

LOWER NECHES VALLEY AUTHORITY

**FINANCIAL STATEMENTS
TOGETHER WITH AUDITOR'S REPORT**

DECEMBER 31, 2023 AND 2022

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
<u>Independent Auditor’s Report</u>	1-3
<u>Management’s Discussion And Analysis</u>	4-10
<u>Financial Statements</u>	
Statements Of Net Position, December 31, 2023 And 2022	11
Statements Of Revenues, Expenses And Changes In Net Position, For The Years Ended December 31, 2023 And 2022.....	12
Statements Of Cash Flows, For The Years Ended December 31, 2023 And 2022.....	13-14
Notes To The Financial Statements, December 31, 2023 And 2022.	15-39
<u>Required Supplementary Information</u>	
Schedule of Changes in Employer’s Net Pension Liability and Related Ratios For The Years Ended December 31, 2023, through 2015	40
Schedule of Employer Pension Contributions For The Year Ended December 31, 2023	41
Schedule of Changes in Total OPEB Liability and Related Ratios For The Years Ended December 31, 2023, through 2018	42
<u>Supplementary Information</u>	
Statement Of Revenues And Expenses - Actual Compared To Budget For The Year Ended December 31, 2023	43
<u>Other Information</u>	
Exhibit “A” Annual Report	
Table 1 – System Revenues And Expenses.....	44
Table 2 – Net Position	45
Table 3 – Top Ten Water Customers.....	46
Table 4 – Number Of Customers.....	47
Table 5 – Water Rates.....	48
COMPLIANCE AND INTERNAL CONTROLS SECTION	
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	49-50

FINANCIAL SECTION

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
Troy W. Domingue, CPA
Allen W. Fehnel, CPA



Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA
Chris W. Busch, CPA

April 16, 2024

Independent Auditor's Report

Board of Directors
Lower Neches Valley Authority
Beaumont, TX

Members of the Board:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Lower Neches Valley Authority (LNVA) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise LNVA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of LNVA as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of LNVA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Notes 1 and 13 to the financial statements, for the year ended December 31, 2023, LNVA adopted new accounting guidance, *GASB No. 96, Subscription Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LNVA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing the audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LNVA's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LNVA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the Schedule of Changes in Employer's Net Pension Liability and Related Ratios on page 40, the Schedule of Employer Pension Contributions on page 41 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 42 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information on pages 4 through 10 and pages 40 through 42 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise LNVA's basic financial statements. The *Statement of Revenues and Expenses – Actual Compared to Budget* on page 43 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Statement of Revenues and Expenses – Actual Compared to Budget* on page 43 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Exhibit "A" Annual Report Tables 1 through 5 on pages 44 through 48 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2024, on our consideration of LNVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LNVA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LNVA's internal control over financial reporting and compliance.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DESHONG & JUNCKER, L.L.P.
Certified Public Accountants

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The following discussion and analysis of the Lower Neches Valley Authority financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2023, in comparison with the prior year financial results. We encourage readers to consider the information presented here in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$174,405,776 (net position). Of this amount, \$76,020,777 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.
- The Authority's total net position increased by \$15,569,367 (9.8%). Unrestricted net position increased by \$7,586,908 (11.1%) from operational activities.
- The Authority's operating revenues increased \$2,594,676 (6.1%) to \$44,975,885 and operating expenses, excluding depreciation and amortization, increased \$747,540 (2.6%) to \$29,353,917.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: Introductory Section, Financial Statements and Supplementary Information. The Financial Section includes notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

Statement of Net Position. One of the most important questions asked about the Authority's finances is "Is the Authority better off or worse off as a result of the year's activities?" The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

Statement of Revenues, Expenses and Changes in Net Position. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

These two statements report the Authority's net position by component and changes in those components. Analyzing the Authority's net position—the difference between assets and liabilities—is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as the condition of the Authority's distribution system, assess the overall health of the Authority.

Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position increased by \$15,569,367 (9.8%) from \$158,836,409 to \$174,405,776. The analysis focuses on the net position (Table 1) and changes in net position (Table 2).

Unrestricted net position represents assets that can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation. Unrestricted net position increased by \$7,586,908 from \$68,433,869 to \$76,020,777 at the end of the year.

Table 1	Condensed Statement of Net Position		
	Year End 2023	Year End 2022	Year End 2021
Current Assets	\$ 90,326,562	\$ 81,066,306	\$ 74,762,904
Restricted Assets	1,525,335	1,457,474	1,438,236
Capital Assets	110,289,664	103,750,066	100,924,864
SBITA Assets	504,652	-	-
Total Assets	<u>202,646,213</u>	<u>186,273,846</u>	<u>177,126,004</u>
Deferred Outflow of Resources - Pension	3,536,842	6,404,396	6,376,551
Deferred Outflow of Resources - OPEB	2,464,054	2,528,710	3,142,575
Total Deferred Outflow of Resources	<u>6,000,896</u>	<u>8,933,106</u>	<u>9,519,126</u>
Current Liabilities	1,650,960	2,457,074	2,413,687
Non-current Liabilities	28,702,574	30,105,457	31,758,049
Total Liabilities	<u>30,353,534</u>	<u>32,562,531</u>	<u>34,171,736</u>
Deferred Inflow of Resources - Pension	888,079	182,105	1,248,313
Deferred Inflow of Resources - OPEB	2,999,720	3,625,907	16,592
Total Deferred Inflow of Resources	<u>3,887,799</u>	<u>3,808,012</u>	<u>1,264,905</u>
Net Investment in Capital Assets	96,859,664	88,945,066	86,119,864
Restricted	1,525,335	1,457,474	1,438,236
Unrestricted	76,020,777	68,433,869	63,650,389
Total Net Position	<u>\$ 174,405,776</u>	<u>\$ 158,836,409</u>	<u>\$ 151,208,489</u>

Table 2	Condensed Statement of Revenues, Expenses and Changes in Net Position		
	Year End 2023	Year End 2022	Year End 2021
Operating Revenues	\$ 44,975,885	\$ 42,381,209	\$ 39,424,905
Non-operating Revenues (Expenses)	3,096,091	(3,302,739)	(6,879,119)
Total Revenues	<u>48,071,976</u>	<u>39,078,470</u>	<u>32,545,786</u>
Operating Expenses	29,353,917	28,606,377	26,099,741
Depreciation Expenses	3,077,961	2,840,077	2,638,266
Amortization and Fees	70,731	4,096	4,096
Total Operating Expenses	<u>32,502,609</u>	<u>31,450,550</u>	<u>28,742,103</u>
Net Change in Net Position	<u>15,569,367</u>	<u>7,627,920</u>	<u>3,803,683</u>
Beginning Net Position	158,836,409	151,208,489	147,404,806
Ending Net Position	<u>\$ 174,405,776</u>	<u>\$ 158,836,409</u>	<u>\$ 151,208,489</u>

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

- Operating revenues increased \$2,594,676 (6.1%). Industrial and municipal sales increased by 9.05%. Irrigation water sales decreased by 0.48%. The decrease in Irrigation water was due to a slight increase in precipitation from 2022 to 2023 during the early part of the rice growing season.
- Non-operating revenues (expenses) include interest income, leases, royalties, crossing fees, management fees and administrative expenses for the Authority. Interest income increased \$2,437,646 due to the increase in interest rates. Crossing fees, one-time payments by customers, decreased by \$90,051 in 2023. The fees are variable each year. Gain on Sale of Assets decreased by \$114,199 in 2023.
- Operating expenses increased, by \$1,052,059 (3.4%) from \$31,450,550. to \$32,502,609.

BUDGETARY HIGHLIGHTS

The Authority adopts an operating budget outlining an operating plan for the year. The budget plan for 2023 was to cover operating expenses and provide funding for a \$8,545,000 capital improvement program. The capital improvement budget increased during the year to \$8,615,000 to cover the costs of various hauling and excavating equipment. The Authority completed 2023 increasing net position by \$15,569,367. The following bullets provide an explanation of budget variances and Table 3 reflects the activity for the year.

- Freshwater Supply Division operating revenues exceeded the budget by \$3,829,953 (12.7%), mainly due to increased industrial and municipal water sales over contracted water volumes.
- The Wastewater Division revenue and expenses are linked by contract. The below budget revenue performance is a direct result of below budgeted expenditures in operating the Wastewater Division.
- Operating expenses were below budget by \$1,744,369 (5.1%), in large part due to the Wastewater Division being below budget by \$1,223,006 and the Potable Water Division being below budget by \$786,028. Freshwater supply expenses had only a minor budget variance of \$74,585.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Table 3 Condensed Budget to Actual Comparison				
	Budget	Actual	Favorable (Unfavorable) Variance	Percent Variance
Operating Revenues				
Fresh Water Supply Division	\$ 30,166,400	\$ 33,996,353	\$ 3,829,953	12.7%
Wastewater Division	9,222,488	7,999,422	(1,223,066)	-13.3%
Potable Water Division	2,198,709	2,191,977	(6,732)	-0.3%
Clean Rivers Program	164,883	192,282	27,399	16.6%
Saltwater Barrier	488,592	595,851	107,259	22.0%
Total Operating Revenues	42,241,072	44,975,885	2,734,813	6.5%
Operating Expenses				
Fresh Water Supply Division	19,867,229	19,941,814	(74,585)	-0.4%
Wastewater Division	9,222,488	7,999,422	1,223,066	13.3%
Potable Water Division	2,198,709	1,412,681	786,028	35.7%
Depreciation ⁽¹⁾	2,600,000	2,723,504	(123,504)	-4.8%
Amortization and Fees	4,095	70,731	(66,636)	-1627.3%
Total Operating Expenses	33,892,521	32,148,152	1,744,369	5.1%
Non-Operating Revenues				
Interest on Investments	610,000	3,292,895	2,682,895	439.8%
Leases and Royalties	210,000	191,030	(18,970)	-9.0%
Management Fees	1,411,149	1,397,147	(14,002)	-1.0%
Administrative Services (Net of Fees)	(1,759,700)	(3,534,205)	(1,774,505)	100.8%
Other Revenue	-	65,463	65,463	n/a
Gain on Disposition of Assets	25,000	31,280	6,280	25.1%
Transfer of Assets to Governmental Entity	-	1,652,481	1,652,481	n/a
Total Non-Operating Revenues	496,449	3,096,091	2,599,642	523.6%
Change in Net Position	8,845,000	15,923,824	7,078,824	80.0%
Reconciling Items to GAAP Basis				
Capital Improvement Program	8,615,000	8,126,452	(488,548)	-5.7%
Transfer to Economic Development	300,000	-	(300,000)	n/a
Net Change in Position (Budget Basis)	\$ (70,000)	\$ 7,797,372	\$ 7,867,372	11239.1%

⁽¹⁾ Excludes unbudgeted depreciation expense for West Regional Treatment System (\$354,457).

