FY 2023

ANNUAL FINANCIAL REPORT

September 1, 2022 - August 31, 2023

2023 STATS

71%
OF GRADUATES ARE FIRST-GENERATION

3.11
AVERAGE GPA

14.65%
AVERAGE INCREASE IN CONTACT HOURS FOR FY 24

767
TOTAL CERTIFICATES & DEGREES AWARDED IN FY 2023

Lamar State College
Orange

MEMBER THE TEXAS STATE UNIVERSITY SYSTEM®

An Equal Opportunity Institution

LAMAR STATE COLLEGE ORANGE

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For the Year Ended August 31, 2023

INTRODUCTORY SECTION

LAMAR STATE COLLEGE ORANGE

Organizational Data
For the Year Ended August 31, 2023

TEXAS STATE UNIVERSITY SYSTEM
BOARD OF REGENTS

Member's Name	Member's City (Texas)	Term Expires
Duke Austin, Chairman	Houston	2029
Alan L. Tinsley, First Vice Chairman	San Marcos	2027
Charlie Amato	San Antonio	2025
Sheila Faske	Rose City	2027
Dionicio (Don) Flores	El Paso	2025
Russell Gordy	Houston	2029
Stephen Lee	Beaumont	2027
Tom Long	Frisco	2029
William F. Scott	Nederland	2025
Kelvin Elgar, Student Regent	Beaumont	2024

SYSTEM OFFICE ADMINISTRATION

Name	Title
Dr. Brian McCall	Chancellor
Dr. John Hayek	Vice Chancellor for Academic and Health Affairs
Nelly Herrera	Vice Chancellor and General Counsel
Sean Cunningham	Vice Chancellor for Governmental Relations
Daniel Harper	Vice Chancellor and Chief Financial Officer
Mike Wintemute	Vice Chancellor for Marketing and Communications
Carole Fox	Chief Audit Executive

LAMAR STATE COLLEGE ORANGE

Name	Title
Dr. Thomas Johnson	President
Mary Wickland	Executive Vice President for Finance and Operations
Dr. Wendy Elmore	Executive Vice President for Academic and Student Affairs

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FINANCIAL SECTION

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Regents of
Texas State University System:

We have reviewed the accompanying Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows of Lamar State College Orange (LSCO), an agency of the State of Texas (the "State"), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise LSCO's basic financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of LSCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

While the results of our review are not modified with respect to this matter, the financial statements of LSCO are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State that are attributable to the transactions of LSCO, as discussed in Note 1. Transactions associated with bonds, pensions, and other postemployment benefits related to LSCO's activities in the name of Texas State University System (TSUS) are reported by TSUS and not LSCO. The financial statements do not purport to, and do not, present fairly the financial position of the State or TSUS as of August 31, 2023, or the changes in financial position, or, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

LSCO adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. In fiscal year 2023 restatement was not necessary. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Amounts

LSCO has elected to present prior year comparative amounts on its financial statements, but related disclosures are included and, accordingly, the financial statements are not intended to be complete comparative financial statements. We were not engaged to review the financial statements for the year ended August 31, 2022 and, accordingly, take no responsibility for them. However, in performing our procedures, nothing came to our attention which would indicate that the comparative financial amounts were not fairly presented.

Required Supplementary Information and Additional Supplementary Information.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management.

The Organizational Data and the Matrix of Operating Expenses Reported by Function are additional supplementary information presented for purposes of additional analysis and are not required parts of the basic financial statements.

We have not audited, reviewed, or compiled the Required Supplementary Information or additional supplementary information and we do not express an opinion, a conclusion, nor provide any assurance on it.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 12, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

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LAMAR STATE COLLEGE ORANGE

Management's Discussion and Analysis
For the Year Ended August 31, 2023

INTRODUCTION

The objective of the Management's Discussion and Analysis (MD&A) is to provide the reader of Lamar State College Orange's ("LSCO") financial statements an enhanced understanding of its fiscal position for the fiscal year ended August 31, 2023, with selected comparative data from 2022. This presentation is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. This analysis should be read with LSCO's Financial Statements and Notes to the Financial Statements.

BACKGROUND

LSCO is a two-year institution of higher education that dates back to Fall of 1969 when Lamar University opened an extension center in Orange, Texas in an old elementary school. Texas Legislature passed legislation in 1971 allowing Lamar University to operate a two-year educational center out of the former elementary school. After fire destroyed the facility, community fundraising made it possible to purchase the first building on the downtown Orange campus. Classes began in Fall 1971. In 1995, Lamar University-Orange became part of the Texas State University System ("TSUS"), which is the oldest higher education system in Texas dating back to 1911. In 1999, the college's name was changed from Lamar University-Orange to Lamar State College Orange.

Over the previous fifty-four years, LSCO's facilities, enrollment, and course offerings have grown steadily. LSCO offers an array of academic and technical programs at this time. Currently, LSCO has a student body of approximately 3,100. LSCO offers two-year academic programs that are fully transferable to four-year institutions, associate degrees, certificates of completion, and institutional awards. LSCO has recently opened an off-site instructional location in Lumberton, Texas and will open one in Livingston, Texas in the near future. These additional locations will allow students who are unable to commute to larger surrounding cities to further their education. LSCO is situated on the banks of the Sabine River along the Southwest Louisiana state line resulting in many students traveling from that area to attend LSCO.

LSCO is an agency of the State of Texas (the "State") and a two-year State college. As a result of being a State college and not a community college, LSCO does not have a property tax base. LSCO is accredited by the Southern Association of Colleges and Schools Commission on Colleges to award degrees at the associate level.

FINANCIAL HIGHLIGHTS

- Enrollment for Fall 2022 increased 14.3% from Fall 2021 and increased 11.6% for Spring 2023 from Spring 2022.

- As of August 31, 2023, the financial position of LSCO reflected total assets of $83.9 million and total liabilities of $4.5 million. Overall, the net position of LSCO increased $10.9 million.
- LSCO began construction of the new Academic Building in Spring 2023, which will be a state-of-the-art building that will house Biology and Science courses, labs, instructor offices, and the Information Technology department. LSCO also purchased two existing buildings and reconstructed them into the new Electro Mechanic Technical Program.
- LSCO purchased an existing building in Lumberton, Texas that was previously a medical office. It has been transformed into an off-site instructional site for potential students in the Lumberton area.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are prepared in accordance with accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB), conform to the requirements of the Texas Comptroller of Public Accounts, and follow the guidelines issued by the National Association of College and University Business Officers (NACUBO). The three primary financial statements are presented below: Statement of Net Position; Statement of Revenue, Expenses, and Changes in Net Position; and Statement of Cash Flows. The responsibility for the completeness and fairness of this information rests with LSCO's administration. The information contained in the financial statements of LSCO is part of TSUS, which is included in the State of Texas' (the "State") Annual Comprehensive Financial Report.

The financial statements of LSCO are presented for the fiscal year ended August 31, 2023. The format of the Texas statewide financial statements presents a comprehensive perspective of the State's financial activities. The State's activities are divided into three types for presentation in the primary financial statements: Governmental Activities, Business-type Activities, and Component Units. The financial operations of LSCO are considered a business-type activity because LSCO charges a fee in the form of tuition to customers in order to pay for a significant percentage of the cost of the services provided. Under this classification, LSCO's financial statements conform to the guidelines and presentation formats prescribed for proprietary funds; revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged.

Statement of Net Position

The Statement of Net Position provides a snapshot view of assets available for use in LSCO's continuing operations and enables readers to determine the amounts owed to others. The comparative statement is presented as of August 31, 2023 and compared to August 31,2022. Assets and liabilities are presented as either current or noncurrent to provide an indication of their anticipated liquidation. Net position is equal to total assets plus deferred outflows of resources less total liabilities plus deferred inflow of resources. Over time, increases or decreases in net position are indicators of the improvement or decline of the financial health of LSCO. Other non-financial factors, such as LSCO's enrollment and the condition of LSCO's infrastructure, need to be considered in order to assess the overall health of LSCO.

Net Position is divided into three major categories: Net Investment in Capital Assets; Restricted Net Position; and Unrestricted Net Position. Net Investment in Capital Assets category identifies the equity in property, plant, and equipment owned by LSCO. The Restricted Net Position is either expendable or non-expendable. Restricted Net Position-Expendable may be expended only for the purposes designated by the external donor or provider of the assets. Restricted Net Position-Non-expendable is comprised entirely of funds held as permanent endowments and is only available for investment purposes. Unrestricted Net Position is available for any lawful purpose of LSCO. Although Unrestricted Net Position assets are not subject to externally imposed stipulations, these assets may have significant constraints on resources, which are imposed by management or implied by statutes or regulations, but can be removed or modified. These include commitments for encumbrances outstanding at year-end. Also recognized in Unrestricted Net Position are unspent Higher Education Funds (HEF) and other appropriations, which have restrictions imposed by the State. Assets and liabilities are generally measured using current values, except capital assets, which are stated at historical cost less an allowance for depreciation.

Statement of Revenues, Expenses, and Changes in Net Position

The next statement comprising the primary financial statements is the Statement of Revenues, Expenses, and Changes in Net Position. This statement presents operating revenues and expenses; nonoperating revenues and expenses; and other revenues, expenses, gains (losses), and transfers. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how LSCO's net position changed during the most recent year.

Revenues and expenses are classified as either operating or nonoperating in the financial statements. Operating revenues are received and recognized as a result of providing services. Tuition and fee revenues are reported net of any scholarship discounts and allowances. A scholarship allowance is the difference between the stated charge for services provided by LSCO and the amount that is paid by the student or third parties making payments on behalf of the student. Funds received to satisfy student tuition and fee charges are reported as revenue only once. Institutional resources provided to students as financial aid are reported as a scholarship allowance in amounts up to and equal to amounts owed by the students to LSCO.

Operating expenses are the costs necessary to provide services to customers and to fulfill the mission of LSCO. Operating expenses are displayed in the statement using the natural method of presentation, which displays operating expenses in a manner that categorizes the objects of expenditure within various cost centers. Nonoperating revenues are those received for which no services are directly provided. State appropriations are classified as nonoperating revenue because they are provided by the Legislature to LSCO without the Legislature directly receiving goods or services for those revenues. Additionally, certain federal resources for student financial aid, as well as most gift revenue, are classified as nonoperating revenue. Significant portions of LSCO's recurring resources are classified as nonoperating.

Statement of Cash Flows

The third primary statement included in the financial statements is the Statement of Cash Flows. This statement provides relevant information about LSCO's cash receipts and payments during the fiscal year. The Statement of Cash Flows should be used in conjunction with related disclosures and information in the other financial statements. The statement can provide relevant information about an entity, such as the ability to generate future net cash flows, the ability to meet obligations when due, or reasons for differences between operating income and associated cash receipts and payments. The statement is comprised of five sections. The first section recognizes the cash flows from operating activities, as well as the net cash used by operating activities. The second section identifies the cash flows from noncapital financing activities. The third section reflects the cash flows from capital and related financing activities. The next section details the cash flows from investing activities. The final section reconciles net cash provided or used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are the last section of the basic financial statements.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of LSCO's financial position. The largest portion of LSCO's net position reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure). LSCO uses these capital assets to provide services; consequently, these assets are not available for future spending.

