

# **TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION**



## **ANNUAL FINANCIAL REPORT FISCAL YEAR 2015**

**ANNUAL FINANCIAL REPORT**

**OF**

**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION**

FOR THE YEAR ENDED AUGUST 31, 2015

**LUBBOCK, TEXAS**

**Texas Tech University  
System Administration (768)**

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**Organizational Data**

<b>Regents</b>	<b>Term Expires January 31, 2017</b>
Larry K. Anders	Dallas
Debbie Montford ( <b>Vice Chairwoman</b> )	San Antonio
John D. Steinmetz	Lubbock
	<b>Term Expires January 31, 2019</b>
John Esparza	Austin
L. Frederick "Rick" Francis	El Paso
Tim Lancaster	Abilene
	<b>Term Expires January 31, 2021</b>
Mickey L. Long ( <b>Chairman</b> )	Midland
Ronnie Hammonds	Houston
Christopher M. Huckabee	Fort Worth
Victoria Messer ( <b>Student Regent</b> )	Term Expires May 31, 2016
Ben Lock ( <b>Staff</b> )	Secretary
<b>Fiscal Officers</b>	
Robert L. Duncan	Chancellor
Jim Brunjes	Vice Chancellor and Chief Financial Officer



## TEXAS TECH UNIVERSITY SYSTEM

Robert Duncan, Chancellor

November 15, 2015

Honorable Greg Abbott  
Governor of Texas

Honorable Glen Hegar  
Texas Comptroller

Ms. Ursula Parks  
Director, Legislative Budget Board

Mr. John Keel, CPA  
State Auditor

To Agency Heads Addressed:

We are pleased to submit the annual financial report of Texas Tech University System Administration for the year ended August 31, 2015, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

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

As indicated by the following letter of transmittal, this report has been prepared by the Texas Tech University office of Financial and Managerial Reporting Services to provide a summary of the institution's financial records, and to present a complete picture of the fiscal affairs of the Texas Tech University System Administration. If you have any questions, please contact Debra Crowder, CPA, Director, Financial and Managerial Reporting Services at 806-742-2970.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert Duncan", written over a horizontal line.

Robert L. Duncan  
Chancellor



## TEXAS TECH UNIVERSITY SYSTEM

Jim Brunjes  
Vice Chancellor and Chief Financial Officer

November 15, 2015

Chancellor Robert L. Duncan  
Texas Tech University System Administration  
Lubbock, Texas 79409

Chancellor Duncan:

Submitted herein is the Annual Financial Report of Texas Tech University System Administration for the fiscal year ended August 31, 2015.

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

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

If you have any questions, please contact me at 742-2970.

Sincerely,

A handwritten signature in black ink that reads "Debra Crowder".

Debra Crowder, CPA  
Director, Financial and Managerial Reporting Services

Approved:

A handwritten signature in blue ink that reads "Jim Brunjes".

Jim Brunjes  
Texas Tech University System Administration  
Chief Financial Officer

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**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION (768)**

**FINANCIAL STATEMENTS**

**Texas Tech University System Administration (768)**  
Annual Financial Report

**Statement of Net Position**  
**August 31, 2015 and 2014**

	2015	Restated 2014
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 17,402,561.44	\$ 24,686,354.18
Restricted Cash and Cash Equivalents	1,221,966.34	(5,858,965.80)
Legislative Appropriations	588,963.33	512,379.96
Receivables:		
Interest and Dividends	44,606.19	32,992.94
Gift Receivables	0.00	6,272.02
Accounts Receivable	1,088.12	0.00
Other Receivables	39,546.96	6,136.55
Prepaid Items	0.00	15,000.00
Total Current Assets	<u>19,298,732.38</u>	<u>19,400,169.85</u>
Non-Current Assets:		
Restricted Cash and Cash Equivalents	29,934,666.54	5,844,955.91
Restricted Investments (Note 3)	1,335,020.60	695,066.40
Gift Receivables	0.00	12,913.64
Investments (Note 3)	43,722,304.66	(3,983,698.86)
Capital Assets (Note 2)		
Non-Depreciable or Non-Amortizable	831,139.61	401,756.53
Depreciable or Amortizable	2,350,222.56	2,388,960.37
Accumulated Depreciation and Amortization	(902,434.80)	(761,297.23)
Total Non-Current Assets	<u>77,270,919.17</u>	<u>4,598,656.76</u>
Total Assets	<u>96,569,651.55</u>	<u>23,998,826.61</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources (Note 28)	28,438,673.24	15,375,754.61
Total Deferred Outflows of Resources	<u>28,438,673.24</u>	<u>15,375,754.61</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	148,813.02	28,609.05
Payroll Payable	1,214,790.59	1,149,977.80
Due to Other State Agencies	177,289.92	188,506.88
Employees' Compensable Leave (Note 5)	129,250.88	122,448.69
Claims and Judgments (Note 5)	1,214,997.45	0.00
Short-Term Debt Commercial Paper Notes (Note 4)	22,483,000.00	1,460,468.99
Revenue Bonds Payable (Notes 5 & 6)	40,884,638.59	0.00
Funds Held for Others	125,901.01	106,738.17
Other Current Liabilities	1,132,027.97	181.09
Total Current Liabilities	<u>67,510,709.43</u>	<u>3,056,930.67</u>
Non-Current Liabilities:		
Employees' Compensable Leave (Note 5)	947,839.79	897,957.01
Claims and Judgments (Note 5)	6,623,695.80	0.00
Revenue Bonds Payable (Notes 5 & 6)	582,682,181.84	0.00
Net Pension Liability (Note 9)	162,030,163.65	198,919,161.70
Total Non-Current Liabilities	<u>752,283,881.08</u>	<u>199,817,118.71</u>
Total Liabilities	<u>819,794,590.51</u>	<u>202,874,049.38</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Texas Tech University System Administration (768)**  
Annual Financial Report

**Statement of Net Position**  
**August 31, 2015 and 2014**

	2015	Restated 2014
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows of Resources (Note 28)	\$ 49,527,106.15	\$ 0.00
Total Deferred Inflows of Resources	<u>49,527,106.15</u>	<u>0.00</u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	(614,284,763.51)	1,068,950.68
Restricted:		
Nonexpendable Endowments	475,594.01	444,751.99
Expendable:		
Capital Projects	828,651.12	5,086,684.09
Debt Service	1,054,844.13	(181.09)
Other	326,005.19	430,176.26
Unrestricted	<u>(132,713,702.81)</u>	<u>(170,529,850.09)</u>
Total Net Position	<u>\$ (744,313,371.87)</u>	<u>\$ (163,499,468.16)</u>

The accompanying notes to the financial statements are an integral part of this statement.



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**Texas Tech University System Administration (768)**

Annual Financial Report

**Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended August 31, 2015 and 2014**

	2015	Restated 2014
<b>Operating Revenues</b>		
State Grant Pass-Throughs (Schedule 1B)	\$ 641,216.96	\$ 221,409.67
Total Operating Revenues	641,216.96	221,409.67
<b>Operating Expenses</b>		
Salaries and Wages	11,187,896.55	10,152,972.50
Payroll-Related Costs	2,256,393.09	2,342,661.65
Professional Fees and Services	1,838,570.47	1,557,785.02
Travel	544,155.59	407,879.74
Materials and Supplies	306,749.01	485,905.13
Communications and Utilities	212,968.23	213,645.79
Repairs and Maintenance	333,409.01	188,769.71
Rentals and Leases	653,410.47	447,055.21
Printing and Reproduction	40,953.07	168,967.89
State Pass-through (Schedule 1B)	169,552.14	0.00
Depreciation and Amortization (Note 2)	189,808.22	149,116.48
Interest	49.18	272.15
Other Operating Expenses	1,327,922.06	(195,821.23)
Total Operating Expenses	19,061,837.09	15,919,210.04
Operating Income (Loss)	(18,420,620.13)	(15,697,800.37)
<b>Nonoperating Revenues (Expenses)</b>		
Legislative Revenue	2,675,210.37	2,613,360.04
Private Gifts	5,000.00	2,500.00
Investment Income (Expense)	121,028.47	42,116.82
Investment Income (Expense) - Pledged	3,523,745.48	3,150,097.63
Interest Expense on Capital Asset Financing	(5,785,370.90)	(7,050.94)
Net Increase (Decrease) in Fair Value of Investments	400,372.37	(189,531.26)
Other Nonoperating Revenues (Expenses)	(1,866,018.22)	0.00
Other Nonoperating Revenues (Expenses) - Pledged	(269,130.00)	56,715.51
Total Nonoperating Revenues (Expenses)	(1,195,162.43)	5,668,207.80
Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	(19,615,782.56)	(10,029,592.57)
<b>Other Revenues, Expenses, Gains, Losses and Transfers</b>		
Capital Contributions	7,500.00	0.00
Contributions to Permanent and Term Endowments	6,464.34	109,287.64
Legislative Transfers In from Component Institutions	3,636,302.00	3,546,302.00
Transfer Out to Other State Agency	(18,217,775.05)	0.00
Decrease Net Assets - Interagency Capital Asset Transfer	(2,660.35)	0.00
Net Transfers In from Texas Tech Foundation, Inc.	2,615,206.00	1,353,094.00
Net Transfers In from (Out to) Component Institutions	(549,243,158.09)	5,922,563.63
Total Other Revenues, Expenses, Gains, Losses and Transfers	(561,198,121.15)	10,931,247.27
Total Change in Net Position	(580,813,903.71)	901,654.70
Beginning Net Position, September 1	(163,499,468.16)	19,142,284.23
Restatements (Note 14)		(183,543,407.09)
Beginning Net Position, September 1, as restated		(164,401,122.86)
Ending Net Position, August 31	\$ (744,313,371.87)	\$ (163,499,468.16)

The accompanying notes to the financial statements are an integral part of this statement.