Working Capital. In order to maintain fiscal stability, the Authority has adopted a working capital reserve policy to provide for short-term cash flow, such as revenue shortfalls or unanticipated expenses that the LNVA may encounter as part of its operations. This reserve is set at 3 months of the ensuing year's net position. Working capital is defined as current assets (e.g. cash, investments and accounts receivable), less current liabilities (e.g. accounts payable). The Authority's working capital as of December 2023 is adequate to meet the policy.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

The Authority operates and maintains a freshwater supply system that is comprised of approximately 600 miles of canals fed by three sets of pumping plants. Each set of pumping plants is comprised of a primary lift and a secondary lift; two of these are located on Pine Island Bayou and the Neches River while the third is located on the Trinity River. There is adequate capacity within the system of plant, equipment and distribution network to operate and maintain current service levels. Table 4 reflects changes in capital assets from 2022 to 2023. The increase in capital assets is associated with improvements throughout the system.

Table 4	Capital Assets at Year-End		
	2023	2022	2021
Investment in Saltwater Barrier	\$ 17,816,038	\$ 15,477,255	\$ 15,477,255
Investment in Devers Distribution System	2,332,772	2,332,772	2,332,772
Land	3,604,076	3,604,076	3,604,076
Reservoirs	7,179,381	7,179,381	7,179,381
Water Plant and Equipment	108,482,454	102,249,055	98,002,008
Office Building and Other Equipment	4,018,152	3,858,338	3,858,338
Construction-in-Progress	8,093,927	7,731,928	6,685,783
Accumulated Depreciation	(41,237,136)	(38,682,739)	(36,214,749)
Total	<u>\$ 110,289,664</u>	<u>\$ 103,750,066</u>	<u>\$ 100,924,864</u>

Long Term Debt

The Authority has sufficient reserves established for debt service requirements. The growth projected from new Bolivar customers will use a minimal amount of the system capacity created with the current expansion and will also help to maintain a stable rate base.

Table 5	Combined Debt, All Series		
Year Ending December 31	Water Supply Contract Revenue Refunding Bonds		Total
	Principal	Interest	
2024	\$ 725,000	\$ -	\$ 725,000
2025	725,000	-	725,000
2026	780,000	-	780,000
2027	800,000	-	800,000
2028	1,000,000	-	1,000,000
2029- 2033	6,600,000	-	6,600,000
2034 - 2035	2,800,000	-	2,800,000
Total	<u>\$ 13,430,000</u>	<u>\$ -</u>	<u>\$ 13,430,000</u>

At year-end, the Authority had one Water System Taxable Contract Revenue Bond outstanding in the amount of \$13,430,000 for a potable water plant to serve the Bolivar Peninsula Special Utility District. The Bonds were originally approved up to \$20,520,000 and were issued in a series of installments at a 0% interest rate. The Bonds are payable solely by a pledge of and lien on the revenues of a water supply contract financing system and do not constitute a general obligation of the Authority. The original bonds were replaced with a new issue in 2009. The outstanding bonds remained the same; however, the debt structure was revised to coincide with the recovery of Bolivar after Hurricane Ike.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The Authority's Water Supply Contract Revenue Refunding Bonds were insured by Financial Security Assurance, Inc. and carry the rating of "Aa1" with Moody's Investors Service. The Water System Taxable Contract Revenue Bonds were issued through the Texas Water Development Board.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Authority revenue remains stable with firm yield contracts for industrial and municipal customers. Industrial customer revenue is the largest single source of revenue representing 75.33% of freshwater sales and 56.57% of total operating revenues. Significant capital investments by the Authority are being made to address the capacity and reliability of its delivery system (both pumping plants and canals) in order to keep pace with continued industrial expansion requiring a freshwater supply in Jefferson County and to modernize the Devers Canal System in Liberty and Chambers Counties.

Sam Rayburn Reservoir, Lake B.A. Steinhagen and the flow of the Neches River are the primary sources for the Authority's water supply. The Neches River discharges an annual average of 4.60 million acre-feet of water. Sam Rayburn Reservoir storage volume at a full conservation pool holds 2.9 million acre-feet of water. The current demand for water supply by all Authority customers averages 320,000 acre-feet per year. Reservoir storage and river flows are sufficient to meet the needs of the Authority's customer base.

The 2024 budget was based on a normal operating year and estimates total revenues of \$43,161,512 including raw water sales, wastewater fees and potable water revenue. Raw water sales are based on contracted volumes of fresh water sold to municipal, industrial, and agricultural customers and represent 71.54% of total operating revenue. Operating revenues for wastewater services and saltwater barrier operations are contractual and based on actual expenses. The Clean Rivers Program is state funded. The potable water division is based on \$93,000 fixed monthly plus \$0.96 per 1,000 gallons consumed. Their debt service level will rise from \$700,000 in 2023 to \$725,000 in 2024.

Raw Water Rates per Acre-Foot	2024	2023	2022
Mining - Reservoir	\$ 430.12	\$ 430.12	\$ 401.58
Mining - Excess Rate	860.25	860.25	821.16
Contract Excess	286.75	286.75	273.72
Spot Purchase	1,433.75	1,433.75	1,368.60
Industrial - Contracted	143.37	143.37	136.86
Municipal - Contracted	107.53	107.53	102.64
Duck water	40.00	40.00	n/a
Irrigation Water	37.50	37.50	34.22

The operating expense and debt principal requirements are balanced with the estimated revenues. Although the Authority adopts a budget for planning and controlling costs in accordance with the Texas Water Code, it is a non-appropriation budget and actual results may vary. Table 6 reflects the 2024 budget compared to actual expenses for 2023. The Authority's service area is experiencing tremendous growth. Major expansion in the industrial base projected through the decade, will have a significant impact on the Authority and the delivery of services. The Board of Directors and staff are planning for the expected increase in demand for the basin's water resources.

The Authority is confident in its financial stability. The stable outlook reflects the Board of Director's historical commitment to maintaining sound reserves, which provides stability during the time of economic uncertainty or downturn in the Authority's service area. This stability will allow the Authority to continue to provide services for the continued growth of the area.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Table 6	FY 2024 Budget vs. FY 2023 Actual			
	Budget 2024	Actual 2023	Dollar Change	Percent Change
Revenues by Division				
Fresh Water Supply	\$ 30,582,800	\$ 33,996,353	\$ (3,413,553)	-10.0%
Wastewater Services	9,712,286	7,999,422	1,712,864	21.4%
Potable Water Division	2,234,105	2,191,977	42,128	1.9%
Clean Rivers Program	196,326	192,282	4,044	2.1%
Saltwater Barrier Operating Fees	435,995	595,851	(159,856)	-26.8%
Total Revenues	<u>43,161,512</u>	<u>44,975,885</u>	<u>(1,814,373)</u>	-4.0%
Expenses by Division				
Fresh Water Supply Division	19,837,950	19,941,814	(103,864)	-0.5%
NRTP Wastewater Operations	9,712,286	7,999,422	1,712,864	21.4%
Potable Water Division (Excl. Depreciation)	2,234,105	1,412,681	821,424	58.1%
Depreciation and Amortization	2,854,095	2,794,235	59,860	2.1%
Total Expenses	<u>34,638,436</u>	<u>32,148,152</u>	<u>2,490,284</u>	7.7%
Net Revenues Over Expenses	<u>8,523,076</u>	<u>12,827,733</u>	<u>(4,304,657)</u>	-33.6%
Non-Operating Revenues (Expenses)				
Interest Income	2,020,000	3,292,895	(1,272,895)	-38.7%
Leases, Royalties and Crossing Fees	204,000	191,030	12,970	6.8%
Management Fees	1,414,594	1,397,147	17,447	1.2%
Other Revenue	-	65,463	(65,463)	n/a
Gain (Loss) on Disposition of Assets	25,000	31,280	(6,280)	-20.1%
Administrative Services (Net of Internal Fees)	(1,986,670)	(3,534,205)	1,547,535	-43.8%
Transfer of Assets Governmental Entity	-	1,652,481	(1,652,481)	n/a
Total Non-Operating Revenues	<u>1,676,924</u>	<u>3,096,091</u>	<u>(1,419,167)</u>	45.8%
Change in Net Position	<u>10,200,000</u>	<u>15,923,824</u>	<u>(5,723,824)</u>	-35.9%
Other Budgetary Items				
Capital Improvements	9,900,000	8,126,452	1,773,548	21.8%
Economic Development	300,000	-	300,000	n/a
Total Other	<u>10,200,000</u>	<u>8,126,452</u>	<u>2,073,548</u>	25.5%
Change in Net Position (Budget Basis)	<u>\$ -</u>	<u>\$ 7,797,372</u>	<u>\$ (7,797,372)</u>	

CONTACTING THE AUTHORITY'S FINANCE MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lower Neches Valley Authority's Chief Financial Officer, 7850 Eastex Freeway, Beaumont, Texas.

FINANCIAL STATEMENTS

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,528,379	\$ 23,030,287
Investments	66,350,976	50,525,017
Accounts receivable	8,180,336	7,221,744
FEMA receivables	-	45,422
Other receivables	1,509	43
Inventory	166,247	164,255
Prepaid expenses	99,115	79,538
	90,326,562	81,066,306
RESTRICTED ASSETS		
West Regional Treatment System		
Restricted cash and investments	1,476,179	1,404,222
Bond issue expense, net of accumulated amortization	49,156	53,252
	1,525,335	1,457,474
CAPITAL ASSETS		
Investment in Saltwater Barrier	17,816,038	15,477,255
Investment in Devers Distribution System	2,332,772	2,332,772
Land	3,604,076	3,604,076
Reservoirs	7,179,381	7,179,381
Water plant and equipment	108,482,454	102,249,055
Office building and other equipment	4,018,152	3,858,338
Construction-in-progress	8,093,927	7,731,928
Less: accumulated depreciation	(41,237,136)	(38,682,739)
	110,289,664	103,750,066
SBITA ASSET, NET	504,652	-
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pension Plan	3,536,842	6,404,396
Deferred Outflows Related to OPEB	2,464,054	2,528,710
	6,000,896	8,933,106
Total deferred outflow of resources	6,000,896	8,933,106
Total assets	\$ 208,647,109	\$ 195,206,952

The accompanying notes are an integral part
of these financial statements.