LAMAR STATE COLLEGE ORANGE

Management's Discussion and Analysis
For the Year Ended August 31, 2023

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2023	2022	Variance (Dollars)	% Variance
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 19,376,804.53	$ 18,533,737.81	$ 843,066.72	4.55%
Restricted Cash and Cash Equivalents	98,976.76	551,488.77	(452,512.01)	-82.05%
Legislative Appropriations	10,091,020.25	6,141,729.83	3,949,290.42	64.30%
Receivables	1,219,671.69	783,797.94	435,873.75	55.61%
Due From Other Agencies	511,694.93	425,095.29	86,599.64	20.37%
Prepaid Items	1,330,288.15	894,367.79	435,920.36	48.74%
Loans and Contracts, Net	521,884.51	176,441.75	294,521.76	166.92%
Total Current Assets	33,150,340.82	27,506,659.18	5,592,760.64	20.33%
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	1,401,053.43	1,419,836.51	(18,783.08)	-1.32%
Investments	9,787,637.79	9,637,848.07	149,789.72	1.55%
Capital Assets, Net of Depreciation	39,537,696.33	34,509,498.07	5,028,198.26	14.57%
Total Noncurrent Assets	50,726,387.55	45,567,182.65	5,159,204.90	11.32%
Total Assets	83,876,728.37	73,073,841.83	10,751,965.54	14.71%
LIABILITIES				
Current Liabilities:				
Payables	974,539.00	1,233,761.36	(259,222.36)	-21.01%
Due to Other Agencies	95,957.71	6,000.00	89,957.71	1499.30%
Unearned Revenues	2,940,246.90	2,860,899.60	79,347.30	2.77%
Employees' Compensable Leave	102,461.78	92,393.63	10,068.15	10.90%
Funds Held for Others	24,025.07	52,491.44	(28,466.37)	-54.23%
Other Current Liabilities	1,215.46	2,932.90	(1,717.44)	-58.56%
Total Current Liabilities	4,138,445.92	4,248,478.93	(110,033.01)	-2.59%
Noncurrent Liabilities	344,515.21	316,623.17	27,892.04	8.81%
Total Liabilities	4,482,961.13	4,565,102.10	(82,140.97)	-1.80%
NET POSITION				
Net Investment in Capital Assets	39,537,696.33	34,509,498.07	5,028,198.26	14.57%
Restricted for:				
Capital Projects	233,220.56	5,016.30	228,204.26	4549.25%
Other	1,848,577.06	1,779,407.05	69,170.01	3.89%
Unrestricted	37,774,273.29	32,214,818.31	5,559,454.98	17.26%
Total Net Position	$ 79,393,767.24	$ 68,508,739.73	$ 10,885,027.51	15.89%

Total net position increased by $10.9 million or 15.89% and was partly attributed to continued investment into campus facilities. Capital assets net of depreciation increased by $5 million. The remainder of the increase in net position is due to a rise in unrestricted net position by $5.6 million.

Statement of Revenues, Expenses, and Changes in Net Position:

The following table reflects the condensed Statement of Revenues, Expenses, and Changes in Net Position:

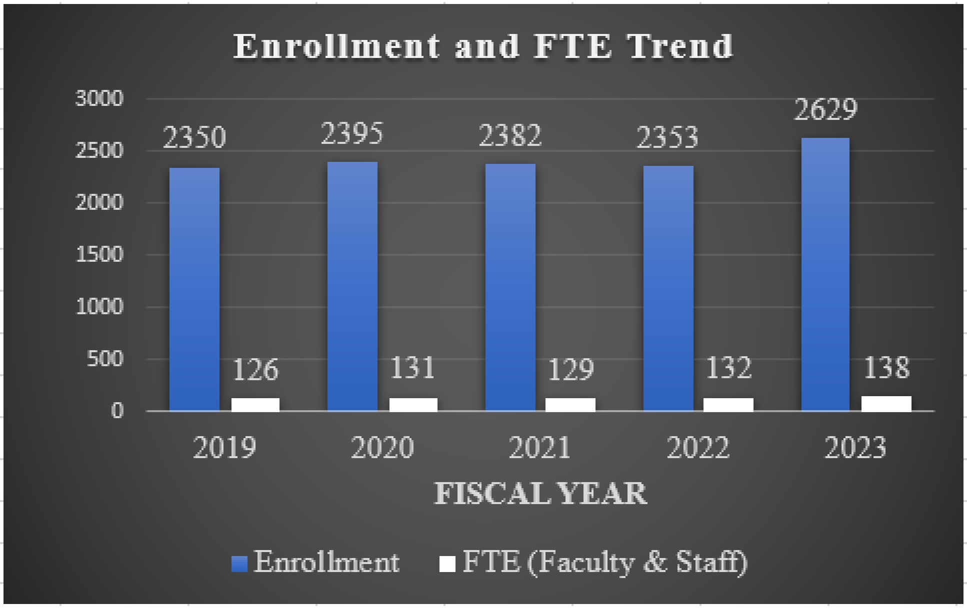
	2023	2022	Variance Dollars	% Variance
Operating Revenues:				
Tuition and Fees, Net	$ 3,982,357.05	$ 4,277,711.68	$ (295,354.63)	-6.90%
Other Operating Revenues	3,253,259.94	8,690,326.79	(5,437,066.85)	-62.56%
Total Operating Revenues	7,235,616.99	12,968,038.47	(5,732,421.48)	-44.20%
Operating Expenses:				
Instruction	8,211,645.21	7,124,752.12	1,086,893.09	15.26%
Public Service	1,690,079.61	1,631,064.38	59,015.23	3.62%
Academic Support	3,128,977.44	2,657,036.66	471,940.78	17.76%
Student Services	2,063,771.16	1,996,229.96	67,541.20	3.38%
Institutional Support	3,967,368.16	3,182,090.78	785,277.38	24.68%
Operation and Maintenance of Plant	2,186,817.09	2,545,646.05	(358,828.96)	-14.10%
Scholarships and Fellowships	4,478,251.83	7,889,251.85	(3,411,000.02)	-43.24%
Depreciation & Amortization	2,597,078.18	2,307,451.88	289,626.30	12.55%
Total Operating Expenses	28,323,988.68	29,333,523.68	(1,009,535.00)	-3.44%
Operating Income (Loss)	(21,088,371.69)	(16,365,485.21)	(4,722,886.48)	-28.86%
Nonoperating Revenues (Expenses):				
Legislative Revenue and Appropriations	21,778,647.26	15,246,265.03	6,532,382.23	42.85%
Federal Revenue	3,673,903.00	3,103,628.27	570,274.73	18.37%
Other Nonoperating Revenues (Expenses)	3,159,076.19	1,495,987.19	1,663,089.00	111.17%
Total Nonoperating Revenues (Expenses)	28,611,626.45	19,845,880.49	8,765,745.96	44.17%
Income (Loss) before Capital Contributions and Transfers	7,523,254.76	3,480,395.28	4,042,859.48	116.16%
Capital Contributions, Endowments, and Transfers	3,361,772.75	1,004,178.10	2,357,594.65	234.78%
Change in Net Position	$ 10,885,027.51	$ 4,484,573.38	$ 6,400,454.13	142.72%

During the 2023 fiscal year, LSCO recognized operating revenues of $7 million and operating expenses of $28 million. Total operating revenue declined by approximately $5.7 million from FY 2022 to FY 2023 and operating expenses declined by approximately $1 million for the same period. In FY 2022, LSCO received over $6.6 million in federal Higher Education Emergency Relief Funding that was not received in FY 2023.

The disparity between operating revenues and expenses results from Legislative appropriations that are utilized to help subsidize public State institutions of higher education. Legislative appropriations were $22 million or 77% of operating expenses.

After recognizing nonoperating activities, LSCO realized a net increase in net position of $10.9 million for FY 2023. The increase to change in net position of $6.4 million is attributed to an increase in Legislative Appropriations. LSCO received an additional appropriation of $6.5 million for Disaster Mitigation for LSCO's Student Success Center. A historic church near LSCO that was heavily damaged during Hurricane Laura will be renovated with the funding.

Enrollment Data and FTE Trend:



As indicated by the enrollment trend, LSCO's enrollment base has been stable over the five-year period with a 12% increase in FY 2023. This increase is due to a rise in dual credit enrollment. The trend in full-time equivalents (FTE) for faculty and staff has also been stable over the five-year period. Overall, LSCO's measures have demonstrated financial responsibility.

<u>Selected Indicators</u>

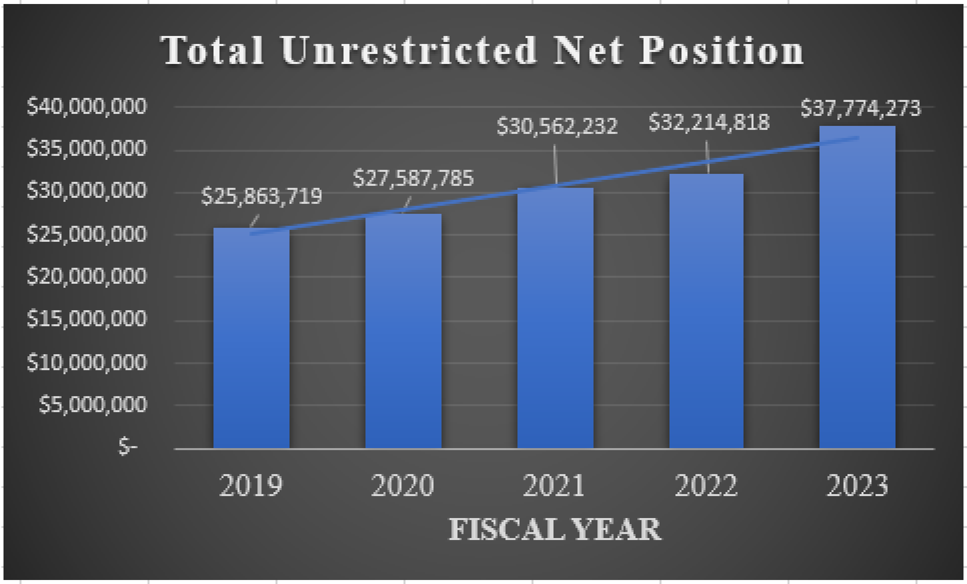
The concept of using selected indicators, such as ratios and trend analysis, is common in higher education. This approach allows the institution to measure against institutional objectives and provide useful information that can form a basis for sound planning. In addition, it allows for a higher level of comparability among institutions. Trend analysis links the financial statements together in a way that allows the end user to answer critical questions about the financial stability of the institution. A few of the questions are:

- Are resources available to carry out the mission of LSCO?
- Are resources enough to meet current obligations?
- Are critical balances stable?
- Do operating results indicate the institution is living within available resources?