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**Texas Tech University System Administration (768)**  
Annual Financial Report

**Matrix of Operating Expenses by Function**  
**For the Year Ended August 31, 2015 and 2014**

Operating Expenses	Functional Classification			Total	Prior Year
	Public Service	Institutional Support	Depreciation and Amortization		
Salaries and Wages	\$ 259,879.11	\$ 10,928,017.44	\$	\$ 11,187,896.55	\$ 10,152,972.50
Payroll-Related Costs	54,839.31	2,201,553.78		2,256,393.09	2,342,661.65
Professional Fees and Services	131,325.09	1,707,245.38		1,838,570.47	1,557,785.02
Travel	76,381.92	467,773.67		544,155.59	407,879.74
Materials and Supplies	332.17	306,416.84		306,749.01	485,905.13
Communications and Utilities	7,567.80	205,400.43		212,968.23	213,645.79
Repairs and Maintenance		333,409.01		333,409.01	188,769.71
Rentals and Leases	20,983.38	632,427.09		653,410.47	447,055.21
Printing and Reproduction		40,953.07		40,953.07	168,967.89
State Grant Pass-through	169,552.14			169,552.14	0.00
Depreciation and Amortization			189,808.22	189,808.22	149,116.48
Interest		49.18		49.18	272.15
Other Operating Expenses	267,680.01	1,060,242.05		1,327,922.06	(195,821.23)
Total Operating Expenses	<u>\$ 988,540.93</u>	<u>\$ 17,883,487.94</u>	<u>\$ 189,808.22</u>	<u>\$ 19,061,837.09</u>	<u>\$ 15,919,210.04</u>

The accompanying notes to the financial statements are an integral part of this statement.

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**Texas Tech University System Administration (768)**  
Annual Financial Report

**Statement of Cash Flows**  
**For the Years Ended August 31, 2015 and 2014**

	2015	Restated 2014
<b>Cash Flows from Operating Activities</b>		
Proceeds from Grants and Contracts	\$ 630,000.00	\$ 200,000.00
Payments to Suppliers for Goods and Services	(681,111.09)	(843,642.73)
Payments to Employees for Salaries	(11,139,151.31)	(9,954,532.63)
Payments to Employees for Benefits	(2,663,323.72)	(2,342,661.65)
Payments for Other Expenses	(4,567,087.69)	(2,601,650.89)
Net Cash Used By Operating Activities	<u>(18,420,673.81)</u>	<u>(15,542,487.90)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from State Appropriations	2,597,538.88	2,664,986.05
Proceeds from Gifts	30,650.00	99,876.98
Proceeds from Transfers from Component Institutions	33,472,916.66	9,825,323.10
Proceeds from Transfers from Texas Tech Foundation, Inc	2,615,206.00	1,353,094.00
Proceeds from Agency Transactions	4,234,635.64	6,500,000.00
Proceeds from Other Financing Activities	91,625.85	56,715.51
Payments for Other Financing Activities	(1,129,433.70)	(9,519,162.84)
Payments for Transfers to Component Institutions	(354,782.45)	(356,457.47)
Net Cash Provided by Noncapital Financing Activities	<u>41,558,356.88</u>	<u>10,624,375.33</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from Capital Debt Issuances	324,271,809.85	500,000.00
Proceeds from Transfers from Component Institutions	4,563,805.45	0.00
Payments for Transfers to Component Institutions	(15,181,809.30)	0.00
Payments for Transfers to Other State Agencies	(18,217,775.05)	0.00
Payments for Additions to Capital Assets	(434,476.27)	(483,897.51)
Payments for Principal Paid on Capital Debt	(259,095,000.00)	0.00
Payments for Interest on Capital Debt	(7,180,541.89)	(6,997.08)
Payments for Other Costs on Debt Issuance	(1,901,240.98)	0.00
Net Cash Provided by Capital and Related Financing Activities	<u>26,824,771.81</u>	<u>9,105.41</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Investment Sales and Maturities	5,295,645.57	5,821,734.68
Proceeds from Interest and Investment Income	3,666,166.99	3,119,467.85
Payments to Acquire Investments	(35,037,417.41)	(868,413.44)
Net Cash (Used)/ Provided by Investing Activities	<u>(26,075,604.85)</u>	<u>8,072,789.09</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>\$ 23,886,850.03</u>	<u>\$ 3,163,781.93</u>
Beginning Cash & Cash Equivalents (September 1, 2014 and 2013)	24,672,344.29	21,508,562.36
Ending Cash & Cash Equivalents (August 31, 2015 and 2014)	<u>\$ 48,559,194.32</u>	<u>\$ 24,672,344.29</u>
<b>Reconciliation of Operating Loss to Net Cash Flows from Operating Activities</b>		
Operating Loss	\$ (18,420,620.13)	\$ (15,697,800.37)
Adjustments:		
Depreciation and Amortization Expense	189,808.22	149,116.48
Pension Expense	14,978,532.62	
(Increase) Decrease in Accounts Receivable	1,812.35	(5,597.55)
(Increase) Decrease in Deferred Outflows of Resources	(15,403,343.15)	
(Increase) Decrease in Prepaid Items	15,000.00	(15,000.00)
Increase (Decrease) in Accounts Payable	120,203.97	(155,834.21)
Increase (Decrease) in Salaries Payable	46,932.89	157,945.37
Increase (Decrease) in Benefits Payable	17,879.90	7,727.79
Increase (Decrease) in Due to Other State Agencies	(11,216.96)	(21,409.67)
Increase (Decrease) in Employees' Compensable Leave	44,336.48	38,364.26
Net Cash Used for Operating Activities	<u>\$ (18,420,673.81)</u>	<u>\$ (15,542,487.90)</u>
<b>Noncash Transactions</b>		
Donation of Capital Assets	\$ 7,500.00	\$ 0.00
Net Change in Fair Value of Investments	\$ 400,372.37	\$ (189,531.26)
Other	\$ (568,104,326.10)	\$ 0.00

The accompanying notes to the financial statements are an integral part of this statement.

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**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION (768)**

**NOTES to the  
FINANCIAL STATEMENTS**

**TEXAS TECH UNIVERSITY SYSTEM ADMINISTRATION (768)****Notes to the Financial Statements****Note 1: Summary of Significant Accounting Policies****General Introduction**

The Texas Tech University System Administration (TTUSA) is an agency of the State of Texas and its financial records comply with State statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements for State Agencies and Universities.

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

**Basis of Accounting**

For financial reporting purposes, institutions of higher education are considered proprietary funds, which are used to account for business-type activities. Business-type activities are defined as those that are financed in whole or part by fees charged to external parties for goods and services. The accompanying financial statements are prepared with transactions recorded on a fund basis. GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an Amendment of GASB Statement No. 34*, established accounting and financial reporting standards for universities within the financial reporting guidelines of GASB 34 as mentioned above. Under GASB 35, universities must follow proprietary fund accounting, and are required to report all funds in a single column instead of by individual fund.

The basis of accounting determines when revenues and expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds use the flow of economic resources measurement focus (whether or not the entity is economically better off as a result of the events and transactions that occurred during the fiscal period reported) and the full accrual basis of accounting, meaning revenues are recognized when earned and expenses are recorded when an obligation has occurred.

Proprietary funds distinguish between operating and nonoperating items. Operating revenues and expenses result from providing services, or producing and delivering goods in connection with ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization on capital assets.

**Cash and Cash Equivalents**

For reporting purposes, cash includes cash on hand, cash in local banks, and cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents.

TTUSA records and reports its deposits in the general deposit account at cost. It records and reports its special deposit accounts at fair value.

**Investments**

TTUSA accounts for its investments at fair value on the Statement of Net Position, as determined by quoted market prices, or in the case of limited partnerships, values as reported by the partnership managers and/or their third party administrators, in accordance with GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Money market and TexPool investments are reported at cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is reported in the Statement of Revenues, Expenses, and Changes in Net Position. Investments are addressed in more detail in Note 3.

**Legislative Appropriations**

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

**Receivables**

Interest and dividends receivable consists of amounts due from investment holdings, cash management pools, and cash invested in various short-term investment items. Pledged gift receivables expected to be collected within one year are reported as current assets, with the remaining portions reported as non-current. Other receivables include amounts due from employee travel advances and bond issue cost refunds.

**Prepaid Items**

Prepaid items include items such as insurance, subscriptions, prepaid postage, prepaid travel costs and similar services which benefit more than one accounting period. These are recorded as assets, with the recognition of the expenditure deferred until the accounting period when the items are used or consumed.

**Capital Assets**

Capital assets, defined as assets held for use in operations with a value equal to or greater than the capitalization threshold established for that asset type and an initial useful life of more than one year, are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

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

Intangible assets, defined as assets lacking physical substance and of a nonfinancial nature, include computer software, land use rights and patents and trademarks. 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.