LIABILITIES AND NET POSITION

	2023	2022
CURRENT LIABILITIES		
Accounts payable	\$ 618,075	\$ 1,532,074
Accrued expenses and payroll deductions	263,000	225,000
Bonds payable, current portion	725,000	700,000
SBITA Liability - Current	44,885	-
	1,650,960	2,457,074
NON-CURRENT LIABILITIES		
Bonds payable - Revenue Bonds Bolivar Peninsula, net of current portion	12,705,000	13,430,000
SBITA Liability - Noncurrent	500,007	-
Other post employment benefit obligation	10,097,622	8,631,590
Accrued Pension liability	5,020,982	7,664,904
Advances, North Regional Treatment Plant	378,963	378,963
	28,702,574	30,105,457
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to Pension Plan	888,079	182,105
Deferred inflows related to OPEB	2,999,720	3,625,907
	3,887,799	3,808,012
Total liabilities	34,241,333	36,370,543
NET POSITION		
Net investment in capital assets	96,859,664	88,945,066
Restricted - West Regional Treatment System	1,525,335	1,457,474
Unrestricted	76,020,777	68,433,869
	174,405,776	158,836,409
Total liabilities and net position	\$ 208,647,109	\$ 195,206,952

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Fresh water sales	\$ 33,996,353	\$ 31,649,822
North Regional Treatment Plant revenues	7,999,422	7,816,677
Potable water sales	1,491,977	1,456,471
West Regional Water Plant debt service revenue	700,000	676,400
Clean Rivers Program	192,282	172,415
Saltwater barrier operating fees	595,851	609,424
Total operating revenues	44,975,885	42,381,209
OPERATING EXPENSES		
Fresh water supply operations	19,941,814	19,418,471
North Regional Treatment Plant operations	7,999,422	7,816,677
West Regional Water Plant operations	1,412,681	1,371,229
Depreciation	3,077,961	2,840,077
Amortization and fees	70,731	4,096
Total operating expenses	32,502,609	31,450,550
Operating income	12,473,276	10,930,659
NON-OPERATING REVENUES (EXPENSES)		
Interest income	3,292,895	855,249
Management fees	1,397,147	1,363,044
Leases, royalties, crossing fees	191,030	288,784
FEMA reimbursement requests	-	293,455
Other revenue	65,463	245,931
Gain (loss) on disposition of assets	31,280	145,479
Administrative services (net of internal fees)	(3,534,205)	(3,854,371)
Transfer of assets from(to) governmental entity	1,652,481	(2,640,310)
Total non-operating revenues (expenses)	3,096,091	(3,302,739)
Change in net position	15,569,367	7,627,920
Total net position, beginning of year	158,836,409	151,208,489
Total net position, end of year	\$ 174,405,776	\$ 158,836,409

The accompanying notes are an integral part
of these financial statements.

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 44,042,992	\$ 41,768,785
Payments to suppliers	(21,144,715)	(19,871,058)
Payments to employees	(10,833,262)	(10,438,929)
Management and operating fees	1,371,447	1,371,968
Leases, royalties, crossing fees, grants	191,030	288,784
FEMA receivables & expenses	45,422	1,457,421
Other revenues	65,463	245,931
Interest	3,291,429	855,206
	<u>17,029,806</u>	<u>15,678,108</u>
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of assets	192,654	145,480
Payments for capital acquisitions	(2,308,709)	(474,671)
Retirement of bonds	(700,000)	(675,000)
Construction-in-progress	(5,817,743)	(7,830,918)
	<u>(8,633,798)</u>	<u>(8,835,109)</u>
Net cash (used) by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity	<u>(15,897,916)</u>	<u>(1,073,679)</u>
Net cash (used) by investing activities	<u>(15,897,916)</u>	<u>(1,073,679)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,501,908)	5,769,320
CASH AND CASH EQUIVALENTS, at the beginning of the year	<u>23,030,287</u>	<u>17,260,967</u>
CASH AND CASH EQUIVALENTS, at the end of the year	<u>\$ 15,528,379</u>	<u>\$ 23,030,287</u>

The accompanying notes are an integral part
of these financial statements.

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (CONTINUED)

	2023	2022
Reconciliation of change in net position to net cash provided by operating activities		
Change in net position	\$ 15,569,367	\$ 7,627,920
Adjustments to reconcile change in net position to net cash provided (used) by operating activities		
Depreciation	3,077,961	2,840,077
Amortization	70,731	4,096
(Gain) loss on sale of assets	(31,280)	(145,479)
Transfer of assets (from)to governmental entity	(1,652,481)	2,640,310
GASB 68 impact on pension obligation	929,606	1,490,257
GASB 75 impact on OPEB obligation	904,501	686,278
Changes in working capital		
Receivables	(958,592)	(603,502)
FEMA receivables	45,422	1,163,966
Other receivables	(1,466)	(43)
SBITA liability	(26,395)	-
Inventory	(1,992)	(39,743)
Other current assets	(19,577)	(4,416)
Accounts payable	(913,999)	27,387
Accrued expenses	38,000	(9,000)
	<u>\$ 17,029,806</u>	<u>\$ 15,678,108</u>
Net cash provided by operating activities	<u>\$ 17,029,806</u>	<u>\$ 15,678,108</u>

The accompanying notes are an integral part
of these financial statements.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lower Neches Valley Authority (LNVA) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LNVA applies all GASB pronouncements. The more significant of LNVA's accounting policies are described below.

Reporting Entity

Lower Neches Valley Authority (LNVA) was created in 1933 by enactment of the 43rd Legislature of the State of Texas for the reclamation and conservation of the waters of the Neches and the Angelina Rivers within and outside its boundaries. Responsibilities of LNVA include municipal, industrial and agricultural raw water supply; water and wastewater treatment; water quality and pollution control activities; and recreation facilities.

In evaluating how to define LNVA for financial reporting purposes, management has considered all potential component units. The decision for inclusion or exclusion of a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether LNVA is able to exercise oversight responsibilities. Based on this criterion, LNVA as a reporting entity, includes Lower Neches Valley Authority Industrial Development Corporation.

Basis of Accounting and Presentation

Government Accounting Standards Board Statement No. 34 requires special purpose governments engaged only in business-type activities to present only the financial statements required for Enterprise Funds. For these governments, basic financial statements and required supplementary information consist of a Management Discussion and Analysis (MD&A), Enterprise Fund financial statements, notes to financial statements, and required supplementary information other than MD&A, if applicable.

Required fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

LNVA's basic financial statements are presented as a single Enterprise Fund. This Enterprise Fund accounts for the acquisition, operation and maintenance of facilities and services and is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Position. The Enterprise Fund is accounted for using the accrual basis of accounting. Its revenue is recognized when it is earned and its expenses are recognized when they are incurred.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and deposits in banks.

Investments

Investments with quoted fair values are carried at the reported sales price on the last day of the LNVA's year and are recorded at fair value in the Statement of Net Position. Certificates of deposit are stated at cost due to their short-term maturities. Investments in TexPool and Texas Class are stated at cost which approximates fair value. Any change in the difference between fair value and cost of investments is reported as a component of investment income. All investments are in accordance with Texas Government Code, Title 10, Chapter 2256 (the Public Funds Investment Act).

Accounts Receivable

The Authority uses the direct charge off method to account for bad debts, directly expensing receivables which management deems uncollectible, or realizable at less than full value. This method provides results similar to the allowance method in all material respects. The Authority considers accounts receivable to be fully collectible; accordingly no allowance for doubtful accounts is recorded.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Where cost could not be determined from the available records, estimated historical cost was used to record the value of the assets. Assets acquired by gift or bequest are recorded at their fair market values at the date of transfer. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings are capitalized. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Depreciation has been computed on a straight-line method using composite rates based on 30 years for buildings and 50 years for other structures and improvements. Automobiles and other equipment have been depreciated over their estimated service lives (primarily 5 to 10 years). Depreciation expense for the years ended December 31, 2023 and 2022 was \$3,077,961 and \$2,840,077.

Inventories

Inventories, consisting primarily of maintenance supplies, are valued at cost which approximates the lower of cost or market.

Compensated Absences

Employees are entitled to paid vacation, paid sick days, and personal days off depending on length of service and other factors. With minor exceptions, compensated absences do not vest and are recorded as expenses when paid.

Concentration of Risk

A major portion of LNVA's revenue is dependent on industrial, petrochemical and municipal sales. These revenues represented 83% and 82% of operating revenues in 2023 and 2022, respectively.

Budgets and Budgetary Accounting

LNVA prepares a budget in accordance with The Water Code, Chapter 49, Subchapter G, Section 49.199 for use in planning and controlling costs. The budget is adopted each fiscal year and the same basis of accounting is used to reflect actual revenues and expenses recognized on a generally accepted accounting principles basis.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan is provided by LNVA's third party consultant and additions to/deductions from LNVA's fiduciary net position have been determined on the same basis as they are reported by that third party consultant. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See note 12 for additional information.

Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan is provided by LNVA's third party consultant and additions to/deductions from LNVA's fiduciary net position have been determined on the same basis as they are reported by that third party consultant. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. See note 12 for additional information.

Subscription-Based Information Technology Arrangements (SBITA)

LNVA entered into contracts that conveys control of the right to use another party's information technology (IT) software. LNVA recognizes a SBITA liability and an intangible right-to-use SBITA asset in the financial statements. The SBITA liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the SBITA liability is reduced by the principal portion of payments made. The SBITA asset is measured as the initial amount of the SBITA liability, adjusted for payments made at or before the subscription term, plus capitalizable implementation costs, less any incentives received. The SBITA asset is amortized on a straight-line basis over its useful life.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subscription-Based Information Technology Arrangements (SBITA) (Continued)

LNVA used its estimated incremental borrowing rate as a discount rate. The SBITA term includes the noncancellable period of the lease. Lease payments included in the measurement of the SBITA liability are the fixed payments and purchase option price that LNVA is reasonable certain to exercise.

LNVA monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the SBITA assets and liabilities if certain changes occur that are expected to significantly affect the amount of the SBITA liabilities. SBITA assets are reported with non-current assets and SBITA liabilities are reported with long-term liabilities on the statement of net position.

Change in Accounting Principle

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* was adopted effective January 1, 2023. GASB Statement No. 96 establishes uniform accounting and financial reporting requirements for SBITAs; improves the comparability of government's financial statements; and enhances the understandability, reliability, relevance, and consistency of information about SBITAs.

Subsequent Events

LNVA has evaluated subsequent events through April 16, 2024, the date on which the financial statements were available for issue.

(2) **DEPOSITS AND INVESTMENTS**

At December 31, 2023 and 2022, LNVA had \$15,527,979 and \$23,029,887 in cash in banks and \$67,827,155 and \$51,929,239 in investments, respectively.

Interest Rate Risk. In accordance with its investment policy, the LNVA manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than five years with the exception of a single \$80,000 U.S. Treasury Security.

Credit Risk. The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas pursuant to Section 2256.016 of the Public Funds Investment Act. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. An Advisory Board reviews the investment policy and management fee structure. TexPool is rated AAA by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review.

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as a local government pool (LGIP) pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code (PFIA). Texas CLASS is overseen by the Texas CLASS Board of Trustees, comprised of active members of the pool and elected by the participants, guided by the advisory board. The Board is responsible for selecting the administrator and Investment Advisor. The Board retains the services of Public Trust Advisors, LLS (Public Trust). Texas CLASS is rated AAA by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the Office of the Comptroller of Public Accounts for review.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(2) **DEPOSITS AND INVESTMENTS (CONTINUED)**

Credit Risk (Continued)

TexPool and Texas CLASS operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Fair values of TexPool are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, The State of Texas. Fair values of Texas CLASS are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, Public Trust Advisors, LLC. These investments are reported by the District at cost which approximates fair value. Governmental Accounting Standards Board Statement (GASB) No. 79, "Certain External Investment Pools and Pool Participants" allows the reporting of these investments at cost due to short-term maturities.