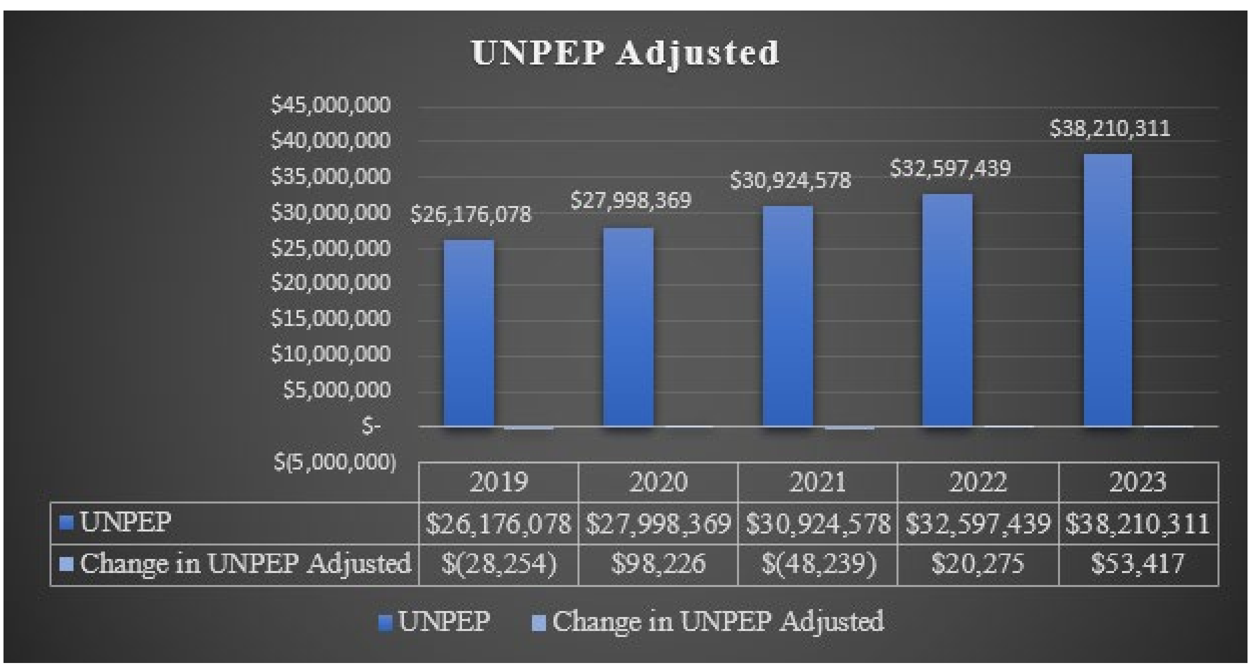
<u>Unrestricted Net Position</u> - Unrestricted net position consists of net position that is available for use by LSCO with no outside restrictions. As indicated by the trend from 2019 to 2023, LSCO has continued to build up unrestricted reserves to $37,774,273 at August 31, 2023 which indicates the soundness of financial resources. Resources are adequate and available to execute the mission of LSCO.

LAMAR STATE COLLEGE ORANGE

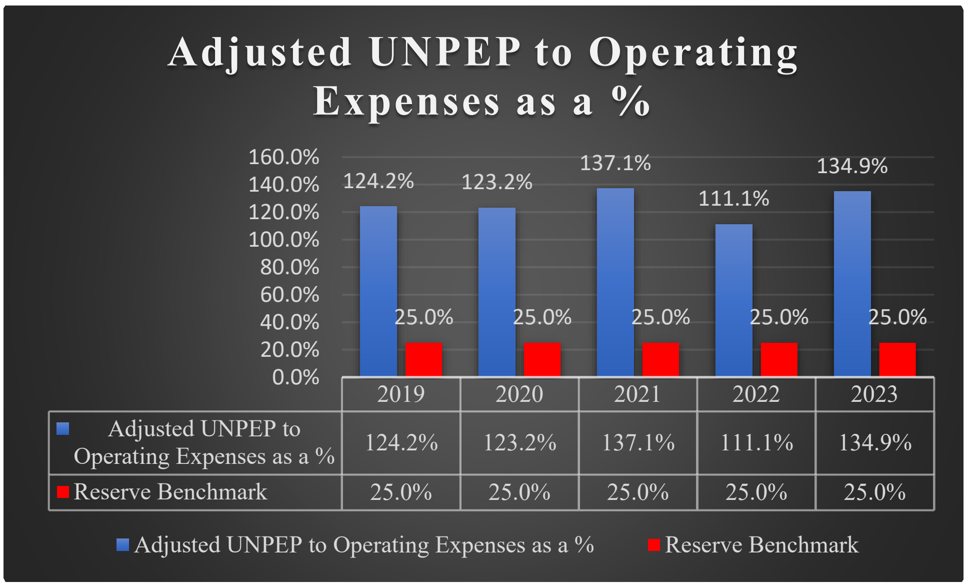
Management's Discussion and Analysis
For the Year Ended August 31, 2023



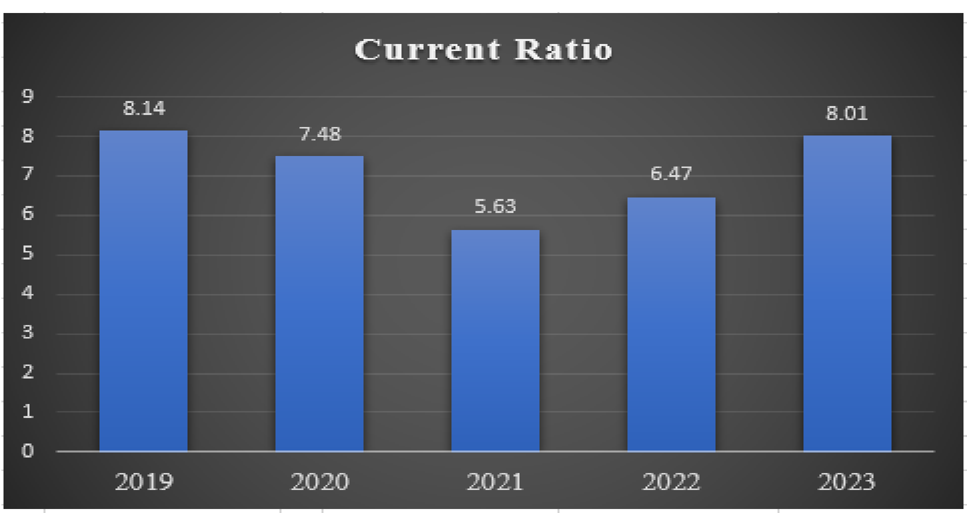
Unrestricted Net Position Exclusive of Plant (UNPEP), Adjusted and Change in UNPEP - Unrestricted net position exclusive of plant includes adjustments to determine operational resources available to carry out institutional goals. Typically, adjustments include compensated absences (current and noncurrent), OPEB liabilities, and pension liabilities. LSCO only had to add compensated absences current and noncurrent in order to arrive at the adjusted UNPEP. As indicated by the favorable pattern from 2019 to 2023, LSCO has adequate resources amounting to $38,210,311 at August 31, 2023. Furthermore, the net change in UNPEP, reveals that the changes in the compensated absences over the same period were not significant; and, thereby had minimal impact to unrestricted resources.



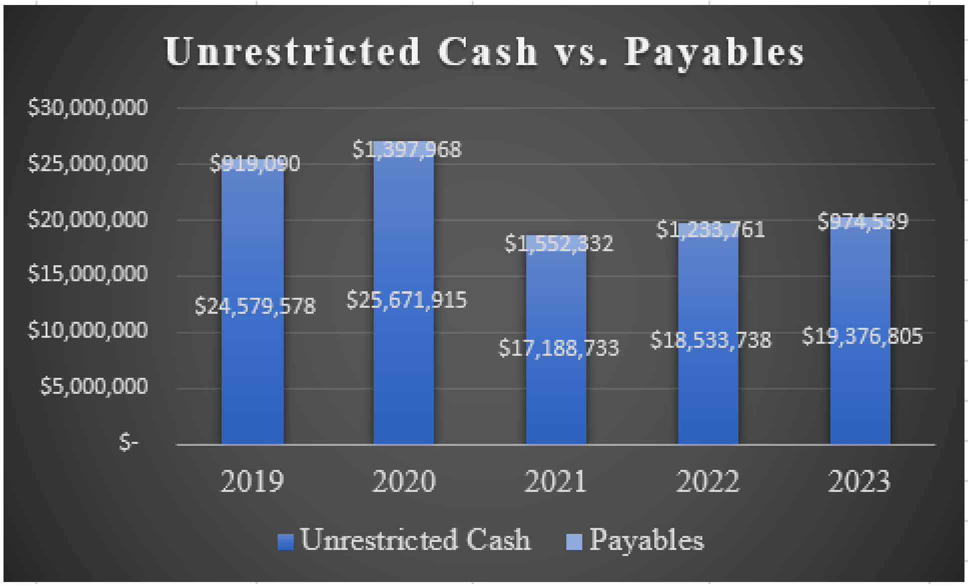
Unrestricted Net Position Exclusive of Plant (UNPEP), Adjusted to Operating Expenses - As indicated by the positive trend from 2019 to 2023, LSCO’s adjusted UNPEP as a percentage of operating expenses has remained well over 100% remarkably stable. From 124.2% in 2019 to 134.9% in 2023, it is well above the industry benchmark of 25% thereby demonstrating an extraordinarily stable base and financial responsibility.



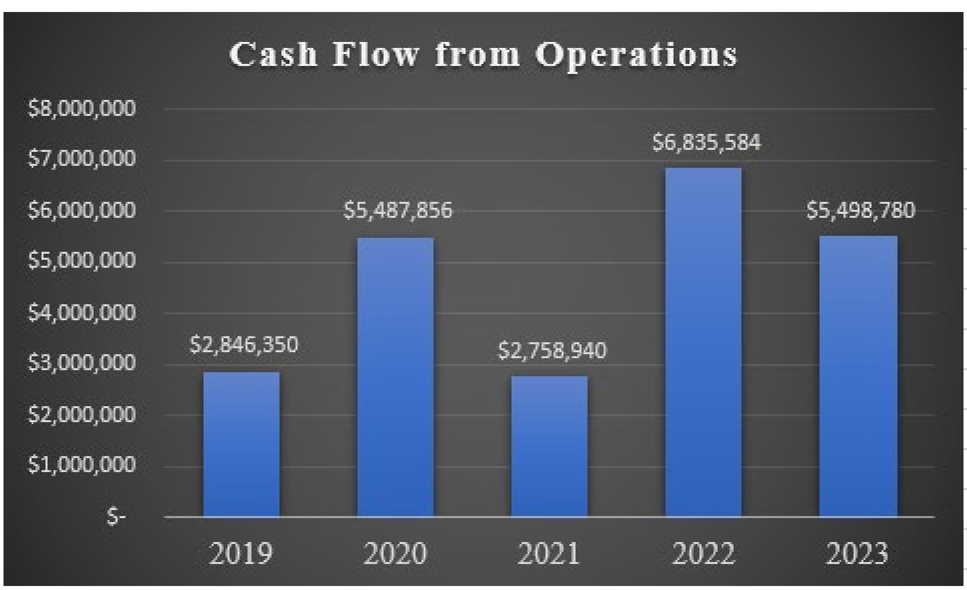
Current Ratio - The current ratio is a measure of LSCO’s ability to pay short-term obligations or those typically due within one year. LSCO’s current ratio has ranged from 8.14 in FY 2019 to 8.01 in FY 2023. Current assets continue to outpace current liabilities. At August 31, 2023, for every $8.01 of current assets, there is $1.00 of current liabilities. The trend remains positively well above industry norms over the five-year period.



Unrestricted Cash and Payables - Unrestricted cash is far greater than payables in FY 2023 at $19,376,805 and $974,539, respectively. Consequently, liquidity is more than adequate to meet current obligations. Cash balances and accounts payable appear to be stable over time.



Cash Flow Related to Operations - Cash flow from operations is determined by reviewing the Statement of Cash Flows and adding *cash provided by operating activities* as well as *cash provided by noncapital financing activities.* The sum of these two components reveals cash flow related to operations. At August 31, 2023, operational cash flows amounted to $5,498,780 with State appropriations accounting for the majority of the total.



