

Annual Financial Report

Fiscal Year 2019



September 1, 2018
to
August 31, 2019



LAMAR UNIVERSITY
MEMBER THE TEXAS STATE UNIVERSITY SYSTEM™



Lamar University engages and empowers students with the skills and knowledge to thrive in their personal lives and chosen fields of endeavor. As a doctoral-granting institution, Lamar University is internationally recognized for its high-quality academics, innovative curriculum, diverse student population, accessibility, and leading-edge scholarly activities dedicated to transforming the communities of Southeast Texas and beyond.



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Moment
IS HERE



LAMAR UNIVERSITY

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November 20, 2019

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
John McGeady, Assistant Director, Legislative Budget Board
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of Lamar University for the year ended August 31, 2019, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) 34, 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.

If you have any questions, please contact Ms. Jamie Larson at 409-880-7126. Ms. Cindy Brown may be contacted at 409-880-7925 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Dr. Kenneth R. Evans
President

LAMAR UNIVERSITY

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November 20, 2019

Dr. Kenneth Evans
President
Lamar University
PO Box 10001
Beaumont, TX 77710-0001

Dear Dr. Evans:

Submitted herein is the Annual Financial Report of Lamar University for fiscal year ended August 31, 2019.

The financial statements in this report have been prepared in conformity with the General Provisions of the Appropriations Act, Article IX, and in accordance with the requirements established by the Comptroller of Public Accounts.

The Annual Financial Report will be audited 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 statements and related information contained in the report.

If you have any questions, please contact Jamie Larson at 409-880-7126.

Respectfully submitted,

Jamie Larson
Associate Vice President for Financial Services

Approved:

Edward C. Ness
Vice President for Finance and Operations

Lamar University

A Member of The Texas State University System

Organizational Data as of August 31, 2019

The Texas State University System

Board of Regents

| Name | City (Texas) | Term Expires |
|-------------------------------|---------------------|---------------------|
| William F. Scott, Chairman | Nederland | February 1, 2025 |
| David Montagne, Vice Chairman | Beaumont | February 1, 2021 |
| Charlie Amato | San Antonio | February 1, 2025 |
| Duke Austin | Houston | February 1, 2023 |
| Garry Crain | The Hills | February 1, 2023 |
| Dr. Veronica Muzquiz Edwards | San Antonio | February 1, 2021 |
| Don Flores | El Paso | February 1, 2025 |
| Nicki Harle | Baird | February 1, 2023 |
| Alan L. Tinsley | Madisonville | February 1, 2021 |
| Katey McCall, Student Regent | Orange | May 31, 2020 |

ADMINISTRATION OFFICERS

System Office

| | |
|--------------------|---|
| Dr. Brian McCall | Chancellor |
| Dr. John Hayek | Vice Chancellor for Academic and Health Affairs |
| Dr. Fernando Gomez | Vice Chancellor and General Counsel |
| Sean Cunningham | Vice Chancellor for Governmental Relations |
| Daniel Harper | Vice Chancellor and Chief Financial Officer |
| Mike Wintemute | Deputy Vice Chancellor for Marketing and Communications |
| Carole Fox | Chief Audit Executive |

Lamar University

| | |
|----------------------|---|
| Dr. Kenneth Evans | President |
| Dr. James Marquart | Provost and Vice President for Academic Affairs |
| Edward C. Ness | Vice President for Finance and Operations |
| Dr. Vicki McNeil | Vice President for Student Engagement |
| Dr. John Bello-Ogunu | Vice President for Diversity and Inclusion |
| Juan Zabala | Vice President for University Advancement |
| Priscilla Parsons | Vice President for Information Technology |
| Marco Born | Athletic Director |

Proprietary Fund Financial Statements

Diverse Lamar University Community

Proprietary Fund Financial Statements



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**Lamar University
Statement of Net Position
August 31, 2019**

ASSETS

Current Assets:

| | | |
|-------------------------------------|-----------|-----------------------|
| Cash and Cash Equivalents: (Note 3) | | |
| Cash on Hand (Including Petty Cash) | \$ | 13,200.00 |
| Cash in Bank | | 18,416,384.77 |
| Cash in State Treasury (Schedule 3) | | 9,258,873.46 |
| Cash Equivalents | | 21,442.48 |
| Cash in Bank | | 9,411,973.55 |
| Legislative Appropriations | | 21,989,226.50 |
| Federal | | 2,143,650.30 |
| Interest | | 22.34 |
| Accounts – Tuition | | 35,047,908.16 |
| Allowance Accounts | | (12,848,940.08) |
| Accounts – Other Revenue | | 939,291.40 |
| Due From Other Agencies (Note 12) | | 738,190.57 |
| Consumable Inventories | | 219,913.95 |
| Merchandise Inventories | | 9,508.75 |
| Prepaid Items | | 12,457,612.69 |
| Loans and Contracts | | 6,980,716.63 |
| Allowance-Loans & Contracts | | (4,666,849.50) |
| Total Current Assets | \$ | 100,132,125.97 |

Noncurrent Assets

Restricted:

| | | |
|-------------------------------------|----|------------------|
| Cash and Cash Equivalents: (Note 3) | | |
| Cash in Bank | \$ | 1,114,684.30 |
| Cash Equivalents | | 10,046,323.53 |
| Investments (Note 3) | | 33,048,434.99 |
| Receivables | | 2,479.35 |
| Investments (Note 3) | | 3,030,226.55 |
| Non-Depreciable or Non-Amortizable | | |
| Land and Land Improvements | | 15,091,612.93 |
| Construction in Progress | | 61,355,143.61 |
| Other Capital Assets | | 3,330,817.37 |
| Depreciable or Amortizable | | |
| Building and Building Improvements | | 315,164,600.33 |
| Less Accumulated Depreciation | | (147,960,183.42) |
| Infrastructure | | 20,720,125.64 |
| Less Accumulated Depreciation | | (14,203,727.95) |
| Facilities and Other Improvements | | 25,486,125.57 |
| Less Accumulated Depreciation | | (14,551,126.32) |
| Furniture and Equipment | | 29,568,183.45 |