TTUSA is required to depreciate and amortize capital assets. Depreciation for capital assets is computed using the straight-line method over the estimated useful lives of the assets. Amortization of intangible assets is based on the estimated useful life of the asset using the straight-line method. Land, works of art and historical treasures are not depreciated.

Capital asset activity for the current fiscal year is shown in Note 2.

**Deferred Outflows of Resources**

Deferred outflows of resources refers 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 below in the section **Net Pension Liability**. Deferred outflows are discussed in more detail in Notes 9 and 28.

**Payables**

Accounts payable and payroll payable represent the liability for the value of assets or services received, and wages/salaries owed at the balance sheet date. Claims and judgments include estimates for both known medical malpractice claims and those that have not yet been made against the insured participants. Claims and judgments activity is shown in Note 5, with a detailed explanation of the medical self-insurance plan and activity in Note 17.

**Employees' Compensable Leave**

Employees' compensable leave represents the liability that becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Compensable leave is discussed in greater detail in Note 5.

**Short-Term Debt Commercial Paper Notes**

Short-term debt commercial paper notes are amounts owed for commercial paper that was issued during the current accounting period for long-term construction projects for the Texas Tech University System (TTU System) component institutions. Short-term debt commercial paper notes are further explained in Note 4.

**Revenue Bonds Payable**

The TTU System has a number of bond issues outstanding, most of which are supported either directly or indirectly by tuition revenue. Revenue bonds payable are addressed in more detail in Note 6, with changes in activity shown in Note 5. The bonds are reported at par, net of unamortized premiums. Issuance costs are expensed in the period incurred.

**Net Pension Liability**

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the TTU System must now recognize their proportionate share of net pension liability and operating statement activity related to changes in the collective pension liability for participation in the Teacher Retirement System (TRS) pension plan. The net pension liability is the System'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 2014. The System's proportionate share is based on its contributions to the pension plan relative to the contributions 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 all TTU System component institutions. Pensions are discussed in greater detail in Note 9.

**Deferred Inflows of Resources**

Deferred inflows of resources are defined as 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 mentioned above. Deferred inflows are discussed further in Notes 9 and 28.

**Funds Held for Others**

Balances arise in this category as a result of TTUSA acting as an agent or fiduciary for other organizations.

All liabilities in the above categories are reported separately as either current (due within one year) or noncurrent (amounts due thereafter) in the Statement of Net Position.

**Net Position**

Net position is the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources. They are presented in three separate classes: Invested in Capital Assets, Net of Related Debt; Restricted Net Position; and Unrestricted Net Position.

***Invested in Capital Assets, Net of Related Debt***

This category represents TTUSA capital assets, net of TTUSA accumulated depreciation and outstanding principal balances of the TTU System debt attributable to the acquisition, construction or improvement of capital assets for the TTU System component institutions and TTUSA.

***Restricted Net Position***

Restricted net position results when constraints placed on net position use are either externally imposed by a party external to TTUSA such as creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

***Unrestricted Net Position***

Unrestricted net position consists of net position which does not meet the definition of restricted net position. Unrestricted net position often has constraints on resources, which are imposed by management, but can be moved or modified.

**Interfund Activity and Transactions**

TTUSA 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 transactions between legally separate entities.



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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

## Note 2: Capital Assets

Capital assets for TTUSA are categorized as (1) Construction in Progress, (2) Buildings and Building Improvements, (3) Facilities and Other Improvements, (4) Furniture and Equipment, (5) Vehicles, Boats and Aircraft, or (6) Computer Software.

The changes to capital asset balances are summarized below for the year ending August 31, 2015.

	PRIMARY GOVERNMENT							
	Balance 9/1/14	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/15
			Completed CIP	Increase- Interagency Transfer	Decrease- Interagency Transfer			
<b>BUSINESS-TYPE ACTIVITIES</b>								
<b>Non-depreciable or Non-amortizable Assets</b>								
Construction in Progress	\$ 401,756.53					429,383.08		\$ 831,139.61
Total Non-depreciable or Non-amortizable Assets	401,756.53	0.00	0.00	0.00	0.00	429,383.08	0.00	831,139.61
<b>Depreciable Assets</b>								
Buildings and Building Improvements	1,652,114.00							1,652,114.00
Facilities and Other Improvements	101,095.39							101,095.39
Furniture and Equipment	73,247.72					12,593.19		85,840.91
Vehicle, Boats and Aircraft	51,331.00				(51,331.00)			0.00
Total Depreciable Assets at Historical Cost	1,877,788.11	0.00	0.00	0.00	(51,331.00)	12,593.19	0.00	1,839,050.30
Less Accumulated Depreciation for:								
Buildings and Building Improvements	(505,333.86)					(71,341.32)		(576,675.18)
Facilities and Other Improvements	(61,499.64)					(10,109.52)		(71,609.16)
Furniture and Equipment	(52,638.35)					(4,940.50)		(57,578.85)
Vehicles, Boats and Aircraft	(47,488.37)					48,670.65	(1,182.28)	0.00
Total Accumulated Depreciation	(666,960.22)	0.00	0.00	0.00	48,670.65	(87,573.62)	0.00	(705,863.19)
Depreciable Assets, Net	1,210,827.89	0.00	0.00	0.00	(2,660.35)	(74,980.43)	0.00	1,133,187.11
<b>Intangible Capital Assets – Amortizable</b>								
Computer Software – Intangible	511,172.26							511,172.26
Total Intangible Assets at Historical Cost	511,172.26	0.00	0.00	0.00	0.00	0.00	0.00	511,172.26
Less Accumulated Amortization for:								
Computer Software – Intangible	(94,337.01)					(102,234.60)		(196,571.61)
Total Accumulated Amortization	(94,337.01)	0.00	0.00	0.00	0.00	(102,234.60)	0.00	(196,571.61)
Amortizable Assets, Net	416,835.25	0.00	0.00	0.00	0.00	(102,234.60)	0.00	314,600.65
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 2,029,419.67</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(2,660.35)</b>	<b>252,168.05</b>	<b>0.00</b>	<b>\$ 2,278,927.37</b>

**Note 3: Deposits, Investments, and Repurchase Agreements**

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

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

**Deposits of Cash in Bank**

The carrying amount of deposits as of August 31, 2015 and August 31, 2014 was \$43,771,841.32 and \$32,624,533.55 as presented below:

	<b>FY15</b>	<b>Restated FY14</b>
CASH IN BANK - CARRYING VALUE	\$ 43,771,841.32	\$ 32,624,533.55
Less: Certificates of Deposit including in carrying value and reported as Cash Equivalent		
Less: Uninvested Securities Lending Cash Collateral including in carrying value and reported as Securities Lending Collateral		
Less: Securities Lending CD Collateral including in carrying value and reported as Securities Lending Collateral		
<b>Cash in Bank per AFR</b>	<b>\$ 43,771,841.32</b>	<b>\$ 32,624,533.55</b>
Proprietary Funds Current Assets Cash in Bank	\$ 13,034,920.01	\$ 26,052,272.12
Proprietary Funds Current Assets Restricted Cash in Bank	914,949.04	688,636.43
Proprietary Funds Non-Current Assets Restricted Cash in Bank	29,821,972.27	5,883,625.00
<b>Cash in Bank per AFR</b>	<b>\$ 43,771,841.32</b>	<b>\$ 32,624,533.55</b>

These amounts consist of all cash in local banks and are included on the Statement of Net Position as part of current unrestricted and restricted "Cash and Cash Equivalents", and non-current restricted "Cash and Cash Equivalents".

All of the System Administration's deposits in excess of FDIC limits are fully collateralized. The collateral is held in the System Administration's name by the pledging institution's agent. System Administration also has no foreign currency risk on deposits.

As of August 31, 2015 and August 31, 2014, the total **bank balance** for Business-Type Activities was \$803,952.48 and \$27,889,420.84, respectively.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

**Investments**

As of August 31, 2015 and August 31, 2014, the fair value of investments is as presented below.

Type of Security	Fair Value	
	FY15	Restated FY14
U. S. Government		
U.S. Treasury Securities	\$ 4,545,296.85	\$ (1,776,217.23)
U.S. Treasury TIPs	718,214.39	(246,986.06)
U.S. Government Agency Obligations	7,261,306.48	(2,798,774.20)
Corporate Obligations	24,072.06	(13,639.95)
Corporate Asset and Mortgage Backed Securities	55,906.65	(25,496.97)
Equity	639,495.73	(319,370.28)
International Obligations (Gov't. and Corp.)	34,797.03	(114,385.46)
Fixed Income Money Market and Bond Mutual Fund	8,350,875.60	(3,129,166.76)
Mutual Funds - Domestic	849,886.79	(397,257.06)
Other Commingled Funds	3,106,055.67	(482,290.46)
Other Commingled Funds (TexPool)	1,095,304.08	(939,592.36)
International Other Commingled Funds	2,030,202.18	(371,359.47)
Real Estate	1,204,475.63	26,364.01
Domestic Derivatives	(181,651.16)	1,402.32
Externally Managed Investments:		
Domestic	20,088,579.45	(656,160.48)
International	21,860.83	2,108.69
<b>Total Investments</b>	<b>\$ 49,844,678.26</b>	<b>\$ (11,240,821.72)</b>
Non-Current Investments	\$ 45,057,325.26	\$ (3,288,632.46)
Items in Cash and Cash Equivalents:		
Money Market Funds	3,692,048.92	(7,012,596.90)
TexPool Investments	1,095,304.08	(939,592.36)
<b>Total Investments</b>	<b>\$ 49,844,678.26</b>	<b>\$ (11,240,821.72)</b>

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

**Foreign currency risk for investments** is the risk that changes in exchange rates will adversely affect the investment. LTIF and SITIF do not have policy limits specific to international equity or debt. All exposures are through funds managed by external investment managers. The exposure to foreign currency risk as of August 31, 2015 is presented below.

