
| Payments for Other Uses | (12,368,343.00) | (10,998,456.00) |
| Net Cash Provided by Non-Capital Financing Activities | $ 62,838,018.78 | $ 63,720,233.28 |

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

## *Comparative Statement of Cash Flows*

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

| | 2016 | *Restated* 2015 |
|---|---|---|
| Cash Flows from Capital and Related Financing Activities | | |
| Cash Inflows | | |
| Proceeds from Sale of Capital Assets | $ 44,794.15 | $ 54,394.95 |
| Proceeds from Capital Debt Issuances | - | 3,238,384.22 |
| Proceeds from Legislative Appropriations for Capital | 4,156,050.00 | - |
| Proceeds from Transfers from Texas Tech University System Administration | 74,337.35 | 978,913.95 |
| Cash Outflows | | |
| Payments for Purchases of Capital Assets | (9,674,412.01) | (6,994,505.77) |
| Payments for Transfers to Texas Tech University System Administration | (7,397,473.22) | (124,957.31) |
| Payments for Principal on Capital Debts | - | (4,300,000.00) |
| Payments for Interest on Capital Debts | - | (2,127,940.33) |
| Payments for Capital Lease | - | (7,447.00) |
| Net Cash Used for Capital and Related Financing Activities | $ (12,796,703.73) | $ (9,283,157.29) |
| Cash Flows from Investing Activities | | |
| Cash Inflows | | |
| Proceeds from Sales and Maturities of Investments | $ 17,034,663.66 | $ - |
| Proceeds from Interest and Dividends on Investments | 1,707,123.41 | 4,174,156.13 |
| Cash Outflows | | |
| Payments for Purchases of Investments | (27,842,363.25) | (79,928,398.79) |
| Net Cash Used for Investing Activities | $ (9,100,576.18) | $ (75,754,242.66) |
| TOTAL NET CASH FLOWS | $ 6,082,250.36 | $ (66,919,966.92) |
| Cash and Cash Equivalents, September 1st | $ 35,032,280.65 | $ 101,952,247.57 |
| Cash and Cash Equivalents, August 31st | $ 41,114,531.01 | $ 35,032,280.65 |
| Current Unrestricted Cash and Cash Equivalents | $ 23,049,367.36 | $ 17,412,802.14 |
| Current Restricted Cash and Cash Equivalents | 18,065,048.65 | 17,619,418.50 |
| Non-Current Restricted Cash and Cash Equivalents | 115.00 | 60.01 |
| Ending Cash and Cash Equivalents | $ 41,114,531.01 | $ 35,032,280.65 |

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

## *Comparative Statement of Cash Flows*

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

| | ***2016*** | *Restated* ***2015*** |
|---|---|---|
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | | |
| Operating Loss | $ (59,616,082.76) | $ (53,144,774.68) |
| Adjustments | | |
| Depreciation Expense | 11,629,181.89 | 11,853,356.79 |
| Decrease (Increase) in Receivables | 968,725.92 | (833,955.90) |
| Decrease (Increase) in Due from Other Agency | 266,385.17 | (425,196.11) |
| Decrease (Increase) in Merchandise Inventories | (26,798.66) | 24,532.23 |
| Decrease (Increase) in Prepaid Expenses | (571,350.72) | (878,956.60) |
| Decrease (Increase) in Loans and Notes Receivable | (79,944.10) | (66,000.00) |
| Decrease (Increase) of Deferred Outflows of Resources - Pension | (1,101,212.29) | (1,241,033.85) |
| Increase (Decrease) in Payables | 9,447,230.66 | (2,536,406.94) |
| Increase (Decrease) in Due to Other Agency | 54,132.75 | (50,012.52) |
| Increase (Decrease) in Deferred Revenue | 170,861.35 | 36,241.51 |
| Increase (Decrease) in Compensable Leave | 507,337.20 | 360,960.05 |
| Increase (Decrease) in Other Liabilities | 2,762,173.39 | (7,070.79) |
| Increase (Decrease) in Net Pension Liability | 2,545,418.54 | (3,810,633.51) |
| Increase (Decrease) of Deferred Inflows of Resources - Pension | (1,814,546.85) | 5,116,150.07 |
| Net Cash Used for Operating Activities | $ (34,858,488.51) | $ 24,461,761.05 |
| | | |
| Non-Cash Transactions | | |
| Donations of Capital Assets | $ - | $ 8,924.36 |
| Net Increase (Decrease) in Fair Value of Investments | $ (704,662.28) | $ (4,351,969.98) |
| Disposal of Capital Assets | $ (335,527.33) | $ (121,974.80) |
| Other | $ - | $ 61,338,733.47 |

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

## *Comparative Matrix of Operating Expenses by Function*

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

| *OPERATING EXPENSES* | *INSTRUCTION* | *RESEARCH* | *PUBLIC SERVICE* | *PATIENT CARE* | *ACADEMIC SUPPORT* | *STUDENT SERVICES* |
|---|---|---|---|---|---|---|
| Salaries and Wages | $ 68,308,427.21 | $ 9,865,193.33 | $ 1,593,564.29 | $ 12,643,946.54 | $ 23,606,380.38 | $ 1,143,038.12 |
| Payroll Related Costs | 12,062,604.28 | 2,448,315.12 | 500,309.41 | 4,127,390.94 | 6,101,223.03 | 324,143.20 |
| Professional Fees and Services | 2,366,144.86 | 159,472.86 | 197,041.97 | 41,525.62 | 2,631,446.39 | 31,016.55 |
| Travel | 722,152.91 | 201,567.00 | 90,800.52 | 13,439.47 | 512,326.14 | 51,449.41 |
| Supplies and Materials | 1,120,315.83 | 1,371,248.36 | 151,840.25 | 79,691.68 | 1,393,183.73 | 130,885.76 |
| Communications and Utilities | 533,026.04 | 70,177.01 | 11,465.59 | 35,647.92 | 1,827,679.56 | 5,060.36 |
| Maintenance and Repair | 412,513.64 | 616,759.06 | 1,854.48 | 6,818.50 | 1,037,267.94 | 32,590.50 |
| Rentals and Leases | 756,107.93 | 141,509.12 | 135.52 | 55,681.22 | 1,407,617.02 | 13,596.19 |
| Printing and Production | 68,174.71 | 25,578.65 | 13,017.70 | 3,825.53 | 86,659.97 | 14,576.67 |
| Interest Expense | 826.30 | 169.71 | 14.01 | 9.95 | 5,115.08 | 95.74 |
| Claims and Judgments | - | - | - | - | 823,678.22 | - |
| Other Expenses | 3,554,642.65 | 1,165,003.31 | 207,816.71 | 110,815.77 | 11,826,223.60 | 440,706.64 |
| Bad Debt Expense (Recovery) | (1,000,000.00) | - | - | - | - | (5,151.44) |
| Scholarships and Fellowships | - | - | - | - | 855,995.47 | - |
| Federal Grant Pass-Through Expense | - | 2,580.36 | - | - | - | - |
| State Grant Pass-Through Expense | - | - | 20,332.25 | - | - | - |
| Depreciation and Amortization | - | - | - | - | - | - |
| For the Year Ended August 31, 2016 | $ 88,904,936.36 | $ 16,067,573.89 | $ 2,788,192.70 | $ 17,118,793.14 | $ 52,114,796.53 | $ 2,182,007.70 |
| For the Year Ended August 31, 2015 (Restated) | $ 86,493,922.66 | $ 17,673,066.87 | $ 2,976,616.44 | $ 16,594,631.22 | $ 34,294,491.58 | $ 2,070,787.25 |

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

## *Comparative Matrix of Operating Expenses by Function*

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

| *OPERATING EXPENSES* | *INSTITUTIONAL SUPPORT* | *OPERATION & MAINTENANCE OF PLANT* | *SCHOLARSHIPS & FELLOWSHIPS* | *AUXILIARY ENTERPRISES* | *DEPRECIATION & AMORTIZATION* | *TOTAL EXPENSES* |
|---|---|---|---|---|---|---|
| Salaries and Wages | $ 7,303,995.72 | $ 1,589,984.61 | $ - | $ 90,125.28 | - | $ 126,144,655.48 |
| Payroll Related Costs | 2,964,060.16 | 625,591.25 | - | 44,535.98 | - | 29,198,173.37 |
| Professional Fees and Services | 541,583.99 | 474,007.76 | - | - | - | 6,442,240.00 |
| Travel | 203,810.03 | 13,744.04 | - | 5,054.48 | - | 1,814,344.00 |
| Supplies and Materials | 145,950.16 | 388,776.00 | - | 4,865.09 | - | 4,786,756.86 |
| Communications and Utilities | 106,636.48 | 1,961,675.08 | - | 8,691.94 | - | 4,560,059.98 |
| Maintenance and Repair | 91,379.38 | 1,472,160.75 | - | 13,044.85 | - | 3,684,389.10 |
| Rentals and Leases | 325,927.59 | 134,087.47 | - | - | - | 2,834,662.06 |
| Printing and Production | 69,503.77 | 7,390.54 | - | 1,072.65 | - | 289,800.19 |
| Interest Expense | 351.80 | 1,166.40 | - | - | - | 7,748.99 |
| Claims and Judgments | - | - | - | - | - | 823,678.22 |
| Other Expenses | 2,015,371.94 | 1,899,567.34 | - | 29,801.36 | - | 21,249,949.32 |
| Bad Debt Expense | - | - | - | - | - | (1,005,151.44) |
| Scholarships and Fellowships | - | - | 812,797.97 | - | - | 1,668,793.44 |
| Federal Grant Pass-Through Expense | - | - | - | - | - | 2,580.36 |
| State Grant Pass-Through Expense | - | - | - | - | - | 20,332.25 |
| Depreciation and Amortization | - | - | - | - | 11,629,181.89 | 11,629,181.89 |
| For the Year Ended August 31, 2016 | $ 13,768,571.02 | $ 8,568,151.24 | $ 812,797.97 | $ 197,191.63 | $ 11,629,181.89 | $ 214,152,194.07 |
| For the Year Ended August 31, 2015 (Restated) | $ 14,645,462.81 | $ 8,427,599.42 | $ 296,458.94 | $ 216,260.03 | $ 11,853,356.79 | $ 195,542,654.01 |

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

# NOTES TO FINANCIAL STATEMENTS

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# *Notes to the Financial Statements*

***August 31, 2016***

## NOTE 1
## Summary of Significant Accounting Policies

**REPORTING ENTITY**

Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) is an agency 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 institutions included in the Texas Tech University System. The other four institutions reported separately 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 offers graduate and undergraduate programs in three schools: the Paul L. Foster School of Medicine, the Gayle Greve Hunt School of Nursing, and the Graduate School of Biomedical Sciences. Major ancillary operations include grant and contract activities and clinical operations.

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

TTUHSCEP's allocation of Texas Tech Physician Associates (TTPA) is reported as a blended component unit of TTUHSCEP in this *Annual Financial Report*. TTUHSCEP's allocation of TTPA balances and activities are blended with TTUHSCEP's balances and activities since the sole purpose of TTPA is to financially support TTUHSCEP and TTUHSC. TTUHSC reports their allocation of TTPA balances and activities. 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*.

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, 2016.

**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 NET POSITION

### 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 long-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.

### Legislative Appropriations
This item represents the balance of general revenue funds at August 31 as calculated in the Texas State Comptroller's General Revenue Reconciliation.

### Investments
Investments are generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72 *Fair Value Measurement and Application*. Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized 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.

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

**Restricted Assets (continued)**
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.

**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's 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 or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. 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*.

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

**Capital Assets (continued)**
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.

**Deferred Outflows of Resources**
Deferred outflows of resources refer to the net asset consumption of assets that is applicable to a future fiscal year. These deferred outflows arose due to the new reporting requirements for pensions as discussed in the net pension liability section. Deferred outflows are discussed in detail in Notes 9 and 28.