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**Lamar University
Statement of Net Position
August 31, 2019**

| | |
|---------------------------------------|---------------------------------|
| Less Accumulated Depreciation | (20,365,435.14) |
| Vehicles, Boats, and Aircraft | 2,346,523.47 |
| Less Accumulated Depreciation | (1,331,743.58) |
| Other Capital Assets | 22,762,557.23 |
| Less Accumulated Depreciation | (21,410,123.14) |
| Total Noncurrent Assets | <u>\$ 323,245,498.77</u> |
| Total Assets | <u><u>\$ 423,377,624.74</u></u> |
| LIABILITIES | |
| Current Liabilities: | |
| Payables from: | |
| Accounts Payable | \$ 5,996,495.99 |
| Payroll Payable | 10,368,500.56 |
| Due to Other Agencies (Note 12) | 8,221,808.68 |
| Unearned Revenues | 52,212,181.24 |
| Employees' Compensable Leave (Note 5) | 563,163.96 |
| Funds Held for Others | 496,428.96 |
| Other Current Liabilities | 131,291.19 |
| Total Current Liabilities | <u>\$ 77,989,870.58</u> |
| Noncurrent Liabilities | |
| Employees' Compensable Leave (Note 5) | \$ 3,191,262.46 |
| Other Non-Current Liabilities | 243,826.50 |
| Total Non-Current Liabilities | <u>\$ 3,435,088.96</u> |
| Total Liabilities | <u><u>\$ 81,424,959.54</u></u> |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 276,003,350.05 |
| Restricted for: | |
| Capital Projects | 7,890,592.87 |
| Other | 15,204,268.38 |
| Funds Held as Permanent Investments: | |
| Nonexpendable: | |
| Endowment Funds | 20,765,829.74 |
| Expendable: | |
| Endowment Funds | 5,781,942.06 |
| Unrestricted | <u>16,306,682.10</u> |
| Total Net Position | <u><u>\$ 341,952,665.20</u></u> |

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Lamar University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2019

Operating Revenues:

| | | |
|---|-----------|-----------------------|
| Tuition and Fees – Pledged | \$ | 120,928,813.23 |
| Tuition and Fees – Discounts/Allowances | | (29,362,020.43) |
| Auxiliary Enterprise – Pledged | | 24,644,399.49 |
| Other Sales of Goods and Svcs – Pledged | | 338,134.33 |
| Federal Revenue | | 3,275,806.78 |
| Federal Pass Through Revenue | | 629,101.50 |
| State Grant Revenue | | 123,306.29 |
| State Grant Pass Through Revenue | | 7,502,827.36 |
| Other Contract and Grants – Non-Pledged | | 1,836,965.39 |
| Other Operating Revenues – Pledged | | 1,383,344.29 |
| Total Operating Revenues | \$ | 131,300,678.23 |

Operating Expenses:

| | | |
|------------------------------------|-----------|------------------------|
| Instruction | | 67,294,390.45 |
| Research | | 4,290,404.40 |
| Public Service | | 1,934,413.83 |
| Academic Support | | 34,261,021.71 |
| Student Services | | 10,430,468.19 |
| Institutional Support | | 23,449,653.82 |
| Operation and Maintenance of Plant | | 13,313,293.40 |
| Scholarships and Fellowships | | 25,010,705.60 |
| Auxiliary | | 30,711,982.55 |
| Depreciation & Amortization | | 11,620,892.15 |
| Total Operating Expenses | \$ | 222,317,226.10 |
| Operating Income (Loss) | \$ | (91,016,547.87) |

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Lamar University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2019

Nonoperating Revenues (Expenses):

| | | |
|---|-----------|-----------------------|
| Legislative Revenue (GR) | \$ | 48,176,966.00 |
| Additional Appropriations (GR) | | 14,005,919.32 |
| Federal Revenue | | 18,836,454.77 |
| Gifts – Non-Pledged | | 6,378,891.64 |
| Investment Income – Non-Pledged | | 1,096,318.30 |
| Investment Income – Pledged | | 759,459.81 |
| Gain/Loss Sale Capital Assets | | (38,027.49) |
| Net (Increase) Decrease Fair Value – Pledged | | 163,309.72 |
| Net (Increase) Decrease Fair Value – Non-Pledged | | (102,199.32) |
| Other Nonoperating Expenses | | (2,337,397.96) |
| Total Nonoperating Revenues (Expenses) | \$ | 86,939,694.79 |
| Income (Loss) before Capital Contributions, Endowments and Transfers | \$ | (4,076,853.08) |
| Capital Contributions, Endowments and Transfers | | |
| Capital Appropriations (HEF) | \$ | 14,101,882.00 |
| Interagency Transfer Cap Assets – Decrease (Note 12) | | (1,994.45) |
| Transfers-In (Note 12) | | - |
| Transfers-Out (Note 12) | | (12,935,841.21) |
| Legislative Transfer-In (Note 12) | | 249,765.00 |
| Legislative Transfer-Out (Note 12) | | (6,470,138.00) |
| Total Capital Contributions, Endowments and Transfers | \$ | (5,056,326.66) |
| Change in Net Position | \$ | (9,133,179.74) |
| Total Net Position, September 1, 2018 | | 351,127,397.92 |
| Restatements | | (41,552.98) |
| Total Net Position, September 1, 2018 as Restated | \$ | 351,085,844.94 |
| Total Net Position, August 31, 2019 | \$ | 341,952,665.20 |

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Lamar University
Matrix of Operating Expenses Reported by Function
For the Year Ended August 31, 2019