The Board of Directors has authorized LNVA to invest in compliance with V.A.T.C.S. Government Code, Title 10, Chapter 2256 (Public Funds Investment Act of 1993). Money may be placed in obligations of the United States or its instrumentalities; direct obligations of this state or its agencies; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by this state or the United States or its instrumentalities; and obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, Certificates of Deposit and any other investment authorized in Chapter 2256. Accordingly, cash is invested in money market funds or interest-bearing demand deposits and is stated at fair value.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the LNVA's deposits may not be returned to it. As of December 31, 2023 and 2022, 100% of LNVA's deposits were collateralized with securities held by the pledging financial institution. A portion of the LNVA's investments are placed in obligations of the United States or its instrumentalities for which pledged collateral is not necessary as the principal and interest are unconditionally guaranteed or insured by the United States.

	INVESTMENTS	
	2023	2022
U.S. Treasury Notes	\$ 76,112	\$ 73,007
Certificate of Deposit	103,452	103,452
Texas CLASS	24,939,681	17,581,577
TexPool		
Capital Replacement	35,585,647	27,682,837
Economic Development	5,646,084	5,084,144
WRTS Debt	1,476,179	1,404,222
	\$ 67,827,155	\$ 51,929,239
Total investments		

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(3) **FEMA RECEIVABLES**

On August 28 through 30, 2017 Southeast Texas was inundated by the rains and subsequent rising waters of Tropical Storm Harvey. As was the case with numerous other governmental, industrial, commercial, retail, and residential entities in the geographical area, LNVA was severely negatively impacted by the event. The Federal Emergency Management Agency (FEMA) is providing financial recovery relief to LNVA and other eligible impacted entities.

LNVA staff is working in coordination with various Federal, State and local representatives to determine the specific type and amount of financial assistance available. Using expenses incurred through December 31, 2023 and 2022 and current FEMA guidelines, LNVA staff has identified \$45,422 and \$1,750,876 in eligible disbursements, respectively. These have been submitted to FEMA for reimbursement at 90% to 100%. \$-0- and \$-0- have been reclassified from operating expenses to non-operating expenses in an attempt to match FEMA reimbursement requests to storm related expenses.

(4) **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2023, was as follows:

	Balance 01/01/23	Increases	Decreases	Transfers	Balance 12/31/23
Capital assets, not being depreciated:					
Investment in Saltwater Barrier	\$ 15,477,255	\$ -	\$ -	\$ 2,338,783	\$ 17,816,038
Investment in Devers Distribution System	2,332,772	-	-	-	2,332,772
Land	3,604,076	-	-	-	3,604,076
Reservoirs	7,179,381	-	-	-	7,179,381
Construction work-in-progress	7,731,928	8,126,452	-	(7,764,453)	8,093,927
 Total capital assets not being depreciated	 36,325,412	 8,126,452	 -	 (5,425,670)	 39,026,194
Capital assets, being depreciated:					
Water plant and equipment	102,249,055	-	684,938	6,918,337	108,482,454
Buildings and other equipment	3,858,338	-	-	159,814	4,018,152
 Total capital assets being depreciated	 106,107,393	 -	 684,938	 7,078,151	 112,500,606
 Less accumulated depreciation	 (38,682,739)	 (3,077,961)	 523,564	 -	 (41,237,136)
 Total capital assets being depreciated, net	 67,424,654	 (3,077,961)	 161,374	 7,078,151	 71,263,470
 Total capital assets	 <u>\$ 103,750,066</u>	 <u>\$ 5,048,491</u>	 <u>\$ 161,374</u>	 <u>\$ 1,652,481</u>	 <u>\$ 110,289,664</u>

In 2023, a capital project was completed which included the stoplog designs, stoplog fabrication and laydown yard. The total cost of the project was \$2,338,783, which has been transferred to Investment in Saltwater Barrier. LNVA directly paid a total of \$686,302. The City of Beaumont was billed \$292,348 for their portion of the shared costs and U.S. Army Corp of Engineers was billed \$101,606 for their portion of the stoplog storage yard construction bringing a net total LNVA cost of \$292,348. The U.S. Army Corps of Engineers funded the remaining \$1,652,481. This amount is shown as a transfer of assets on the statements of revenues, expenses and changes.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

(4) **CAPITAL ASSETS (CONTINUED)**

Capital asset activity for the year ended December 31, 2022, was as follows:

	Balance 01/01/22	Increases	Decreases	Transfers	Balance 12/31/22
Capital assets, not being depreciated:					
Investment in Saltwater Barrier	\$ 15,477,255	\$ -	\$ -	\$ -	\$ 15,477,255
Investment in Devers Distribution System	2,332,772	-	-	-	2,332,772
Land	3,604,076	-	-	-	3,604,076
Reservoirs	7,179,381	-	-	-	7,179,381
Construction work-in-progress	6,685,783	8,305,589	-	(7,259,444)	7,731,928
 Total capital assets not being depreciated	 35,279,267	 8,305,589	 -	 (7,259,444)	 36,325,412
Capital assets, being depreciated:					
Water plant and equipment	98,002,008	-	372,087	4,619,134	102,249,055
Buildings and other equipment	3,858,338	-	-	-	3,858,338
 Total capital assets being depreciated	 101,860,346	 -	 372,087	 4,619,134	 106,107,393
 Less accumulated depreciation	 (36,214,749)	 (2,840,077)	 372,087	 -	 (38,682,739)
 Total capital assets being depreciated, net	 65,645,597	 (2,840,077)	 -	 4,619,134	 67,424,654
 Total capital assets	 <u>\$ 100,924,864</u>	 <u>\$ 5,465,512</u>	 <u>\$ -</u>	 <u>\$ (2,640,310)</u>	 <u>\$ 103,750,066</u>

In 2022, a capital project was completed which included replacement of four (4) street crossings along the LNVA canal in the jurisdictions of the City of Nederland and Jefferson County, Texas. The project was needed to ensure adequate downstream flow in the canal. The cost of the project was funded by LNVA. After installation of the new crossings, the City of Nederland assumed ownership and maintenance of the crossings at 20th, 18th, and 17th Streets while Jefferson County assumed ownership and maintenance of the crossing at Fairbanks. The City and County assumed the ownership of these assets due to their nature of being a bridge which is a public transportation infrastructure under the purview of the City and County, respectively. This resulted in a total transfer out of \$2,640,310 to the City of Nederland and Jefferson County, Texas.

(5) **SEGREGATED FUNDS**

Provisions of Board of Directors' resolutions governing division of the Enterprise Fund into sub-funds follow.

Revenue Fund

This fund is the operating fund of LNVA and is used to account for all general operating revenues and expenses which are not accounted for in special funds or sub-funds. At the direction of the Board, a portion of the Revenue Fund (\$5,646,084 at December 31, 2023 and \$5,084,144 at December 31, 2022) has been designated for economic development. These designated funds are reported as current assets.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(5) **SEGREGATED FUNDS (CONTINUED)**

West Regional Treatment System Fund

The West Regional Treatment System was completed in 2007 as discussed in Note 7. Remaining assets in the Fund consist of cash set aside for future debt service requirements and the unamortized bond issue cost discussed in Note 9.

(6) **CONTRIBUTED CAPITAL AS A COMPONENT OF EQUITY**

LNVA advanced funds for the construction of a pumping plant and water lines for which it was reimbursed over a period of fifteen years. The cost of this construction was charged to property and equipment and credited to contributed capital. Total cost of the project was \$1,125,354.

Various other governmental and quasi-governmental entities and a commercial enterprise have participated with LNVA in the rebuilding of flumes and bridges. Participation by these other parties was reflected as contributed capital in the amount of \$831,178.

Receipts related to an Intake Canal Siphon Project were credited to contributed capital. Contributions to capital from this source totaled \$5,168,903.

In 1999, LNVA and Fina Oil and Chemical Company entered into an agreement whereby LNVA extended the water delivery system in the Fina Port Arthur complex. In return, Fina made contributions toward this construction project to reimburse LNVA for internal and external costs plus a management fee. Expenditures totaled \$2,539,077 and contributions totaled \$2,779,292. These contributions were considered to be contributed capital.

In 2000, LNVA along with the Bolivar Peninsula Water Supply Corporation began a long-term, multimillion dollar project to provide potable water to the Bolivar Peninsula. A former member of the project contributed \$80,736 upon withdrawal and The Texas Water Development Board contributed \$2,737,235.

In 2001, the City of Beaumont contributed \$1,800,000 toward the construction of the permanent salt water barrier project discussed in Note 7.

In 2009, the bonds associated with the construction of the Bolivar Water Supply System were refinanced (see note 9). Unexpended debt service collections from Bolivar Water Supply Corporation are included in net assets as contributed capital.

In May 2008, LNVA purchased an outstanding lien related to the Devers Rice Canal Producers Association (Devers) and entered into a contractual arrangement for operation and management of the Devers system. The goal of Management of LNVA was to assimilate the Devers system into LNVA's system and provide water to users throughout the area, primarily rice farmers. Due to parts of the Devers system being located outside LNVA's jurisdictional boundaries, the Devers Corporation was considered active for a period of time subsequent to the acquisition. LNVA requested a change from the Texas legislature to expand the Authority's area to include all of the Devers system. Once approved by the State, there was no need for the Corporation and LNVA assimilated Devers into the LNVA system. This assimilation is reported in these financial statements as Investment in Devers Distribution System, Land, and Water Plant and Equipment.

In accordance with Government Accounting Standards Statement No. 34, these contributions are reported as a component of net assets invested in capital assets, net of related debt.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(7) **COMPLETED CAPITAL PROJECTS AND CONSTRUCTION-IN-PROGRESS**

In 2000, the U.S. Army Corps of Engineers (the Corps) and LNVA began construction of a permanent saltwater barrier structure in the Neches River. The total cost of the project was estimated to be \$57,000,000. A Project Cooperation Agreement between the Corps and LNVA provided approximately \$43,000,000 in Federal funding with the balance of the project costs to be funded by local effort including a \$1,800,000 contribution by the City of Beaumont, Texas. This project was transferred to Investment in Saltwater Barrier in 2005. LNVA's cost participation in this project is reflected in these financial statements as a non-depreciable joint venture investment.

In 2000, LNVA and Bolivar Peninsula Water Supply Corporation began the planning phase for a regional water treatment system to provide potable water to portions of Chambers and Galveston Counties. The Texas Water Development Board, an agency of the State of Texas and LNVA entered into an agreement whereby financial assistance was provided at the State level from the Drinking Water State Revolving Fund Disadvantaged Communities Account. This assistance consisted of \$23,257,235 in reimbursed construction costs funded with a \$20,520,000 zero interest loan and \$2,737,235 in loan forgiveness. The total estimated cost of this project was \$23,926,835 with \$669,600 in funding provided by LNVA.