**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's accounts payable include general accounts payable and payroll payable. Details regarding payable balances can be found in Note 24.

**Unearned Revenues**
Unearned revenues include amounts for tuition and fees, certain auxiliary activities, and amounts from grant and contract sponsors received prior to the end of the fiscal year but related to the subsequent accounting period.

**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.

**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 non-current 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.

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

**Funds Held for Others**
Current balances in funds held for others result from TTUHSCEP acting as an agent or fiduciary for other organizations.

**Other Current Liabilities**
The major component of other liabilities consists of an anticipated payment to Texas Health and Human Services Commission. Detail regarding this liability can be found in Note 15.

**Net Pension Liability**
Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, TTUHSCEP must now recognize its proportionate share of net pension liability and operating statement activity related to changes in the collective pension liability for participation in Teacher Retirement System (TRS) pension plan. The net pension liability is TTUHSCEP's proportionate share of the total TRS pension plan liability less the plan's net assets as reported by the TRS pension plan for fiscal year 2016. TTUHSCEP's proportionate share is based on its contributions to the pension plan for fiscal year 2015 and is relative to the contribution of other employers participating in the plan. The net pension liability and related changes to the collective pension liability are included in this *Annual Financial Report* and represent the total net pension liability for TTUHSCEP. Pensions are discussed in greater detail in Note 9.

**Deferred Inflows of Resources**
Deferred inflows of resources are defined as the net asset acquisition of assets that is applicable to a future fiscal year. These deferred inflows arose due to the new reporting requirements for pensions as discussed above. Deferred inflows are discussed further in Notes 9 and 28.

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

**Invested In Capital Assets, Net Of Related Debt:**
Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances for bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

**Restricted Net Position:**
*Expendable* - assets whose use by TTUHSCEP is subject to externally imposed stipulations that can be fulfilled by actions of TTUHSCEP pursuant to those stipulations, or that expire by the passage of time.

*Nonexpendable* - assets subject to externally imposed stipulations that they be maintained permanently by TTUHSCEP. Such assets include the principal of TTUHSCEP's permanent endowment funds.

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

**Net Position (Continued)**

**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.* The composition of the agency's interfund activities and transactions are presented in Note 12.

**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.

## NOTE 2 (continued)
## Capital Assets

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

| | Balance 09/01/15 | Adjustments | Reclassifications Completed CIP | Reclassifications Inc-Int'agy Trans | Reclassifications Dec-Int'agy Trans | Additions | Deletions | Balance 08/31/16 |
|---|---|---|---|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES** | | | | | | | | |
| **Non-depreciable or Non-amortizable Assets** | | | | | | | | |
| Land and Land Improvements | $ 3,728,230.85 | $ - | $ - | $ - | $ - | $ 3,248,832.31 | $ - | $ 6,977,063.16 |
| Construction in Progress | - | - | - | - | - | 320,729.55 | - | 320,729.55 |
| Other Tangible Capital Assets | 948,620.50 | - | - | - | - | 2,398.40 | - | 951,018.90 |
| Total Non-depreciable or Non-amortizable Assets | 4,676,851.35 | - | - | - | - | 3,571,960.26 | - | 8,248,811.61 |
| **Depreciable Assets** | | | | | | | | |
| Buildings and Building Improvements | 150,170,153.79 | - | - | - | - | 2,737,359.51 | - | 152,907,513.30 |
| Facilities and Other Improvements | 4,690,086.30 | - | - | - | - | - | - | 4,690,086.30 |
| Furniture and Equipment | 39,281,750.12 | - | - | 57,873.68 | (120,302.08) | 2,994,066.37 | (1,390,132.87) | 40,823,255.22 |
| Vehicle, Boats, and Aircraft | 981,619.85 | - | - | 19,324.00 | (19,955.00) | 104,909.00 | (13,902.00) | 1,071,995.85 |
| Other Capital Assets | 3,532,053.00 | (1,955,885.87) | - | - | - | 5,016.87 | (320.81) | 1,580,863.19 |
| Total Depreciable Assets at Historical Cost | 198,655,663.06 | (1,955,885.87) | - | 77,197.68 | (140,257.08) | 5,841,351.75 | (1,404,355.68) | 201,073,713.86 |
| Less Accumulated Depreciation for: | | | | | | | | |
| Buildings and Building Improvements | (52,197,387.15) | - | - | - | - | (6,794,857.06) | - | (58,992,244.21) |
| Facilities and Other Improvements | (1,605,425.98) | - | - | - | - | (272,361.96) | - | (1,877,787.94) |
| Furniture and Equipment | (23,868,918.18) | - | - | (33,951.64) | 44,698.15 | (3,958,530.58) | 1,054,926.35 | (26,761,775.90) |
| Vehicles, Boats, and Aircraft | (535,793.68) | - | - | (19,324.00) | 19,955.00 | (105,501.37) | 13,902.00 | (626,762.05) |
| Other Capital Assets | (2,883,901.25) | 1,955,885.87 | - | - | - | (108,633.93) | - | (1,036,649.31) |
| Total Accumulated Depreciation | (81,091,426.24) | 1,955,885.87 | - | (53,275.64) | 64,653.15 | (11,239,884.90) | 1,068,828.35 | (89,295,219.41) |
| Depreciable Assets, Net | 117,564,236.82 | - | - | 23,922.04 | (75,603.93) | (5,398,533.15) | (335,527.33) | 111,778,494.45 |
| **Intangible Capital Assets - Amortizable** | | | | | | | | |
| Computer Software - Intangible | 2,219,957.05 | - | - | - | - | 261,100.00 | (10,932.50) | 2,470,124.55 |
| Total Intangible Assets at Historical Cost | 2,219,957.05 | - | - | - | - | 261,100.00 | (10,932.50) | 2,470,124.55 |
| Less Accumulated Amortization for: | | | | | | | | |
| Computer Software - Intangible | (1,424,571.29) | - | - | - | - | (389,296.99) | 10,932.50 | (1,802,935.78) |
| Total Accumulated Amortization | (1,424,571.29) | - | - | - | - | (389,296.99) | 10,932.50 | (1,802,935.78) |
| Amortizable Assets - Intangible, Net | 795,385.76 | - | - | - | - | (128,196.99) | - | 667,188.77 |
| **Business-Type Activities Capital Assets, Net** | $ 123,036,473.93 | $ - | $ - | $ 23,922.04 | $ (75,603.93) | $ (1,954,769.88) | $ (335,527.33) | $ 120,694,494.83 |

## 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's 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's funds without express written authority from the governing board.

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

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

**Deposits of Cash in Bank**

The carrying amount of deposits as of August 31, 2016 and 2015 is presented in the below table:

| | As of 8/31/16 | As of 8/31/15 |
|---|---|---|
| CASH IN BANK – CARRYING VALUE | $ 8,926,882.90 | $17,910,340.77 |
| Cash in Bank per AFR - Total | **$ 8,926,882.90** | **$17,910,340.77** |
| Proprietary Funds Current Assets Cash in Bank | $ (9,138,280.75) | $ 290,862.26 |
| Proprietary Funds Current Assets Restricted Cash in Bank | 18,065,048.65 | 17,619,418.50 |
| Proprietary Funds Non-Current Assets Restricted Cash in Bank | 115.00 | 60.01 |
| Cash in Bank per AFR - Total | **$ 8,926,882.90** | **$17,910,340.77** |

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, 2016 and 2015, the total bank balance was $12,489,228.85 and $7,050,245.81, respectively.

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, 2016 or 2015.

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

### Investments

The fair value of investments as of August 31, 2016 and 2015 is summarized below:

| | Fair Value Hierarchy | | | | (Fair Value) |
|---|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | As of 8/31/16 |
| **U.S. Government:** | | | | | |
| U.S. Treasury Securities | $ 18,088,306.23 | $ - | $ - | $ - | $ 18,088,306.23 |
| U.S. Treasury TIPs | 2,670,454.40 | - | - | - | 2,670,454.40 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | 27,550,994.84 | - | - | - | 27,550,994.84 |
| Corporate Obligations | 94,309.74 | - | - | - | 94,309.74 |
| Corporate Asset and Mortgage Backed Securities | 307,914.37 | - | - | - | 307,914.37 |
| Equity | 2,694,066.75 | - | - | - | 2,694,066.75 |
| International Obligations (Govt and Corp) | - | 676,064.21 | 242,482.43 | - | 918,546.64 |
| Fixed Income Money Market and Bond Mutual Fund | 37,197,488.55 | - | - | - | 37,197,488.55 |
| Mutual Funds - Domestic | 5,813,626.25 | - | - | - | 5,813,626.25 |
| Other Commingled Funds | - | 7,097,178.99 | - | - | 7,097,178.99 |
| Other Commingled Funds (TexPool) | 3,234,443.32 | - | - | - | 3,234,443.32 |
| International Other Commingled Funds | - | 7,565,263.62 | - | - | 7,565,263.62 |
| Real Estate | - | - | 2,647,514.53 | - | 2,647,514.53 |
| Domestic Derivatives | - | 64,032.27 | - | - | 64,032.27 |
| **Externally Managed Investments:** | | | | | |
| Domestic | - | - | 43,029,127.22 | - | 43,029,127.22 |
| International | - | - | 2,995,265.49 | - | 2,995,265.49 |
| **Total Investments** | **$ 97,651,604.45** | **$ 15,402,539.09** | **$ 48,914,389.67** | **$ -** | **$ 161,968,533.21** |

| | Fair Value Hierarchy | | | | (Fair Value) |
|---|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | As of 8/31/15 |
| **U.S. Government:** | | | | | |
| U.S. Treasury Securities | $ 16,252,866.50 | $ - | $ - | $ - | $ 16,252,866.50 |
| U.S. Treasury TIPs | 2,568,158.43 | - | - | - | 2,568,158.43 |
| U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, etc.) | 25,964,650.63 | - | - | - | 25,964,650.63 |
| Corporate Obligations | 86,075.78 | - | - | - | 86,075.78 |
| Corporate Asset and Mortgage Backed Securities | 199,908.48 | - | - | - | 199,908.48 |
| Equity | 2,286,679.86 | - | - | - | 2,286,679.86 |
| International Obligations (Govt and Corp) | - | 109,792.73 | - | - | 109,792.73 |
| Fixed Income Money Market and Bond Mutual Fund | 28,178,671.47 | - | - | - | 28,178,671.47 |
| Mutual Funds - Domestic | 3,038,986.68 | - | - | - | 3,038,986.68 |
| Other Commingled Funds | - | 8,463,732.63 | - | - | 8,463,732.63 |
| Other Commingled Funds (TexPool) | 3,916,538.68 | - | - | - | 3,916,538.68 |
| International Other Commingled Funds | - | 6,060,736.08 | - | - | 6,060,736.08 |
| Real Estate | - | - | 2,638,002.86 | - | 2,638,002.86 |
| Domestic Derivatives | - | (397,846.38) | - | - | (397,846.38) |
| **Externally Managed Investments:** | | | | | |
| Domestic | - | - | 47,692,591.09 | - | 47,692,591.09 |
| International | - | - | 47,878.89 | - | 47,878.89 |
| **Total Investments** | **$ 82,492,536.51** | **$ 14,236,415.06** | **$ 50,378,472.84** | **$ -** | **$ 147,107,424.41** |

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

**Investments (Continued)**

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

| | As of 8/31/16 | As of 8/31/15 |
|---|---|---|
| **Non-Current Investments** | $ 140,103,329.48 | $ 129,989,024.53 |
| **Items in Cash and Cash Equivalents:** | | |
| Money Market Funds | 18,630,760.41 | 13,201,861.20 |
| TexPool Investments | 3,234,443.32 | 3,916,538.68 |
| **Total Investments** | **$ 161,968,533.21** | **$ 147,107,424.41** |