| Operating Expenses | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Operation and Maintenance of Plant | Scholarship and Fellowships | Auxiliary Enterprises | Depreciation and Amortization* | Total Expenses |
|----------------------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|------------------------------------|-----------------------------|-------------------------|--------------------------------|--------------------------|
| Salaries and Wages | \$ 47,735,748.33 | \$ 2,503,936.80 | \$ 846,516.10 | \$ 10,705,160.75 | \$ 6,067,614.48 | \$ 12,133,537.67 | \$ 6,446,786.33 | \$ - | \$ 9,254,090.59 | \$ - | \$ 95,693,391.05 |
| Payroll Related Costs | 16,604,834.19 | 326,843.41 | 202,780.75 | 2,497,335.48 | 1,901,582.64 | 3,451,386.51 | 2,305,559.09 | - | 2,276,375.88 | - | 29,566,697.95 |
| Professional Fees and Services | 227,261.52 | 170,347.35 | 131,510.93 | 15,522,983.28 | 1,205,806.67 | 1,163,127.50 | 530,137.01 | - | 735,215.08 | - | 19,686,389.34 |
| State Grant Pass-Through Expense | - | 198,850.90 | - | - | - | - | - | - | - | - | 198,850.90 |
| Travel | 467,825.15 | 166,871.70 | 25,520.36 | 834,704.43 | 190,585.97 | 175,657.09 | 12,670.94 | - | 1,932,685.31 | - | 3,806,520.95 |
| Materials and Supplies | 1,129,554.09 | 538,920.27 | 183,917.39 | 2,711,714.30 | 418,105.08 | 3,108,857.72 | 1,184,165.49 | - | 6,745,823.57 | - | 16,021,057.91 |
| Communications and Utilities | 5,918.98 | 5,653.80 | 83,070.73 | 1,573,360.83 | 23,788.07 | 852,752.87 | 2,092,582.60 | - | 1,892,099.82 | - | 6,529,227.70 |
| Repairs and Maintenance | 71,384.07 | 20,655.77 | 10,155.11 | 97,053.02 | 13,119.88 | 880,301.68 | 695,649.14 | - | 2,083,945.31 | - | 3,872,263.98 |
| Rentals and Leases | 74,556.36 | 50,221.24 | 9,792.03 | 35,635.63 | 23,213.75 | 164,516.03 | 9,389.73 | - | 227,116.79 | - | 594,441.56 |
| Printing and Reproduction | 58,111.41 | 11,884.87 | 15,850.21 | 71,117.11 | 159,436.67 | 123,346.41 | 3,123.87 | - | 140,588.81 | - | 583,459.36 |
| Depreciation and Amortization* | - | - | - | - | - | - | - | - | - | 11,620,892.15 | 11,620,892.15 |
| Bad Debt Expense | 666,964.23 | - | (13,599.95) | 17,177.82 | 5,571.79 | 47,755.58 | - | - | 596,781.54 | - | 1,320,651.01 |
| Scholarships | - | - | - | - | - | - | - | 25,010,705.60 | 3,992,820.21 | - | 29,003,525.81 |
| Other Operating Expenses | 252,232.12 | 296,218.29 | 438,900.17 | 194,779.06 | 421,643.19 | 1,348,414.76 | 33,229.20 | - | 834,439.64 | - | 3,819,856.43 |
| Total Operating Expenses | \$ 67,294,390.45 | \$ 4,290,404.40 | \$ 1,934,413.83 | \$ 34,261,021.71 | \$ 10,430,468.19 | \$ 23,449,653.82 | \$ 13,313,293.40 | \$ 25,010,705.60 | \$ 30,711,982.55 | \$ 11,620,892.15 | \$ 222,317,226.10 |

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Lamar University
Statement of Cash Flows
For the Year Ended August 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------------------|
| Receipts from Customers | \$ 338,134.33 |
| Proceeds from Tuition and Fees | 94,275,955.50 |
| Proceeds from Research Grants and Contracts | 12,320,410.03 |
| Proceeds from Auxiliaries | 24,644,399.49 |
| Proceeds from Other Operating Revenues | 1,383,344.29 |
| Payments to Suppliers for Goods and Services | (57,312,625.71) |
| Payments to Employees for Salaries | (97,680,408.78) |
| Payments to Employees for Benefits | (18,420,536.26) |
| Payments for Other Operating Expenses | (32,823,382.24) |
| Net Cash Provided by Operating Activities | <u>\$ (73,274,709.35)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-------------------------|
| Proceeds from State Appropriations | \$ 48,960,167.44 |
| Proceeds from Gifts | 6,315,878.31 |
| Proceeds from Grant Receipts | 18,836,454.77 |
| Payments for Other Noncapital Financing Uses | (3,209,258.86) |
| Net Cash Provided by Noncapital Financing Activities | <u>\$ 70,903,241.66</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|---------------------------|
| Proceeds from Other Capital and Related Financing Activities | 14,101,882.00 |
| Payments for Additions to Capital Assets | (25,245,009.78) |
| Payments of Principal on Debt | (12,676,817.77) |
| Payments for Capital Leases | (1,043,254.38) |
| Payments of Interest on Debt Issuance | (3,971,931.18) |
| Net Cash Provided by Capital and Related Financing Activities | <u>\$ (28,835,131.11)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-------------------------|
| Proceeds from Sales of Investments | \$ 67,699,131.07 |
| Proceeds from Interest Income | 358,998.61 |
| Proceeds from Investment Income | 1,756,610.20 |
| Payments to Acquire Investments | (46,419,496.24) |
| Net Cash Provided by Investing Activities | <u>\$ 23,395,243.64</u> |

Net Increase (Decrease) in Cash and Cash Equivalents \$ (7,811,355.16)

| | |
|--|-------------------------|
| Cash and Cash Equivalents, September 1 2018 | 56,094,237.25 |
| Restatements to Beginning Cash and Cash Equivalents | - |
| Cash and Cash Equivalents, September 1, 2018- Restated | <u>\$ 56,094,237.25</u> |

Cash and Cash Equivalents, August 31, 2019 \$ 48,282,882.09

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Lamar University
Statement of Cash Flows
For the Year Ended August 31, 2019

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|---|---------------------------|
| Operating Income (Loss) | \$ (91,016,547.87) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | |
| Amortization and Depreciation | 11,620,892.15 |
| Bad Debt Expense | 1,320,651.01 |
| On-Behalf Benefit Payments | 11,030,028.61 |
| Operating Income (Loss) and Cash Flow Categories: Classification Differences | |
| Changes in Assets and Liabilities: | |
| (Increase) Decrease in Receivables | 738,801.05 |
| (Increase) Decrease in Inventories | (15,989.68) |
| (Increase) Decrease in Prepaid Expenses | (2,654,844.85) |
| (Increase) Decrease in Notes Receivable | (592,736.22) |
| Increase (Decrease) in Payables | (5,339,457.48) |
| Increase (Decrease) in Unearned Revenue | 1,518,360.85 |
| Increase (Decrease) in Compensated Absence Liability | 116,133.08 |
| Total Adjustments | <u>\$ 17,741,838.52</u> |
| Net Cash Provided by Operating Activities | <u>\$ (73,274,709.35)</u> |
| Non Cash Transactions | |
| Donation of Capital Assets | \$ 63,013.33 |
| Net Change in Fair Value of Investments | \$ 61,110.40 |

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Notes to the Financial Statements



Diversity of Thought

Students further develop their sense of self during their college experience through learning new ways of thought. The courses they take, the professors with which they interact and the lectures they attend all provide students exciting paths of knowledge. Lamar University offers more than 100 majors of study, 150 student organizations and numerous opportunities for research, even as an undergraduate. All of these give students a better understanding of the world around them and on a variety of topics of interest to them.