Fund Type	GAAP Fund	Foreign Currency	International Obligations (Gov't. and Corp.)	International Other Commingled Funds	International Externally Managed Investments
05	9999	Argentine peso		\$ 10,617.62	
05	9999	Australian dollar		12,470.96	\$ 2.09
05	9999	Bermudan dollar		92,352.81	
05	9999	Brazilian real	\$ 5,411.35		
05	9999	British pound		270,506.81	2,476.62
05	9999	Canadian dollar		22,737.14	
05	9999	Chilean peso	6,644.31	3,452.44	
05	9999	Chinese yuan		120,351.97	
05	9999	Czech koruna		12,661.18	
05	9999	Danish krone		5,215.43	
05	9999	Egyptian pound		17,770.08	
05	9999	Euro	547.99	355,786.52	9,933.78
05	9999	Hong Kong dollar		46,412.94	
05	9999	Hungarian forint		483.41	
05	9999	Indian rupee	6,781.31	108,176.21	9,448.34
05	9999	Indonesian rupiah		15,398.83	
05	9999	Japanese yen		189,541.90	
05	9999	Kazakhstani tenge		1,726.22	
05	9999	Malaysian ringgit		21,800.55	
05	9999	Mexican peso	6,712.81	59,496.25	
05	9999	New Turkish lira		36,820.49	
05	9999	Norwegian krone		1,043.09	
05	9999	Peruvian nuevo sol	2,808.42	2,805.11	
05	9999	Phillippine peso		11,842.68	
05	9999	Polish zloty		4,592.39	
05	9999	Qatari riyal		11,730.61	
05	9999	Russian ruble		5,360.15	
05	9999	Singapore dollar		28,268.66	
05	9999	South African rand	5,890.84	69,326.92	
05	9999	South Korean wan		130,129.39	
05	9999	Swedish krona		24,844.84	
05	9999	Swiss franc		128,032.85	
05	9999	New Taiwan dollar		150,550.34	
05	9999	Thai baht		37,148.33	
05	9999	United Arab Emirates dirham		20,747.06	
<b>Total</b>			<b>\$ 34,797.03</b>	<b>\$ 2,030,202.18</b>	<b>\$ 21,860.83</b>

As of August 31, 2014, the exposure to foreign currency risk (restated) was: International Obligations (Gov't. and Corp.) - \$(114,385.46); International Other Commingled Funds - \$(371,359.47); and International Externally Managed Investments - \$2,108.69.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

**Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The TTU System'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, 2015 and August 31, 2014 respectively, the System Administration's credit quality distribution for securities with credit risk exposure was as follows.

As of August 31, 2015:

## Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	Unrated
05	9999	U.S. Government Agency Obligations	\$ 7,261,306.48					
05	9999	Corporate Obligations					\$ 13,303.61	\$ 10,768.45
05	9999	Corporate Asset and Mortgage Backed Securities	\$ 55,906.65					
05	9999	International Obligations (Gov't. and Corp.)		\$ 765.53	\$ 6,159.07	\$ 19,709.04	\$ 2,755.92	\$ 5,407.47
			AAAf	Aaf	Af			Unrated
05	9999	Fixed Income Money Market and Bond Mutual Fund	\$ 3,692,048.92					\$ 4,658,826.68

As of August 31, 2014 (restated):

## Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BBB	BB	Unrated
05	9999	U.S. Government Agency Obligations	\$ (2,798,774.20)					
05	9999	Corporate Obligations						\$ (13,639.95)
05	9999	Corporate Asset and Mortgage Backed Securities	\$ (25,496.97)					
05	9999	International Obligations (Gov't. and Corp.)		\$ (1,887.36)	\$ (21,950.57)	\$ (58,817.00)	\$ (9,551.19)	\$ (22,179.34)
			AAAf	Aaf	Af			Unrated
05	9999	Fixed Income Money Market and Bond Mutual Fund	\$ (1,735,921.37)					\$ (1,393,245.39)

## Derivative Investing

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

TTUSA entered into futures contracts, options, and total return 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 derivative contracts entered into during fiscal year 2015 all used market indices as underlying securities in order to gain and reduce market exposure in an efficient manner. All investment derivative instruments are reported on the Statement of Net Position as Investments. The changes in the fair value of investment derivatives are reported as investment revenue on the Statement of Revenues, Expenses and Changes in Net Position.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

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 total return swaps and options is mitigated by master netting agreements between the System and its counterparties, and by the posting of collateral on a daily basis.

TTUSA's gross counterparty exposure is presented below.

For the year ended August 31, 2015:

Investment Derivatives	Assets	Liabilities	Assets	Liabilities	Counterparty Rating
	Notional	Notional	Fair Value at August 31, 2015	Fair Value at August 31, 2015	
Futures Contracts	\$ 2,356,195.81	\$ 819,564.65	\$ 0.00	\$ 0.00	A
Options	2,091,535.27	2,396,435.83	88,775.17	161,790.47	A-
	760,472.75	379,180.81	13,697.06	76,873.93	BBB+
	2,852,008.02	2,775,616.64	102,472.23	238,664.40	
Total Return Swaps	405,070.94	0.00	0.00	23,937.88	A
	194,794.56	0.00	0.00	21,521.11	A-
	\$ 599,865.50	\$ 0.00	\$ 0.00	\$ 45,458.99	

For the year ended August 31, 2014 (restated):

Investment Derivatives	Assets	Liabilities	Assets	Liabilities	Counterparty Rating
	Notional	Notional	Fair Value at August 31, 2014	Fair Value at August 31, 2014	
Futures Contracts	\$ 130,126.58	\$ 8,065.91	\$ 1,104.16	\$ 226.23	A
Options	74,595.87	45,126.82	2,863.89	2,315.70	A
Total Return Swaps	12,122.40	0.00	0.00	23.79	A

At August 31, 2015, TTUSA had exposure to investment foreign currency risk in derivative investments as presented in the table below.

Fund Type	GAAP Fund	Foreign Currency	Business-Type Activities		
			Futures Contracts	Options	Total Return Swaps
05	9999	Euro	\$ 0.00	\$ (2,476.88)	\$ 0.00
05	9999	Pound Sterling	0.00	(19,038.12)	0.00
		<b>Total</b>	<b>\$ 0.00</b>	<b>\$ (21,515.00)</b>	<b>\$ 0.00</b>

TTUSA had no exposure to investment foreign currency risk for derivative investments as of August 31, 2014.

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

# **Note 4: Short-Term Debt**

TTUSA had the following short-term debt outstanding as of August 31, 2015:

<b>Business-Type Activities</b>	<b>Beginning Balance 9/1/2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 8/31/2015</b>
Short-term				
Debt CP Notes	\$ 1,460,468.99	\$ 122,837,531.01	\$ 101,815,000.00	\$ 22,483,000.00

## **Short-Term Debt Commercial Paper Notes**

During fiscal year 2015, commercial paper activity was recorded in the accounting records of each TTU System component institution. At the end of fiscal year 2015, component institutions transferred \$122,837,531.01 in ending commercial paper liability balances to System Administration for the central administration of all TTU System Revenue Financing System commercial paper debt. Also, TTU System issued new bonds in fiscal year 2015 which included \$101,815,000.00 to refund outstanding commercial paper debt. Beginning with fiscal year 2016, each component's share of commercial paper activity will be recorded on the System Administration books along with interagency transfers between TTUSA and component institutions to transfer cash for debt proceeds and debt service payments.

Commercial paper, both taxable and non-taxable, was issued during the fiscal year to finance various construction projects. All commercial paper outstanding at August 31, 2015 will mature in fiscal year 2016. Commercial paper has short maturities up to 270 days with interest ranging during the fiscal year from .03% to .17% for tax-exempt, and .10% to .15% for taxable paper.

# **Note 5: Long-Term Liabilities**

## **Changes in Long-Term Liabilities**

During the year ended August 31, 2015, the following changes occurred in liabilities.

<b>Business-Type Activities</b>	<b>Balance 9/1/2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Restatement/ Adjustment</b>	<b>Balance 8/31/2015</b>	<b>Amounts due within one year</b>	<b>Amounts due Thereafter</b>
Claims and Judgments	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,838,693.25	\$ 7,838,693.25	\$ 1,214,997.45	\$ 6,623,695.80
Employees' Compensable Leave	1,020,405.70	44,336.48	0.00	12,348.49	1,077,090.67	129,250.88	947,839.79
Revenue Bonds Payable	0.00	318,570,000.00	157,280,000.00	462,276,820.43	623,566,820.43	40,884,638.59	582,682,181.84
<b>Total Business-Type Activities</b>	<b>\$ 1,020,405.70</b>	<b>\$ 318,614,336.48</b>	<b>\$ 157,280,000.00</b>	<b>\$ 470,127,862.17</b>	<b>\$ 632,482,604.35</b>	<b>\$ 42,228,886.92</b>	<b>\$ 590,253,717.43</b>

**Claims and Judgments**

In fiscal year 2015, claims and judgments activity of the Medical Malpractice Self-Insurance Fund was accounted for in the records of Texas Tech University Health Sciences Center (TTUHSC) and Texas Tech University Health Sciences Center at El Paso (TTUHSC at El Paso). The ending claims and judgments liability balances were transferred to TTUSA for central administration of the fund. Beginning in fiscal year 2016, accounting and reporting for the activity of the Medical Malpractice Self-Insurance Fund will be in the records of TTUSA. Claims and judgments include estimates for both known medical malpractice claims and those that have not yet been made against the insured participants. The liability is actuarially estimated to reflect the anticipated future claims for past medical services. Some of these claims are in process, while others are expected to be filed in the future. The liability estimate does not consider the probability of payment on a claim-by-claim basis and instead considers overall probability of payment for medical malpractice claims. Funding for future claim payments will be from a self-insurance reserve managed by the office of the General Counsel. Detailed information is presented in Note 17.