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 SITIF to those issued by the U.S. or its agencies and instrumentalities. As of August 31, 2016, 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 | $ 27,550,994.84 | $ - | $ - | $ - | $ - | $ - |
| 05 | 9999 | Corporate Obligations | $ - | $ - | $ - | $ - | $ 52,220.47 | $ 42,089.27 |
| 05 | 9999 | Corporate Asset and Mortgage Backed Securities | $ 307,914.37 | $ - | $ - | $ - | $ - | $ - |
| 05 | 9999 | International Obligations (Govt and Corp) | $ - | $ 7,879.99 | $ 35,633.42 | $ 212,313.75 | $ 93,420.03 | $ 569,299.45 |
| | | | **AAAf** | **Aaf** | **Af** | **Unrated** | | |
| 05 | 9999 | Fixed Income Money Market and Bond Mutual Fund | $ 37,197,488.55 | $ - | $ - | $ 64,032.27 | | |

The following table summarizes the credit rating of investments as of August 31, 2015.

| Fund Type | GAAP Fund | Investment Type | AAA | AA | A | BBB | BB | Unrated |
|---|---|---|---|---|---|---|---|---|
| 05 | 9999 | U.S. Government Agency Obligations | $ 25,964,650.63 | $ - | $ - | $ - | $ - | $ - |
| 05 | 9999 | Corporate Obligations | $ - | $ - | $ - | $ - | $ 47,570.45 | $ 38,505.33 |
| 05 | 9999 | Corporate Asset and Mortgage Backed Securities | $ 199,908.48 | $ - | $ - | $ - | $ - | $ - |
| 05 | 9999 | International Obligations (Govt and Corp) | $ - | $ 2,415.44 | $ 19,433.31 | $ 62,186.60 | $ 8,695.58 | $ 17,061.80 |
| | | | **AAAf** | **Aaf** | **Af** | **Unrated** | | |
| 05 | 9999 | Fixed Income Money Market and Bond Mutual Fund | $ 13,201,861.20 | $ - | $ - | $ 14,976,810.25 | | |

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

**Investments (Continued)**

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, 2016, is shown in the following table:

| Fund Type | Foreign Currency | International Obligation | International Other Commingled | International Externally Managed Investments |
|---|---|---|---|---|
| 05 | Argentine peso | $ - | $ 26,041.44 | $ - |
| 05 | Australian dollar | - | 33,257.64 | 3.73 |
| 05 | Brazilian real | 7,740.50 | 478,176.35 | 52,095.41 |
| 05 | Canadian dollar | - | - | 83,942.20 |
| 05 | Chinese yuan | 42,800.43 | 623,590.59 | 535,935.39 |
| 05 | Colombian peso | 97,069.34 | 585.09 | 14,884.40 |
| 05 | Czech koruna | - | 26,654.18 | - |
| 05 | Danish krone | - | 32,311.45 | 111,678.26 |
| 05 | Dominican peso | 204,895.66 | - | - |
| 05 | Egyptian pound | - | 36,662.26 | - |
| 05 | Euro | 391,170.63 | 2,015,333.59 | 759,517.78 |
| 05 | Hong Kong dollar | 11,383.09 | 152,305.37 | - |
| 05 | Hungarian forint | - | 585.09 | - |
| 05 | Indian rupee | 22,766.18 | 432,814.83 | 50,313.19 |
| 05 | Indonesian rupiah | - | 46,970.66 | - |
| 05 | Israeli shekel | - | 96,478.26 | 6,826.04 |
| 05 | Japanese yen | - | 613,952.23 | - |
| 05 | Kazakhstani tenge | - | 9,295.47 | - |
| 05 | Lithuanian litas | - | - | 46,532.61 |
| 05 | Malaysian ringgit | - | 101,429.23 | - |
| 05 | Mexican peso | 30,773.43 | 170,842.26 | 220,005.13 |
| 05 | New Zealand dollar | - | 2,009.96 | - |
| 05 | Norwegian krone | - | 6,061.83 | 27,919.56 |
| 05 | Peruvian nuevo sol | 25,666.80 | 26,558.48 | - |
| 05 | Phillippino peso | - | 35,334.83 | - |
| 05 | Polish zloty | - | 7,021.08 | - |
| 05 | Pound sterling | - | 748,085.10 | 443,096.81 |
| 05 | Qatari riyal | 3,187.27 | 41,231.62 | - |
| 05 | Russian ruble | 41,935.47 | 68,176.24 | 105,147.11 |
| 05 | Singapore dollar | 4,553.24 | 138,583.95 | - |
| 05 | South African rand | 3,642.59 | 243,051.53 | 25,028.81 |
| 05 | South Korean won | 15,025.68 | 428,396.60 | - |
| 05 | Swedish krona | - | 12,991.32 | - |
| 05 | Swiss franc | - | 84,865.56 | - |
| 05 | Taiwan dollar | 9,106.47 | 611,220.58 | - |
| 05 | Thai baht | 6,829.86 | 108,430.81 | - |
| 05 | Turkish lira | - | 43,405.44 | 26,047.70 |
| 05 | UAE dirham | - | 62,552.70 | 79,004.42 |
| 05 | Venezuelan bolivar | - | - | 407,286.94 |
| | Total | $ 918,546.64 | $ 7,565,263.62 | $ 2,995,265.49 |

The total exposure to foreign currency risk as of August 31, 2015 for International Obligations, International Comingled Funds, and International Externally Managed Investments was $109,792.73, $6,060,736.08, and $47,878.89, respectively.

**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 2016 all had market indices as underlying securities, 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, 2016, is presented below.

| | Assets | Liabilities | Assets | Liabilities | |
|---|---|---|---|---|---|
| Classification | Notional | Notional | Fair Value as of 8/31/16 | Fair Value as of 8/31/16 | Counter party Rating |
| Futures Contracts | | | | | |
| | $ 2,001,324.03 | $ - | $ - | $ - | A |
| | $ 2,001,324.03 | $ - | $ - | $ - | |
| Options | | | | | |
| | $ 5,823,630.01 | $4,999,531.40 | $358,685.78 | $282,582.36 | A |
| | 541,921.36 | 471,171.07 | 36,640.43 | 23,578.69 | BBB+ |
| | $ 6,365,551.37 | $5,470,702.47 | $395,326.21 | $306,161.05 | |
| Total Return Swaps | | | | | |
| | $ - | $7,322,563.22 | $ - | $ 25,132.90 | A |
| | $ - | $7,322,563.22 | $ - | $ 25,132.90 | |

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

**Derivative Investing (continued)**

TTUHSCEP's gross counterparty exposure, as of August 31, 2015, is presented below:

| Classification | Assets Notional | Liabilities Notional | Assets Fair Value as of 8/31/15 | Liabilities Fair Value as of 8/31/15 | Counterparty Rating |
|---|---|---|---|---|---|
| Futures Contracts | | | | | |
| | $ 5,160,462.46 | $1,794,983.50 | $ - | $ - | A |
| | $ 5,160,462.46 | $1,794,983.50 | $ - | $ - | |
| Options | | | | | |
| | $ 4,580,811.66 | $5,248,594.83 | $ 194,432.46 | $ 354,348.18 | A- |
| | 1,665,562.38 | 830,469.32 | 29,998.85 | 168,366.74 | BBB+ |
| | $ 6,246,374.04 | $6,079,064.15 | $ 224,431.31 | $ 522,714.92 | |
| Total Return Swaps | | | | | |
| | $ 887,173.04 | $ - | $ - | $ 52,427.96 | A |
| | 426,632.61 | - | - | 47,134.82 | A- |
| | $ 1,313,805.65 | $ - | $ - | $ 99,562.78 | |

The exposure to foreign currency risk for derivatives, as of August 31, 2016, is as shown in the following table:

| Fund Type | Foreign Currency | Swaps | Options | Futures | Forwards |
|---|---|---|---|---|---|
| 05 | Euro | $ - | $ 7,089.09 | $ - | $ - |
| 05 | Japanese yen | - | (12,188.32) | - | - |
| 05 | Pound sterling | - | 1,813.59 | - | - |
| | Total | $ - | $ (3,285.64) | $ - | $ - |

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

The following changes occurred in short-term liabilities as of August 31, 2016.

| Category | Balance as of 09/01/15 | Additions | Reductions | Restatement/ Adjustment | Balance as of 08/31/16 |
|---|---|---|---|---|---|
| Notes Payable - Commercial Paper | $ - | $ - | $ - | $ - | $ - |

**NOTE 4 (continued)**
**Short-Term Debt**

**COMMERCIAL PAPER**

TTUSA issued commercial paper during the fiscal year to finance the design of a new medical science building in advance of the issuance of authorized bonds. Debt service for the commercial paper obligation is provided by state appropriations for the purpose of constructing the new medical science building.

TTUHSCEP's share of commercial paper payable and related activity is recorded at a consolidated level by TTUSA, with interagency transfers recorded to/from TTUSA for TTUHSCEP's share of debt service payments and debt proceeds.

**NOTE 5**
**Long-Term Liabilities**

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

| Category | Balance as of 09/01/15 | Additions | Reductions | Restatement/ Adjustment | Balance as of 08/31/16 | Amounts due within one year | Amounts due Thereafter |
|---|---|---|---|---|---|---|---|
| Compensable Leave | $ 6,869,726.61 | $ 507,337.20 | $ - | $ - | $ 7,377,063.81 | $ 885,247.66 | $ 6,491,816.15 |
| Total Long-Term Liabilities | $ 6,869,726.61 | $ 507,337.20 | $ - | $ - | $ 7,377,063.81 | $ 885,247.66 | $ 6,491,816.15 |

**CAPITAL LEASE OBLIGATION**

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

**COMPENSABLE LEAVE**

Compensable leave balances represent the approximate value of unused employee vacation time and other compensated time as of August 31, 2016. Past experience has demonstrated that approximately 12% of TTUHSCEP compensable leave balances will mature within one year. Therefore, the non-current portion of the liability as of August 31, 2016 was estimated at $6,491,816.15 out of a total liability of $7,377,063.81. Funding for future leave balance payments will be from the same source as annualized salary expense.

**REVENUE BONDS PAYABLE**

TTUHSCEP's share of revenue bonds payable and related activity is recorded at a consolidated level by TTUSA, with interagency transfers recorded to/from TTUSA for TTUHSCEP's share of debt service payments and debt proceeds to fund approved projects.

## NOTE 6
## Bonded Indebtedness

TTUHSCEP's share of revenue bonds payable is recorded at a consolidated level by TTUSA. The supplemental bond information is included in TTUSA's *Annual Financial Report* in Note 6 and in Supporting Schedules 2A through 2F.

## NOTE 7
## Derivative Investments

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 TTUHSCEP's derivative activity for the year ended August 31, 2016.

| | Changes in Fair Value | | Fair Value at August 31, 2016 | | |
|---|---|---|---|---|---|
| Investment Derivatives | Classification | Amount | Classification | Amount | Notional |
| Futures | Investment Revenue | $(275,516.44) | Investments | $ - | $ 2,001,324.03 |
| Options | Investment Revenue | $ 238,189.00 | Investments | $ 89,165.17 | $ 894,848.90 |
| Total Return Swaps | Investment Revenue | $ 13,133.63 | Investments | $ (25,132.90) | $(7,322,563.22) |

The following table summarizes TTUHSCEP's derivative activity for the year ended August 31, 2015.

| | Changes in Fair Value | | Fair Value at August 31, 2015 | | |
|---|---|---|---|---|---|
| Investment Derivatives | Classification | Amount | Classification | Amount | Notional |
| Futures | Investment Revenue | $ (85,614.16) | Investments | $ - | $ 3,365,478.96 |
| Options | Investment Revenue | $(377,399.83) | Investments | $ (298,283.61) | $ 167,309.89 |
| Total Return Swaps | Investment Revenue | $ (82,883.18) | Investments | $ (99,562.78) | $ 1,313,805.65 |

**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 from others under operating lease agreements. Operating leases do not give rise to property rights and, therefore, the related assets and liabilities are not reported in this *Annual Financial Report*. Total rental expense under these agreements was $2,615,854.41 and $2,162,601.61 for the years ended August 31, 2016 and 2015, respectively.