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Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

Lamar University (LU) is part of the Texas State University System (TSUS). TSUS was founded in 1911, and is the first higher education system established in Texas. Beginning as an administrative means to consolidate the support and management of state teacher colleges, TSUS has evolved into a network of higher education institutions stretching from the Texas-Louisiana border to the Big Bend region of west Texas. Today, eight component institutions offer a broad range of academic and career opportunities. Those eight institutions are located throughout Texas and include Lamar University, Sam Houston State University, Sul Ross State University, Texas State University, Lamar Institute of Technology, Lamar State College-Orange, Lamar State College-Port Arthur, and Sul Ross State University Rio Grande College.

TSUS is governed by a nine-member Board of Regents (the “Board”) appointed by the Governor. In addition, a nonvoting student regent is appointed annually to the Board. The TSUS Administration (“System Administration”), which is headed by a Board appointed chancellor, is based in Austin, where it provides support to TSUS and state government.

TSUS is an agency of the State of Texas (the “State”) and is reported as one of six university systems and five independent universities that in total are presented as a major enterprise fund in the State’s Comprehensive Annual Financial Report.

The Lamar Foundation (the “Foundation”) is a separate legal entity registered with the IRS as a 501(c) organization and its efforts benefit LU and its students. The Foundation is separately governed and operates autonomously from the Board, and its related activities are not included in LU’s, TSUS’s or the State’s financial statements. The Foundation solicits donations and acts as a coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$4,258,959.72 to LU during the year ended August 31, 2019. During the fiscal year, LU furnished certain services, such as office space and utilities, to the Foundation, for which the Foundation was billed at cost of \$316,562.41. Accounts receivable of \$999,845.61 are due from the Foundation at August 31, 2019.

The accounting policies followed by LU in maintaining accounts and in the preparation of the financial statements are in accordance with the Texas Comptroller of Public Accounts’ Reporting Requirements for the Fiscal 2019 Annual Financial Reports of State Agencies and Universities (the “Comptroller’s AFR Requirements”) and with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. The Comptroller’s AFR Requirements are designed to assist the Texas Comptroller of Public Accounts in compiling and preparing the State’s CAFR and, accordingly, have some untraditional elements, such as the prohibition of rounding, unique ordering and specific numbering of footnotes, and the inclusion of footnote titles when the subject matter does not apply.

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LAMAR UNIVERSITY
Notes to the Financial Statements

No entities have been identified meeting GASB's definition of component units, which are legally separate entities and, accordingly, none are included within the reporting entity. As previously noted, LU is considered by the State as one of the academic entities that comprise TSUS, however, each entity is considered an agency of the State.

Fund Structure

The accompanying financial statements are presented on the basis of funds. A fund is considered a separate accounting entity. The fund designation for institutions of higher education is a Business-type Activity within the Proprietary Fund Type.

Proprietary Funds

Business-type funds are used for activities that are financed through the charging of fees and sales for goods or services to the ultimate user. Institutions of higher education are required to report their financial activities as business-type because the predominance of their funding comes through charges to students, sales of goods and services, and grant revenues.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or 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.

Business-type activity funds (proprietary funds) are accounted for using the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Budget and Budgetary Accounting

The State's budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor as (the "General Appropriations Act"). Additionally, TSUS prepares an annual budget which represents anticipated sources of revenues and authorized uses. This budget is approved by TSUS's Board. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

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LAMAR UNIVERSITY
Notes to the Financial Statements

Assets, Liabilities, and Fund Balances/Net Position

ASSETS

Current and Noncurrent Assets

Current assets are those that are readily available to meet current operational requirements. Noncurrent assets are those that are not readily available to meet current operational requirements and, instead, are intended to support long-term institutional needs.

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Investments

Investments are generally stated at fair value with certain exceptions in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the accompanying Comparative Statement of Revenues, Expenses, and Changes in Net Position.

Legislative Appropriations

This item represents the balance of general revenue funds at year end as calculated in the Texas State Comptroller's General Revenue Reconciliation.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the proprietary fund types. The cost of these items is expensed when the items are used or consumed.

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LAMAR UNIVERSITY
Notes to the Financial Statements

Capital Assets

Assets such as furniture, equipment, and vehicles with an aggregate cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Capitalization thresholds are also utilized for buildings and building improvements (\$100,000), infrastructure (\$500,000), and facilities and other improvements (\$100,000). Capital assets are recorded at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. For fabricated assets financed by debt, construction period interest is capitalized as part of the capital asset cost. The capitalized interest is combined with the other costs associated with constructing the asset and depreciated over the appropriate useful life beginning when the asset is placed into service.

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

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

Other Receivables - Current and Noncurrent

The disaggregation of other receivables as reported in the financial statements is shown in Note 24, "Disaggregation of Receivables and Payables Balances." Other receivables include year end accruals not included in any other receivable category. This account can appear in governmental and proprietary fund types.

LIABILITIES

Accounts Payable

Accounts payable represents the liability for the value of assets or services received for which payment is pending.

Other Liabilities - Current and Noncurrent

Other payables are the accrual at year end of expenditure transactions not included in any of the other payable descriptions. The disaggregation of other payables as reported in the financial statements is shown in Note 24, "Disaggregation of Receivables and Payables Balances."

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Notes to the Financial Statements

Unearned Revenues

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

Funds Held for Others

Current balances in funds held for others result from LU acting as an agent or fiduciary for other organizations.

Employees' Compensable Leave

Employees' Compensable Leave represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

NET POSITION

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

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Position

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Expendable net position use is subject to externally imposed stipulations that can be fulfilled by actions pursuant to those stipulations, or that expire by the passage of time.

Nonexpendable net position is subject to externally imposed stipulations that it be maintained permanently. Such assets include the principal of permanent endowment funds.