CAPITAL ASSETS

As fundamental as instruction is to LSCO, this endeavor cannot take place without the land, buildings, facilities, equipment, and information technology infrastructure needed to support them. Sustaining these assets requires a significant investment in renovations, improvements, expansion, and maintenance. The goal of expending resources for these investments is achieving a safe, modern, and efficient campus environment that is conducive to learning, teaching, and community service. LSCO remains focused on its continuing efforts to implement long-range capital plans.

At the end of the 2023 fiscal year, LSCO had $39.5 million of capital assets, net of accumulated depreciation and amortization. These assets included land, buildings, facilities and other improvements, furniture and equipment, vehicles, and other assets. A couple of major capital construction projects are in various stages, and the cumulative investment in these assets is reported as construction in progress. As required by GASB reporting standards, LSCO reports accumulated depreciation and amortization on its capital assets. Additionally, LSCO recognizes a current year charge for depreciation and amortization expense.

LSCO has developed a campus master planning process designed to identify facilities needs congruent with enrollment projections that are consistent with their missions and academic master plans. The plan also takes into consideration aging facilities. Construction projects at the end of FY 2023 included the construction of the New Academic Building, the renovation of the new Lumberton site, and the renovation of a small and large building for the Electro Mechanical Technology Program. The Lumberton site and Electro Mechanical Technology Buildings were put into operations in FY 2024. Projects that remain in progress include the construction of the New Academic Building and the renovation of the First Baptist Church on Green Avenue, which will become the Student Success Center.

DEBT ADMINISTRATION

LSCO engages in the prudent use of debt to finance capital projects as a means of maximizing the management of financial and physical resources. To date, TSUS has issued debt on behalf of LSCO, which is not included within LSCO's financial statements. A portion of TSUS' debt service is funded by biennial State appropriations. LSCO has no debt outstanding.

ECONOMIC OUTLOOK

As the global economy becomes increasingly driven by the creation of new knowledge and technological innovation, success for the Texas Gulf Coast region depends increasingly on the existence of a highly skilled, professional workforce and development. LSCO plays a key role in meeting these needs.

With LSCO improving performance on most of the financial measures this year, LSCO is poised for continued success in the coming years. To harness this potential, LSCO is actively expanding its reach in terms of both new degree programs that meet regional workforce needs and campus infrastructure that support the growing student populations and faculty. Aligned to major industries and LSCO's strengths, including education and workforce training, these recently added programs will support the economy, enhance LSCO's academic reputation, and produce new revenue streams for LSCO. LSCO has expanded to Lumberton, Texas opening a small off-site instructional location in Spring 2024 and will be expanding to Livingston, Texas in the near future. In addition, a couple of major construction projects, as previously mentioned, are currently underway to allow LSCO to better serve its students and the community.

BUDGETARY INITIATIVES

During FY 2023, LSCO focused on numerous budget initiatives and priorities including: (1) Student access and success: Increasing the enrollment, retention, and graduation of a student body with exceptional academic qualifications is paramount. These goals will be achieved by increasing scholarships, expanding course offerings, enhancing student support staff, and improving the curriculum. (2) Fiscal responsibility: Develop sound financial initiatives for the operations of the campus that support the LSCO mission. (3) Facilities: LSCO's physical plant maintains many buildings in Downtown Orange, one in West Orange, and one in Lumberton, Texas. Sustaining this infrastructure year-round requires a significant investment in utilities, maintenance, repairs, renovations, and improvements. Making these investments is also essential to supporting LSCO's goal of student success. (4) Community advancement: Many of LSCO's academic and workforce initiatives are directed toward community need and interest.

CONTACTING LSCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of LSCO's finances. Questions concerning this report or requests for additional financial information should be directed to Jamie Oltz, Assistant Vice President for Finance and Operations, in the Business Office of Lamar State College Orange, Texas by phone at (409) 882-3356. Requests by mail can be sent to Lamar State College Orange at 410 W. Front Street in Orange, Texas 77630. General Information about LSCO may be found on the website: www.lsco.edu.

FINANCIAL STATEMENTS

LAMAR STATE COLLEGE ORANGE

Statement of Net Position

As of August 31, 2023

	2023	2022
ASSETS		
Current Assets:		
Cash and Cash Equivalents: (Note 3)		
Cash on Hand (Including Petty Cash)	$ 1,500.00	$ 1,500.00
Cash in Bank	717,422.73	1,573,358.21
Cash in State Treasury (Schedule 3)	3,961,448.37	3,540,469.37
Cash Equivalents	14,696,433.43	13,418,410.23
Restricted:		
Cash and Cash Equivalents: (Note 3)		
Cash in State Treasury	98,976.76	551,488.77
Legislative Appropriations	10,091,020.25	6,141,729.83
Receivables:		
Federal	475,559.46	208,115.18
Interest	-	3,975.41
Accounts - Tuition	862,903.23	669,873.35
Allowance Accounts	(118,791.00)	(98,166.00)
Due From Other Agencies (Note 12)	511,694.93	425,095.29
Prepaid Items	1,330,288.15	894,367.79
Loans and Contracts	553,773.16	259,251.40
Allowance - Loans & Contracts	(31,888.65)	(82,809.65)
Total Current Assets	33,150,340.82	27,506,659.18
Noncurrent Assets:		
Restricted:		
Cash and Cash Equivalents: (Note 3)		
Cash Equivalents	1,401,053.43	1,419,836.51
Investments (Note 3)	9,787,637.79	9,637,848.07
Capital Assets: (Note 2)		
Non-Depreciable or Non-Amortizable:		
Land and Land Improvements	2,144,436.56	2,144,436.56
Construction in Progress	5,798,795.68	575,538.82
Depreciable or Amortizable:		
Buildings and Building Improvements	51,011,020.07	50,081,602.58
Less Accumulated Depreciation	(24,249,015.58)	(22,512,930.90)
Facilities and Other Improvements	1,728,427.50	1,728,427.50
Less Accumulated Depreciation	(1,017,631.28)	(978,142.64)
Furniture and Equipment	7,366,027.19	6,087,528.42
Less Accumulated Depreciation	(3,975,630.80)	(3,467,422.09)
Vehicles, Boats, and Aircraft	394,663.12	348,466.92
Less Accumulated Depreciation	(127,274.09)	(84,958.73)
Computer Software - Intangible	3,424,825.38	3,424,825.38
Less Accumulated Amortization	(3,250,304.95)	(3,155,112.19)
Other Capital Assets	953,317.85	931,670.12
Less Accumulated Depreciation	(663,960.32)	(614,431.68)
Total Noncurrent Assets	50,726,387.55	45,567,182.65
Total Assets	83,876,728.37	73,073,841.83

LAMAR STATE COLLEGE ORANGE

Statement of Net Position

As of August 31, 2023

	2023	2022
LIABILITIES		
Current Liabilities:		
Payables From:		
Accounts Payable	$ 60,146.49	$ 312,360.77
Payroll Payable	914,392.51	921,400.59
Due to Other Agencies (Note 12)	95,957.71	6,000.00
Unearned Revenues	2,940,246.90	2,860,899.60
Employees' Compensable Leave (Note 5)	102,461.78	92,393.63
Funds Held for Others	24,025.07	52,491.44
Other Current Liabilities	1,215.46	2,932.90
Total Current Liabilities	4,138,445.92	4,248,478.93
Noncurrent Liabilities:		
Employees' Compensable Leave (Note 5)	333,576.04	290,227.06
Other Noncurrent Liabilities	10,939.17	26,396.11
Total Noncurrent Liabilities	344,515.21	316,623.17
Total Liabilities	4,482,961.13	4,565,102.10
NET POSITION		
Net Investment in Capital Assets	39,537,696.33	34,509,498.07
Restricted for:		
Capital Projects	233,220.56	5,016.30
Other	1,848,577.06	1,779,407.05
Funds Held as Permanent Investments		
Non-Expendable:		
Endowment Funds	-	-
Unrestricted:		
HEF	2,790,425.44	5,325,964.53
Other	34,983,847.85	26,888,853.78
Total Net Position	$ 79,393,767.24	$ 68,508,739.73

See Independent Accountants' Review Report and Notes to the Financial Statements.

LAMAR STATE COLLEGE ORANGE

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2023

	2023	2022
OPERATING REVENUES:		
Tuition and Fees - Pledged	$ 6,480,957.56	$ 6,643,962.96
Tuition and Fees - Discounts/Allowances	(2,498,600.51)	(2,366,251.28)
Other Sales of Goods and Services - Pledged	218,778.81	987,805.75
Federal Revenue-Operating	723,815.95	4,820,750.78
Federal Pass Through Revenue	1,022,688.96	1,586,545.49
State Grant Pass Through Revenue	894,253.03	938,245.96
Other Operating Revenues - Pledged	393,723.19	356,978.81
Total Operating Revenues	7,235,616.99	12,968,038.47
OPERATING EXPENSES:		
Instruction	8,211,645.21	7,124,752.12
Public Service	1,690,079.61	1,631,064.38
Academic Support	3,128,977.44	2,657,036.66
Student Services	2,063,771.16	1,996,229.96
Institutional Support	3,967,368.16	3,182,090.78
Operation and Maintenance of Plant	2,186,817.09	2,545,646.05
Scholarship and Fellowships	4,478,251.83	7,889,251.85
Depreciation and Amortization	2,597,078.18	2,307,451.88
Total Operating Expenses	28,323,988.68	29,333,523.68
Operating Income (Loss)	(21,088,371.69)	(16,365,485.21)

LAMAR STATE COLLEGE ORANGE

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended August 31, 2023

	2023	2022
NONOPERATING REVENUES (EXPENSES):		
Legislative Revenue (GR)	$ 19,392,637.00	$ 13,019,394.00
Additional Appropriations (GR)	2,386,010.26	2,226,871.03
Federal Revenue	3,673,903.00	3,103,628.27
Gifts - Non-Pledged	2,332,885.32	408,960.90
Gain (Loss) on Sale of Capital Assets	-	(40,983.62)
Net Increase (Decrease) in Fair Value - Pledged	477,025.22	(983,817.07)
Investment Income (Expense) - Pledged	433,562.99	464,196.90
Settlement of Claims	-	54,766.28
Other Nonoperating Revenues (Expenses)	-	1,592,863.80
Other Nonoperating Revenues (Expenses) (GR)	(84,397.34)	-
Total Nonoperating Revenues (Expenses)	28,611,626.45	19,845,880.49
Income (Loss) before Capital Contributions, Endowments, and Transfers	7,523,254.76	3,480,395.28
CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS		
Capital Appropriations (HEF)	1,488,396.00	1,488,396.00
Transfers-In (Note 12)	3,759,130.01	1,133,964.00
Transfers-Out (Note 12)	(661,372.26)	(268,804.90)
Legislative Transfers-In (Note 12)	5,369.00	7,623.00
Legislative Transfers-Out (Note 12)	(1,229,750.00)	(1,357,000.00)
Total Capital Contributions, Endowments, and Transfers	3,361,772.75	1,004,178.10
CHANGE IN NET POSITION	10,885,027.51	4,484,573.38
Total Net Position, September 1	68,508,739.73	64,024,166.35
TOTAL NET POSITION, August 31	$ 79,393,767.24	$ 68,508,739.73

See Independent Accountants' Review Report and Notes to the Financial Statements.