TTUHSCEP also leases space to others under operating lease agreements. Leased space comprises approximately 1.0% of the total building space owned by TTUHSCEP. The net carrying value of the assets associated with these leases was $656,012.23 as of August 31, 2016, and consists of historical cost of $1,042,139.21 less related accumulated depreciation of $386,126.98. There were no reported contingent rental revenues. Total operating lease income under these agreements was $123,946.99 and $65,214.31 for the years ended August 31, 2016 and 2015, respectively.

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.

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

| For years ending August 31 | Minimum Lease Payments | Minimum Lease Income |
|---|---|---|
| 2017 | $ 3,962,703.10 | $ 129,696.00 |
| 2018 | $ 4,267,545.52 | $ 103,736.00 |
| 2019 | $ 4,306,388.01 | $ 46,675.00 |
| 2020 | $ 4,537,736.04 | $ 46,675.00 |
| 2021 | $ 4,661,259.47 | $ 46,675.00 |

### CAPITAL LEASES

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

## NOTE 9
## Defined Benefit Pension Plans and Defined Contribution Plan

### DEFINED BENEFIT PENSION PLAN

TTUHSCEP participates in one of the three retirement systems in the State of Texas' financial reporting entity – the Teacher Retirement System (TRS). Beginning in fiscal year 2015, the accounting and reporting for TTUHSCEP's proportionate share of the TRS net pension liability is included in TTUHSCEP's financial records and represents the net liability for TTUHSCEP.

**NOTE 9 (continued)**
**Defined Benefit Pension Plans and Defined Contribution Plan**

**DEFINED BENEFIT PENSION PLAN (continued)**

The Teacher Retirement System of Texas is the administrator of the TRS Plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, and community and junior colleges. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities, and medical schools are members of the TRS Plan.

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

An audited Comprehensive Annual Financial Report (CAFR) for the TRS may be obtained from:

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

During the measurement period of 2015 for fiscal year 2016 reporting, and the measurement period of 2014 for fiscal year 2015 reporting, the amount of TTUHSCEP's contributions excluding the State match to TRS recognized by the Plan was $1,619,873.69 for 2016, and $1,575,722.69 for 2015. The contribution rates for the State and the members in the measurement period are presented in the table below:

**Required Contribution Rates**

| Contribution Rates - TRS Plan | FY16 | FY15 |
|---|---|---|
| Employer | 6.8% | 6.8% |
| Employees | 6.7% | 6.4% |

**NOTE 9 (continued)**
**Defined Benefit Pension Plans and Defined Contribution Plan**

**DEFINED BENEFIT PENSION PLAN (continued)**

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used by TRS to measure the total pension liability for the TRS Plan as of the August 31, 2016 and 2015 measurement dates.

**Actuarial Methods and Assumptions**

| Actuarial Methods and Assumptions - TRS Plan | FY16 | FY15 |
|---|---|---|
| Actuarial Valuation Date | August 31, 2015 | August 31, 2014 |
| Actuarial Cost Method | Individual Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent, Open | Level Percent, Open |
| Actuarial Assumptions: | | |
| Discount Rate | 8.0% | 8.0% |
| Investment Rate of Return | 8.0% | 8.0% |
| Inflation | 2.5% | 3.0% |
| Salary Increase | 3.5% to 9.5% including inflation | 4.25% to 7.25% including inflation |
| Mortality: | | |
| Active | 90% of the RP 2014 Employee Mortality Tables for males and females | 1994 Group Annuity Mortality Table set back 6 years for males and females |
| Post-retirement | 2015 TRS Healthy Pensioner Mortality Tables | Client specific tables multiplied by 80% |
| Ad Hoc Post-Employment Benefit Changes | None | None |

The actuarial methods and assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2014 and adopted in September 2015. There have been changes in inflation, salary increase, and mortality assumptions since the prior measurement date. The inflation assumption changed from 3.0% to 2.5%. The salary increase assumption changed from a range of 4.25% to 7.25% to a range of 3.5% to 9.5% including inflation. The mortality assumption changed from the one based on the 1994 Group Annuity Mortality Table to the one based on the RP 2014 Employee Mortality Tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

There have been no changes to the benefit provisions of the TRS Plan since the prior measurement date.

The discount rate of 8.0% was applied to measure the total pension liability for the TRS Plan. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members, employers, and the non-employer contributing entity make their contributions at the statutorily required rates.

**NOTE 9 (continued)**
**Defined Benefit Pension Plans and Defined Contribution Plan**

**DEFINED BENEFIT PENSION PLAN (continued)**

Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.0% long-term expected rate of return on TRS pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on TRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the TRS Plan's investment portfolio are presented below for the fiscal years 2016 and 2015 measurement dates:

| | FY16 | | FY15 | |
|---|---|---|---|---|
| Asset Class | Target Allocation | Long-Term Expected Geometric Real Rate of Return | Target Allocation | Long-Term Expected Geometric Real Rate of Return |
| **Global Equity** | | | | |
| U.S. | 18.0% | 4.6% | 18.0% | 4.6% |
| Non-U.S. Developed | 13.0% | 5.1% | 13.0% | 5.1% |
| Emerging Markets | 9.0% | 5.9% | 9.0% | 5.9% |
| Directional Hedge Funds | 4.0% | 3.2% | 4.0% | 3.2% |
| Private Equity | 13.0% | 7.0% | 13.0% | 7.0% |
| **Stable Value** | | | | |
| U.S. Treasury | 11.0% | 0.7% | 11.0% | 0.7% |
| Absolute Return | 0.0% | 1.8% | 0.0% | 1.8% |
| Stable Value Hedge Funds | 4.0% | 3.0% | 4.0% | 3.0% |
| Cash | 1.0% | (0.2%) | 1.0% | (0.2%) |
| **Real Return** | | | | |
| Global Inflation Linked Bonds | 3.0% | 0.9% | 3.0% | 0.9% |
| Real Assets | 16.0% | 5.1% | 16.0% | 5.1% |
| Energy and Natural Resources | 3.0% | 6.6% | 3.0% | 6.6% |
| Commodities | 0.0% | 1.2% | 0.0% | 1.2% |
| **Risk Parity** | | | | |
| Risk Parity | 5.0% | 6.7% | 5.0% | 6.7% |
| **Total** | 100.0% | | 100.0% | |

**NOTE 9 (continued)**
**Defined Benefit Pension Plans and Defined Contribution Plan**

**DEFINED BENEFIT PENSION PLAN (continued)**

A sensitivity analysis was performed by TRS on the impact of changes in the discount rate on the proportionate share of the System's net pension liability using the discount rate of 8.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate. The result of the analysis is presented in the following table:

| | 1% Decrease (7%) | Current Discount Rate (8%) | 1% Increase (9%) |
|---|---|---|---|
| FY 16 | $ 30,213,037.21 | $ 19,283,134.45 | $ 10,179,204.74 |
| FY 15 | $ 29,906,596.74 | $ 16,737,715.91 | $ 6,889,845.77 |

The TRS pension plan's fiduciary net position is determined using the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the TRS Plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the TRS Plan's investment policy, assets, and fiduciary net position may be obtained from TRS' fiscal year 2015 Comprehensive Annual Financial Report.

TTUHSCEP reported a liability of $19,283,134.45 for its proportionate share of the TRS collective net pension liability for the year ended August 31, 2016 and $16,737,715.91 for the year ended August 31, 2015. The collective net pension liability was measured as of August 31, 2015 for fiscal year 2016 reporting, and as of August 31, 2014 for fiscal year 2015 reporting, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date for each year. TTUHSCEP's proportion of the net pension liability at the August 31, 2015 measurement date was .0545512 percent, and was .0626486 percent at the August 31, 2014 measurement date. TTUHSCEP's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and the non-employer contributing entity to the plan for the period September 1, 2014 through August 31, 2015 for fiscal year 2016 reporting, and for the period September 1, 2013 through August 31, 2014 for fiscal year 2015 reporting.

**NOTE 9 (continued)**
**Defined Benefit Pension Plans and Defined Contribution Plan**

## DEFINED BENEFIT PENSION PLAN (continued)

For the years ending August 31, 2016 and 2015, TTUHSCEP recognized pension expense of $1,639,370.69 and $1,547,282.42, respectively. At August 31, 2016 and 2015, TTUHSCEP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | FY 16 | | *Restated* FY15 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 215,236.60 | $ 741,068.11 | $ 258,801.38 | $ - |
| Changes of assumptions | 904,644.07 | 687,937.71 | 1,087,748.21 | - |
| Net difference between projected and actual investment return | 912,992.05 | - | - | 5,114,685.94 |
| Changes in proportion and contribution difference | - | 1,872,597.40 | - | 1,464.13 |
| Contributions subsequent to the measurment date | 1,897,688.87 | - | 1,482,799.71 | - |
| Total | **$ 3,930,561.59** | **$ 3,301,603.22** | **$ 2,829,349.30** | **$ 5,116,150.07** |

The $1,897,688.87 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in TTUHSCEP's net pension liability for the year ending August 31, 2017.

Amounts reported by TTUHSCEP as deferred outflows and inflows of resources related to pensions will be recognized as pension expense in the following years:

| **Year ended August 31:** | |
|---|---|
| 2017 | $ (424,109.93) |
| 2018 | (424,109.93) |
| 2019 | (424,110.03) |
| 2020 | 854,561.34 |
| 2021 | (346,139.29) |
| Thereafter | (504,822.66) |
| **Total** | $ (1,268,730.50) |

## DEFINED CONTRIBUTION PLAN

The State of Texas has 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 contributions made by plan members and the employer for the years ending August 31, 2016 and 2015 are detailed in the following table:

| | FY16 | FY15 |
|---|---|---|
| Member Contributions | $ 3,263,502.98 | $ 3,156,428.59 |
| Employer Contributions | 3,440,422.46 | 3,383,891.54 |
| Total | $ 6,703,925.44 | $ 6,540,320.13 |

## 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, 2016.

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

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

## NOTE 12
## Interfund Activity and Transactions

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, interagency capital asset transfers in or interagency capital asset transfers out.

**DUE FROM /TO OTHER STATE AGENCIES**

As of August 31, 2016, TTUHSCEP had outstanding due to/from other agencies with other State agencies. TTUHSCEP had a net due from other agencies balance with the University of Texas Investment Management Company (UTIMCO), which represents undistributed earnings from investment assets of the Permanent Health Fund for Higher Education. Remaining due to/from other agencies balances are primarily for federal and state pass through agreements.