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Notes to the Financial Statements

Unrestricted Net Position

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

OPERATING AND NONOPERATING REVENUES AND EXPENSES

Operating Revenues and Expenses include activities such as student tuition and fees; net sales and services of auxiliary enterprises; exchange basis federal, state, and local grants and contracts and related expenses, including depreciation; scholarships and fellowships; impairment losses; insurance recovery in the year of the loss; and incurred but not reported liabilities.

Nonoperating Revenues and Expenses - include activities such as gifts and contributions, insurance recoveries received in years subsequent to the loss, State appropriations, investment income, nonexchange basis federal and state grants and contracts, and other nonoperating items defined by GASB.

Interfund Activity and Transactions

LU has the following types of transactions between funds:

Transfers are legally required transferals that are reported when incurred as “Transfers In” by the recipient fund and as “Transfers Out” by the disbursing fund.

Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

Interfund Receivables and Payables are reported as interfund loans. If repayment is due during the current year or soon thereafter, the balance is classified as “current.” Balances for repayment due in two or more years are classified as “noncurrent.”

Interfund Sales and Purchases are charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund (interfund services provided) and expenditures or expenses of the disbursing fund (interfund services used). The composition of LU’s interfund activities and transactions are presented in Note 12.

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Notes to the Financial Statements

NOTE 2: Capital Assets

Revenue received from the sale of surplus property has been transferred to unappropriated general revenue in accordance with HB7, Sec. 20.

A summary of changes in capital assets for the year ended August 31, 2019 is presented below:

| | PRIMARY GOVERNMENT | | | | | | Balance 8/31/2019 |
|---|---------------------------|-----------------------|---------------------------|----------------------|---------------------------|--------------------------|----------------------------|
| | Balance 9/1/2018 | Adjustments | Completed CIP | Transfers Inc/(Dec) | Additions | Deletions | |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Non-Depreciable Assets | | | | | | | |
| Land and Land Improvements | \$11,882,252.17 | \$ - | \$- | \$ - | \$3,209,360.76 | \$ - | \$15,091,612.93 |
| Construction in Progress | 72,826,606.29 | (14,710.44) | (29,879,615.08) | - | 18,422,862.84 | - | 61,355,143.61 |
| Other Assets | 3,177,686.70 | - | - | - | 153,130.67 | - | 3,330,817.37 |
| TOTAL NON-DEPRECIABLE ASSETS | \$ 87,886,545.16 | \$ (14,710.44) | \$ (29,879,615.08) | \$ - | \$ 21,785,354.27 | \$ - | \$ 79,777,573.91 |
| Depreciable Assets | | | | | | | |
| Buildings and Building Improvements | \$ 285,182,157.19 | \$ - | \$ 29,879,615.08 | \$ - | \$2,828.06 | \$ - | \$315,164,600.33 |
| Infrastructure | 20,720,125.64 | - | - | - | - | - | 20,720,125.64 |
| Facilities and Other Improvements | 25,486,125.57 | - | - | - | - | - | 25,486,125.57 |
| Furniture and Equipment | 28,886,543.54 | (6,150.99) | - | (5,697.50) | 2,777,360.89 | (2,083,872.49) | 29,568,183.45 |
| Vehicle, Boats and Aircraft | 1,821,779.52 | - | - | - | 635,143.35 | (110,399.40) | 2,346,523.47 |
| Library books/Leaseholds | 22,777,596.30 | - | - | - | 7,336.54 | (22,375.61) | 22,762,557.23 |
| Total Depreciable Assets at Historical Cost | \$ 84,874,327.76 | \$ (6,150.99) | \$ 29,879,615.08 | \$ (5,697.50) | \$3,522,668.84 | \$ (2,216,647.50) | \$416,048,115.69 |
| Less Accumulated Depreciation for: | | | | | | | |
| Buildings and Building Improvements | \$40,247,859.23) | \$ - | \$ - | \$ - | \$ (7,712,324.19) | \$ - | \$ (147,960,183.42) |
| Infrastructure | (13,660,245.91) | - | - | - | (543,482.04) | - | (14,203,727.95) |
| Facilities and Other Improvements | (13,912,651.30) | - | - | - | (638,475.02) | - | (14,551,126.32) |
| Furniture and Equipment | (20,088,355.34) | 1,684.06 | - | 3,703.05 | (2,333,671.86) | 2,051,204.95 | (20,365,435.14) |
| Vehicle, Boats and Aircraft | (1,263,624.01) | - | - | - | (173,159.02) | 105,039.45 | (1,331,743.58) |
| Library books/Leaseholds | (21,190,343.12) | (22,375.61) | - | - | (219,780.02) | 22,375.61 | (21,410,123.14) |
| Total Accumulated Depreciation | \$(210,363,078.91) | \$ (20,691.55) | \$ - | \$ 3,703.05 | \$ (11,620,892.15) | \$ 2,178,620.01 | \$ (219,822,339.55) |
| Depreciable Assets, Net | \$174,511,248.85 | \$ (26,842.54) | \$ - | \$ (1,994.45) | \$ (8,098,223.31) | \$ (38,027.49) | \$ 196,225,776.14 |
| Business Type-Activities Capital Assets, Net | \$262,397,794.01 | \$(41,552.98) | \$ - | \$(1,994.45) | \$13,687,130.96 | \$(38,027.49) | \$276,003,350.05 |

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Notes to the Financial Statements

NOTE 3: Deposits, Investments, and Repurchase Agreements

Deposits

As of August 31, 2019, the actual bank balance was \$29,392,987.10. The carrying balance was \$28,943,042.62 as presented below.

| | |
|--|--------------------------------|
| Current Assets - Cash in Bank | \$ 18,416,384.77 |
| Current Assets - Restricted Cash in Bank | 9,411,973.55 |
| Noncurrent - Restricted Cash in Bank | <u>1,114,684.30</u> |
| Cash in Bank | <u><u>\$ 28,943,042.62</u></u> |

Custodial Credit Risk

LU's bank accounts are entirely secured by FDIC insurance and collateral pledged. LU has no deposits that are at risk of recovery due to the failure of a depository financial institution.

Investments

LU is authorized to invest in obligations and instruments as defined in "prudent person standard" as defined by Texas Education Code §51.0031(d). Endowment Funds may be invested in accordance with the Uniform Management of Institutional Funds Act, Property Code Chapter 163. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State or its agencies, (3) obligations of political subdivisions rated not less than 'A' by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute. LU is authorized by statute to make investments following the "prudent person rule." There were no significant violations of legal provisions during the period.