LAMAR STATE COLLEGE ORANGE

Matrix of Operating Expenses Reported by Function For the Fiscal Year Ended August 31, 2023

Operating Expenses	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarship and Fellowships	Depreciation and Amortization	Total Expenses
Salaries and Wages	$ 4,615,257.90	$ 769,323.35	$ 1,141,924.10	$ 1,228,119.83	$ 1,966,890.81	$ 367,182.96	$ 27,619.28	$ -	$ 10,116,318.23
Payroll Related Costs	1,515,901.64	200,716.43	413,366.46	463,907.00	621,656.44	155,148.91	412.10	-	3,371,108.98
Professional Fees and Services	1,212,873.75	119,310.02	603,359.84	(22,355.32)	241,750.68	195,379.49	853,002.80	-	3,203,321.26
Travel	91,891.61	34,616.25	28,952.10	33,666.04	97,327.44	3,725.57	-	-	290,179.01
Materials and Supplies	547,339.61	239,268.86	608,419.00	239,534.74	262,701.32	219,673.60	50,647.59	-	2,167,584.72
Communication and Utilities	-	39,806.77	103,038.02	21,332.72	7,585.45	587,675.47	8,912.00	-	768,350.43
Repairs and Maintenance	2,004.70	77,154.91	210,554.54	10,987.75	63,299.58	24,925.83	296,413.08	-	685,340.39
Rentals and Leases	-	3,876.21	1,717.12	11,059.91	17,242.79	364.22	-	-	34,260.25
Printing and Reproduction	20,428.10	1,242.64	2,414.40	17,741.92	(37,204.11)	15,275.78	-	-	19,898.73
Depreciation and Amortization	-	-	-	-	-	-	-	2,597,078.18	2,597,078.18
Bad Debt Expense	128,095.29	2,333.00	3,844.87	472.35	-	-	-	-	134,745.51
Interest	2.82	-	160.33	-	48.56	7.74	-	-	219.45
Scholarships	61,476.46	3,150.00	-	13,551.48	1,050.00	-	3,228,728.19	-	3,307,956.13
Other Operating Expenses	16,373.33	199,281.17	11,226.66	45,752.74	725,019.20	617,457.52	12,516.79	-	1,627,627.41
Total Operating Expenses	$ 8,211,645.21	$ 1,690,079.61	$ 3,128,977.44	$ 2,063,771.16	$ 3,967,368.16	$ 2,186,817.09	$ 4,478,251.83	$ 2,597,078.18	$ 28,323,988.68

See Independent Accountants' Review Report and Notes to the Financial Statements.

LAMAR STATE COLLEGE ORANGE

Statement of Cash Flows

For the Year Ended August 31, 2023

	2023	2022
Cash Flows from Operating Activities		
Receipts from Customers	$ 218,778.81	$ 987,805.75
Proceeds from Tuition and Fees	3,454,190.81	4,073,547.18
Proceeds from Other Operating Revenues	3,117,803.84	7,856,563.81
Payments to Suppliers for Goods and Services	(12,888,591.61)	(15,748,726.80)
Payments to Employees for Salaries	(10,116,318.23)	(9,409,126.50)
Payments to Employees for Benefits	(1,640,974.21)	(1,539,015.09)
Payments for Loans Provided	(345,442.76)	(17,133.20)
Net Cash Provided (Used) by Operating Activities	(18,200,553.35)	(13,796,084.85)
Cash Flows from Noncapital Financing Activities		
Proceeds from State Appropriations	17,646,404.20	14,502,100.68
Proceeds from Gifts	2,332,885.32	408,960.90
Proceeds from Grant Receipts	3,673,903.00	3,103,628.27
Proceeds from Other Noncapital Financing Activities	206,732.67	2,616,978.50
Payments for Other Noncapital Financing Uses	(160,592.00)	
Net Cash Provided by Noncapital Financing Activities	23,699,333.19	20,631,668.35
Cash Flows from Capital and Related Financing Activities		
Proceeds from the Sale of Capital Assets		
Proceeds from Debt Issuance	3,075,000.00	-
Payments for Additions to Capital Assets	(7,625,276.44)	(5,210,737.66)
Payments of Principal on Debt	(905,000.00)	(980,000.00)
Payments of Interest on Debt Issuance	(432,530.26)	(480,423.90)
Net Cash Provided by Capital and Related Financing Activities	(5,887,806.70)	(6,671,161.56)
Cash Flows from Investing Activities		
Proceeds from Investment Income	760,798.49	98,381.23
Payments to Acquire Investments		
Net Cash Provided by Investing Activities	760,798.49	98,381.23
Net Increase (Decrease) in Cash and Cash Equivalents	371,771.63	262,803.17
Cash and Cash Equivalents, September 1	20,505,063.09	20,242,259.92
Cash and Cash Equivalents, August 31	$ 20,876,834.72	$ 20,505,063.09

LAMAR STATE COLLEGE ORANGE

Statement of Cash Flows
For the Year Ended August 31, 2023

	2023	2022
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$ (21,088,371.69)	$ (16,365,485.21)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	2,597,078.18	2,307,451.88
Bad Debt Expense	134,745.51	8,019.00
On-Behalf Benefit Payments	1,676,717.64	1,601,688.01
(Increase) Decrease in Receivables	(657,218.90)	(215,713.73)
(Increase) Decrease in Prepaid Expenses	(435,920.36)	581,540.77
(Increase) Decrease in Loans and Contracts	(345,442.76)	(17,133.20)
Increase (Decrease) in Payables	(177,713.51)	(1,922,701.79)
Increase (Decrease) in Deposits	(1,717.44)	(36.00)
Increase (Decrease) in Unearned Revenue	79,347.30	157,609.00
Increase (Decrease) in Compensated Absence Liability	53,417.13	20,275.11
Increase (Decrease) in Other Liabilities	(35,474.45)	48,401.31
Total Adjustments	2,887,818.34	2,569,400.36
Net Cash Provided by Operating Activities	$ (18,200,553.35)	$ (13,796,084.85)
Non Cash Transactions		
Net Change in Fair Value of Investments	$ 477,025.22	$ (983,817.07)

See Independent Accountants' Review Report and Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lamar State College Orange ("LSCO") serves the State of Texas (the "State") by providing a high-quality education to its residents and is based in Orange, Texas.

The origins of LSCO date back to its formation in 1969 when Lamar University opened an extension center in Orange, Texas in an old elementary school. Texas Legislature passed legislation in 1971 allowing Lamar University to operate a two-year educational center out of the former elementary school. After fire destroyed the facility not long after, community fundraising made it possible to purchase the first building on the downtown Orange campus. Classes began in Fall 1971. In 1995, Lamar University-Orange became part of the Texas State University System (TSUS). In 1999, the college's name was changed from Lamar University-Orange to Lamar State College Orange.

LSCO is an agency of the State and a component of TSUS, which 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, seven component institutions offer a broad range of academic and career opportunities. Those seven institutions are located throughout the State and include LSCO, Sam Houston State University, Lamar University, Sul Ross State University, Texas State University, Lamar Institute of Technology, and Lamar State College Port Arthur.

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 Texas State University System Administration ("System Administration"), which is headed by the Board-appointed chancellor, is based in Austin, where it provides support to TSUS components.

TSUS is an agency of the State and is reported as one of six university systems that in total are presented as a major enterprise fund in the State's Annual Comprehensive Financial Report.

TSUS and LSCO have elected to define LSCO's reporting entity to include only activities in LSCO's name. LSCO's proportional share of liabilities in the name of TSUS is reported by TSUS. Transactions associated with bonds, pensions, and other postemployment benefits related to LSCO's activities in the name of TSUS are not reported by LSCO. However, LSCO has elected to make limited disclosures with respect to these matters in Notes 6, 9, and 11. The associated financial activities related to these items and required disclosures are made within TSUS's Annual Financial Report.

No entities have been identified meeting Governmental Accounting Standards Board's (GASB) definition of component units, which are legally separate entities and, accordingly, none are included with the reporting entity. As previously noted, LSCO is considered by the State as one of the academic entities that comprise TSUS; however, each entity is considered an agency of the State.

LSCO is affiliated with one foundation that has the sole purpose of supporting the educational and other activities of the college. The LSCO Foundation solicits donations and acts as a coordinator of gifts made by other parties.

The Lamar State College Orange Foundation (the "Foundation") is a separate legal entity registered with the IRS as a 501(c)(3) organization, and its efforts benefit LSCO and its students. The Foundation is separately governed and operates autonomously from LSCO, and its related activities are not included in LSCO's, TSUS', or the State's financial statements. The Foundation solicits donations and acts as a coordinator of gifts made by other parties. The Foundation gave $75,451.75 in scholarship money to LSCO in FY 2023.

The accounting policies followed by LSCO in maintaining accounts and in the preparation of the financial statements are in accordance with the Texas Comptroller of Public Accounts' Reporting Requirement for the Fiscal 2023 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). 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 ACFR 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.

Fund Structure

The accompanying financial statements are presented on the basis of funds. A fund is considered a separate accounting entity. LSCO is reporting as a special-purpose government engaged only in Business-Type Activities within the Proprietary Fund Type. The accompanying entity-wide financial statements are prepared as such.

Proprietary Funds

Business-Type Activity: 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 activity type 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 (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' Board.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and 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

Cash includes cash on hand, cash in local banks, cash in transit, and cash in the Treasury. Cash equivalents are considered short-term highly liquid investments with an original maturity of three months or less.

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 stated at fair value, with certain exceptions, in accordance with GASB Statement No. 72 *Fair Value Measurement and Application* ("GASB 72"). Fair value, which is determined based on quoted market prices, is the amount at which an investment could be exchanged in a current transaction between parties other than in a forced or liquidation sale. Changes in unrealized gain (loss) on the carrying value of investments are reported as net increase (decrease) in fair value of investments in the accompanying 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 is expensed when the items are used or consumed. Prepaid items reflect payments for costs applicable to future accounting periods.

Capital Assets

Assets such as furniture, equipment, and vehicles with an individual 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 system. Depreciation is recorded as a periodic expense and accumulated in a contra-asset account 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 non-financial 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 developed 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.

Lease Receivables

Lease receivable is calculated as the present value of the lease receipts expected during the lease term. The lessor records a lease receivable and a deferred inflow of resources on its financial statements.

Other Receivables

The disaggregation of other receivables as reported in the financial statements is disclosed 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 at the Statement of Net Position date for which payment is pending.

Unearned Revenues

Unearned revenues represent payments received in advance of providing goods or services.

Other Payables – Current and Noncurrent

The disaggregation of other payables as reported in the financial statements is disclosed in Note 24. Other payables include accruals at year end of expenditure transactions not included in any of the other payable descriptions.

Funds Held for Others

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

Employees’ Compensable Leave Balances

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

Lease Liabilities

Lease liability represents the amount recognized by a lessee on its financial statements regarding its leases. It is initially measured at the present value of lease payments and is remeasured whenever there is a change in lease payments or lease modification. Liabilities are reported separately as either current or noncurrent.

Bonds Payable - General Obligation Bonds

General obligation bonds are accounted for in proprietary funds for business-type activities. These payables are reported as long-term liabilities (current for amounts due within one year) and long-term labilities (noncurrent for amounts due thereafter) in the statement of the net position. The bonds are reported at par, net of unamortized premiums, discounts, issuance costs, and gains/(losses) on bond refunding activities. TSUS reports all related balances.

<u>Bonds Payable – Revenue Bonds</u>
Revenue bonds are accounted for in the proprietary funds for business-type activities. These payables are reported as long-term liabilities (current for amounts due within one year) and long-term liabilities (noncurrent for amounts due thereafter) in the statement of net position. The bonds are reported at par, net of unamortized premiums, discounts, issuance costs, and gains/(losses) on bond refunding activities. TSUS reports all related balances.