Details about these due to/from other agencies balances for the year ended August 31, 2016 and 2015 are shown in the following table:

| Agency Name | Agency Nbr | D23 Fund | As of 08/31/16 Due from | As of 08/31/16 Due to | As of 08/31/15 Due from | As of 08/31/15 Due to |
|---|---|---|---|---|---|---|
| Department of State Health Services | 537 | 9999 | $ 222,746.09 | $ - | $ 58,322.46 | $ - |
| Cancer Prevention & Research Institute of Texas | 542 | 9999 | 501,032.07 | - | 925,992.96 | - |
| University of Texas System | 720 | 0810 | 3,538,648.50 | - | - | - |
| University of Texas System | 720 | 9999 | - | 75,906.49 | - | 35,738.98 |
| University of Texas - Austin | 721 | 9999 | 247.98 | - | 8,942.81 | - |
| Texas Higher Education Coordinating Board | 781 | 0001 | - | 15,150.69 | - | - |
| Texas Higher Education Coordinating Board | 781 | 9999 | - | - | 5,470.03 | 1,185.45 |
| University of Texas Health Science Center - Tyler | 785 | 9999 | 8,316.95 | - | - | - |
| Total Due from/to Other Agencies | | | $ 4,270,991.59 | $ 91,057.18 | $ 998,728.26 | $ 36,924.43 |

**NOTE 12 (continued)**
**Interfund Activity and Transactions**

## TRANSFERS IN/OUT

For the year ended August 31, 2016, TTUHSCEP had various Transfers In and Transfers Out from and to other institutions of the Texas Tech University System. The net transfers out to TTU and TTUHSC are primarily for supporting shared administrative functions. The net transfers out to TTUSA are comprised of transfers to support debt service, the medical malpractice self-insurance plan, and system administrative functions. Net transfers in from the Texas Tech Foundation Inc. (TTFI) are comprised primarily of earnings from endowments held by TTFI.

Details about these transfers in and transfers out for the years ended August 31, 2016 and 2015 are shown in the following table:

| Agency Name | Agency Nbr | D23 Fund | For the Year Ended 08/31/16 Transfers In | For the Year Ended 08/31/16 Transfers Out | For the Year Ended 08/31/15 Transfers In | For the Year Ended 08/31/15 Transfers Out |
|---|---|---|---|---|---|---|
| Texas Higher Education Coordinating Board | 781 | 5103 | $ - | $ - | $ - | $ 39,398.95 |
| Total Transfers In/Out Other State Agencies | | | $ - | $ - | $ - | $ 39,398.95 |
| TTU | 733 | 9999 | $ 18,900.00 | $ 25,000.00 | $ 8,700.00 | $ 43,000.00 |
| TTUHSC | 739 | 9999 | 503,435.97 | 2,615,209.52 | 71,933,776.74 | 9,414,107.01 |
| TTUSA | 768 | 0001 | 1,222,898.77 | 2,210,996.12 | 62,317,647.42 | 373,517.91 |
| Texas Tech Foundation, Inc.(TTUHSCEP) | | 9999 | 2,054,930.84 | - | 1,938,567.39 | 1,945.55 |
| Texas Tech Foundation, Inc. (TTUSA) | | 9999 | 36,530.00 | - | 15,000.00 | - |
| Total Transfers In/Out Component Units | | | $ 3,836,695.58 | $ 4,851,205.64 | $ 136,213,691.55 | $ 9,832,570.47 |

## LEGISLATIVE TRANSFERS IN/OUT

For the year ended August 31, 2016, TTUHSCEP recorded legislative transfers out to TTUSA for system administration support and debt service of Tuition Revenue Bonds. Details about TTUHSCEP's legislative transfers out for the years ended August 31, 2016 and 2015 are shown in the following table:

| Agency Name | Agency Nbr | D23 Fund | For the Year Ended 08/31/16 Legislative Transfers In | For the Year Ended 08/31/16 Legislative Transfers Out | For the Year Ended 08/31/15 Legislative Transfers In | For the Year Ended 08/31/15 Legislative Transfers Out |
|---|---|---|---|---|---|---|
| TTUSA | 768 | 0001 | $ - | $ 7,185,511.00 | $ - | $ - |
| Total Legislative Transfers Out | | | $ - | $ 7,185,511.00 | $ - | $ - |

**NOTE 12 (continued)**
**Interfund Activity and Transactions**

**INTERAGENCY CAPITAL ASSET TRANSFERS IN/OUT**

TTUHSCEP also recorded a net decrease in net position for the year ended August 31, 2016 due to transfers in and out of capital assets from and to other State agencies. This interagency capital asset transfer activity is included in Note 2 and is summarized in the following tables for the years ended August 31, 2016 and 2015.

| | | For the Year Ended 08/31/16 | | For the Year Ended 08/31/15 | |
|---|---|---|---|---|---|
| Agency Name | Agency Nbr | Interagency Capital Asset Transfers In | Interagency Capital Asset Transfers Out | Interagency Capital Asset Transfers In | Interagency Capital Asset Transfers Out |
| TTU | 733 | $ - | $ 75,603.93 | $ - | $ 4,397.40 |
| TTUHSC | 739 | - | - | 36,517.91 | - |
| University of Texas HSC at San Antonio | 745 | 23,922.04 | - | - | - |
| TTUSA | 768 | - | - | 2,660.35 | - |
| Total Transfers from/to Other State Agencies | | $ 23,922.04 | $ 75,603.93 | $ 39,178.26 | $ 4,397.40 |

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

TTUHSCEP is not subject to the Texas Sunset Act.

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

Several adjustments were made to the fiscal year 2015 financial statements that required restatement. The restatement in the *Comparative Statement of Revenues, Expenses, and Changes in Net Position* is due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and a reclassification of contract revenue from local to private. A restatement in the *Comparative Statement of Net Position* occurred due to an understatement in the net appreciation of TTUHSCEP endowments as reported in Note 22 of the *Annual Financial Report* for the year ended August 31, 2015. This understatement was a result of the inclusion of a certain endowment balance in the amount reported for TTUHSC that should have been reported for TTUHSCEP. The changes on the *Comparative Statement of Revenues, Expenses, and Changes in Net Position*; *Comparative Statement of Net Position*; and *Comparative Statement of Cash Flows* are indicated in the following table:

| Statement | Description | FY15 as reported | Correction | FY15 *restated* |
|---|---|---|---|---|
| SNP | Deferred Outflows of Resources | $ - | $ 2,829,349.30 | $ 2,829,349.30 |
| | Total Deferred Outflows of Resources Correction | | $ 2,829,349.30 | |
| SNP | Net Pension Liability | $ - | $ 16,737,715.91 | $ 16,737,715.91 |
| | Total Liability Correction | | $ 16,737,715.91 | |
| SNP | Net Position - Expendable - Other | $ 20,420,483.40 | $ 6,375,784.86 | $ 26,796,268.26 |
| SNP | Net Position - NonExpendable - Endowments | $ 34,695,327.40 | $ (6,375,784.86) | $ 28,319,542.54 |
| | Total Net Position Correction | | $ - | |
| SNP | Deferred Inflows of Resources | $ - | $ 5,116,150.07 | $ 5,116,150.07 |
| | Total Deferred Inflows of Resources Correction | | $ 5,116,150.07 | |
| SRECNP | Local Grant and Contract Revenue | $ 22,707,595.36 | $ (8,984,272.93) | $ 13,723,322.43 |
| SRECNP | Private Grant and Contract Revenue | $ 42,744,013.60 | $ 8,984,272.93 | $ 51,728,286.53 |
| | Total Operating Revenue Correction | | $ - | |
| SRECNP | Payroll Related Costs | $ 26,941,984.99 | $ 64,482.71 | $ 27,006,467.70 |
| | Total Operating Expenses Correction | | $ 64,482.71 | |
| SRECNP | Net Position- August 31, 2015 | $ 310,133,718.62 | $ (19,024,516.68) | $ 291,109,201.94 |
| | Total Net Position Correction | | $ (19,024,516.68) | |
| Cash Flow | Operating Loss | $ (53,080,291.97) | $ (64,482.71) | $ (53,144,774.68) |
| Cash Flow | Decrease (Increase) of Deferred Outflows of Resources - Pension | $ - | $ (1,241,033.85) | $ (1,241,033.85) |
| Cash Flow | Increase (Decrease) in Net Pension Liability | $ - | $ (3,810,633.51) | $ (3,810,633.51) |
| Cash Flow | Increase (Decrease) of Deferred Inflows of Resources - Pension | $ - | $ 5,116,150.07 | $ 5,116,150.07 |

## NOTE 15
## Contingencies and Commitments

### PENDING LITIGATION

At August 31, 2016, 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.

### FEDERAL ASSISTANCE

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

### 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 8/31/16 | As of 8/31/15 |
|---|---|---|
| Total Unfunded Commitments | $ 6,915,906.99 | $ 2,137,176.07 |

### CONSTRUCTION COMMITMENTS

TTUHSCEP has entered into several contracts for construction and renovation of various facilities. As of August 31, 2016, TTUHSCEP's total outstanding construction commitments were $3,192,793.24. These expenditures are expected to be funded from Higher Education Assistance Funds (HEAF), Tuition Revenue Bonds, and Local Funds.

### PHYSICIAN SUPPLEMENTAL PAYMENTS

The U.S. Department of Health and Human Services Office of Inspector General is in the process of auditing physician supplemental payments to determine if the Texas Health and Human Services Commission (HHSC) calculated supplemental payments to TTUHSCEP in accordance with federal regulations and the State plan. Based on audit findings for other similar State agencies, it is likely that the HHSC will request repayment from TTUHSCEP for overpayments within the next year. TTUHSCEP has determined that a reasonable estimate of the potential repayment is approximately $2,755,678.39 and has recorded a contingent liability of that amount in the *Comparative Statement of Net Position*.

## NOTE 16
## Subsequent Events

TTUSA intends to issue Revenue Financing System commercial paper notes after August 31, 2016 to acquire new proceeds for the construction projects, which include TTUHSCEP's Medical Sciences Building II, as approved by the State Legislature for Tuition Revenue Bond repayment. More information regarding the issuance is included in TTUSA's *Annual Financial Report* in Note 16.

## NOTE 17
## Risk Management

TTUHSCEP is self-insured for medical malpractice coverage through a medical malpractice self-insurance plan managed by TTUSA's Office of General Counsel. The 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.

The liability associated with the medical malpractice self-insurance plan is adjusted annually based on an actuarially estimated incurred but not reported (IBNR) liability to reflect the anticipated future claims related to past medical services. The activity related to actual claims paid and the IBNR adjustment for the fiscal year ended August 31, 2016 is reflected in the *Annual Financial Report* for TTUSA.

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 State of Texas. The State of Texas pays 50% of claims for employees paid from state funds. TTUHSCEP pays the remainder for employees paid from state funds and 100% of claims paid from non-state funds. TTUHSCEP paid total unemployment compensation of $104,444.93 and $133,548.78 for fiscal year 2016 and 2015, respectively. No material outstanding claims were pending as of August 31, 2016.

For workers' compensation, TTUHSCEP is required by State law to be a participant in the Workers' Compensation Program and Pool managed by the State Office of Risk Management (SORM). SORM assesses fees based upon claims cost, claim count, payroll, and full-time equivalents. The assessed fees are remitted, from both appropriated and unappropriated fund types, to SORM. Total estimated payments made by TTUHSCEP to SORM for fiscal year 2016 and 2015 amounted to $249,708.08 and $277,449.71, respectively. SORM assumes the responsibility for paying all workers' compensation claims for current and former employees of TTUHSCEP.

## NOTE 18
## Management's Discussion and Analysis

On May 18, 2013, TTUHSCEP was established as a separate agency of the State of Texas under Texas Senate Bill 120, and is one of five institutions included in the Texas Tech University System. TTUHSCEP received its first appropriated funds for the 2016-2017 Biennium under the General Appropriations Act.

### BASIC FINANCIAL STATEMENTS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of TTUHSCEP for the year ended August 31, 2016, with comparative information for the year ended August 31, 2015. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of TTUHSCEP as an economic entity. The comparative statement of net position and the comparative statement of revenues, expenses, and changes in net position, which appear first in the financial statements, report information on TTUHSCEP's activities that enable the reader to understand the financial condition of TTUHSCEP.