This project, styled the West Regional Treatment System, was completed and capitalized as of January 1, 2007. Total capitalization was as follows: Land - \$1,212,142, Reservoir - \$1,375,027, Water Plant - \$7,870,439, Transmission Lines - \$11,821,824. Subsequent to the capitalization of this project, LNVA contributed \$4,026,836 in Transmission Lines to the Bolivar Peninsula Water Supply Corporation.

Construction-in-progress at December 31, 2023 and 2022 was as follows:

	Construction Costs	
	December 31, 2023	December 31, 2022
Dry Floodproofing	\$ -	\$ 983,315
Engine Replacements/Repairs	1,435,877	924,355
Flume	-	367,576
Gate Actuators	-	113,917
Heat Exchangers, Coolers, Pipes	113,413	113,346
Reservoir	28,410	24,540
Intake Structure	2,138,004	1,982,067
Other	651,819	155,563
Other Canal Improvements	963,468	284,688
Rehabilitation	223,026	510,870
Plant Relocation	1,479,720	1,262,466
Stop Logs	212,811	1,009,225
Other Pumping Plant Repairs	323,554	-
Equipment Replacements/Repairs	270,087	-
Gulf Canal Crossing	253,738	-
	\$ 8,093,927	\$ 7,731,928

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(8) **WATER QUALITY ASSESSMENT PROJECTS**

LNVA has entered into contracts with the Texas Natural Resource Conservation Commission (TNRCC) whereby TNRCC will reimburse LNVA for expenses associated with additional water quality management planning. These projects are the result of Senate Bill 818. For the years ended, December 31, 2023 and 2022, LNVA has incurred reimbursable expenses totaling \$192,282 and \$172,415, respectively.

(9) **LONG-TERM DEBT**

Special Revenue Obligation Bonds in the amount of \$20,520,000 and bearing interest at 0% were authorized on October 27, 2000. These bonds (Lower Neches Valley Authority Water Supply Contract Revenue Taxable Bonds, Series 2000) were issued in a series of installments and are payable solely by a pledge of and lien on the Pledged Revenues of a Water Supply Contract Financing System and do not constitute a general obligation of the Authority. The proceeds were used to acquire, construct, improve and maintain property, activities and operations arising out of a contract between the Authority and Bolivar Peninsula Water Supply Corporation to plan, design and construct a regional water treatment system for portions of Chambers and Galveston Counties, Texas.

In 2009, as a result of Hurricane Ike damage to the underlying revenue producing properties, these bonds were refinanced. The remaining unamortized original issue costs were charged to amortization expense for the year ended December 31, 2009.

Refinancing costs in the amount of \$110,596 were capitalized and are being amortized over the 324-month life of the bonds. These costs are reflected in the financial statements as follows:

	Refinancing Issue Costs	
	December 31, 2023	December 31, 2022
Bond issue costs	\$ 110,596	\$ 110,596
Accumulated amortization	(61,440)	(57,344)
	<u>\$ 49,156</u>	<u>\$ 53,252</u>

Amortization expense for the years ended December 31, 2023 and 2022 was \$4,096 and \$4,096, respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(9) **LONG-TERM DEBT (CONTINUED)**

A summary of changes in long-term debt for the years ended December 31, 2023 and 2022 is as follows:

	Balance January 1	Issued	Retired	Balance December 31
Water Supply Contract Revenue Refunding Bonds, Series 2009, interest at 0%				
2009	\$ -	\$ 18,495,000	\$ 5,000	\$ 18,490,000
2010	18,490,000	-	5,000	18,485,000
2011	18,485,000	-	5,000	18,480,000
2012	18,480,000	-	5,000	18,475,000
2013	18,475,000	-	5,000	18,470,000
2014	18,470,000	-	5,000	18,465,000
2015	18,465,000	-	400,000	18,065,000
2016	18,065,000	-	435,000	17,630,000
2017	17,630,000	-	460,000	17,170,000
2018	17,170,000	-	545,000	16,625,000
2019	16,625,000	-	575,000	16,050,000
2020	16,050,000	-	595,000	15,455,000
2021	15,455,000	-	650,000	14,805,000
2022	14,805,000	-	675,000	14,130,000
2023	14,130,000	-	700,000	13,430,000

Related interest for the years ended December 31, 2023 and 2022 was \$-0- and \$-0-.

Debt service requirements are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2024	\$ 725,000	\$ -	\$ 725,000
2025	725,000	-	725,000
2026	780,000	-	780,000
2027	800,000	-	800,000
2028	1,000,000	-	1,000,000
2029- 2033	6,600,000	-	6,600,000
2034 - 2035	2,800,000	-	2,800,000
	<u>\$ 13,430,000</u>	<u>\$ -</u>	<u>\$ 13,430,000</u>

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(10) **LOWER NECHES VALLEY AUTHORITY INDUSTRIAL DEVELOPMENT CORP**

In 1979, the Board of Directors of LNVA authorized the creation of The Lower Neches Valley Authority Industrial Development Corporation (LNVAIDC) as permitted by the Texas State Legislature through passage of the Development Corporation Act of 1979. The Board of Directors of LNVAIDC serves at the pleasure of the Board of Directors of LNVA. The sole activity of LNVAIDC is the issuance of industrial development bonds which are guaranteed by the entity supporting the issue. All fees related to the issues accrue to LNVA. LNVAIDC is not active outside the scope discussed above and maintains no accounting staff, accounting records or financial statements.

A presentation of outstanding LNVAIDC bonded indebtedness as of December 31, 2023 and 2022 follows:

	Balance 2023	Balance 2022	Interest Rate	Date of Issue	Date of Maturity
Exxon Capital Ventures, Inc.	\$ 17,000,000	\$ 17,000,000	variable	04/01/99	04/01/29
Exxon Capital Ventures, Inc.	10,330,000	10,330,000	variable	02/01/08	03/01/33
Exxon Capital Ventures, Inc.	5,835,000	5,835,000	variable	01/10/06	04/01/26
Exxon Capital Ventures, Inc. 2001 A	71,975,000	71,975,000	variable	03/16/01	11/01/29
Exxon Capital Ventures, Inc. 2001 B	87,055,000	87,055,000	variable	03/16/01	11/01/29
Exxon Capital Ventures, Inc. 2001 B2	32,780,000	32,780,000	variable	12/02/04	12/01/39
Exxon Capital Ventures, Inc.	163,200,000	163,200,000	variable	11/09/10	11/01/38
Exxon Capital Ventures, Inc.	59,152,000	59,152,000	variable	11/09/11	11/01/51
Exxon Capital Ventures, Inc.	100,000,000	100,000,000	variable	05/01/12	05/01/46
Onyx Environmental Services, LLC	20,560,000	20,560,000	variable	05/01/03	05/01/28
	<u>\$ 567,887,000</u>	<u>\$ 567,887,000</u>			

Neither LNVA nor LNVAIDC has any contingent liability connected with the issuance of any of these bonds.

LNVA has entered into a management agreement with LNVAIDC, whereby LNVA will receive the following management fees for management services related to outstanding bond issues. The fee for the remaining outstanding portion of the Exxon MobilOil Corporation '99, '10, '11, and '12 bonds and the Onyx bonds is equal to .00125 per annum of the principal amount outstanding. The fee for the remainder of the bonds is .00110 per annum of the principal amount outstanding. The management fees earned in the years ended December 31, 2023 and 2022 were approximately \$678,663 and \$686,289, respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(11) **RISK MANAGEMENT AND LITIGATION**

LNVA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LNVA purchases insurance from commercial carriers to protect against these risks.

LNVA is the defendant in various lawsuits arising in the ordinary course of its enterprise activities. It is the opinion of LNVA management that these actions are either adequately covered by insurance or if not so covered, are without merit and will result in no material liability to LNVA.

In July 21, 2022, LNVA had a levee breach incident that caused some flood damages to residential homes. The insurance company investigated the incident and settled all claims as of July 6, 2023. At this time, there is no potential claim that will need to be paid by LNVA. LNVA has added additional written procedures, operational needs, and training to help prevent any further levee failures.

(12) **EMPLOYEE BENEFIT PLANS**

HEALTHCARE

LNVA has established a medical self-insurance plan. The purpose of this plan is to pay the medical expenses of LNVA's employees and their covered dependents, and to minimize the total cost of medical insurance. The Authority funds approximately 85% of coverage costs with employees funding the remaining 15% through payroll withholdings. The Plan was documented by contractual agreements. Cost incurred for claims to provide this plan was \$2,065,896 and \$2,345,916 for the years ended December 31, 2023 and 2022, respectively. Aggregate medical claims of \$3,331,941 and \$3,152,186 for 2023 and 2022, respectively, for the group, or \$50,000 per covered individual, were covered through a commercial insurance carrier. LNVA has not exceeded its aggregate claims insurance coverage for the plan years ending during 2023 and 2022.

Governmental Accounting Standards Board, Statement No. 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Management has estimated this liability to be \$263,000 and \$225,000 at December 31, 2023 and 2022, respectively. As required by this statement, a reconciliation of claims liabilities is shown below:

<u>Reconciliations of Claims Liabilities</u>	<u>2023</u>	<u>2022</u>
Claims liabilities at January 1	\$ 225,000	\$ 234,000
Incurred claims	2,065,896	2,345,916
Stop loss reimbursements	577,091	184,362
Payments on claims	<u>(2,604,987)</u>	<u>(2,539,278)</u>
Claims liabilities at December 31	<u>\$ 263,000</u>	<u>\$ 225,000</u>

This liability is recorded in accrued expenses at December 31, 2023 and 2022.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

HEALTHCARE (CONTINUED)

The contract between LNVA and a third party claims administrator is renewable December 1, 2024 and terms of coverage and contribution costs are included in contractual provisions.

Beginning in 1987, a retiree and spouse are eligible to remain on the Authority's group insurance plan until each becomes eligible for Medicare. Retirees may maintain plan coverage as supplemental insurance until age 70. Cost to the retiree is slightly higher than cost to current employees. At December 31, 2023, seven former employees and two spouses were participating in the plan. At December 31, 2022, eight former employees and three spouses were participating in the plan. During 1995, LNVA began self-funding a portion of employee health care costs and established a Section 125 Cafeteria Plan to include employee participation in the benefit programs.

DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time employees hired prior to January 1, 2008 are covered by a single-employer public employee retirement system (PERS) plan styled, "Lower Neches Valley Authority Employees Pension Plan and Trust". This plan is administered by Principal Life and an annual report is available in the offices of LNVA.