Net Position

The difference between fund assets and liabilities is "Net Position" on proprietary fund statements.

<u>Net Investment in Capital Assets</u>
Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

<u>Net Position – Restricted</u>
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 with the passage of time.
>
> **Non-expendable –** net position use is subject to externally imposed stipulations that it be maintained permanently. Such assets include the principal of permanent endowment funds (as applicable).

<u>Net Position Unrestricted</u>
Unrestricted net position consists of net position that does 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.

<u>Operating and Nonoperating Revenues and Expenses</u>

> **Operating revenues and expenses –** may 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 – may include activities such as gifts and contributions, insurance recoveries received in years subsequent to the loss, State appropriations, investment income, net change in fair value of investments, nonexchange basis of federal and state grants and contracts, and other nonoperating items defined by GASB.

Interagency Activities and Transactions

LSCO has the following types of transactions among related agencies:

Transfers: Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund.

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

Receivables and Payables: Interagency loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as "current." Balances for repayment due in two (or more) years are classified "noncurrent".

Sales and Purchases: Charges or collections for services rendered by one agency to another are recorded as revenues of the recipient agency and expenditures or expenses of the disbursing agency.

The composition of LSCO's interfund activities and transactions is presented in Note 12.

COVID-19 and CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act authorized more than $2 trillion in relief to individuals, businesses, and nonprofit and government organizations impacted by COVID-19. LSCO received funding primarily under two federal programs, the Governor's Emergency Education Relief Fund (GEERF) and the Higher Education Emergency Relief Fund (HEERF).

GEERF funding, awarded to the State of Texas Governor's Office and passed through the Texas Higher Education Coordinating Board to LSCO, provides direct financial assistance to support students' efforts to continue or restart their progress toward earning a post-secondary credential or degree. Initial GEERF awards totaling $28,469 were awarded in September 2020 to maintain need-based financial aid programs and keep more students enrolled at colleges and universities.

The initial awards were followed by an additional $29,462 in emergency student support to allow students whose families have been severely financially impacted by COVID-19 to stay enrolled in higher education.

HEERF funding, awarded directly to LSCO, provides support to prevent, prepare for, and respond to COVID-19. The respective award in FY 2020 totaled $1,043,319. Additional awards occurred in FY 2021 in the amount of $2,206,109 under the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) known as HEERF II and $3,958,195 under the American Rescue Plan (ARP) known as HEERF III. Under the terms of the grant agreements, the HEERF-Student Allocation Award is used to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19. The other award, the HEERF-Institutional Allocation Award, may be used to cover costs associated with significant changes to the delivery of course instruction due to COVID-19, subject to certain restrictions outlined in the grant agreements.

The revenues from these programs are earned by fulfilling the terms and conditions of the agreements with the funding agencies and therefore recognized when qualifying expenditures are incurred and eligibility requirements are met. A summary of funding awarded and expensed for the year ended August 31, 2023 and the balance of the unearned amounts are presented below:

Program	Total Awarded	Expensed/Earned	Unearned
GEERF – Student Financial Aid	$28,469.00	$28,469.00	$0
GEERF – Emergency Student Financial Aid	$29,462.00	$29,462.00	$0
HEERF I CARES – Student Allocation	$521,660.00	$521,660.00	$0
HEERF I CARES – Institutional Allocation	$521,659.00	$521,659.00	$0
HEERF II CRRSAA - Student Allocation	$521,660.00	$521,660.00	$0
HEERF II CRRSAA - Institutional Allocation	$1,684,449.00	$1,513,133.64	$171,315.36
HEERF III ARP - Student Allocation	$2,061,569.00	$2,057,305.77	$4,263.23
HEERF III ARP - Institutional Allocation	$1,896,626.00	$1,514,151.89	$382,474.11
Total	$7,265,554.00	$6,707,501.30	$558,052.70

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2023 is presented below:

Capital Assets	Balance 9/1/2022	Additions	Deletions	Balance 8/31/2023
Non-Depreciable or Non-Amortizable Assets:				
Land & Land Improvements	$ 2,144,436.56	$ -	$ -	$ 2,144,436.56
Construction In Progress	575,538.82	5,223,256.86	-	5,798,795.68
Total Non-Depreciable or Non-Amortizable Assets	$ 2,719,975.38	$ 5,223,256.86	$ -	$ 7,943,232.24
Depreciable Assets:				
Buildings and Building Improvements	$ 50,081,602.58	$ 929,417.49	$ -	$ 51,011,020.07
Facilities and Other Improvements	1,728,427.50	-	-	1,728,427.50
Furniture and Equipment	6,087,528.42	1,404,758.16	(126,259.39)	7,366,027.19
Vehicles, Boats, and Aircraft	348,466.92	46,196.20	-	394,663.12
Other Capital Assets	931,670.12	21,647.73	-	953,317.85
Total Depreciable Assets, Net	$ 59,177,695.54	$ 2,402,019.58	$ (126,259.39)	$ 61,453,455.73
Less: Accumumulated Depreciation for:				
Buildings and Improvements	$ (22,512,930.90)	$ (1,736,084.68)	$ -	$ (24,249,015.58)
Facilities and Other Improvements	(978,142.64)	(39,488.64)	-	(1,017,631.28)
Furniture and Equipment	(3,467,422.09)	(634,468.10)	126,259.39	(3,975,630.80)
Vehicles, Boats, and Aircraft	(84,958.73)	(42,315.36)	-	(127,274.09)
Other Capital Assets	(614,431.68)	(49,528.64)	-	(663,960.32)
Total Accumulated Depreciation	$ (27,657,886.04)	$ (2,501,885.42)	$ 126,259.39	$ (30,033,512.07)
Amortizable Assets - Intangible:				
Computer Software	$ 3,424,825.38	$ -	$ -	$ 3,424,825.38
Total Amortizable Assets - Intangible	$ 3,424,825.38	$ -	$ -	$ 3,424,825.38
Accumulated Amortization:				
Computer Software	$ (3,155,112.19)	$ (95,192.76)	$ -	$ (3,250,304.95)
Total Accumulated Amortization	$ (3,155,112.19)	$ (95,192.76)	$ -	$ (3,250,304.95)
Total Business-Type Activities	$ 34,509,498.07	$ 5,028,198.26	$ -	$ 39,537,696.33

A summary of changes in Capital Assets for the year ended August 31, 2022 is presented below:

Capital Assets	Balance 9/1/2021	Additions	Deletions	Balance 8/31/2022
Non-Depreciable or Non-Amortizable Assets:				
Land & Land Improvements	$ 2,144,436.56	$ -	$ -	$ 2,144,436.56
Construction In Progress	-	575,538.82	-	575,538.82
Total Non-Depreciable or Non-Amortizable Assets	$ 2,144,436.56	$ 575,538.82	$ -	$ 2,719,975.38
Depreciable Assets:				
Buildings and Building Improvements	$ 48,207,299.96	$ 1,874,302.62	$ -	$ 50,081,602.58
Facilities and Other Improvements	938,654.00	789,773.50	-	1,728,427.50
Furniture and Equipment	4,469,536.95	1,704,622.46	(86,630.99)	6,087,528.42
Vehicles, Boats, and Aircraft	113,342.07	235,124.85	-	348,466.92
Other Capital Assets	3,596,976.47	31,375.41	(2,696,681.76)	931,670.12
Total Depreciable Assets, Net	$ 57,325,809.45	$ 4,635,198.84	$ (2,783,312.75)	$ 59,177,695.54
Less: Accumumulated Depreciation for:				
Buildings and Improvements	$ (20,863,070.54)	$ (1,649,860.36)	$ -	$ (22,512,930.90)
Facilities and Other Improvements	(938,654.00)	(39,488.64)	-	(978,142.64)
Furniture and Equipment	(3,075,113.57)	(437,955.89)	45,647.37	(3,467,422.09)
Vehicles, Boats, and Aircraft	(59,185.06)	(25,773.67)	-	(84,958.73)
Other Capital Assets	(3,251,932.88)	(59,180.56)	2,696,681.76	(614,431.68)
Total Accumulated Depreciation	$ (28,187,956.05)	$ (2,212,259.12)	$ 2,742,329.13	$ (27,657,886.04)
Amortizable Assets - Intangible:				
Computer Software	$ 3,424,825.38	$ -	$ -	$ 3,424,825.38
Total Amortizable Assets - Intangible	$ 3,424,825.38	$ -	$ -	$ 3,424,825.38
Accumulated Amortization:				
Computer Software	$ (3,059,919.43)	$ (95,192.76)	$ -	$ (3,155,112.19)
Total Accumulated Amortization	$ (3,059,919.43)	$ (95,192.76)	$ -	$ (3,155,112.19)
Total Business-Type Activities	$ 31,647,195.91	$ 2,903,285.78	$ (40,983.62)	$ 34,509,498.07

Note 3: Deposits, Investments, and Repurchase Agreements

LSCO is authorized by statute to make investments following the "prudent person rule." There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2023, the carrying amount of deposits was $717,422.73 and $1,573,358.21 as of August 31, 2022. These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Position as part of the "cash and cash equivalents" accounts.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, LSCO will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. LSCO's bank accounts are secured by FDIC and pledged collateral. LSCO has no deposits that are at risk of recovery due to the failure of a depository financial institution. As of August 31, 2023, and 2022, respectively, the total bank balance was $734,388.80 and $1,578,888.76, respectively.

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. LSCO had no exposure to foreign currency risk for deposits as of August 31, 2023.

Investments

LSCO invests in operating and endowment funds. LSCO is authorized to invest in Operating and Endowment Funds as a prudent person in obligations and instruments as defined in the Texas State University System Investment Policy.

LSCO investments adhere to various strategies. The performance objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a three to five-year period) without undue exposure to risk. The invested funds are particularly risk-averse to the probability of not meeting the total return goal. Liquidity must be considered and sufficient to meet spending needs and expenses.

The total return goal can be achieved while assuming acceptable risk levels commensurate with "market volatility." To achieve the total return goal, the assets will be invested to generate appreciation and/or dividend and interest income.

The endowment funds investment is expected to endure into perpetuity. Inflation is a key component in the performance objective. The long-term risk of not investing in equity securities outweighs the short-term volatility risk. As a result, the majority of assets are invested in equity or equity-like securities. Fixed income and fixed income-like securities and other diversifying strategies may act to lower the short-term volatility of the portfolio and/or provide stability, especially during periods of weak or negative equity markets. Other asset classes are included to provide diversification and incremental total return.

The portfolio is diversified to diminish risks associated with particular securities, market sectors, or industries.

TexPool Investments at Amortized Cost

TexPool and TexPool Prime are managed conservatively to provide safe, efficient, and liquid investment alternatives to Texas governments. The accounts maintain a $1.00 value per share price and are reported at amortized cost. TexPool Prime has a very conservative investment policy and aligns with Rule 2a-7 money-market practices. TexPool investments consist exclusively of U.S. government securities, repurchase agreements collateralized by U.S. government securities and AAA-rated no-load money market mutual funds. TexPool Prime invests in the above, plus commercial paper and certificates of deposit. The funds are rated AAAm by Standard and Poor's based on credit quality, market price exposure, and management. There is no penalty or limit for withdrawal.

Fair Value of Investments

LSCO measures and record investment using fair value measurement guidelines in accordance with GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 recognizes a three-level fair value hierarchy for inputs to valuation techniques:

Level 1: Quoted prices for identical investments in active markets;
Level 2: Observable inputs other than quoted market prices; or,
Level 3: Unobservable inputs.
Net Asset Value: Net Asset Value Per Share (NAVPS) method is used when there is no readily determinable fair value.