The financial statements of TTUHSCEP have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

### THE STATEMENT OF NET POSITION

The statement of net position presents information on all of TTUHSCEP's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TTUHSCEP is improving or deteriorating. Other nonfinancial factors, such as TTUHSCEP's enrollment, patient levels, and the condition of facilities, need to be considered to assess the overall health of TTUHSCEP.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

## THE STATEMENT OF NET POSITION (CONTINUED)

A summarized comparison of the TTUHSCEP's statement of net position at August 31, 2016 and 2015 follows:

***Condensed Statement of Net Position***
***Fiscal Years Ended August 31st***

| | 2016 | Restated 2015 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | $ 80,437,583 | $ 61,631,358 |
| Net Capital Assets | 120,694,495 | 123,036,474 |
| Other Non-Current Assets | 157,639,951 | 145,369,174 |
| TOTAL ASSETS | $ 358,772,028 | $ 330,037,006 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Outflows of Resources | $ 3,930,562 | $ 2,829,349 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | $ 3,930,562 | $ 2,829,349 |
| **LIABILITIES** | | |
| Current Liabilities | $ 26,352,979 | $ 13,846,003 |
| Non-Current Liabilities | 25,794,042 | 22,795,001 |
| TOTAL LIABILITIES | $ 52,147,021 | $ 36,641,004 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows of Resources | $ 3,301,603 | $ 5,116,150 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | $ 3,301,603 | $ 5,116,150 |
| **NET POSITION** | | |
| Invested in Capital Assets, Net of Related Debt | $ 120,694,495 | $ 123,036,474 |
| Restricted Nonexpendable | 28,322,341 | 28,319,543 |
| Restricted Expendable | 29,835,068 | 26,796,268 |
| Unrestricted | 128,402,061 | 112,956,917 |
| TOTAL NET POSITION | $ 307,253,965 | $ 291,109,202 |

Assets and deferred outflows exceed liabilities and deferred inflows by $307,253,965 for the fiscal year ended August 31, 2016. Of TTUHSCEP's net position, 42 percent reflects unrestricted assets available for future spending as the campus continues to expand and 39 percent reflects investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any debt used to acquire those assets is still outstanding. TTUHSCEP uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although TTUHSCEP's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

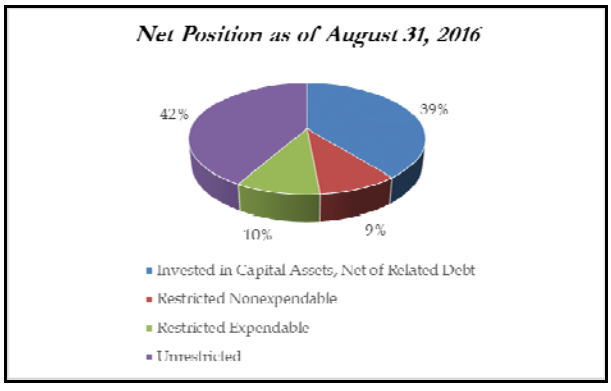
## THE STATEMENT OF NET POSITION (CONTINUED)

### Assets

Assets totaled $358,772,028 for the fiscal year ended August 31, 2016, an increase of $28,735,022 over 2015. Current assets increased $18,806,224, or 30.5%, mainly as a result of TTUHSCEP receiving State appropriations for the first time.

### Liabilities

Liabilities totaled $52,147,021 for the fiscal year ended August 31, 2016, an increase of $15,506,017 over 2015. Current liabilities increased $12,506,976, or 90.3%, mostly attributable to increased activity at year-end related to the continued growth of TTUHSCEP; including the expansion of TTUHSCEP's practice plan, information technology, and other equipment purchases. Additionally, TTUHSCEP has recorded a contingent liability of $2,755,678 related to the HHSC's calculation of physician supplemental payments. Details regarding physician supplemental payments are presented in Note 15. Non-current liabilities increased $2,999,041, or 13.2%, mainly attributable to an increase in pensions.




## THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents information showing how TTUHSCEP's net position changed during the most recent year. The statement presents both operating and non-operating revenues and expenses for TTUHSCEP.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

## THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

The following table summarizes TTUHSCEP's revenues, expenses and changes in net position for the years ended August 31, 2016 and 2015.

***Condensed Statement of Revenues, Expenses, and Changes in Net Position***
***Fiscal Years Ended August 31st***

| | 2016 | Restated 2015 |
|---|---|---|
| Total Operating Revenues | $ 154,536,111 | $ 142,397,879 |
| Total Operating Expenses | 214,152,194 | 195,542,654 |
| Operating Loss | (59,616,083) | (53,144,775) |
| Total Non-Operating Revenues (Expenses) | 79,856,499 | 5,224,013 |
| Income (Loss) before Capital Contributions and Transfers | 20,240,416 | (47,920,762) |
| Capital Contributions and Transfers | (4,095,653) | 126,385,427 |
| TOTAL CHANGE IN NET POSITION | 16,144,763 | 78,464,666 |
| Net Position, September 1st | 291,109,202 | 231,604,570 |
| Restatement of Beginning Net Position | - | (18,960,034) |
| Net Position, August 31st | $ 307,253,965 | $ 291,109,202 |

### Operating Revenues

Operating revenues totaled $154,536,111 for the fiscal year ended August 31, 2016, an increase of $12,138,232 over 2015. TTUHSCEP's primary sources of operating revenues come from net student tuition and fees, grants and contracts, and net professional fees. The increase over fiscal year 2015 was mainly attributable to grant and contract revenues, primarily from local and private sources. This increase amounted to $11,684,738 and was a result of TTUHSCEP participating in the Network Access Improvement Plan (NAIP), as well as contract amendments and increases in Master Service Agreements with affiliated hospitals.

### Operating Expenses

Operating expenses totaled $214,152,194 for the fiscal year ended August 31, 2016, an increase of $18,609,540 over 2015. Increases in operating expenditures are attributable to the continued growth of TTUHSCEP and are composed of salaries and wages, payroll related costs, information technology, and other operating expenses.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

## THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2016 and 2015:

***Operating Expenses***
***Fiscal Years Ended August 31st***

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage of Total | | Amount | Percentage of Total | |
| Instruction | $ 88,904,936 | 41.5 | % | $ 86,493,923 | 44.2 | % |
| Research | 16,067,574 | 7.5 | | 17,673,067 | 9.0 | |
| Public Service | 2,788,193 | 1.3 | | 2,976,616 | 1.5 | |
| Patient Care | 17,118,793 | 8.0 | | 16,594,631 | 8.5 | |
| Academic Support | 52,114,797 | 24.3 | | 34,294,492 | 17.5 | |
| Student Services | 2,182,008 | 1.0 | | 2,070,787 | 1.1 | |
| Institutional Support | 13,768,571 | 6.4 | | 14,645,463 | 7.5 | |
| Operation & Maintenance Of Plant | 8,568,151 | 4.0 | | 8,427,599 | 4.3 | |
| Scholarships & Fellowships | 812,798 | 0.4 | | 296,459 | 0.2 | |
| Auxiliary Enterprises | 197,192 | 0.1 | | 216,260 | 0.1 | |
| Depreciation & Amortization | 11,629,182 | 5.4 | | 11,853,357 | 6.1 | |
| Total Expenses | $ 214,152,194 | 100.0 | % | $ 195,542,654 | 100.0 | % |

### Non-operating Revenues (Expenses)

Non-operating revenues (expenses) totaled $79,856,499 for the fiscal year ended August 31, 2016, an increase of $74,632,486 over 2015. Increased non-operating revenues are a result of TTUHSCEP receiving its own, separate State appropriations for the first time. Previously, these revenues were reflected under capital contributions and transfers since funds were transferred from TTUHSC.

### Capital Contribution and Transfers

Capital contributions and transfers totaled ($4,095,653) for the fiscal year ended August 31, 2016, a decrease of $130,481,080. The decrease is partly attributable to TTUHSCEP receiving separate State appropriations, as noted above. The remainder of the decrease reflects a transfer of debt to TTUSA for system administration.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

## THE STATEMENT OF CASH FLOWS

The statement of cash flows presents information about TTUHSCEP's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. Cash flow information can be used to assess where cash comes from, what cash was used for, and what the change in cash balances was during the reporting period.

***Condensed Statement of Cash Flows***
***Fiscal Years Ended August 31st***

| Cash provided (used) by: | 2016 | Restated 2015 |
|---|---|---|
| Net Cash Used for Operating Activities | $ (34,858,489) | $ (45,602,800) |
| Net Cash Provided by Non-Capital Financing Activities | 62,838,019 | 63,720,233 |
| Net Cash Used for Capital and Related Financing Activities | (12,796,704) | (9,283,157) |
| Net Cash Used for Investing Activities | (9,100,576) | (75,754,243) |
| Net Change in Cash | 6,082,250 | (66,919,967) |
| Cash and Cash Equivalents, September 1st | 35,032,281 | 101,952,248 |
| Cash and Cash Equivalents, August 31st | $ 41,114,531 | $ 35,032,281 |

Net cash used by operating activities is $34,858,489 for the year, a decrease of $10,744,312 from 2015. The large change over 2015 is mainly attributed to increases in tuition and fees and grants and contracts revenue. Noncapital financing activities provided $62,838,019 in cash for the year, an $882,215 decrease over 2015. Capital and related financing activities used $12,796,704 of cash during the year. The large variance from the previous fiscal year was primarily from a transfer of debt service to TTUSA for central administration of tuition revenue bonds. Investing activities used $9,100,576 during fiscal year 2016. The large change is mainly attributed to an exchange of cash for investments that occurred in 2015. Responsibility for the investment and management of institutional funds resides at the system level and is overseen and governed by the Board of Regents.

## ECONOMIC FACTORS

The mission of TTUHSCEP is to improve the lives of people in our State and our community by focusing on the unique health care needs of socially and culturally diverse border populations through excellence in integrated education, research, and patient care. The continued confidence of our State and our community in the quality of the TTUHSCEP's programs and the importance of its mission is highlighted by the recent support TTUHSCEP has received. TTUHSCEP expects to open the Woody L. Hunt School of Dental Medicine (WLHSODM) in the Fall of 2020 thanks to a $25 million gift from the Woody and Gayle Hunt Family Foundation. The Paso del Norte Health Foundation has also pledged $6 million to TTUHSCEP over six years for the new WLHSODM.

**NOTE 18 (continued)**
**Management's Discussion and Analysis**

**ECONOMIC FACTORS (CONTINUED)**

Additionally, TTUHSCEP has received authorization from the Texas Legislature to issue over $75 million in tuition revenue bonds to build the Medical Science Building II at TTUHSCEP.

It is noteworthy that TTUS has received strong credit ratings from some of the top organizations in the industry – Moody's (Aa1), Standard & Poor's (AA+) and Fitch (AA+). TTUSA is committed to maintaining its long history of strong credit ratings, which provides a high degree of flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable TTUHSCEP to secure the necessary resources to support a consistent level of excellence in service to students, patients, the research community, the State, and the nation.