The pension plan provides pension benefits and death benefits. A member may retire after reaching the age of 60, with a normal retirement age of 65. Plan benefits consist of an amount equal to 2.10 percent of the participant's average annual compensation for the last three years of service multiplied by a formula representing years of participation and the normal retirement date as defined by the plan. Vesting begins with 20 percent after 2 years of service and 100 percent after 6 years of service. Pension provisions include death and disability benefits whereby the disabled employee or surviving spouse is entitled to receive an amount equal to the present value of the participant's accrued benefit as of the date of his termination or death, whichever is later.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

At December 31, 2023, the following employees were covered by the benefit terms:

Active employees	37
Terminated vested & other inactives	11
Retirees and beneficiaries	<u>6</u>
Total	<u>54</u>

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation date is January 1, 2023. This is the date as of which the actuarial valuation is performed. The Measurement date is December 31, 2023. This is the date as of which the net pension liability is determined. The Reporting date is December 31, 2023. This is the employer's fiscal year ending date.

Significant Changes

Given the substantial uncertainty regarding the impact of COVID-19 on plan costs, including whether the pandemic will increase or decrease costs during the term of our projections, we have chosen not to make an adjustment in the expected plan costs. It is possible that the COVID-19 pandemic could have a material impact on the projected costs.

Contributions

LNVA has at least a 5-year history of paying at least 100% of the aggregate Actuarially Determined Contribution. Beginning in 2022, LNVA has been funding at least the Actually Determined Contribution in the following plan year.

The Actuarially Determined Contribution is based on a closed amortization period, which means the payment of the Actuarially Determined Contribution each year is projected to bring the plan to a 100% funded position by the end of the amortization period.

GASB 67 and 68 specify that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability / Asset

	2023	2022
Total pension liability	\$ 20,319,201	\$ 20,074,915
Fiduciary net position	15,298,219	12,410,011
Net pension liability / (asset)	\$ 5,020,982	\$ 7,664,904
Fiduciary net position as a % of total pension liability	75.29%	61.82%
Pensionable covered payroll	3,658,430	3,636,232
Net pension liability as of % of covered payroll	137.24%	210.79%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. There have been no significant changes between the valuation date and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 67 and 68.

Discount Rate

	2023	2022
Discount rate	6.50%	6.50%
Long-term expected rate of return, net of investment expense	6.50%	6.50%
Municipal bond rate	N/A	N/A

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Other Key Actuarial Assumptions

The plan has not had a formal actuarial experience study performed.

	2023	2022
Valuation date	January 1, 2023	January 1, 2022
Measurement date	December 31, 2023	December 31, 2022
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation (for benefit purposes)	2.35%	2.30%
Inflation (for expected return on assets assumption)	2.31%	2.35%
Salary increases including inflation	3.50%	3.50%
Mortality	PubG-2010 Public Retirement Plans Amount-Weighted Mortality Tables projected with Scale MP-2021	PubG-2010 Public Retirement Plans Amount-Weighted Mortality Tables projected with Scale MP-2021

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Net Pension Liability / (Asset)

	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances as of December 31, 2022	\$ 20,074,915	\$ 12,410,011	\$ 7,664,904
Changes for the year:			
Service cost	266,854	-	266,854
Interest on total pension liability	1,265,725	-	1,265,725
Effect of plan changes	-	-	-
Effect of economic/demographic gains/losses	477,662	-	477,662
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(1,765,955)	(1,765,955)	-
Employer contributions	-	1,339,000	(1,339,000)
Member contributions	-	-	-
Net investment income	-	3,334,313	(3,334,313)
Administrative expenses	-	(19,150)	19,150
Net changes	244,286	2,888,208	(2,643,922)
Balances as of December 31, 2023	\$ 20,319,201	\$ 15,298,219	\$ 5,020,982

Sensitivity Analysis

The following presents the net pension liability of LNVA, calculated using the discount rate of 6.50%, as well as what LNVA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate.

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Total pension liability	\$ 23,115,890	\$ 20,319,201	\$ 17,955,607
Fiduciary net position	15,298,219	15,298,219	15,298,219
Net pension liability	\$ 7,817,671	\$ 5,020,982	\$ 2,657,388

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense / (Income)

	January 1, 2023 to December 31, 2023	January 1, 2022 to December 31, 2022
Service cost	\$ 266,854	\$ 267,002
Interest on total pension liability	1,265,725	1,236,801
Effect of plan changes	-	113,616
Administrative expenses	19,150	19,000
Expected investment return net of investment expenses	(794,347)	(924,535)
Recognition of Deferred Inflow/Outflows of Resources		
Recognition of economic/demographic gains or losses	1,101,160	972,062
Recognition of assumption changes and inputs	565,168	565,168
Recognition of investment gains or losses	(155,104)	363,143
Total pension expense	\$ 2,268,606	\$ 2,612,257

Deferred Inflow and outflow of resources

At December 31, 2023, the deferred inflows and deferred outflow of resources related to pensions from the following sources are as follows:

	2023	2022
	Deferred Outflow of Resources	Deferred Outflow of Resources
Differences between expected and actual experience	\$ 2,368,110	\$ 3,029,318
Changes of assumption	1,168,732	1,753,096
Net difference between projected and actual earnings	-	1,621,981
Contributions made subsequent to measurement date	-	-
	\$ 3,536,842	\$ 6,404,395
	2023	2022
	Deferred Inflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ (82,963)	\$ (120,673)
Changes of assumption	(42,235)	-
Net difference between projected and actual earnings	(762,881)	(61,432)
	\$ (888,079)	\$ (182,105)

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflow and outflow of resources (Continued)

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2024	\$ 1,497,156
2025	1,441,923
2026	217,677
2027	(507,993)
2028	-
Thereafter*	-

*Note that additional future deferred inflows and outflows of resources may impact these numbers.

401(K) PLAN

Individuals employed subsequent to December 31, 2007 participate in a contributory 401(k) plan. Those employees participating in the defined benefit plan are eligible to participate in the contributory portion of the 401(k) plan.

Retirement plan expense for the years ended December 31, 2023 and 2022 was \$1,149,884 and \$1,075,637 respectively.

OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The LNVA Employees' Post Retirement Health Benefits Program (OPEB Plan) is a single-employer defined benefit healthcare plan administered by the LNVA Board of Directors (Board). The OPEB Plan provides postemployment healthcare benefits to retirees and terminated employees eligible for such benefits. Eligibility for retirement is age 60 and 6 years of service. Benefits are not available to participants who separate from service prior to retirement eligibility. This Plan provides primary benefits between the date of retirement and the dates at which the former employee or covered family member becomes eligible for Medicare. Employees may continue plan coverage in a supplementary role until he or she reaches age 70. The OPEB Plan does not issue a stand-alone financial report. Amendments to the OPEB Plan are made only with the authority of the Board.

Funding Policy

The LNVA funding policy pays only for current cost premiums. LNVA contributes a portion of health plan premiums for retirees but makes no contribution for terminated employees. LNVA may contribute up to 85% of the total healthcare plan premium amount. Retirees and eligible dependents are required to contribute a portion of the premium for coverage.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS

Annual OPEB Cost and Net OPEB Obligation

The actuarial cost method determines, in a systematic way, the pattern of plan sponsor accruals of plan benefit liabilities. It also determines how actuarial gains and losses are recognized in OPEB costs. These gains and losses result from the difference between the actual experience under the plan and what was anticipated by the actuarial assumptions.

The cost of the Plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. which are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long-term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the Plan.

Actuarial liabilities and comparative costs shown in this Report were computed using the Entry Age Normal as a Level Percentage of Pay Actuarial Cost Method, which consists of the following cost components:

- The Service Cost is the Actuarial Present Value of benefits allocated to the valuation year.
- The Actuarial Accrued Liability is the Actuarial Present Value of benefits accrued as of the valuation date.

Employees Covered by Benefit Term at December 31, 2023

Actives	126
Retirees	7
Beneficiaries	0
Spouses of Retirees	<u>3</u>
	<u>136</u>

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation date is December 1, 2022. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement date is December 31, 2023. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The Reporting date is December 31, 2023. This is the employer’s fiscal year ending date.

Significant Changes

There have been no significant changes between the valuation date and fiscal year ends. If there were significant changes, an additional analysis or valuation might be required.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Summary of Key results

The following are the key results for financial reporting. These amounts are developed in the financial reporting schedules that follow. A more detailed breakdown of the total OPEB liability as of the Valuation Date follows the financial reporting schedules.

Total OPEB Liability December 31, 2023 Measurement Date	Total OPEB Liability December 31, 2022 Measurement Date
\$ 10,097,622	\$8,631,590
OPEB Expense for 2023 Financial Reporting	OPEB Expense for 2022 Financial Reporting
\$ 918,516	\$849,438

Total OPEB Liability

	<u>12/31/2023</u>	<u>12/31/2022</u>
Total OPEB liability	\$ 10,097,622	\$ 8,631,590
Covered Employee Payroll	11,339,787	10,944,168
Total OPEB liability as a % of covered payroll	89.05%	78.87%

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates below and was then projected to the measurement date. There have been no significant changes between the valuation date and fiscal year ends. If there were significant changes, an additional analysis or valuation might be required.

	<u>12/31/23</u>	<u>12/31/22</u>
Valuation date	December 1, 2022	December 1, 2022
Measurement date	December 31, 2023	December 31, 2022
GASB 75 reporting date	December 31, 2023	December 31, 2022

Discount Rate

	<u>12/31/23</u>	<u>12/31/22</u>
Discount Rate	3.26%	3.72%
20 Year Tax-Exempt Municipal Bond Yield	3.26%	3.72%

GASB 75 requires the discount rate used to measure the Total OPEB Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method) to be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Other Key Actuarial Assumptions

The plan has not had a formal actuarial experience study performed.

	2023	2022
Actuarial cost method	Entry Age Normal	Entry Age Normal
Salary increases including inflation	3.50%	3.50%
Inflation	2.30%	2.30%
Medical trend ultimate rate	3.70%	3.70%
Mortality Table	Pub 2010 Mortality (headcount weighted) for Employees, Healthy Annuitants, and Contingent Annuitants projected forward (fully generational)	
Projected Scale	MP-2021	MP-2021

Changes in Total OPEB Liability

	Increase(Decrease)
	Total OPEB Liability
Balance as of December 31, 2022	\$ 8,631,590
Changes for the year:	
Service Cost	496,828
Interest on total OPEB liability	339,319
Effect of plan changes	-
Effect of economic/demographic (gains) or losses	319,279
Effect of assumptions changes or inputs	324,621
Benefit payments	(14,015)
Balance as of December 31, 2023	\$ 10,097,622

Sensitivity Analysis

The following presents the total OPEB liability of LNVA as of December 31, 2023, calculated using the discount rate of 3.26%, as well as what the LNVA's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.26%) or 1 percentage point higher (4.26%) than the current rate.