As of August 31, 2023, the fair value of investments was as follows:

	Fair Value Hierarchy			
Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Corporate Asset and Mortgage Backed Securities	$ 68,218.58	-	-	$ 68,218.58
Domestic Mutual Funds	$ 817,456.22	-	-	$ 817,456.22
Equity	$ 275,928.70	-	-	$ 275,928.70
Fixed Income Money Market and Bond Mutual Fund	$ 6,706,075.54	-	-	$ 6,706,075.54
International Equity	$ 233,404.87	-	-	$ 233,404.87
International Mutual Funds	$ 1,082,292.85	-	-	$ 1,082,292.85
Other Commingled Funds	$ 604,261.03	-	-	$ 604,261.03
	$ 9,787,637.79	**-**	**-**	**$ 9,787,637.79**

Other Commingled Funds (TexPool)	$ 16,097,486.86
Cash Equivalents	**$ 16,097,486.86**

Deposit and Investment Risk Factors

The following paragraphs describe various types of risk related to Deposits and Investments.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, LSCO will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. LSCO's investment policy limits holding of securities by counterparty to those involved with securities lending. As of August 31, 2023, LSCO had no investments subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The TSUS investment policy requires that investments in debt securities have credit ratings recognized by the agencies of Standard and Poor's, Finch, and/or Moody's. For operating, a short-intermediate term fund's portfolio, average credit quality of the entire portfolio is to be greater than or equal to A-, as defined by Standard and Poor's (A- by Finch, A3 for Moody's). The minimum credit quality of any diversified fund vehicle must be investment grade at the time of purchase. Operating Long-Term funds' portfolios are intended to be invested in a similar manner to Endowment funds, but no more than 20% of the global fixed income and credit may be rated below investment grade, and no more than 15% of the total Long-Term Operating Portfolio may be invested in emerging/frontier markets, a sub-set of international. An Operating Long-Term funds portfolio may only invest up to 60% of the market value of its total operating funds portfolio, exclusive of bond proceeds, in this type of investment strategy. In order to invest with managers who utilize alternative investments, LSCO must retain an investment consultant. For the endowment portfolio, risk is controlled through the portfolio diversification of market sector and maturity. Risk is further defined by prohibited investments and activities and limited by maximum single purchase and maximum aggregate position percentages.

As of August 31, 2023, the credit quality distributions for securities with credit risk exposures were as follows:

Credit Risk	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Total**
Operating-Fixed Income	11,631.27	886.84	825.45	3,656.52	6,166.96	6,276.11	38,775.43	68,218.58
Corporate Asset and Mortgage Backed Securities	**$ 11,631.27**	**$ 886.84**	**$ 825.45**	**$ 3,656.52**	**$ 6,166.96**	**$ 6,276.11**	**$ 38,775.43**	**$ 68,218.58**
Operating - Equities	-	-	-	-	-	-	167,738.45	167,738.45
Operating - Real Estate	254,810.26	-	-	-	-	-	394,907.51	649,717.77
Domestic Mutual Funds	**$ 254,810.26**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$562,645.96**	**$ 817,456.22**
Operating - Equities	15,791.04	-	-	-	-	-	-	15,791.04
Operating-Fixed Income	5,616,261.78	26,935.15	256,047.02	347,545.57	22,837.28	39,328.63	147,366.59	6,456,322.02
Operating - Real Estate	233,164.41	-	-	-	-	-	-	233,164.41
Fixed Income Money Market and Bond Mutual Fund	**$5,865,217.23**	**$26,935.15**	**$256,047.02**	**$347,545.57**	**$22,837.28**	**$39,328.63**	**$147,366.59**	**$6,705,277.47**
Total	**$6,131,658.76**	**$27,821.99**	**$256,872.47**	**$351,202.09**	**$29,004.24**	**$45,604.74**	**$748,787.98**	**$7,590,952.27**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this disclosure requirement. As of August 31, 2023, LSCO was not subject to concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. LSCO is not required to disclose interest rate risk.

Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. As of August 31, 2023, LSCO was not aware of any material foreign currency risk.

Reverse Repurchase, Securities Lending, and Derivative Investing
LSCO did not participate in reverse repurchase agreements, securities lending, or derivative investing during fiscal year 2023.

Note 4: Short Term Debt

LSCO has no short-term debt to report as of August 31, 2023 and 2022.

Note 5: Long-Term Liabilities

Bonds Payable
See Note 6 for a discussion of bonded indebtedness.

Employees' Compensable Leave

Annual Leave:
Full-time employees earn eight to twenty-one hours per month vacation leave (annual leave) depending on years of State employment. The State's policy is that employees may carry accrued vacation leave forward from one fiscal year to the next up to a maximum number of hours allowed based on their years of service. Employees with at least six months of State service who terminate employment are entitled to payment for all accumulated annual leave. LSCO accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. The amounts of these liabilities are reported in the statement of net position. The estimated liability is based on outstanding balances reported in the leave reporting system multiplied by the employee's respective salary rate.

Sick Leave:
Sick leave is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave payment to an employee's estate is the lesser of one-half of the employee's accumulated entitlement or 336 hours. Sick leave accumulation from one fiscal year to the next is not limited. LSCO recognizes the cost of sick leave when paid. The liability is not shown in the financial statements since historical payouts of sick leave have been minimal.

Overtime and Compensatory Leave for FLSA Non-Exempt and Exempt Employees:
Under the federal Fair Labor Standards Act (FLSA) and State laws, overtime can be accumulated in lieu of immediate payment as compensatory leave for non-exempt employees up to a maximum of 240 hours. Unpaid accrued overtime for non-exempt employees is included in the calculation of current and long-term liabilities because these employees are eligible to be paid for these accruals upon death or termination. Overtime is calculated at a rate of 1.5 times an employee's normal rate of pay.

Nonexempt employees may earn compensatory leave when they work additional hours but the number of hours worked in the work week does not exceed 40 hours. Compensatory time is calculated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for this type of compensatory leave, so no liability is reported in the financial statements.

During the year ended August 31, 2023, the following changes occurred in liabilities.

Business-Type Activities	Balance 09/01/22	Additions	Reductions	Balance 08/31/23	Amount Due Within One Year
Compensable Leave	$382,620.69	$102,461.78	$49,044.65	$436,037.82	$102,461.78

During the year ended August 31, 2022 the following changes occurred in liabilities.

Business-Type Activities	Balance 09/01/21	Additions	Reductions	Balance 08/31/22	Amount Due Within One Year
Compensable Leave	$362,345.58	$92,393.63	$72,118.52	$382,620.69	$92,393.63

Post Employment Health Care and Life Insurance:

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees in accordance with state statutes. Substantially all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. LSCO participates in the Employees Retirement System of Texas (ERS) insurance plans. The information regarding the State's contribution, the number of eligible retirees and the cost of providing those benefits is included in the notes to the annual financial report of the ERS.

Notes and Loans Payable:

LSCO had no notes and loans payable at August 31, 2023 and 2022.

Claims and Judgments:

At August 31, 2023 and 2022, no lawsuits involving LSCO were pending.

Note 6: Bonded Indebtedness

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

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

DEBT SERVICE REQUIREMENTS ATTRIBUTABLE TO LAMAR STATE COLLEGE - ORANGE

Description	Year	Principal	Interest	Total
All Series	2024	$ 950,000.00	$ 388,463.06	$ 1,338,463.06
	2025	990,000.00	348,929.80	1,338,929.80
	2026	1,025,000.00	307,127.00	1,332,127.00
	2027	1,075,000.00	263,294.20	1,338,294.20
	2028	1,115,000.00	216,887.00	1,331,887.00
	2029-2032	3,925,000.00	427,574.60	4,352,574.60
	Totals	$ 9,080,000.00	$ 1,952,275.66	$ 11,032,275.66

A portion of the debt represents Tuition Revenue Bonds historically funded by the Texas Legislature through General Revenue Appropriations. LSCO was appropriated $998,750 and $1,125,500.00 during the 2023 and 2022 fiscal years, respectively, for Tuition Revenue Bond debt service. LSCO expects future Legislative appropriations to meet the debt service for Tuition Revenue Bonds.

Note 7: Derivatives

LSCO has no derivative instruments to report as of August 31, 2023 and 2022.

Note 8: Leases/Subscription-Based Information Technology Arrangements (SBITAs)

LSCO has entered into operating lease obligations for equipment as of August 31, 2023 and August 31, 2022. Rental expense was $35,026.91 and $32,953.40 (fund type - proprietary fund) for operating leases for the fiscal year ended August 31, 2023 and 2022, respectively. No lease liabilities exist for the fiscal years ending August 31, 2023 and 2022, respectively.

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2023 and 2022 were as follows:

Fiscal Year	FY23	FY22
2023	$ -	$ 18,328.62
2024	$27,278.11	$ 689.15
2025	$10,054.00	$ -
2026	$ 9,879.00	$ -
	$47,211.11	$ 19,017.77

LSCO does not have SBITAs as of August 31, 2023 that qualify to be reported under GASB 96.

Note 9: Defined Benefit Pension Plans and Defined Contribution Plan

Defined Benefit Pension Plan – Teacher Retirement System of Texas (TRS)

As previously discussed in Note 1, TSUS and LSCO have elected to define LSCO's reporting entity to include only activities in LSCO's name. LSCO's proportional share of pension liabilities related to LSCO's activities in the name of TSUS are not reported by LSCO. However, LSCO has elected to make the following limited disclosures with respect to LSCO pension benefits.

LSCO participates in a cost-sharing, multi-employer, defined benefit pension plan administered by TRS. The 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.

In accordance with the Reporting Requirements for Annual Financial Reports of State Agencies and Universities (the Reporting Requirements) promulgated by the Texas Comptroller of Public Accounts, TSUS has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which includes the net pension expense, net pension liability, and related deferred inflows and outflows. Under the Reporting Requirements, employees of LSCO are treated as employees of TSUS for GASB 68 reporting; therefore, these financial statements neither record nor disclose the net pension expense, net pension liability, or related deferred inflows and outflows attributable to LSCO. Recording and disclosure of this information occurs for TSUS as a whole in the consolidated Annual Financial Report of TSUS. The State and TSUS share responsibility for funding their proportional shares of the obligations of TRS.

All College personnel employed in a TRS-eligible position on a one-half time or greater basis that is projected to last for 4½ months or more are eligible for membership in the TRS retirement plan. Students employed in positions that require student status as a condition of employment do not participate.

The pension benefits formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3% of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered employees 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. TRS does not provide automatic post-employment benefit changes, including automatic cost of living adjustments.

Normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

TRS is primarily funded through State and employee contributions. TRS contribution rates are established by the State Legislature. Contributions by employees were 8.0 percent of gross earnings for 2023 and 8.0 percent of gross earnings for 2022, while employer contributions were 8.0 percent of the participants' gross earnings for 2023 and 7.75 percent of the participants' gross earnings for 2022. Depending upon the source of funding for a participant's salary, the College may be required to make contributions in lieu of the State. Contributions to TRS for the year ended August 31, 2023 and 2022, attributable to the College's portion of the pension obligation were as follows:

	Year ended August 31, 2023
Employee Contributions	$ 628,073.83
Employer Contributions	629,176.21
Total	$ 1,257,250.04

	Year ended August 31, 2022
Employee Contributions	$ 570,139.56
Employer Contributions	553,785.04
Total	$ 1,123,924.60

TRS currently does not separately account for each of its component government agencies because TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the

State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in TRS's annual financial report, which may be found on the TRS website at www.trs.state.gov.