**Employees' Compensable Leave**

A State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken. The liability for unpaid benefits is recorded in the Statement of Net Position. This obligation is paid from a central vacation pool account which collects the funding from the same funding source(s) from which the employee's salary or wage compensation was paid. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Revenue Bonds Payable**

During fiscal year 2015, revenue bonds payable activity was recorded in the accounting records of each TTU System component institution. At the end of fiscal year 2015, component institutions transferred \$456,575,010.58 in ending revenue bonds payable balances to System Administration for the central administration of all TTU System Revenue Financing System revenue bond debt. Also, TTU System issued \$324,271,809.85 in new bonds in fiscal year 2015 and refunded bonds in the amount of \$157,280,000 which were recorded on TTUSA's books. Beginning with fiscal year 2016, each component institution's share of revenue bonds payable activity will be recorded on TTUSA's books along with interagency transfers between TTUSA and component institutions to transfer cash for debt proceeds and debt service payments.



**Note 6: Bonded Indebtedness**

Beginning in fiscal year 2015, the TTU System combined reporting of bonded indebtedness for all component institutions at the TTU System Administration level.

Detailed supplemental bond information is disclosed in the following schedules:

Schedule 2A	Miscellaneous Bond Information
Schedule 2B	Changes in Bonded Indebtedness
Schedule 2C	Debt Service Requirements
Schedule 2D	Analysis of Funds Available for Debt Service
Schedule 2E	Defeased Bonds Outstanding
Schedule 2F	Early Extinguishment and Refunding

In fiscal year 2015, the following series was refunded:

**Revenue Financing System Refunding and Improvement Bonds, 9th Series 2003**

Purpose:	Refunding of Series A Notes and Series 1993 bonds, construction of the Experimental Sciences Building and renovation of Horn/Knapp dormitory and other System construction of capital improvement projects and costs of issuance.
Issue Date:	September 23, 2003
Original Issue Amount:	\$97,265,000, all bonds authorized have been issued
Source of revenue for debt service:	All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

The following series was partially refunded in fiscal year 2015, with a balance remaining outstanding as of August 31, 2015.

**Revenue Financing System Refunding and Improvement Bonds, 10th Series 2006**

Purpose:	For advanced refunding of Series A Notes and Series 1999 and 2001 bonds, for construction of Murray Hall, renovation of the Student Union Building, Medical Education Building project in El Paso and various dormitories and other University construction of capital improvement projects.
Issue Date:	February 2, 2006
Original Issue Amount:	\$220,915,000, all bonds authorized have been issued
Source of revenue for debt service:	All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

Several bond issues were outstanding as of August 31, 2015 and are summarized in the paragraphs that follow.

**Revenue Financing System Refunding and Improvement Bonds, 12th Series 2009**

Purpose: For current refunding of Series A Notes and Series 1999 bonds, to pay for construction of the new College of Business Administration Building, renovation of the existing College of Business Administration Building, construction of the Lanier Professional Development Center, construction of the Student Leisure Pool, and other System construction of capital improvement projects. Financing for the El Paso Medical Facility, Amarillo Pharmacy and Amarillo Research Building projects. For current refunding of ASU portion of Texas State University System bonds and construction of Centennial Village.

Issue Date: March 3, 2009

Original Issue Amount: \$170,825,000, all authorized bonds have been issued

Source of revenue for debt service: All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

**Revenue Financing System Refunding and Improvement Bonds, 14th Series 2012A**

Purpose: For refunding of \$96,469,500 of Revenue Financing System Commercial Paper Notes Series A, a partial current refunding of \$4,215,000 of Revenue Financing System Bonds Series 2001 and of \$355,000 of Texas State University System Revenue Financing System Bonds Series 2002 representing ASU's portion. For partial advanced refunding of \$52,460,000 of Revenue Financing System Bonds Series 2003. To provide new funding for the new College of Business Administration Building, the new TTU Boston & 18<sup>th</sup> Street Residence Hall and Dining Facility, the new ASU Plaza Verde Phase I Residence Hall & Dining Facilities, Jones Stadium East Side Expansion and other System capital improvement projects.

Issue Date: February 1, 2012

Original Issue Amount: \$163,240,000, all authorized bonds have been issued

Source of revenue for debt service: All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

**Revenue Financing System Refunding Bonds, 15th Series 2012B (Taxable)**

Purpose: For current refunding of \$27,710,000 of Revenue Financing System Bonds Taxable Series 2001.

Issue Date: February 1, 2012

Original Issue Amount: \$27,585,000, all authorized bonds have been issued

Source of revenue for debt service: All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

**Revenue Financing System Refunding and Improvement Bonds, 16th Series 2015A**

Purpose: For refunding of \$62,790,000 of Revenue Financing System Commercial Paper Notes Series A, a current refunding of \$245,000 of Revenue Financing System Bonds Series 2003. To provide new funding for the new TTU College of Business Administration Building Wing Addition, TTU West Village Residence Hall and Dining Facility and the HSC at El Paso School of Nursing.

Issue Date: April 9, 2015

Original Issue Amount: \$73,255,000, all authorized bonds have been issued

Source of revenue for debt service: All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

**Revenue Financing System Refunding and Improvement Bonds, 17th Series 2015B (Taxable)**

Purpose: For refunding of \$39,025,000 of Revenue Financing System Commercial Paper Notes Series A, an advance refunding of \$157,035,000 of Revenue Financing System Bonds Series 2006, a current refunding of \$4,185,000 of Texas State University System Revenue Financing System Bonds Series 2005 and an advance refunding of \$13,365,000 of Texas State University System Revenue Financing System Bonds Series 2006 representing ASU's portion. To provide new funding for the new TTU Research Park Building, the United Supermarkets Arena renovations, Jones Stadium facility upgrades, and Bayer CropScience Research Building Renovation and the new Bayer CropScience Trait Development Center.

Issue Date: April 9, 2015

Original Issue Amount: \$245,315,000, all authorized bonds have been issued

Source of revenue for debt service: All pledged revenues of the participants of the Texas Tech University System Revenue Financing System

**Pledged Future Revenues**

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

Pledged Future Revenues	Business-Type Activities	
	FY15	FY14
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 816,654,819.96	\$ 661,117,474.70
Term of Commitment for Year Ending 8/31	2045	2041
Percentage of Revenue Pledged	100%	100%
Current Year Pledged Revenue	\$ 731,255,441.75	\$ 723,525,171.28
Current Year Principal and Interest Paid	\$ 50,227,904.35	\$ 51,756,841.51

Pledged revenue sources include operating income from tuition and fees, sales and services from auxiliary and non-auxiliary activities, investment income, unrestricted contract and grant revenues, and state appropriations for tuition revenue bonds.

On October 21, 1993, the governing board of the TTU System established a Revenue Financing System for the purpose of providing a financing structure for all revenue supported indebtedness of TTU System component institutions. The source of revenues for debt service issued under the Revenue Financing System includes pledged general tuition, pledged tuition fee, pledged general fee and any other revenues, income, receipts, rentals, rates, charges, fees, including interest or other income, and balances lawfully available to TTU System component institutions. Excluded from the revenues described above are amounts received under Article 7, Section 17 of the Constitution of the State of Texas, general revenue funds appropriated by the Legislature except to the extent so specifically appropriated, encumbered housing revenues, and practice plan funds.

**Note 7: Derivatives**

The TTU 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 risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. These include futures contracts, options, and total return swaps.

The following disclosures summarize the TTUSA's derivative activity as reported in the financial statements as of August 31, 2015 and August 31, 2014.

Investment Derivatives	Changes in Fair Value		Fair Value at August 31, 2015		
	Classification	Amount	Classification	Amount	Notional
Futures Contracts	Investment Revenue	\$ (39,090.24)	Investments	\$ 0.00	\$ 1,536,631.16
Options	Investment Revenue	(172,315.55)	Investments	(136,192.17)	76,391.38
Total Return Swaps	Investment Revenue	(37,843.31)	Investments	(45,458.99)	599,865.50

Investment Derivatives	Changes in Fair Value		Fair Value at August 31, 2014		
	Classification	Amount	Classification	Amount	Notional
Futures Contracts	Investment Revenue	\$ 877.93	Investments	\$ 877.93	\$ 122,060.67
Options	Investment Revenue	548.19	Investments	548.19	29,469.05
Total Return Swaps	Investment Revenue	(23.79)	Investments	(23.79)	12,122.40

**Fair Value**

Derivative instruments are recorded at fair value. Futures contracts are marked-to-market daily and valued at closing market prices on the 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 total return swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

**Investment Derivatives**

Investment derivatives expose the TTUSA to certain investment related risks. More detail about investment derivatives is disclosed in Note 3.