**NOTE 19**
**The Financial Reporting Entity**

TTUHSCEP is an agency of the State of Texas, and is one of five components of the TTUS. The accompanying financial statements reflect inclusion of one blended component unit described 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 TTUHSC, thus TTUHSCEP and TTUHSC can impose their 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 the HSCs. 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 TTUHSCEP's allocation of TTPA are presented in the below tables. Balances and amounts shown in these tables are included in balances and amounts shown on the financial statement in this *Annual Financial Report.*

**Texas Tech Physician Associates**
**Condensed Statement of Net Position**

| | As of 08/31/16 | As of 08/31/15 |
|---|---|---|
| Total Assets | $ - | $ - |
| Total Liabilities | $ - | $ - |
| Net Position: | | |
| Unrestricted | $ - | $ - |
| Total Net Position | $ - | $ - |
| Total Liabilities and Net Position | $ - | $ - |

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

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

**Texas Tech Physician Associates**
**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

| | For the Year Ended 08/31/16 | 08/31/15 |
|---|---|---|
| Operating Revenues | | |
| Professional Fees | $ 9,379,307.02 | $ 10,546,243.24 |
| Operating Income (Loss) | $ 9,379,307.02 | $ 10,546,243.24 |
| Other Revenues, Expenses, Gains, Losses, and Transfers | | |
| Transfers to Components | $ (9,379,307.02) | $ (10,546,243.24) |
| Total Change in Net Position | $ - | $ - |
| Beginning Net Position | $ - | $ - |
| Ending Net Position | $ - | $ - |

**Texas Tech Physician Associates**
**Condensed Statement of Cash Flows**

| | For the Year Ended 08/31/16 | 08/31/15 |
|---|---|---|
| Net Cash Provided by Operating Activities | $ 9,379,307.02 | $ 10,546,243.24 |
| Net Cash Used for Non-capital Financing Activities | $ (9,379,307.02) | $ (10,546,243.24) |
| Net Cash Provided by Capital and Related Financing Activities | $ - | $ - |
| Net Cash Provided by Investing Activities | $ - | $ - |
| Total Net Cash Flows | $ - | $ - |
| Cash and Cash Equivalents, September 1st | $ - | $ - |
| Cash and Cash Equivalents, August 31st | $ - | $ - |

### 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, 2016.

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

### NOTE 22
### Donor Restricted Endowments

TTUHSCEP endowments are categorized as either true endowments or funds functioning as endowments. As of August 31, 2016, 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 exception. 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* 8/31/2016 | Restated 8/31/2015 |
|---|---|---|---|
| True Endowments | Restricted Expendable | $ 5,180,925.74 | $ 6,639,090.76 |

*The fair value adjustment was ($1,458,165.05) and ($1,877,671.87) for fiscal years 2016 and 2015, respectively.

The TTUSA 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 TTUSA 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 TTUSA, 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.

### NOTE 23
### Extraordinary and Special Items

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

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

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

**RECEIVABLES**

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

| Description | As of 08/31/16 Gross Receivables | Allowances | Net Receivables | As of 08/31/15 Net Receivables |
|---|---|---|---|---|
| **Current** | | | | |
| Federal Receivables | $ 449,286.41 | $ - | $ 449,286.41 | $ 424,348.27 |
| Interest and Dividends Receivable | 120,364.26 | - | 120,364.26 | 57,399.00 |
| Patient Accounts Receivable | 16,373,492.83 | (9,774,984.21) | 6,598,508.62 | 6,254,020.32 |
| Student Accounts Receivable | 26,196.50 | (5,366.65) | 20,829.85 | 16,607.86 |
| Contract Accounts Receivable | 9,499,721.56 | - | 9,499,721.56 | 15,319,397.52 |
| Pledged Gifts Receivable | 1,912,769.13 | (19,127.69) | 1,893,641.44 | 1,834,075.70 |
| Other Receivables | 454,274.91 | (27,694.75) | 426,580.16 | 12,553.13 |
| Loans and Notes Receivable | 159,372.73 | - | 159,372.73 | - |
| Subtotal - Current | 28,995,478.33 | (9,827,173.30) | 19,168,305.03 | 23,918,401.80 |
| **Non-Current** | | | | |
| Other Account Receivable (Contracts) | $ 4,063,274.58 | $ - | $ 4,063,274.58 | $ - |
| Pledged Gifts Receivable | 12,531,979.90 | (125,319.80) | 12,406,660.10 | 14,234,089.59 |
| Loans and Notes Receivable | 1,066,571.37 | - | 1,066,571.37 | 1,146,000.00 |
| Subtotal - Non-Current | 17,661,825.85 | (125,319.80) | 17,536,506.05 | 15,380,089.59 |
| **Total Receivables** | $ 46,657,304.18 | $ (9,952,493.10) | $ 36,704,811.08 | $ 39,298,491.39 |

**PAYABLES**

Short-term payables as of August 31, 2016 and 2015 were comprised of the elements noted in the following table:

| Description | Short Term Payables as of 08/31/16 | Short Term Payables as of 08/31/15 |
|---|---|---|
| Vendor Accounts Payable | $ 7,169,187.65 | $ 948,998.09 |
| Patient Refunds Payable | 846,869.89 | 722,468.25 |
| Payroll Payable | 11,251,889.78 | 8,149,250.32 |
| Subtotal - Current Payables | $ 19,267,947.32 | $ 9,820,716.66 |

## 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, 2016 and 2015 are depicted in the following table:

| Description | Gross Patient Receivables as of 08/31/16 | Gross Patient Receivables as of 08/31/15 |
|---|---|---|
| Medicare | $ 2,303,317.55 | $ 3,059,030.21 |
| Medicaid | 2,791,168.84 | 4,007,342.54 |
| Managed Care, including Blue Cross | 5,816,530.47 | 2,862,527.68 |
| Commercial | 1,574,512.57 | 2,030,384.18 |
| Self-Pay and Medically Indigent | 3,779,308.05 | 3,575,682.71 |
| Other | 108,655.35 | 92,429.75 |
| Total Gross Patient Accounts Receivable | $ 16,373,492.83 | $ 15,627,397.07 |

## NOTE 25
## Termination Benefits

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

## NOTE 26
## Segment Information

TTUHSCEP had no reportable segments during the year ended August 31, 2016.

## NOTE 27
## Service Concession Arrangements

TTUHSCEP had no reportable service concession arrangements during the year ended August 31, 2016.

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

In fiscal year 2016, TTUHSCEP reported deferred outflows and deferred inflows of resources in connection with its defined benefit pension plan as presented below.

| Business-Type Activities | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Defined Benefit Pension Plans (Note 9) | $ 3,930,561.59 | $ 3,301,603.22 |

Due to the new pension liability reporting, fiscal year 2015 financial statements included a restatement to include deferred outflows and inflows of resources as presented below.

| Business-Type Activities | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Defined Benefit Pension Plans (Note 9) | $ 2,829,349.30 | $ 5,116,150.07 |

## NOTE 29
## Troubled Debt Restructuring

TTUHSCEP had no outstanding receivables to disclose whose terms were modified pursuant to troubled debt restructuring for the year ended August 31, 2016.

## NOTE 30
## Non-Exchange Financial Guarantees

TTUHSCEP had no outstanding non-exchange financial guarantees for the year ended August 31, 2016.

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# SUPPORTING SCHEDULES

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# *Schedule 1A: Schedule of Expenditures of Federal Awards*

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

**Note 1 Nonmonetary Assistance**

Texas Tech University Health Sciences Center at El Paso (TTUHSCEP) did not receive any nonmonetary assistance for the year ended August 31, 2016.

**Note 2 Reconciliation**

| | | |
|---|---|---|
| Federal Grant Revenues - Unpledged (SRECNP) | $ | 2,124,010.05 |
| Federal Grant Revenues - Pledged (SRECNP) | | 976,587.11 |
| Federal Grant Pass-Through Revenues (SRECNP) | | 226,238.31 |
| Federal Contract Revenues (SRECNP) | | 228,772.67 |
| Non-Operating Federal Grant Revenues (SRECNP) | | 442,473.00 |
| TOTAL FEDERAL REVENUES (SRECNP) | | 3,998,081.14 |
| Reconciling Items | | |
| New Loans Processed | | 12,368,343.00 |
| Federal Fixed Fee Basis Contract Revenues | | (182,815.62) |
| Federal Vendor Relationship Revenues | | (45,957.05) |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | $ | 16,137,651.47 |

**Note 3a Student Loans**

| *Federal Grantor / CFDA Number / Program Title* | *New Loans Processed* | *Administrative Costs Recovered* | *Total* | *Ending Balances of Previous Years' Loans* |
|---|---|---|---|---|
| **U. S. Department of Education** | | | | |
| 84.038 Federal Perkins Loan Program | $ 12,494.00 | $ - | $ 12,494.00 | $ 6,000.00 |
| 84.268 Federal Direct Student Loan | 12,355,849.00 | - | 12,355,849.00 | - |
| TOTAL U. S. DEPARTMENT OF EDUCATION | 12,368,343.00 | - | 12,368,343.00 | 6,000.00 |
| TOTAL STUDENT LOANS | $ 12,368,343.00 | $ - | $ 12,368,343.00 | $ 6,000.00 |

**Note 4 Depository Libraries for Government Publications** (does not apply to TTUHSCEP)

**Note 5 Unemployment Insurance** (does not apply to TTUHSCEP)

**Note 6 Rebates from the Special Supplemental Food Program for Women, Infant, and Children** (does not apply to TTUHSCEP)

**Note 7 Federal Deferred Revenue** (no longer required)

**Note 8 Disaster Grants - Public Assistance** (does not apply to TTUHSCEP)

**Note 9 Economic Adjustment Assistance** (does not apply to TTUHSCEP)

# *Schedule 1B: Schedule of State Grant Pass-Throughs from/to State Agencies*

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

| Agency Number | Agency Name/Grant ID/Grant Description | Amount |
|---|---|---|
| | **Pass-Through From** | |
| 537 | **Department of State Health Services** | |
| | 537.0004 Breast and Cervical Cancer Service | $ 34,191.52 |
| | 537.0006 Epilepsy Project | 229,736.00 |
| | 537.0035 Healthy Texas Babies Initiative | 1,015.20 |
| | *TOTAL DEPARTMENT OF STATE HEALTH SERVICES* | 264,942.72 |
| 542 | **Cancer Prevention and Research Institute of Texas** | |
| | 542.0027 PP130068 - The El Paso and Hudspeth County Breast Cancer Education, Screening and Navigation (BEST)Program | 351,840.31 |
| | 542.0032 PP130083 - De Casa En Casa: Preventing Cervical Cancer in El Paso County and Hudspeth County | 366,085.04 |
| | 542.0037 PP 140164 - ACCION 2: Against Colorectal Cancer in our Neighborhoods: El Paso and Hudspeth County | 474,725.97 |
| | 542.0043 PP 140211 - Tiempo de vacunarte! Time to get vaccinated! | 374,227.78 |
| | 542.0156 RP120528 - Establishing a Cancer Clinical Research Core facility at Texas Tech University Health Science Center | 341,887.72 |
| | *TOTAL CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS* | 1,908,766.82 |
| 720 | **University of Texas System** | |
| | 720.0002 Joint Admission Medical Program (JAMP) | 104,093.51 |
| | *TOTAL UNIVERSITY OF TEXAS SYSTEM* | 104,093.51 |
| 739 | **Texas Tech University Health Sciences Center** | |
| | 739.0009 PP150009 ACCION in West Texas | 11,772.07 |
| | 739.0031 PP150031 Get Fit to Stay Fit | 18,045.50 |
| | *TOTAL TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER* | 29,817.57 |
| 781 | **Texas Higher Education Coordinating Board** | |
| | 781.0006 Nursing & Allied Health | 19,787.71 |
| | 781.0013 Professional Nursing Shortage Reduction Program | 220,000.00 |
| | 781.0038 Emergency and Trauma Care | 198,000.00 |
| | 781.0059 GME Expansion HB 1025 | (15,150.69) |
| | 781.0063 GME Expansion | 422,500.00 |
| | 781.0072 GME Expansion SB 18 | 450,000.00 |
| | 781.0076 Family Practice Residency Program Fund 5111 | 261,523.00 |
| | *TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD* | 1,556,660.02 |
| | **TOTAL STATE GRANT PASS-THROUGH REVENUES** | $ 3,864,280.64 |
| | **Pass-Through To** | |
| 739 | **Texas Tech University Health Sciences Center** | |
| | 774.0001 CPRIT De Casa en Casa PP130083 | $ 11,967.91 |
| | 774.0002 CPRIT BEST Program PP130068 | 5,972.26 |
| | 774.0003 CPRIT Accion II PP140164 | 2,392.08 |
| | *TOTAL TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER* | $ 20,332.25 |
| | **TOTAL STATE GRANT PASS-THROUGH EXPENSES** | $ 20,332.25 |

## *Schedule 2A: Miscellaneous Bond Information*

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

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

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

## *Schedule 2C: Debt Service Requirements*

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

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

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

## *Schedule 2E: Defeased Bonds Outstanding*

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

## *Schedule 2F: Early Extinguishment and Refunding*

***For the Fiscal Years Ended August 31, 2016 and 2015***

Schedule not applicable. Please refer to Note 6 in the accompanying *Annual Financial Report*.