LU values its investments at fair value. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of the market participant that holds the asset. This is a market-based measurement.

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Notes to the Financial Statements

GASB 72 also establishes a fair value hierarchy that classifies inputs to valuation techniques into three levels:

- Level 1—inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2—inputs are inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly (quoted market prices for similar assets or liabilities) or indirectly (corroborated from observable market information).
- Level 3—inputs are unobservable inputs for an asset or liability. Beyond these three levels, net asset value may be used to categorize investments without a readily determinable fair value. As of year-end, fair values of investments were categorized as follows:

| Type of Investments | Fair Value Hierarchy | | | | | Net Asset Value | (Fair Value) |
|--|------------------------|-------------------------|-----------|-------------|-------------------------|-------------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Amort. Cost | | | |
| Common Equity | \$ 1,514,500.46 | \$ | \$ | \$ | \$ | \$ | \$ 1,514,500.46 |
| Fixed income money market and bond mutual fund | | 8,284,879.37 | | | | | 8,284,879.37 |
| Domestic Equity Commingled Funds | | 5,807,372.66 | | | | | 5,807,372.66 |
| International Equity Commingled Funds | | 6,427,384.55 | | | | | 6,427,384.55 |
| Other Comingled Funds | | 4,265,017.69 | | | | 9,779,506.81 | 14,044,524.50 |
| Other Comingled Funds (Texpool) | | | | | | 10,067,766.01 | 10,067,766.01 |
| Total Investments | \$ 1,514,500.46 | \$ 24,784,654.27 | \$ | \$ - | \$ 19,847,272.82 | \$ 46,146,427.55 | |

| Reconciliation of Investments | (Fair Value) |
|--|-------------------------|
| Current assets – cash equivalents | \$ 21,442.48 |
| Non-current assets investments | 3,030,226.55 |
| Non Current assets restricted - cash equivalents | 10,046,323.53 |
| Non-current restricted assets investments | 33,048,434.99 |
| Totals | \$ 46,146,427.55 |

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Notes to the Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LU's investment policy requires that investments in debt securities be rated in the top three investment grade ratings (Standard and Poor's "AAA" to "A" or comparable ratings with other agencies for operating funds and BBB and above for endowments) at the time of purchase. Two nationally recognized statistical rating organizations must rate the security. Risk is further limited through the Investment Policy by term limitations and maximum single purchase and maximum aggregate position percentages. As of year end, LU's credit quality distribution for securities with credit risk exposure was:

| FUND TYPE | INVESTMENT NAME | AAA | AA | A | UNRATED |
|-----------|--|------|------|------|-----------------|
| 05 | Fixed income money market and bond mutual fund | \$ - | \$ - | \$ - | \$ 8,284,879.37 |

NOTE 4: Short-Term Debt

LU has no short-term debt as of August 31, 2019.

NOTE 5: Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2019, the following changes occurred in long-term liabilities:

| Type | Begin. Balance | Additions | Reductions | Ending Balance | Due within one year | Amounts Due Thereafter |
|------------------------------|-----------------|-----------------|-----------------|-----------------|---------------------|------------------------|
| Deposit Payable | \$ 377,977.96 | \$ 248,020.08 | \$ 250,880.35 | \$ 375,117.69 | \$ 131,291.19 | \$ 243,826.50 |
| Employees' Compensable Leave | 3,638,293.34 | 2,410,341.84 | 2,294,208.76 | 3,754,426.42 | 563,163.96 | 3,191,262.46 |
| Total Long-Term Liabilities | \$ 4,016,271.30 | \$ 2,658,361.92 | \$ 2,545,089.11 | \$ 4,129,544.11 | \$ 694,455.15 | \$ 3,435,088.96 |

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.

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Notes to the Financial Statements

Substantially all full-time State employees earn annual leave from eight to twenty-one hours per month, depending on the respective employees' years of State employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Accrued leave in excess of the normal maximum was converted to sick leave at the conclusion of fiscal year 2019. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is available only when an employee is off due to personal or family illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated sick leave or 336, whichever is less. LU's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the financial statements since experience indicates the expense for sick leave to be minimal.

Bonds Payable

See Note 6 for a disclosure of long-term debt category Bonds Payable/Bonded Indebtedness.

NOTE 6: Bonded Indebtedness

All bonded indebtedness for Lamar University is issued by System Administration through the Texas State University System Revenue Financing System (the "Revenue Financing System"). System Administration and each component institution within the system are members of the Revenue Financing System. The Board of Regents pledged all of the funds (revenues) and balances derived or attributable to any member of the Revenue Financing System that are lawfully available to the Board for payments on Parity Debt.

System Administration issued the debt; therefore, the bonds payable attributable to the institution are included with the Bonds Payable reported by System Administration. The institution must repay the debt that was issued on its behalf; consequently, the following debt amortization schedule is presented for informational purposes only.

A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. The institution was appropriated \$6,470,138 during the current fiscal year for Tuition Revenue Bond debt service. The institution expects future Legislative appropriations to meet debt service requirements for Tuition Revenue Bonds.

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Notes to the Financial Statements

Debt services requirements attributable to Lamar University related projects include:

| Year | Principal | Interest | Total |
|-----------|--------------------------|-------------------------|--------------------------|
| 2020 | \$ 10,336,553.80 | \$ 6,217,400.22 | \$ 16,553,954.02 |
| 2021 | 10,765,301.26 | 5,775,865.14 | 16,541,166.40 |
| 2022 | 11,235,375.43 | 5,306,950.42 | 16,542,325.85 |
| 2023 | 10,345,000.00 | 4,811,307.36 | 15,156,307.36 |
| 2024 | 10,840,000.00 | 4,356,780.02 | 15,196,780.02 |
| 2025-2029 | 53,890,000.00 | 14,398,958.12 | 68,288,958.12 |
| 2030-2034 | 29,550,000.00 | 3,957,109.52 | 33,507,109.52 |
| 2035-2039 | <u>4,005,000.00</u> | <u>246,563.40</u> | <u>4,251,563.40</u> |
| Totals | <u>\$ 140,967,230.49</u> | <u>\$ 45,070,934.20</u> | <u>\$ 186,038,164.69</u> |

NOTE 7: Derivatives

LU has no derivative instruments as of August 31, 2019.