	1% Decrease 2.26%	Discount Rate 3.26%	1% Increase 4.26%
Total OPEB Liability	\$ 10,862,512	\$ 10,097,622	\$ 9,412,203

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity Analysis (Continued)

The following presents the total OPEB liability of LNVA as of December 31, 2023, calculated using the current healthcare cost trend rates as well as what LNVA's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability	\$ 9,213,839	\$ 10,097,622	\$ 11,122,719

OPEB Expense

	January 1, 2023 to December 31, 2023	January 1, 2022 to December 31, 2022
Service cost	\$ 496,828	\$ 600,393
Interest on total OPEB liability	339,319	261,367
Recognition of Deferred Inflow/Outflow of Resources		
Recognition of economic/demographic (gains) or losses	(354,603)	(401,556)
Recognition of assumption changes or inputs	436,972	389,234
OPEB Expense	\$ 918,516	\$ 849,438

Deferred Inflows / Outflows of Resources

As of December 31, 2023 and 2022, the deferred outflows of resources related to OPEB from the following sources are as follows:

	2023	2022
	Deferred Outflow of Resources	Deferred Outflow of Resources
Differences between expected and actual experience	\$ 471,104	\$ 248,472
Changes of assumptions	1,992,950	2,280,238
Contributions subsequent to the measurement date	-	-
	\$ 2,464,054	\$ 2,528,710

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(12) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Deferred Inflows / Outflows of Resources (Continued)

As of December 31, 2023 and 2022, the deferred inflows of resources related to OPEB from the following sources are as follows:

	2023	2022
	Deferred Inflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ (2,160,023)	\$ (2,611,273)
Changes of assumptions	(839,697)	(1,014,634)
	\$ (2,999,720)	\$ (3,625,907)

Amounts currently reported as deferred outflows and deferred (inflows) of resources related to OPEB will be recognized in OPEB expense as follows. Note that additional future deferred (inflows) and outflows of resources may impact these numbers.

Year ended December 31:	
2024	\$ 80,623
2025	57,395
2026	57,399
2027	(403,234)
2028	(403,603)
Thereafter	75,754

(13) **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

LNVA has several arrangements subject to the requirement of GASB Statement No. 96 Subscription-Based Information Technology Arrangements (SBITA's). These arrangements can be described in groups – those related to asset management and administrative purposes. LNVA makes annual payments and the agreements are for varying terms. The SBITA liability is the present value of these payments using the district's incremental borrowing rate of 7%. The liability is amortized providing the principal and interest components of the payments over the SBITA term. The SBITA asset is measured as the SBITA liability plus any capitalized expenditures incurred in the initial implementation stage. The SBITA asset is depreciated (amortized) using a straight-line depreciation method over the term of the SBITA arrangement. There were no additional commitments made before the commencement of the SBITA terms. There were no impairments or modifications to be reported during the fiscal year.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(13) **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (CONTINUED)**

SBITA assets and accumulated amortization at December 30, 2023, was as follows:

	Term in Months	Total Asset Amount	Accumulated Amortization	Remaining Value
Business Type Activities				
Administrative	27	\$ 59,638	\$ (26,506)	\$ 33,132
Asset Management	153	511,649	(40,129)	471,520
		<u>\$ 571,287</u>	<u>\$ (66,635)</u>	<u>\$ 504,652</u>

SBITA liability activity for the year ended December 31, 2023, was as follows:

	Term in Months	Interest Rate	Beginning Liability	Additions	Reductions	Remaining Value	Due Within One Year
Business Type Activities							
Administrative	27	7%	\$ -	\$ 59,638	\$ (25,514)	\$ 34,124	\$ 27,059
Asset Management	153	7%	-	511,649	(881)	510,768	17,826
			-	-	-	-	-
			<u>\$ -</u>	<u>\$ 571,287</u>	<u>\$ (26,395)</u>	<u>\$ 544,892</u>	<u>\$ 44,885</u>

Annual principal and interest requirements to maturity for the SBITA liability are as follow:

Year Ended December 31	SBITA Liabilities		
	Principal	Interest	Total
2024	\$ 44,885	\$ 36,353	\$ 81,238
2025	38,948	33,158	72,106
2026	34,188	30,812	65,000
2027	36,660	28,340	65,000
2028	39,310	25,690	65,000
2029-2033	243,512	81,488	325,000
2034-2035	107,389	6,361	113,750
	<u>\$ 544,892</u>	<u>\$ 242,202</u>	<u>\$ 787,094</u>

REQUIRED SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2023 THROUGH 2015

	FY 2023 <u>Plan Year 2023</u>	FY 2022 <u>Plan Year 2022</u>	FY 2021 <u>Plan Year 2021</u>
Total Pension Liability			
Service cost	\$ 266,854	\$ 267,002	\$ 486,978
Interest on total pension liability	1,265,725	1,236,801	1,324,860
Effect of plan changes	-	113,616	-
Effect of economic/demographic (gains) or losses	477,662	(158,383)	5,048,862
Effect of assumption changes or inputs	-	(80,629)	2,921,826
Benefit payments	<u>(1,765,955)</u>	<u>(126,411)</u>	<u>(665,195)</u>
Net change in total pension liability	244,286	1,251,996	9,117,331
Total pension liability, beginning	<u>20,074,915</u>	<u>18,822,919</u>	<u>9,705,588</u>
Total pension liability, ending (a)	<u>20,319,201</u>	<u>20,074,915</u>	<u>18,822,919</u>
Fiduciary Net Position			
Employer contributions	1,339,000	1,122,000	1,770,000
Member contributions	-	-	-
Net investment income	3,334,313	(2,308,903)	3,161,845
Benefit payment	(1,765,955)	(126,411)	(665,195)
Administrative expenses	<u>(19,150)</u>	<u>(19,000)</u>	<u>(38,150)</u>
Net change in plan fiduciary net position	2,888,208	(1,332,314)	4,228,500
Fiduciary net position, beginning	<u>12,410,011</u>	<u>13,742,325</u>	<u>9,513,825</u>
Fiduciary net position, ending (b)	<u>15,298,219</u>	<u>12,410,011</u>	<u>13,742,325</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 5,020,982</u>	<u>\$ 7,664,904</u>	<u>\$ 5,080,594</u>
Fiduciary net position as a % of total pension liability	75.29%	61.82%	73.01%
Covered payroll	\$ 3,658,430	\$ 3,636,232	\$ 3,635,843
Net pension liability as a % of covered payroll	137.24%	210.79%	139.74%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement date of December 31, 2023 for year 2023, December 31, 2022 for year 2022, December 31, 2021 for year 2021, December 31, 2019 for year 2020, December 31, 2018 for year 2019, December 31, 2017 for year 2018, December 31, 2016 for year 2017, December 31, 2015 for year 2016, and December 31, 2014 for year 2015.

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the GASB standards, they should not be reported.

<u>FY 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
\$ 1,475,967	\$ 1,036,703	\$ 1,059,218	\$ 799,125	\$ 762,125	\$ 710,281
95,937	100,262	112,889	152,814	172,319	191,106
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>(838,044)</u>	<u>(190,119)</u>	<u>(546,626)</u>	<u>(206,010)</u>	<u>(620,382)</u>	<u>(629,926)</u>
733,860	946,846	625,481	745,929	314,062	271,461
<u>8,971,728</u>	<u>8,024,882</u>	<u>7,399,401</u>	<u>6,653,472</u>	<u>6,339,410</u>	<u>6,067,949</u>
<u>9,705,588</u>	<u>8,971,728</u>	<u>8,024,882</u>	<u>7,399,401</u>	<u>6,653,472</u>	<u>6,339,410</u>
2,346,308	1,155,816	1,026,892	844,195	749,310	684,839
-	-	-	-	-	-
372,125	170,602	159,040	148,005	136,057	143,017
<u>(838,044)</u>	<u>(190,119)</u>	<u>(546,626)</u>	<u>(206,010)</u>	<u>(620,382)</u>	<u>(629,926)</u>
<u>(7,965)</u>	<u>(18,147)</u>	<u>(15,890)</u>	<u>(13,864)</u>	<u>(13,310)</u>	<u>(12,838)</u>
1,872,424	1,118,152	623,416	772,326	251,675	185,092
<u>7,641,401</u>	<u>6,523,249</u>	<u>5,899,833</u>	<u>5,127,507</u>	<u>4,875,832</u>	<u>4,690,740</u>
<u>9,513,825</u>	<u>7,641,401</u>	<u>6,523,249</u>	<u>5,899,833</u>	<u>5,127,507</u>	<u>4,875,832</u>
<u>\$ 191,763</u>	<u>\$ 1,330,327</u>	<u>\$ 1,501,633</u>	<u>\$ 1,499,568</u>	<u>\$ 1,525,965</u>	<u>\$ 1,463,578</u>
98.02%	85.17%	81.29%	79.73%	77.07%	76.91%
\$ 3,533,861	\$ 3,979,443	\$ 4,398,167	\$ 4,506,583	\$ 4,693,609	\$ 4,586,315
5.43%	33.43%	34.14%	33.28%	32.51%	31.91%

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS FOR THE YEAR ENDED DECEMBER 31, 2023

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 586,251	\$ 684,839	\$ (98,588)	\$ 4,586,315	14.93%
2015	625,551	749,310	(123,759)	4,693,609	15.96%
2016	665,784	844,195	(178,411)	4,506,583	18.73%
2017	939,161	1,026,892	(87,731)	4,398,167	23.35%
2018	914,957	1,155,816	(240,859)	3,979,443	29.04%
2019	1,126,235	2,346,308	(1,220,073)	3,533,861	66.40%
2020	1,164,795	840,000	324,795	3,698,534	22.71%
2021	929,057	930,000	(943)	3,635,843	25.58%
2022	680,347	1,122,000	(441,653)	3,636,232	30.86%
2023	1,514,595	1,339,000	175,595	3,658,430	36.60%

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2023 THROUGH 2018

	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>
	<u>Plan Year 2023</u>	<u>Plan Year 2022</u>	<u>Plan Year 2021</u>
Total OPEB Liability			
Service cost	\$ 496,828	\$ 600,393	\$ 1,339,006
Interest on total OPEB liability	339,319	261,367	307,344
Changes of benefit terms	-	-	-
Effect of economic/demographic (gains) or losses	319,279	(3,045,931)	347,860
Effect of assumption changes or inputs	324,621	(1,189,572)	526,747
Benefit payments	<u>(14,015)</u>	<u>(163,159)</u>	<u>(457,734)</u>
Net change in total OPEB liability	1,466,032	(3,536,902)	2,063,223
Total OPEB liability, beginning	<u>8,631,590</u>	<u>12,168,492</u>	<u>10,105,269</u>
Increase in net OPEB obligation (Estimated)	-	-	-
Total OPEB liability, ending	<u>\$ 10,097,622</u>	<u>\$ 8,631,590</u>	<u>\$ 12,168,492</u>
Covered payroll	\$ 11,339,787	\$ 10,944,169	\$ 10,230,482
Total OPEB liability as a % of covered payroll	89.05%	78.87%	118.94%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2023 are based on December 31, 2023, FY2022 are based on the December 31, 2022 measurement date, FY 2021 are based on the December 31, 2021 measurement date, FY 2020 are based on December 31, 2019 measurement date and the amounts reported for FY 2018 are based on the December 31, 2017 measurement date.