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

***As of August 31, 2016***

| | Unrestricted | Restricted | Total |
|---|---|---|---|
| Local Revenue (Fund 0294) | $ 3,420,425.89 | $ - | $ 3,420,425.89 |
| Permanent Health Fund (Fund 0820) | 6,857,054.99 | - | 6,857,054.99 |
| TOTAL CASH IN THE STATE TREASURY | $ 10,277,480.88 | $ - | $ 10,277,480.88 |

## *Schedule 4A: TTUHSCEP's Proportionate Share of Net Pension Liability*

***As of August 31, 2016***

| | 2016 | 2015 |
|---|---|---|
| TTUHSCEP's proportion of the net pension liability (asset) | 0.0545512% | 0.0626486% |
| TTUHSCEP's proportionate share of the net pension liability (asset) | $ 19,283,134.44 | $ 16,737,715.91 |
| TTUHSCEP's covered payroll | $ 20,973,913.04 | $ 22,963,400.03 |
| TTUHSCEP's proportionate share of net pension liability (asset) as a percentage of its covered payroll | 91.94% | 72.89% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.43% | 83.25% |

Note: This schedule is intended to present 10 years of information. Currently, only two years of information is available. Information for future years will be added when it becomes available.

# *Schedule 4B: TTUHSCEP'S TRS Employee Contributions*

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

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Statutorily required contributions | $ | 1,730,347.83 | $ | 1,990,926.78 |
| Contributions in relation to the statutorily required contributions | | 1,619,873.69 | | 1,575,722.69 |
| Contribution deficiency (excess) | $ | 110,474.14 | $ | 415,204.09 |
| TTUHSCEP covered-employee payroll | $ | 20,973,913.04 | $ | 22,963,400.03 |
| Contributions as a percentage of covered-employee payroll | | 7.72% | | 6.86% |

Note: This schedule is intended to present 10 years of information. Currently, only two years of information is available. Information for future years will be added when it becomes available.

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# SUPPLEMENTAL SCHEDULES

# *Comparative Statement of Net Position*

***As of August 31, 2016 and 2015***

| | *2016* | *2015* |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Restricted Cash and Cash Equivalents | $ 71,280.02 | $ 80,875.48 |
| Receivables: | | |
| Interest and Dividends | 180.84 | - |
| Pledged Gifts | 5,783.29 | 156,372.87 |
| Total Current Assets | 77,244.15 | 237,248.35 |
| Non-Current Assets: | | |
| Restricted Cash and Cash Equivalents | 126.79 | 13,089.30 |
| Pledged Gifts Receivable | 24,389,304.43 | 703,820.08 |
| Investments | 44,084,315.37 | 45,461,077.69 |
| Total Non-Current Assets | 68,473,746.59 | 46,177,987.07 |
| TOTAL ASSETS | $ 68,550,990.74 | $ 46,415,235.42 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Unearned Revenue | $ - | $ 6,000.00 |
| Total Current Liabilities | - | 6,000.00 |
| Non-Current Liabilities: | | |
| Other Non-Current Liabilities | - | - |
| Total Non-Current Liabilities | - | - |
| TOTAL LIABILITIES | - | 6,000.00 |
| **NET POSITION** | | |
| Restricted for: | | |
| Funds Held as Permanent Investments | | |
| Nonexpendable | 49,423,212.63 | 49,035,486.59 |
| Other | 19,127,778.11 | (2,626,251.17) |
| Unrestricted | - | - |
| TOTAL NET POSITION | 68,550,990.74 | 46,409,235.42 |
| TOTAL LIABILITIES AND NET POSITION | $ 68,550,990.74 | $ 46,415,235.42 |

# *Comparative Statement of Revenues, Expenses, and Changes in Net Position*

***For the Years Ended of August 31, 2016 and 2015***

| | *2016* | *2015* |
|---|---|---|
| **OPERATING REVENUES** | | |
| Other Revenues | $ - | $ - |
| Total Operating Revenues | - | - |
| **OPERATING EXPENSES** | | |
| Other Expenses | 73.24 | 90.07 |
| Total Operating Expenses | 73.24 | 90.07 |
| Operating Loss | (73.24) | (90.07) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Gifts | 23,965,052.61 | (6,849,924.38) |
| Interest and Investment Income (Loss) | 2,085,176.02 | 1,264,184.20 |
| Net Increase (Decrease) in Fair Value of Investments | (1,904,342.77) | (1,731,448.42) |
| Total Non-Operating Revenues and Gains | 24,145,885.86 | (7,317,188.60) |
| **CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS** | | |
| Net Transfers from Texas Tech Foundation, Inc. | 50,873.54 | 129,327.49 |
| Net Transfers to Texas Tech University Health Sciences Center at El Paso | (2,054,930.84) | (1,936,621.84) |
| Net Transfers from Texas Tech University Health Sciences Center | - | 50,000.00 |
| Net Other Revenues, Expenses, Gains, Losses, and Transfers | (2,004,057.30) | (1,757,294.35) |
| TOTAL CHANGE IN NET POSITION | 22,141,755.32 | (9,074,573.02) |
| Net Position, September 1st | 46,409,235.42 | 55,483,808.44 |
| Net Position, August 31st | $ 68,550,990.74 | $ 46,409,235.42 |

# *Comparative Statement of Cash Flows*

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

| | *2016* | *2015* |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash Inflows | | |
| Collections from Other Operating Activities | $ - | $ - |
| Cash Outflows | | |
| Payments for Other Operating Activities | (73.24) | (90.07) |
| Net Cash Used for Operating Activities | $ (73.24) | $ (90.07) |
| Cash Flows from Non-Capital Financing Activities | | |
| Cash Inflows | | |
| Proceeds from Non-Capital Gifts | $ 424,157.84 | $ 265,958.41 |
| Proceeds from Transfers from Texas Tech Foundation, Inc. | 36,020.67 | 129,327.49 |
| Proceeds from Transfers from Texas Tech University Health Sciences Center TTF | 14,852.87 | 50,000.00 |
| Cash Outflows | | |
| Payments for Transfers to Texas Tech University Health Sciences Center at El Paso | (2,054,930.84) | (1,936,621.84) |
| Net Cash Used for Non-Capital Financing Activities | $ (1,579,899.46) | $ (1,491,335.94) |
| Cash Flows from Investing Activities | | |
| Cash Inflows | | |
| Proceeds from Sales and Maturities of Investments | $ - | $ 150,677.12 |
| Proceeds from Interest and Dividends on Investments | 1,945,013.26 | 1,984,440.27 |
| Cash Outflows | | |
| Payments for Purchases of Investments | (387,598.53) | (411,479.63) |
| Net Cash Provided by Investing Activities | $ 1,557,414.73 | $ 1,723,637.76 |
| TOTAL NET CASH FLOWS | $ (22,557.97) | $ 232,211.75 |
| Cash and Cash Equivalents, September 1st | $ 93,964.78 | $ (138,246.97) |
| Cash and Cash Equivalents, August 31st | $ 71,406.81 | $ 93,964.78 |
| Current Restricted Cash and Cash Equivalents | $ 71,280.02 | $ 80,875.48 |
| Non-Current Restricted Cash and Cash Equivalents | 126.79 | 13,089.30 |
| Ending Cash and Cash Equivalents | $ 71,406.81 | $ 93,964.78 |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | | |
| Operating Loss | $ (73.24) | $ (90.07) |
| Net Cash Used for Operating Activities | $ (73.24) | $ (90.07) |
| Non-Cash Transactions | | |
| Net Increase (Decrease) in Fair Value of Investments | $ (1,904,342.77) | $ (1,731,448.42) |

# *Matrix of Operating Expenses by Function*

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

| *OPERATING EXPENSES* | *INSTRUCTION* | *RESEARCH* | *PUBLIC SERVICE* | *PATIENT CARE* | *ACADEMIC SUPPORT* | *STUDENT SERVICES* |
|---|---|---|---|---|---|---|
| Salaries and Wages | $ - | $ - | $ - | $ - | $ - | $ - |
| Payroll Related Costs | - | - | - | - | - | - |
| Professional Fees and Services | - | - | - | - | - | - |
| Travel | - | - | - | - | - | - |
| Supplies and Materials | - | - | - | - | - | - |
| Communications and Utilities | - | - | - | - | - | - |
| Maintenance and Repair | - | - | - | - | - | - |
| Rentals and Leases | - | - | - | - | - | - |
| Printing and Production | - | - | - | - | - | - |
| Interest Expense | - | - | - | - | - | - |
| Claims and Judgments | - | - | - | - | - | - |
| Other Expenses | - | - | - | - | 73.24 | - |
| Bad Debt Expense (Recovery) | - | - | - | - | - | - |
| Scholarships and Fellowships | - | - | - | - | - | - |
| Federal Grant Pass-Through Expense | - | - | - | - | - | - |
| State Grant Pass-Through Expense | - | - | - | - | - | - |
| Depreciation and Amortization | - | - | - | - | - | - |
| FY 2016 Total | $ - | $ - | $ - | $ - | $ 73.24 | $ - |
| FY 2015 Total | $ - | $ - | $ - | $ - | $ 90.07 | $ - |

# *Matrix of Operating Expenses by Function*

## *For the Years Ended August 31, 2016 and 2015*

| *OPERATING EXPENSES* | *INSTITUTIONAL SUPPORT* | *OPERATION & MAINTENANCE OF PLANT* | *SCHOLARSHIPS & FELLOWSHIPS* | *AUXILIARY ENTERPRISES* | *DEPRECIATION & AMORTIZATION* | *TOTAL EXPENSES* |
|---|---|---|---|---|---|---|
| Salaries and Wages | $ - | $ - | $ - | $ - | $ - | $ - |
| Payroll Related Costs | - | - | - | - | - | - |
| Professional Fees and Services | - | - | - | - | - | - |
| Travel | - | - | - | - | - | - |
| Supplies and Materials | - | - | - | - | - | - |
| Communications and Utilities | - | - | - | - | - | - |
| Maintenance and Repair | - | - | - | - | - | - |
| Rentals and Leases | - | - | - | - | - | - |
| Printing and Production | - | - | - | - | - | - |
| Interest Expense | - | - | - | - | - | - |
| Claims and Judgments | - | - | - | - | - | - |
| Other Expenses | - | - | - | - | - | 73.24 |
| Bad Debt Expense (Recovery) | - | - | - | - | - | - |
| Scholarships and Fellowships | - | - | - | - | - | - |
| Federal Grant Pass-Through Expense | - | - | - | - | - | - |
| State Grant Pass-Through Expense | - | - | - | - | - | - |
| Depreciation and Amortization | - | - | - | - | - | - |
| FY 2016 Total | $ - | $ - | $ - | $ - | $ - | $ 73.24 |
| FY 2015 Total | $ - | $ - | $ - | $ - | $ - | $ 90.07 |