NOTE 8: Leases

Operating Leases

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

| Fund Type | Amount |
|-----------|-------------|
| Auxiliary | \$21,337.44 |
| Total | \$21,337.44 |

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Notes to the Financial Statements

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

| Fiscal Year Ended August 31 | Amount |
|---|--------------|
| 2020 | \$ 21,337.44 |
| 2021 | 10,149.36 |
| 2022 | 6,420.00 |
| Total Minimum Future Lease Rental Payment | \$ 37,906.80 |

Capital Leases

LU has no capital leases as of August 31, 2019.

NOTE 9: Defined Benefit Pension Plan and Defined Contribution Plan

LU's State employees may participate in the defined benefit plan administered by the Teacher Retirement System of Texas (TRS). Additionally, LU's state employees may participate in the defined contribution plan – Optional Retirement Plan.

Liabilities associated with TRS pension benefits provided by the State for employees providing services for LU are reported by TSUS. Additionally, full disclosures of the plans as required by GASB 68 are reported by TSUS. These disclosures are intended for overview purposes only.

Defined Benefit Pension Plan - TRS Plan

TRS is the administrator of the Teacher Retirement System Pension Plan (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, TRS, the State's public schools, education service centers, charter schools, and community and junior colleges. 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 TRS Plan. Employees of TRS and State 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.

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Notes to the Financial Statements

The audited Comprehensive Annual Financial Report for the Retirement System may be obtained from:

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

Defined Contribution Plan - Optional Retirement Plan

The State established an optional retirement program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the TRS Plan and is available to certain eligible employees.

ORP is a defined contribution plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the State has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year and one day of participation. Individual accounts are maintained at the insurance and investment companies selected by each ORP participant.

Additional information for ORP is included in the ORP Participation Report Summary published annually by the Texas Higher Education Coordinating Board. The report can be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P. O. Box 12788
Austin, Texas 78711

The contributions made by plan members and employers for the fiscal year ended are:

| | Year Ended August 31, 2019 |
|------------------------|----------------------------|
| Member Contributions | \$ 2,062,709.00 |
| Employer Contributions | 2,228,739.00 |
| Total | \$ 4,291,448.00 |

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Notes to the Financial Statements

NOTE 10: Deferred Compensation

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the Texas Government Code Annotated, Section 609.001. Two plans are available for employees' participation, which are administered by the Employees Retirement System. The assets of the plans do not belong to LU, TSUS or the State. LU, TSUS, or the State have no liability related to the plans. LU does not serve as administrative agency for the plans.

NOTE 11: Postemployment Benefits Other Than Pensions

In addition to providing pension benefits, the State contributes to a plan that provides health care and life insurance benefits for retired employees of LU, their spouses and beneficiaries. These other postemployment benefits (OPEB), authorized by statute and contributions, are established by the General Appropriations Act.

Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. ERS implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2017. Complete disclosure of the State's OPEB can be found in the State of Texas' Comprehensive Annual Financial Report.

Liabilities associated with OPEB provided by the State for employees providing services for LU are reported by TSUS. Additionally, full disclosures of OPEB as required by GASB 74 are reported by TSUS.

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Notes to the Financial Statements

NOTE 12: Interfund Activity and Transactions

LU experienced routine transfers with other state agencies that were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statements.

Individual balances and activity as of August 31, 2019, follows:

| | Due from other Agencies | Due To Other Agencies | Source |
|---|-------------------------|------------------------|-----------------|
| Agency 789, D23, Fund 7999 | \$ 714,933.56 | \$ | Local Funds |
| Agency 721, D23, Fund 7999 | 23,257.01 | | |
| Agency 758, D23, Fund 7999 | | 8,211,537.91 | Endowment Funds |
| Agency 758, D23, Fund 7999 | | 2,139.11 | Local Funds |
| Agency 712, D23, Fund 7999 | | 3,688.98 | General Revenue |
| Agency 721, D23, Fund 7999 | | 4,373.99 | General Revenue |
| Agency 730, D23, Fund 7999 | | 68.69 | General Revenue |
| Total Due From/To Other Agencies | \$ 738,190.57 | \$ 8,221,808.68 | |

| | Legislative | Legislative | Source |
|------------------------------------|----------------------|------------------------|---------------------|
| | TRANSFER IN | TRANSFER OUT | |
| Agency 758, D23, Fund 0001 | \$ | \$ 6,470,138.00 | General Revenue-TRB |
| Agency 902, D23, Fund 0001 | 249,765.00 | | GR-Hazlewood |
| Total Legislative Transfers | \$ 249,765.00 | \$ 6,470,138.00 | |

| | TRANSFER IN | TRANSFER OUT | Source |
|----------------------------|----------------|-------------------------|---------------------|
| Agency 608, D23, Fund 0210 | | \$ 31.55 | General Revenue |
| Agency 347, D23, Fund 0001 | | 1,043,254.38 | General Revenue |
| Agency 758, D23, Fund 7999 | | 1,713,944.33 | Designated Funds |
| Agency 758, D23, Fund 7999 | | 214,119.25 | Designated Funds |
| Agency 758, D23, Fund 7999 | | 9,964,491.70 | Auxiliary Funds |
| Agency 789, D23, Fund 7999 | | 1,994.45 | Investment in Plant |
| Total Transfers | \$ 0.00 | \$ 12,937,835.66 | |

NOTE 13: Continuance Subject to Review

LU is not subject to a review of continuance.

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Notes to the Financial Statements

NOTE 14: Adjustments to Fund Balances and Net Position

LU adjusted beginning net position from the previously issued financial statements as follows:

| | |
|------------------------------|-----------------------|
| Adjustment in Capital Assets | \$ (41,552.98) |
| Total Restatements | <u>\$ (41,552.98)</u> |

NOTE 15: Contingencies and Commitments

Claims and Judgements

As of August 31, 2019, various lawsuits and claims involving LU were pending. While the ultimate liability with respect to litigation and other claims asserted against LU or the Board cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on LU's financial statements.

Federal Assistance

LU has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

Arbitrage

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

System Administration monitors its investments to restrict earnings to a yield less than the bond issue and, therefore, limits any arbitrage liability. Systems Administration estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition. Consistent with TSUS's and LU's reporting of bonds at the system level, any arbitrage liability would be reported by TSUS and not LU.