**Note 8: Leases**

TTUSA entered into several operating leases for building space in fiscal year 2015. Included in the FY15 expenditures reported in the financial statements is \$51,867.51 for rent paid or due under operating lease obligations.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

<b>Fiscal Year Ended August 31,</b>	<b>Minimum Future Lease Payments</b>
2016	\$ 44,053.52
2017	45,464.52
2018	11,440.26
2019	0.00
2020	0.00
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$ 100,958.30</b>

TTUSA had no outstanding capital leases as of August 31, 2015, and no capital or non-cancelable operating leases as of August 31, 2014.

## **Note 9: Defined Benefit Pension Plan and Defined Contribution Plan**

### **Defined Benefit Pension Plan**

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

The Teacher Retirement System 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. TRS membership is in employee class. All employees of public, state-supported education 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 Teacher Retirement System may be obtained from:

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

During the measurement period of 2014 for fiscal year 2015 reporting, the amount of TTU System's contributions recognized by the plan was \$15,253,844.56. 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
Employer	6.8%
Employees	6.4%

The total pension liability reported by TRS 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, 2014 measurement date.

#### Actuarial Methods and Assumptions

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

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Texas Tech University System Administration (768) – Notes to the Financial Statements (continued)

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the summer of 2014, the methods and assumptions are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation, there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees have decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards Practice No. 35.

There have been no changes to the benefit and contribution provisions of the plan since the prior measurement date.

The discount rate of 8% 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 non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the TRS 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% 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 coding-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.

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

Sensitivity analysis was performed by TRS on the impact of changes in the discount rate on the proportionate share of TTU System's net pension liability. The result of the analysis is presented in the table below

<b>Sensitivity of TTU System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate</b>		
<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
\$ 289,479,016.89	\$ 161,997,111.63	\$ 66,664,390.03

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 2014 Comprehensive Annual Financial Report.

At August 31, 2015, TTU System reported a liability of \$162,030,163.65 for its proportionate share of the TRS collective net pension liability. The collective net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TTU System's proportion at August 31, 2014 was .6064722 percent. TTU System'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 non-employer contributing entities to the plan for the period September 1, 2013 through August 31, 2014.

For the year ending August 31, 2015, TTU System recognized pension expense of \$14,978,532.62. At August 31, 2015, TTU System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 2,505,337.73	
Changes of assumptions	10,529,992.36	
Net difference between projected and actual investment return		\$ 49,512,932.64
Change in proportion and contribution difference		14,173.51
Contributions subsequent to the measurement date	15,403,343.15	
<b>Total</b>	<b>\$ 28,438,673.24</b>	<b>\$ 49,527,106.15</b>

The \$15,403,343.15 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in TTU System's net pension liability for the year ending August 31, 2016.



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

<b>Year ended August 31:</b>	
2016	\$ (10,186,339.78)
2017	(10,186,339.78)
2018	(10,186,339.78)
2019	(10,186,339.78)
2020	2,191,892.51
Thereafter	2,061,690.55

### **Defined Contribution Plan**

The State 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 and is available to certain eligible employees. The contributions made by plan members and the employer for the fiscal year ended August 31, 2015 and August 31, 2014, respectively are:

	<b>FY15</b>	<b>Restated FY14</b>
Member Contributions	\$ 179,728.81	\$ 182,195.01
Employer Contributions	209,339.29	212,072.47
<b>Total</b>	<b>\$ 389,068.10</b>	<b>\$ 394,267.48</b>

### **Note 10: Deferred Compensation (administering agencies only)**

Not applicable

### **Note 11: Post Employment Health Care and Life Insurance Benefits**

Not applicable

### **Note 12: Interfund Activity and Transactions**

As explained in Note 1 on interfund activities and transactions, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

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

Repayment of interfund balances occurs within one year from the date of the financial statements. TTUSA had no interfund receivables or interfund payables in fiscal year 2015.

**Note 13: Continuance Subject to Review**

TTUSA is not subject to the Texas Sunset Act.

**Note 14: Adjustments to Fund Balances and Net Position**

Due to the retroactive reporting of the net pension liability discussed in Note 9, TTUSA was required to restate the ending net position in fiscal year 2014 and beginning net position in fiscal year 2015 on the Statement of Revenues, Expenses and Changes in Net Position.

Statement of Revenues, Expenses and Changes in Net Position	FY14
Beginning Net Position, September 1, 2013 as previously reported	\$ 19,142,284.23
Restatements for Pensions	(183,543,407.09)
Beginning Net Position, September 1, 2013 as restated	<u>\$ (164,401,122.86)</u>

The following financial statement elements were affected by the restatement above:

Statement	Description	Restatement Amounts		
		FY14 as Reported	Pension Adjustments	FY14 Restated
SNP	Deferred Outflows of Resources	\$ 0.00	\$ 15,375,754.61	\$ 15,375,754.61
SNP	Net Pension Liability	0.00	198,919,161.70	198,919,161.70
SNP	Net Position, Unrestricted	13,013,557.00	(183,543,407.09)	(170,529,850.09)

Restatements were made to the following financial statement elements for changes in agency activities. These changes did not affect net position.

Statement	Description	Restatement Amounts		
		FY14 as Reported	Agency Activities Restatements	FY14 Restated
SNP	Restricted Cash and Cash Equivalents	\$ 660,197.04	\$ (6,519,162.84)	\$ (5,858,965.80)
SNP	Funds Held for Others	6,625,901.01	(6,519,162.84)	106,738.17
SCF	Payments for Other Financing Activities	(3,000,000.00)	(6,519,162.84)	(9,519,162.84)

**Note 15: Contingencies and Commitments****Contingencies*****Unpaid Claims and Lawsuits***

At August 31, 2015 and August 31, 2014, no material lawsuits or claims involving TTUSA were pending.

**Arbitrage**

Rebatable arbitrage is defined by Internal Revenue Code, Section, 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. The System monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limit any arbitrage liability. The System estimates that rebatable arbitrage liability, if any, would be immaterial to its overall financial condition.

**Commitments****Investment Funds**

TTUSA entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers.

The remaining commitment – domestic for System Administration was \$3,612,889.87 for the year ended August 31, 2015, and \$106,510.68 for the year ended August 31, 2014.

**Note 16: Subsequent Events**

TTU System intends to issue the following Revenue Financing System Commercial Paper Notes after August 31, 2015 as follows:

Issuance	Series	Amount	Date of Issuance	Purpose
Revenue Financing System Commercial Paper Notes Tax-Exempt	A	\$ 3,750,000.00	10/6/2015	Reimburse for incurred expenditures on the construction of the Recreation Center Intramural Fields, West Village Housing and Dining Complex, renovation of CHACP I, renovation of the Engineering & Research Center Building, build out of Jones stadium southeast offices, and purchase of a new ASU athletics bus. Acquire new proceeds for the design phase of the following construction projects as approved by the State Legislature for Tuition Revenue Bond repayment: ASU College of Health & Human Sciences Building, El Paso Medical Sciences Building II, HSC Lubbock Campus Expansion, HSC Amarillo Simulation Center, and TTU Experimental Sciences Building II.

**Note 17: Risk Management**

TTUSA by State law is required to be a participant in the Workers Compensation Program and Pool managed by the State Office of Risk Management (SORM). The System is assessed fees by SORM based upon claims experience, claim incidences, payroll size and full-time equivalent. Total SORM assessment for fiscal year 2015 and 2014 totaled \$27,567.43 and \$25,766.33, respectively. SORM pays all workers' compensation insurance claims. The Worker's Compensation plan for the fiscal year was funded by a .25 percent charge on non-educational and general gross payroll for paying its proportionate share of the SORM assessment.

TTUSA has self-insured arrangements for Unemployment Compensation Fund coverage. The State of Texas pays 50% of claims for employees paid from State funds. The System Administration pays the remainder for employees paid from State funds and 100% of the claims paid for employees paid from non-state funds. Total payments for unemployment compensation for fiscal year 2015 and 2014 amounted to \$5,147.25 and \$8,786.96, respectively. The claims for employees paid from non-state funds are funded by interest earnings on the Unemployment Compensation Fund balance and utilization of fund balance.

Two component institutions of the TTU System, TTUHSC and TTUHSC at El Paso, have self-insured arrangements for medical malpractice coverage through a medical malpractice self-insurance plan. The plan is managed by the Office of General Counsel, and the associated liability is adjusted annually based on actuarially estimated incurred but not reported (IBNR) liability to reflect the anticipated future claims related to past medical services. During fiscal year 2015, activity and transactions were accounted for in the records of TTUHSC and TTUHSC at El Paso. At the end of fiscal year 2015, liability balances were transferred to TTUSA for central administration of the fund. Accounting and reporting of the activity of this fund will be maintained in the records of TTUSA in fiscal year 2016 and forward.

Transfer of the liability and ending balance of the component institutions' claims to TTUSA in fiscal year 2015 is shown below.