FY 2019 actuarial information on OPEB costs and covered payroll are not available. LNVA estimated the increase in net OPEB obligation for that year only.

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the GASB standards, they should not be reported.

FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
\$ 420,429	\$ -	\$ 330,026
232,730	-	216,984
-	-	-
(23,230)	-	-
3,247,630	-	173,072
<u>(232,578)</u>	<u>-</u>	<u>(138,866)</u>
3,644,981	-	581,216
<u>6,460,288</u>	<u>6,060,288</u>	<u>5,479,072</u>
-	400,000	-
<u>\$ 10,105,269</u>	<u>\$ 6,460,288</u>	<u>\$ 6,060,288</u>
\$ 9,424,530	N/A	\$ 8,144,233
107.22%	N/A	74.41%

SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

STATEMENT OF REVENUES AND EXPENSES – ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2023

	Actual	Budget	Actual Favorable (Unfavorable) Compared to Budget
REVENUES			
Fresh water sales	\$ 33,996,353	\$ 30,166,400	\$ 3,829,953
Wastewater Services	7,999,422	9,222,488	(1,223,066)
Potable water division	2,191,977	2,198,709	(6,732)
Clean Rivers Program	192,282	164,883	27,399
Saltwater barrier	595,851	488,592	107,259
	44,975,885	42,241,072	2,734,813
EXPENSES			
Fresh water supply	19,941,814	19,867,229	(74,585)
North Regional Treatment Plant	7,999,422	9,222,488	1,223,066
West Regional Water Plant	1,412,681	1,498,709	86,028
West Regional Water Plant budgeted debt principal	-	700,000	700,000
Depreciation	2,723,504	2,600,000	(123,504)
Amortization and Fees	70,731	4,095	(66,636)
	32,148,152	33,892,521	1,744,369
Total expenses	32,148,152	33,892,521	1,744,369
Operating Income (Loss)	12,827,733	8,348,551	4,479,182
NON-OPERATING REVENUES (EXPENSES)			
Interest income	3,292,895	610,000	2,682,895
Management fees	1,397,147	1,411,149	(14,002)
Leases, royalties, crossing fees	191,030	210,000	(18,970)
FEMA reimbursements	-	-	-
Other revenue	65,463	-	65,463
Gain on disposal of assets	31,280	25,000	6,280
Administrative services (net of fees)	(3,534,205)	(1,759,700)	(1,774,505)
Transfer of assets to governmental entity	1,652,481	-	1,652,481
	3,096,091	496,449	2,599,642
Total non-operating revenues (expenses)	3,096,091	496,449	2,599,642
CHANGE IN NET POSITION	15,923,824	8,845,000	7,078,824
OTHER USES (Budgetary item)			
Capital improvements	8,126,452	8,615,000	(488,548)
Economic development	-	300,000	(300,000)
	8,126,452	8,915,000	(788,548)
Total other uses	8,126,452	8,915,000	(788,548)
Change in net position (budget basis)	7,797,372	(70,000)	7,867,372
RECONCILING ITEMS TO GAAP BASIS			
Capital contribution	8,126,452	8,615,000	(488,548)
Unbudgeted depreciation WRWP	(354,457)	-	(354,457)
	7,771,995	8,615,000	(843,005)
Change in net position (GAAP)	\$ 15,569,367	\$ 8,545,000	\$ 7,024,367

OTHER INFORMATION

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the revenues of the System for Fiscal Years 2023 through 2019.

**Table 1 – System Revenues and Expenses
Unaudited**

	2023	2022	2021	2020	2019
OPERATING REVENUES					
Fresh water sales	\$ 34,784,486	\$ 32,431,661	\$ 29,877,941	\$ 28,705,738	\$ 27,712,973
North Regional Treatment Plant revenues	7,999,422	7,816,677	7,441,307	7,604,672	7,912,769
Potable water sales	2,191,977	2,132,871	2,105,657	2,011,721	1,954,815
Total operating revenues	<u>44,975,885</u>	<u>42,381,209</u>	<u>39,424,905</u>	<u>38,322,131</u>	<u>37,580,557</u>
OPERATING EXPENSES					
Fresh water supply operations	19,941,814	19,418,471	17,529,664	16,483,950	15,618,644
North Regional Treatment Plant operations	7,999,422	7,816,677	7,441,308	7,604,673	7,912,769
West Regional Water Plant operations	1,412,681	1,371,229	1,128,769	1,266,613	1,276,609
Depreciation	3,077,961	2,840,077	2,638,266	2,390,838	2,206,339
Interest Expense, Amortization and Fees	70,731	4,096	4,096	4,096	4,096
Total operating expenses	<u>32,502,609</u>	<u>31,450,550</u>	<u>28,742,103</u>	<u>27,750,170</u>	<u>27,018,457</u>
Operating income	<u>12,473,276</u>	<u>10,930,659</u>	<u>10,682,802</u>	<u>10,571,961</u>	<u>10,562,100</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	3,292,895	855,249	41,475	282,981	1,180,254
Administrative services (net of fees)	(3,534,205)	(3,854,371)	(4,451,328)	(2,048,211)	(1,091,933)
Management and administrative fees	1,397,147	1,363,044	1,346,939	1,392,385	1,364,829
Leases, royalties and crossing fees	191,030	288,784	201,573	143,905	1,051,925
FEMA reimbursement	-	293,455	1,018,692	531,516	80,445
Other revenue	65,463	245,931	249,509	785,063	-
Harvey related expenses	-	-	-	-	-
Gain (loss) on disposition of assets	31,280	145,479	161,927	167,458	99,484
Transfer of assets to governmental entity	1,652,481	(2,640,310)	(5,447,906)	-	-
Economic Development	-	-	-	(100,000)	-
Total non-operating revenues (expenses)	<u>3,096,091</u>	<u>(3,302,739)</u>	<u>(6,879,119)</u>	<u>1,155,097</u>	<u>2,685,004</u>
CHANGE IN NET POSITION	<u>\$ 15,569,367</u>	<u>\$ 7,627,920</u>	<u>\$ 3,803,683</u>	<u>\$ 11,727,058</u>	<u>\$ 13,247,104</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the Authority's Net Position as of December 31, 2023.

Table 2 - Net Position

Unrestricted	\$ 76,020,777
Restricted - West Regional Treatment Debt & Reserve Fund	<u>1,525,335</u>
	<u>\$ 77,546,112</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

**Table 3 – Top Ten Water Customers
Unaudited**

Fiscal Year 2023			
Customer	Volume of Water (thousand gallons)	Annual Billing	Billing as % of Total Sales
Motiva Enterprises, LLC	11,276,622	\$ 5,242,261	15.7%
Valero Port Arthur Refinery	8,770,906	4,371,844	13.1%
ExxonMobil Oil Corporation	7,475,400	3,476,568	10.4%
Indorama Ventures Oxides, LLC	5,596,700	2,577,828	7.7%
City of Port Arthur	6,954,225	2,294,894	6.9%
TOTAL Petrochemical USA, Inc.	3,511,545	1,795,200	5.4%
BASF Total Petrochemicals, LLC	2,747,650	1,450,269	4.3%
Jefferson Energy Co. / Lucite	2,922,620	1,402,137	4.2%
Natgasoline, LLC	1,356,710	925,056	2.8%
Goodyear Tire & Rubber Company	1,659,676	917,203	2.7%
Top Ten	52,272,054	24,453,260	73.1%
All Others	60,535,658	8,995,464	26.9%
Total	<u>112,807,712</u>	<u>\$ 33,448,724</u>	<u>100.0%</u>
Fiscal Year 2022			
Customer	Volume of Water (thousand gallons)	Annual Billing	Billing as % of Total Sales
Motiva Enterprises, LLC	11,162,918	\$ 4,907,413	15.8%
Valero Port Arthur Refinery	8,508,582	3,880,677	12.5%
ExxonMobil Oil Corporation	7,048,080	3,276,000	10.5%
Indorama Ventures Oxides, LLC	5,455,100	2,372,244	7.6%
City of Port Arthur	5,814,234	1,831,484	5.9%
TOTAL Petrochemical USA, Inc.	3,021,801	1,713,600	5.5%
BASF Total Petrochemicals, LLC	2,624,310	1,367,674	4.4%
Jefferson Energy Co. / Lucite	2,784,500	1,216,291	3.9%
Natgasoline, LLC	1,487,280	883,008	2.8%
Goodyear Tire & Rubber Company	1,667,551	882,127	2.8%
Top Ten	49,574,356	22,330,518	71.8%
All Others	48,796,825	8,789,630	28.2%
Total	<u>98,371,181</u>	<u>\$ 31,120,148</u>	<u>100.0%</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

**Table 4 - Number of Customers
Unaudited**

<u>Year</u>	<u>Industrial</u>	<u>Agricultural</u>	<u>Municipal</u>	<u>Total</u>
2023	29	127	11	167
2022	30	80	11	121
2021	31	83	11	125
2020	31	79	11	121
2019	29	67	11	107
2018	30	68	11	109
2017	29	64	12	105
2016	29	66	12	107
2015	33	122	11	166
2014	33	111	12	156

* Revised in 2016 to remove inactives

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

**Table 5 – Water Rates
Unaudited**

	Per 1,000 Gallons	Per Acre Foot
<u>Raw Water*</u>		
Municipal & Industrial Excess Rate	\$ 0.8800	\$ 286.75
Industrial – Contracted	\$ 0.4400	\$ 143.38
Municipal – Contracted	\$ 0.3300	\$ 107.53
<i>* \$200 per month minimum; Plus Fuel Surcharge when Natural Gas Rate exceeds \$5.50 per MMBTU</i>		
Agriculture Water - Metered	\$ 0.1151	\$ 37.50
Agriculture Water – Unmetered per Acre		\$ 131.25
Duck Ponds (\$500 sign-up fee)		\$ 40.00
Other Rates		
Rayburn Water Permit	\$ 125.00	Per Year
Potable Water Rate	\$ 90,545.00	Per Month
	\$ 0.96	1,000 Gallons

COMPLIANCE AND INTERNAL CONTROLS SECTION

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
Troy W. Domingue, CPA
Allen W. Fehnel, CPA



Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA
Chris W. Busch, CPA

April 16, 2024

**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Lower Neches Valley Authority
Beaumont, Texas

Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities of the Lower Neches Valley Authority (LNVA), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise LNVA's basic financial statements, and have issued our report thereon dated April 16, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LNVA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LNVA's internal control. Accordingly, we do not express an opinion on the effectiveness of LNVA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of LNVA's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LNVA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LNVA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering LNVA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DESHONG & JUNCKER, L.L.P.
Certified Public Accountants