Defined Contribution Plan - Optional Retirement Program (ORP)

The State has also established an optional retirement program (ORP) for institutions of higher education. Participation in ORP is in lieu of participating in the Teacher Retirement System and is available to certain eligible employees. Employees eligible for participation in ORP are defined in Texas Administrative Code § 25.4. ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. Depending upon the source of funding for the employee's compensation, LSCO may be required to make the employer contributions in lieu of the State.

The State provides an option for a local supplement (up to 1.9%) on top of the State base rate. Participant contributions were made at a rate of 6.65% of annual compensation during FY 2023 and FY 2022. Employer contributions were made at the base rate of 6.6% unless the employee was grandfathered (i.e. the employee was contributing on August 31, 1995); in the case of grandfathered employees, the rate of the employer contributions was 8.5% of annual compensation.

The amounts contributed by plan members and by LSCO (Employer) for the fiscal year ended August 31, 2023 and 2022, respectively, are:

	Year Ended August 31, 2023	
Member Contributions	$	105,357.54
Employer Contribtuions		107,892.83
Totals	$	213,250.37

	Year Ended August 31, 2022	
Member Contributions	$	111,293.00
Employer Contribtuions		115,664.00
Totals	$	226,957.00

Since contributions are invested in individual annuity contracts, neither the State nor LSCO have any liability for this program. Further information in regards to ORP can be obtained from the Texas Higher Education Coordinating Board website at www.highered.texas.gov.

Note 10: Deferred Compensation

LSCO does not serve as administrative agency as defined by the Texas Comptroller with respect to its Note 10; however, 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 area available for employees' participation – TRS and ORP. The assets of the plans do not belong to LSCO, TSUS, or the State. LSCO, TSUS, or the State have no liability related to 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 LSCO, their spouses, and beneficiaries. These other postemployment benefits (OPEB), authorized by statute and contributions, are established by the General Appropriations Act.

As previously discussed in Note 1, TSUS and LSCO have elected to define LSCO's reporting entity to include only activities in LSCO's name. LSCO's proportional share of OPEB liabilities is related to LSCO's activities in the name of TSUS are not reported by LSCO. However, LSCO has elected to make the following limited disclosures with respect to LSCO's OPEB.

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's Annual Comprehensive Financial Report. Liabilities associated with OPEB provided by the State for employees providing services for LSCO are reported by TSUS. Additionally, full disclosures of OPEB as required by GASB 74 are reported by TSUS.

Note 12: Interfund Activity and Transactions

As explained in Note 1, Interfund Activities and Balances 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 Agencies or Due to Other Agencies
- Due From Other Funds or Due to Other Funds
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

LSCO experienced routine transfers with other State agencies, which were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statement.

As of August 31, 2023 and 2022, LSCO has not participated in any interfund borrowing.
Individual balances and activity at August 31, 2023 follows:

LAMAR STATE COLLEGE ORANGE

Notes to the Financial Statements
For the Year Ended August 31, 2023

	Due From Other Agencies	Due to Other Agencies	Source
Agency 320, D23, Fund 7999	$434,591.00		Restricted Funds
Agency 781, D23, Fund 7999	$73,019.00		Restricted Funds
Agency 758, D23, Fund 7999	$4,084.93		Designated Funds
Agency 758, D23, Fund 0325		$38,000.00	Restricted Funds
Agency 781, D23, Fund 0325		$57,582.65	Restricted Funds
Agency 788, D23, Fund 7999		$375.06	Designated Funds
Total Due From/To Other Agencies	**$511,694.93**	**$95,957.71**	

	Legislative TRANSFERS IN	Legislative TRANSFERS OUT
General Revenue (0001) TRB		$998,750.00
General Revenue (0001) TSUS Bond		$231,000.00
Agency 403, D23, Fund 0001	$5,369.00	
Total Legislative Transfers	**$5,369.00**	**$1,229,750.00**

	TRANSFERS IN	TRANSFERS OUT	SOURCE
Agency 787, D23, Fund 0599		$343,000.00	E & G Funds
Agency 758, D23, Fund 7999		$160,592.00	Designated Funds
Agency 758, D23, Fund 7999		$107,780.26	Designated Funds
Agency 753, D23, Fund 7999		$ 50,000.00	Designated Funds
Agency 787, D23, Fund 0599	$343,000.00		E & G Funds
Agency 758, D23, Fund 7999	$3,075,000.00		Plant Funds
Agency 902, D23, Fund 0210	$3,729.00		E & G Funds
Agency 902, D23, Fund 0599	$237,401.01		E & G Funds
Agency 758, D23, Fund 7999	$100,000.00		Restricted Funds
Total Transfers	**$3,759,130.01**	**$661,372.26**	

Individual balances and activity at August 31, 2022 follows:

	Due From Other Agencies	**Due to Other Agencies**	**Source**
Agency 320, D23, Fund 7999	$66,872.13		Restricted Funds
Agency 781, D23, Fund 7999	$62,311.00		Restricted Funds
Agency 781, D23, Fund 1325	$265,000.00		Restricted Funds
Agency 781, D23, Fund 0325	$10,138.75		Restricted Funds
Agency 758, D23, Fund 7999	$20,773.41		Designated Funds
Agency 788, D23, Fund 7999		$6,000.00	Restricted Funds
Total Due From/To Other Agencies	**$425,095.29**	**$6,000.00**	

	Legislative TRANSFERS IN	**Legislative TRANSFERS OUT**
General Revenue (0001) TRB		$1,125,500.00
General Revenue (0001) TSUS Bond		$231,500.00
Agency 403, D23, Fund 0001	$7,623.00	
Total Legislative Transfers	**$7,623.00**	**$1,357,000.00**

	TRANSFERS IN	**TRANSFERS OUT**	**SOURCE**
Agency 758, D23, Fund 7999		$165,381.00	Designated Funds
Agency 758, D23, Fund 7999		$103,423.90	Designated Funds
Agency 902, D23, Fund 0210	$4,964.00		E & G Funds
Agency 902, D23, Fund 0599	$1,129,000.00		E & G Funds
Total Transfers	**$1,133,964.00**	**$268,804.90**	

Note 13: Continuance Subject to Review

LSCO is not subject to a review of continuance.

Note 14: Adjustments to Net Position

LSCO had no adjustments to Net Position to report as of August 31, 2023 and August 31, 2022.

Note 15: Contingencies and Commitments

Claims and Judgments
As of August 31, 2023, and 2022, no lawsuits and claims involving LSCO were pending.

Federal Assistance
LSCO 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.

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

Construction Commitments
LSCO has outstanding capital commitments for various construction projects at various stages in the amount of $30,725,221.45 at August 31, 2023.

Note 16: Subsequent Events

LSCO has no subsequent events to report as of August 31, 2023 and 2022.

Note 17: Risk Management

Liability Recognition and Experience
LSCO assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently, LSCO is not involved in any risk pools with other government entities. LSCO's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. There were no liabilities to report during the fiscal year ended August 31, 2023 and 2022, respectively.

Civil Claims
LSCO is exposed to a variety of civil claims resulting from the performance of its duties. It is LSCO's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

Unemployment Compensation
The State provides coverage for unemployment benefits for college employees from appropriations made to the Texas Workforce Commission (TWC). The current General Appropriations Act provides that LSCO must reimburse the General Revenue Fund from LSCO appropriations 50% of the unemployment benefits paid for State funded positions and 100% of the cost for unemployment compensation for any positions paid from funds held in local bank accounts and local funds held in the State Treasury. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. The unemployment benefit plan is on a pay-as-you-go basis, in which no assets are set aside to be accumulated for the payment of claims. No material outstanding claims are pending at August 31, 2023 and 2022.

Workers' Compensation
The administration of the State's employee workers' compensation program is vested with the State Office of Risk Management (SORM). In accordance with H.B. No. 1203, 77th Legislature, SORM developed and imposed a formula-driven charge for workers' compensation costs upon participating agencies. The workers' compensation assessment is prepaid to SORM through an Interagency Contract for risk management services and workers' compensation coverage for its employees in compliance with TEX.LABOR CODE Chapter 412 and Chapter 501. The assessment paid during the fiscal year ended August 31, 2023 and 2022 amounted to $21,946.79 and $21,319.02, respectively.

Fire and Extended Coverage
LSCO 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, Educational and General Funds and other Non-Educational and General Funds. The insurance protects the bondholders 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. No insurance claims were made during the fiscal year ended August 31, 2023 and 2022.

Motor Vehicle
Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of $30,000/$60,000 bodily injury and $25,000 property damage. All vehicles owned and/or leased by LSCO are covered by a commercial insurance policy specifically customized for TSUS, which provides coverage to the extent of $1,000,000 combined single liability. The coverage exceeds the extent of the waivers of state immunity in the Texas Tort Claims Act, Civil Properties and Remedies Code Section 101.023.

Note 18: Management's Discussion and Analysis

See Management's Discussion and Analysis section.

Note 19: The Financial Reporting Entity

See Reporting Entity as discussed in Note 1.

Note 20: Stewardship, Compliance, and Accountability

LSCO has no material violations of finance-related and contractual provisions. Per state laws, LSCO cannot spend amounts in excess of appropriations granted by the Texas Legislature, and there are no deficits reported in net position.

Note 21: Undefined by Texas Comptroller

Reserved for future use by Texas Comptroller.

Note 22: Donor-Restricted Endowments

LSCO has no cumulative net appreciation on investments of donor restricted endowments to report as of August 31, 2023 and 2022.

Note 23: Extraordinary and Special Items

No items have been identified meeting the criteria of extraordinary or special items as of August 31, 2023 and 2022.

Note 24: Disaggregation of Receivable and Payable 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.

Current Receivables and Other Current and Noncurrent Liabilities as of August 31, 2023 are comprised of the following:

Federal Receivables	
Scholarships	$ 475,559.46
Other Liabilities - Current	
Refundable Student Deposits	$ 1,215.46
Other Liabilities - Noncurrent	
Refundable Student Deposits	$ 10,939.17
Total Other Liabilities - Noncurrent	$ 10,939.17

Current Receivables and Other Current and Noncurrent Liabilities as of August 31, 2022 are comprised of the following:

Federal Receivables		
Scholarships	$	208,115.18
Other Liabilities - Current		
Refundable Student Deposits	$	2,932.90
Other Liabilities - Noncurrent		
Refundable Student Deposits	$	26,396.11
Total Other Liabilities - Noncurrent	$	26,396.11

Note 25: Termination Benefits

LSCO has no termination benefits to report as of August 31, 2023 and 2022.

Note 26: Segment Information

LSCO has no segments to report as of August 31, 2023 and 2022.

Note 27: Service Concession Arrangements

LSCO has no service concession arrangements to report as of August 31, 2023 and 2022.

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

LSCO has no deferred outflows of resources and deferred inflows of resources to report as of August 31, 2023 and 2022.

Note 29: Troubled Debt Restructuring

LSCO has no troubled debt restructuring to report as of August 31, 2023 and 2022.

Note 30: Non-Exchange Financial Guarantees

LSCO has no non-exchange financial guarantees to report as of August 31, 2023 and 2022.

Note 31: Tax Abatements

LSCO has no tax abatements to report as of August 31, 2023 and 2022.

Note 32: Fund Balances

LSCO's financial statements are presented for business-type activities as of August 31, 2023 and 2022.