Claims and Judgments	Beginning Balance	Increases	Decreases	Restatements/ Adjustments	Ending Balance
FY2015	\$ 0.00			\$ 7,838,693.25	\$ 7,838,693.25

#### **Note 18: Management's Discussion and Analysis (MD&A)**

The TTU System is governed, controlled, and directed by a ten-member Board of Regents, who are appointed by the Governor of Texas and confirmed by the legislature. All members of the board serve six-year staggered terms with the exception of one student regent who serves a one-year term. Actions of the Board of Regents are guided by the Regents' Rules and Regulations. A list of the current members of the Board of Regents is included in the organizational data.

Chancellor Robert L. Duncan serves as the chief executive officer of the TTU System, a position that is appointed by the Board of Regents. As chief executive officer, Chancellor Duncan leads System policy and has direct oversight of all operations at the four universities (component institutions). An Executive Leadership team guides the System in areas including academic affairs, legal affairs, fundraising, and governmental relations, along with other strategic functions. Each of the four institutions has a president who is appointed by the chancellor. The President is the chief executive officer of that university and is responsible for its operation.

Formally established by the Texas Legislature in 1999, the TTU System is composed of a central administration, two general academic institutions and two health-related institutions. The component institutions of the System are TTUSA, Texas Tech University (TTU), Texas Tech University Health Sciences Center (TTUHSC), Angelo State University (ASU) and Texas Tech University Health Sciences Center at El Paso (TTUHSC at El Paso). In its young history, the TTU System has emerged as a nationally acclaimed higher education system. Headquartered in Lubbock, Texas, the TTU System operates on more than 12 campuses and academic sites throughout the State of Texas and internationally. The TTU System has locations statewide in Abilene, Amarillo, Dallas, El Paso, Fredericksburg, Highland Lakes, Junction, Lubbock, Midland, Odessa, San Angelo and Waco. Internationally, the TTU System has a location in Seville, Spain. The total enrollment across all component institutions is more than 46,000 students.

In fiscal year 2015, Moody's upgraded the TTU System revenue financing system bonds to Aa1 from Aa2, attributing the System's success to a solid financial position, fueled by conservative fiscal management, growing enrollment, strong fundraising, good ongoing state support and increasing research funding. The TTU System employs more than 17,000 faculty and staff and has an annual combined budget of more than \$1.7 billion; approximately \$425 million of these funds are appropriated by the Texas Legislature.

The TTU System is committed to providing the highest quality and most efficient resources and services to its components. Throughout all institutions and centers, the System strives to enhance student success, strengthen academic quality, expand research, and promote community outreach.

## **Note 19: The Financial Reporting Entity**

### **The Financial Reporting Entity**

TTUSA is the executive arm of the TTU System. As required by generally accepted accounting principles, these financial statements present the financial transactions of TTUSA. TTUSA has no related organizations or joint ventures or jointly governed organizations.

TTUSA has no related parties to report.

## **Note 20: Stewardship, Compliance and Accountability**

TTUSA has no material stewardship, compliance, and accountability issues.

**Note 21:** Not applicable in the AFR.

## **Note 22: Donor-Restricted Endowments**

Expenditure of endowed funds is not allowed without the express consent of the donor. Most of System Administration's endowments are held in perpetuity. In many cases, endowment earnings are expendable for student financial assistance or other purposes as designated by the donor. In other cases, endowment earnings are reinvested.

The net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by TTUSA. TTUSA's spending policy for endowments reflects an objective to distribute as much of total return as is consistent with overall investment objectives while protecting the real value of the endowment corpus for future users.

The target distribution is set by policy to be between 4 and 6 percent of the moving average market value for endowments over the preceding 12 quarters.

Donor-Restricted Endowments	Amount of Net Appreciation *		Reported in Statement of Net Position
	FY15	FY14	
True Endowments	\$ 20,844.14	\$ 60,834.15	Restricted Expendable
Total	\$ 20,844.14	\$ 60,834.15	

\*There was a negative fair value adjustment totaling (\$39,990.01) for FY15, and a positive fair value adjustment for FY14 of \$36,081.49.

**Note 23: Extraordinary and Special Items**

TTUSA has no special or extraordinary items to disclose for the years ended August 31, 2015 or August 31, 2014.

**Note 24: Disaggregation of Receivable and Payable Balances**

Not applicable

**Note 25: Termination Benefits**

TTUSA has no reportable voluntary or involuntary termination benefits as of August 31, 2015 or August 31, 2014.

**Note 26: Segment Information**

TTUSA has no reportable segments.

**Note 27: Service Concession Arrangements**

TTUSA had no reportable service concession arrangements for the years ended August 31, 2015 or August 31, 2014.

**Note 28: Deferred Outflows of Resources and Deferred Inflows of Resources**

In fiscal year 2015, the TTU System reported deferred outflows and deferred inflows of resources in connection with its defined benefit pension plan as presented below.

<b>Business-Type Activities</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Defined Benefit Pension Plans (Note 9)	\$ 28,438,673.24	\$ 49,527,106.15

Due to new pension liability reporting, fiscal year 2014 financial statements included a restatement to include deferred outflows and inflows of resources as presented below.

<b>Business-Type Activities</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Defined Benefit Pension Plans (Note 9)	\$ 15,375,754.61	\$ 0.00

**Note 29: Troubled Debt Restructuring**

TTUSA had no outstanding receivables whose terms were modified pursuant to troubled debt restructuring for the years ended August 31, 2015 or August 31, 2014.

**Note 30: Non-Exchange Financial Guarantees**

TTUSA had no non-exchange financial guarantees for the years ended August 31, 2015 or August 31, 2014.

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**TEXAS TECH UNIVERSITY  
SYSTEM ADMINISTRATION (768)**

**SUPPORTING SCHEDULES**

**Texas Tech University System Administration (768)**  
**Schedule 1A - Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2015**

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Schedule Not Applicable



**Texas Tech University System Administration (768)**  
**Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies**  
**For the Year Ended August 31, 2015**

Agency Number	Agency Name Grant ID / Grant Description	Amount
<b>Pass-through from:</b>		
300	<b>Office of the Governor</b>	
	300.0006 Texas Emerging Technology Grants	\$ <u>641,216.96</u>
<b>Total State Grant Pass-through Revenues from Other State Agencies</b>		\$ <u><u>641,216.96</u></u>
<b>Pass-through to:</b>		
724	<b>University of Texas at El Paso</b>	
	768.0001 Texas Emerging Technology Fund	\$ 125,000.00
739	<b>Texas Tech University Health Sciences Center</b>	
	768.0001 Texas Emerging Technology Fund	44,552.14
<b>Total State Grant Pass-through Expenditures to Other State Agencies</b>		\$ <u><u>169,552.14</u></u>

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**Texas Tech University System Administration (768)**  
**Schedule 2A - Miscellaneous Bond Information**  
**For the Year Ended August 31, 2015**

Description of Issue	Bonds Issued to Date	Range of Interest Rates	Scheduled Maturities		First Call Date	
			First Year	Final Maturity Date		
Revenue Bonds						
Rev Fin Sys Ref & Imp Bds 9th Ser '03	\$ 97,265,000.00	2.0000%	5.2500%	2004	2/15/2023	8/15/2013
Rev Fin Sys Ref & Imp Bds 10th Ser '06	220,915,000.01	4.0000%	5.0000%	2006	2/15/2031	2/15/2016
Rev Fin Sys Ref & Imp Bds 12th Ser '09	170,825,000.00	3.0000%	5.2500%	2009	2/15/2038	2/15/2019
Rev Fin Sys Ref & Imp Bds 14th Ser '12A	163,240,000.00	2.0000%	5.0000%	2012	8/15/2041	8/15/2021
Rev Fin Sys Ref Bds Tax 15th Ser '12B	27,585,000.00	0.4000%	4.4400%	2012	8/15/2031	8/15/2021
Rev Fin Sys Ref & Imp Bds 16th Ser '15A	73,255,000.00	2.0000%	5.0000%	2016	2/15/2040	2/15/2025
Rev Fin Sys Ref & Imp Bds Tax 17th Ser '15B	245,315,000.00	0.2950%	4.1720%	2015	2/15/2045	2/15/2025
Total	\$ 998,400,000.01					

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**Texas Tech University System Administration (768)**  
**Schedule 2B - Changes in Bonded Indebtedness**  
**For the Year Ended August 31, 2015**

Description of Issue	Bonds Outstanding 9/1/14	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/15
Revenue Bonds					
Rev Fin Sys Ref & Imp Bds 9th Ser '03	\$ 270,000.00	\$	\$ 25,000.00	\$ 245,000.00	\$ 0.00
Rev Fin Sys Ref & Imp Bds 10th Ser '06	179,135,000.00		10,780,000.00	157,035,000.00	11,320,000.00
Rev Fin Sys Ref & Imp Bds 12th Ser '09	111,585,000.00		9,375,000.00		102,210,000.00
Rev Fin Sys Ref & Imp Bds 14th Ser '12A	148,105,000.00		8,575,000.00		139,530,000.00
Rev Fin Sys Ref Bds Tax 15th Ser '12B	25,540,000.00		870,000.00		24,670,000.00
Rev Fin Sys Ref & Imp Bds 16th Ser '15A		73,255,000.00			73,255,000.00
Rev Fin Sys Ref & Imp Bds Tax 17th Ser '15B		245,315,000.00	15,000.00		245,300,000.00
Total	<u>\$ 464,635,000.00</u>	<u>\$ 318,570,000.00</u>	<u>\$ 29,640,000.00</u>	<u>\$ 157,280,000.00</u>	<u>\$ 596,285,000.00</u>