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Notes to the Financial Statements

Construction Commitments

LU continues to implement capital improvements to upgrade facilities. The outstanding capital commitments for the construction and renovation of various facilities are \$7,890,592.87. These projects are in various stages of completion.

Investment Funds

As of August 31, 2019, LU has capital commitments with investment managers for future funding of investment funds of \$241,463.05.

NOTE 16: Subsequent Events

LU has the following subsequent events to report as of August 31, 2019:

On September 10, 2019, the TSUS Revenue Financing System (RFS) issued \$19,781,200 in Tax-Exempt Commercial Paper Notes to finance a variety of capital projects at TSUS components. Subsequent to the issuance, \$144,761,200 of Tax-Exempt Commercial Paper Notes were outstanding.

On October 24, 2019, the RFS priced Series 2019A, tax-exempt bonds totaling \$176,055,000 at par and including a premium of \$26,442,211. The bonds are to finance a variety of capital projects at TSUS components, refund a portion of the System's outstanding commercial paper notes, refund a portion of the System's outstanding revenue bonds, and to pay costs of issuing the bonds. The RFS will take delivery of the bonds on December 17, 2019. \$89,706,200 of the proceeds will refund outstanding commercial paper, \$71,800,231 will be used to refund outstanding revenue bonds, and \$39,957,961 will be used for capital projects. Additionally, Texas Tech University System will provide \$2,118,273 needed to defease a portion of Series 2010 bonds attributable to Angelo State University. Principal to be refunded includes \$19,280,000 from Series 2010 and \$53,185,000 from Series 2010A.

On October 24, 2019, the RFS priced Series 2019B, \$149,480,000 of taxable bonds to refund a portion of the System's outstanding debt and pay costs of issuing the bonds. The RFS will take delivery of the bonds on November 21, 2019. Principal refunded includes \$64,230,000 of Series 2011, \$14,685,000 of Series 2012, and \$59,475,000 of Series 2013.

On October 29, 2019, the RFS rolled the \$144,761,200 outstanding balance of Tax-Exempt Commercial Paper Notes. \$89,706,200 of this balance will mature on December 17, 2019, to be defeased by the Series 2019A proceeds. The remaining \$55,055,000 will mature on January 15, 2020.

After the delivery of the 2019A Series and refunding of the outstanding commercial paper notes, outstanding Tax-Exempt Commercial Paper Notes will be \$55,055,000 and outstanding principal of bonds will be \$1,091,530,000.

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Notes to the Financial Statements

NOTE 17: Risk Management

LU is exposed to a variety of civil claims resulting from the performance of its duties. It is university policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. LU assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently, LU manages limited risk with the purchase of commercial insurance. LU is not involved in any risk pool with other government entities for these risks. LU incurred no losses during the fiscal year ended August 31, 2019.

LU is required by certain bond covenants and FEMA to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other noneducational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments and the federal government for storm damage.

The Texas Motor Vehicle Safety Responsibility Act requires that every nongovernmental vehicle operated on a State highway be insured for minimum liability in the amount of \$20,000/\$40,000 bodily injury and \$15,000 property damage. However, LU has chosen to carry liability insurance on its licensed vehicles in the amount of \$1,000,000 combined single liability. The coverage exceeds the extent of the waivers of State immunity specified in the tort claims act.

NOTE 18: Management's Discussion and Analysis (MD&A)

Management Discussion and Analysis is a required part of the basic financial statements. Management Discussion and Analysis is omitted because LU is reported in a consolidated format with Texas State University System which is reported as a component of the State of Texas. Management Discussion and Analysis as it relates to Texas State University System can be found in the State of Texas basic financial statements.

NOTE 19: The Financial Reporting Entity

See Reporting Entity in Note 1.

NOTE 20: Stewardship, Compliance, and Accountability

There were no material violations of finance related legal or contractual provisions.

NOTE 21: Undefined by Texas Comptroller

Reserved for future use by Texas Comptroller.

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Notes to the Financial Statements

NOTE 22: Donor-Restricted Endowments

Net appreciation of \$5,781,942.05 related to true endowments was classified as restricted, expendable on the Statement of Net Position. The net appreciation included a positive fair value adjustment totaling \$338,706.85 for fiscal year 2019.

Distributions are calculated using the ending fair market value at August 31 of each year multiplied by an authorized distribution rate. The authorized distribution rate for the fiscal year ended August 31, 2019 was 4%. The individual endowments own units in a restricted investment pool and the annual distributions are allocated on a per unit basis.

Changes from Prior Year Balances

| <u>True Endowment Funds</u> | <u>2019 Increase/(Decrease)</u> | <u>Reason for Change</u> |
|-----------------------------|---------------------------------|--|
| Expendable Balances | \$(102,192.05) | Fair value changes, earnings, fees & dist. |
| Nonexpendable Balances | \$ 336,275.00 | New gifts |

The balances, or transactions, of funds held in trust by others on behalf of LU are not reflected in the financial statements. At August 31, 2019, there was one such fund for the benefit of LU. Based upon the most recent available information, the assets of this fund as reported by the Trustees are valued at \$5,807,188.37.

NOTE 23: Extraordinary and Special Items

No items have been identified meeting the criteria of extraordinary or special items.

NOTE 24: Disaggregation of Receivables and Payables Balances

Balances of receivables and payables reported on the Statement of Net Position are not obscured by aggregation. There are no significant receivable balances expected to be collected beyond one year of the date of the financial statements. Accounts receivable for tuition and student loan are presented net of allowance for doubtful accounts in the amounts of \$12,848,940.08 and \$4,666,849.50 respectively.

NOTE 25: Termination Benefits

LU has no termination benefits to report as of August 31, 2019.

NOTE 26: Segment Information

LU has no segments to report as of August 31, 2019.

NOTE 27: Service Concession Arrangements

LU has no service concession arrangements to report as of August 31, 2019.

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Notes to the Financial Statements

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

LU has no deferred outflows or inflows of resources to report as of August 31, 2019.

NOTE 29: Troubled Debt Restructuring

LU has no troubled debt restructuring to report as of August 31, 2019.

NOTE 30: Nonexchange Financial Guarantees

LU has no nonexchange financial guarantees to report as of August 31, 2019.

NOTE 31: Tax Abatements

LU has no tax abatements to report as of August 31, 2019.

NOTE 32: Fund Balances

LU's financial statements are presented for the business-type operations.

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