Description of Issue	Unamortized Premium	Unamortized Discount	Other Adjustments	Net Bonds Outstanding 8/31/15	Amounts Due Within One Year
Revenue Bonds					
Rev Fin Sys Ref & Imp Bds 9th Ser '03			\$	0.00	\$ 0.00
Rev Fin Sys Ref & Imp Bds 10th Ser '06				11,320,000.00	11,320,000.00
Rev Fin Sys Ref & Imp Bds 12th Ser '09	\$ 6,211,508.12			108,421,508.12	8,313,408.06
Rev Fin Sys Ref & Imp Bds 14th Ser '12A	15,552,286.61			155,082,286.61	10,727,559.68
Rev Fin Sys Ref Bds Tax 15th Ser '12B				24,670,000.00	870,000.00
Rev Fin Sys Ref & Imp Bds 16th Ser '15A	5,518,025.70			78,773,025.70	1,348,670.85
Rev Fin Sys Ref & Imp Bds Tax 17th Ser '15B				245,300,000.00	8,305,000.00
Total	<u>\$ 27,281,820.43</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 623,566,820.43</u>	<u>\$ 40,884,638.59</u>

Note: The 12th Series amount due within one year includes bond premium amortization of \$308,408.06. The 14th Series amount due within one year includes bond premium amortization of \$1,882,559.68. The 16th Series amount due within one year includes bond premium amortization of \$533,670.85.

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Texas Tech University System Administration (768)  
Schedule 2C - Debt Service Requirements  
For the Year Ended August 31, 2015

Description of Issue	Fiscal Year	Principal	Interest
Revenue Bonds			
Rev Fin Sys Ref & Imp Bds 10th Ser '06	2016	\$ 11,320,000.00	\$ 283,000.00
		11,320,000.00	283,000.00
Rev Fin Sys Ref & Imp Bds 12th Ser '09	2016	8,005,000.00	4,944,406.26
	2017	8,400,000.00	4,534,281.26
	2018	5,400,000.00	4,189,281.26
	2019	4,975,000.00	3,929,906.26
	2020	5,225,000.00	3,674,906.26
	2021-2025	30,505,000.00	14,060,531.30
	2026-2030	25,100,000.00	6,088,200.02
	2031-2035	8,400,000.00	2,766,778.17
	2036-2038	6,200,000.00	499,537.50
		102,210,000.00	44,687,828.29
Rev Fin Sys Ref & Imp Bds 14th Ser '12A	2016	8,845,000.00	6,571,725.00
	2017	9,115,000.00	6,306,375.00
	2018	9,565,000.00	5,850,625.00
	2019	10,040,000.00	5,372,375.00
	2020	10,535,000.00	4,870,375.00
	2021-2025	31,455,000.00	18,151,537.50
	2026-2030	20,990,000.00	12,557,500.00
	2031-2035	23,755,000.00	7,023,250.00
	2036-2040	13,095,000.00	1,830,750.00
	2041	2,135,000.00	85,400.00
		139,530,000.00	68,619,912.50
Rev Fin Sys Ref Bds Tax 15th Ser '12B	2016	870,000.00	888,335.00
	2017	890,000.00	875,111.00
	2018	1,315,000.00	858,023.00
	2019	1,345,000.00	826,200.00
	2020	1,385,000.00	788,943.50
	2021-2025	7,605,000.00	3,259,656.00
	2026-2030	9,180,000.00	1,695,412.00
	2031	2,080,000.00	92,352.00
		24,670,000.00	9,284,032.50
Rev Fin Sys Ref & Imp Bds 16th Ser '15A	2016	815,000.00	2,833,006.26
	2017	1,445,000.00	2,810,406.26
	2018	2,495,000.00	2,758,531.26
	2019	2,450,000.00	2,672,106.26
	2020	2,600,000.00	2,571,106.26
	2021-2025	10,650,000.00	11,589,731.30
	2026-2030	24,280,000.00	8,612,938.80
	2031-2035	24,515,000.00	3,265,893.80
	2036-2040	4,005,000.00	373,465.63
		73,255,000.00	37,487,185.83
Rev Fin Sys Ref & Imp Bds Tax 17th Ser '15B	2016	8,305,000.00	6,206,762.02
	2017	20,385,000.00	5,922,320.18
	2018	23,820,000.00	5,661,008.69
	2019	22,810,000.00	5,287,212.38
	2020	22,860,000.00	4,840,978.98
	2021-2025	86,250,000.00	17,187,627.32
	2026-2030	33,575,000.00	7,870,001.02
	2031-2035	13,975,000.00	4,062,320.65
	2036-2040	5,965,000.00	2,177,053.90
	2041-2045	7,355,000.00	792,575.70
		245,300,000.00	60,007,860.84
Total Principal and Interest		\$ 596,285,000.00	\$ 220,369,819.96

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**Texas Tech University System Administration (768)**  
**Schedule 2D - Analysis of Funds Available for Debt Service**  
**For the Year Ended August 31, 2015**

Pledged and Other Sources and Related Expenditures for FY2015				
Description of Issue	Net Available for Debt Service		Debt Service	
	Total Pledged and Other Sources	Operating Expenses/Expenditures and Capital Outlay	Principal	Interest
Revenue Bonds:				
Rev Fin Sys Ref & Imp Bds 9th Ser '03			\$ 25,000.00	\$ 6,918.75
Rev Fin Sys Ref & Imp Bds 10th Ser '06			10,780,000.00	4,532,472.50
Rev Fin Sys Ref & Imp Bds 12th Ser '09			9,375,000.00	5,378,906.25
Rev Fin Sys Ref & Imp Bds 14th Ser '12A			8,575,000.00	6,828,975.00
Rev Fin Sys Ref Bds Tax 15th Ser '12B			870,000.00	899,819.00
Rev Fin Sys Ref & Imp Bds 16th Ser '15A			0.00	994,404.70
Rev Fin Sys Ref & Imp Bds Tax 17th Ser '15B			15,000.00	1,946,408.15
Total	\$ 731,255,441.75	\$ (B)	\$ 29,640,000.00	\$ 20,587,904.35

(A) Beginning balances as of 09/01/14 of \$651,190,266.23 are not included in "Total Pledged and Other Sources."

(B) Expenditures associated with pledged sources were approximately \$624,757,421.68.

**Texas Tech University System Administration (768)**  
**Schedule 2E - Defeased Bonds Outstanding**  
**For the Year Ended August 31, 2015**

Description of Issue	Year Defeased	Par Value Outstanding
Revenue Bonds		
Rev Fin Sys Ref & Imp Bds 10th Ser '06	2015	\$ 157,035,000.00
		\$ 157,035,000.00

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**Texas Tech University System Administration (768)**  
**Schedule 2F - Early Extinguishment and Refunding**  
**For the Year Ended August 31, 2015**

Description of Issue	Category	Amount Extinguished or Refunded	Refunding Issue Par Value	Cash Flow Increase (Decrease)	Economic Gain/ (Loss)
Revenue Bonds					
Rev Fin Sys Ref & Imp Bds 9th Ser '03	Current Refunding	\$ 245,000.00	\$ 240,000.00	\$ 46,617.50	\$ 36,889.14
Rev Fin Sys Ref & Imp Bds 10th Ser '06	Advance Refunding	157,035,000.00	165,040,000.00	20,498,794.86	15,026,722.58
Total		\$ 157,280,000.00	\$ 165,280,000.00	\$ 20,545,412.36	\$ 15,063,611.72

NOTE:

In fiscal year 2015, \$17,550,000 of Texas State University System debt on behalf of Angelo State University was refunded and new debt was financed by Texas Tech University System on behalf of Angelo State University. The refunded bonds were Angelo State University's portion of the Texas State University System 2005 series bonds in the amount of \$4,185,000 & 2006 series bonds in the amount of \$13,365,000. The 2005 series refunding resulted in debt service savings of \$273,960.26 and a total net present value savings of \$259,243.73. The 2006 series refunding resulted in debt service savings of \$1,319,747.75 and a total net present value savings of \$998,516.08.

**Texas Tech University System Administration (768)**  
**Schedule 3 - Reconciliation of Cash in State Treasury**  
**For the Year Ended August 31, 2015**

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Schedule Not Applicable



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**Texas Tech University System Administration (768)**  
**Schedule 4A - Schedule of TTU System's Proportionate Share of Net Pension Liability**  
**For the Year Ended August 31, 2015**

		<b>2015</b>
TTU System's proportion of net pension liability (asset)		0.6064722%
TTU System's proportionate share of net pension liability (asset) as a percentage of its covered payroll	\$	162,030,163.65
TTU System covered payroll	\$	222,298,083.81
TTU System's proportionate share of net pension liability (asset) as a percentage of its covered payroll		72.89%
Plan fiduciary net position as a percentage of the total pension liability		83.25%

**Texas Tech University System Administration (768)**  
**Schedule 4B - Schedule of TTU System's Contributions**  
**For the Year Ended August 31, 2015**

		<b>2015</b>
Statutorily required contributions	\$	19,273,243.86
Contributions in relation to statutorily required contributions		15,253,844.56
Contribution deficiency (excess)		4,019,399.30
TTU System's covered-employee payroll		222,298,083.81
Contributions as a percentage of covered-employee payroll		6.86%