

LOWER NECHES VALLEY AUTHORITY

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

DECEMBER 31, 2022 AND 2021

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FINANCIAL SECTION

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April 18, 2023

Independent Auditor's Report

To the Board of Directors
Lower Neches Valley Authority
Beaumont, TX

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, 2022 and 2021, 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 financial position of the business-type activities of LNVA as of December 31, 2022 and 2021, 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.

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 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 38, the Schedule of Employer Pension Contributions on page 39 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 40 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 38 through 40 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 41 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 41 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 42 through 46 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 18, 2023, 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, 2022 AND 2021

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, 2022, 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 \$158,836,409 (net position). Of this amount, \$68,433,869 (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 \$7,627,920 (5.0%). Unrestricted net position increased by \$4,783,480 (7.5%) from operational activities.
- The Authority's operating revenues increased \$2,956,304 (7.5%) to \$42,381,209 and operating expenses, excluding depreciation and amortization, increased \$2,506,636 (9.6%) to \$28,606,377.

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.

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position increased by \$7,627,920 (5.0%) from \$151,208,489 to \$158,836,409. 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 \$4,783,480 from \$63,650,389 to \$68,433,869 at the end of the year.

Table 1 Condensed Statement of Net Position			
	Year End 2022	Year End 2021	Year End 2020
Current Assets	\$ 81,066,306	\$ 74,762,904	\$ 66,744,802
Restricted Assets	1,457,474	1,438,236	1,441,921
Capital Assets	103,750,066	100,924,864	102,315,358
Total Assets	186,273,846	177,126,004	170,502,081
Deferred Outflow of Resources - Pension	6,404,396	6,376,551	1,125,433
Deferred Outflow of Resources - OPEB	2,528,710	3,142,575	3,164,190
Total Deferred Outflow of Resources	8,933,106	9,519,126	4,289,623
Current Liabilities	2,457,074	2,413,687	1,885,992
Non-current Liabilities	30,105,457	31,758,049	25,480,995
Total Liabilities	32,562,531	34,171,736	27,366,987
Deferred Inflow of Resources - Pension	182,105	1,248,313	-
Deferred Inflow of Resources - OPEB	3,625,907	16,592	19,911
Total Deferred Inflow of Resources	3,808,012	1,264,905	19,911
Net Investment in Capital Assets	88,945,066	86,119,864	86,860,358
Restricted	1,457,474	1,438,236	1,441,921
Unrestricted	68,433,869	63,650,389	59,102,527
Total Net Position	\$ 158,836,409	\$ 151,208,489	\$ 147,404,806

Table 2 Codensed Statement of Revenues, Expenses and Changes in Net Position			
	Year End 2022	Year End 2021	Year End 2020
Operating Revenues	\$ 42,381,209	\$ 39,424,905	\$ 38,322,131
Non-operating Revenues (Expenses)	(3,302,739)	(6,879,119)	1,155,097
Total Revenues	39,078,470	32,545,786	39,477,228
Operating Expenses	28,606,377	26,099,741	25,355,236
Depreciation Expenses	2,840,077	2,638,266	2,390,838
Amortization and Fees	4,096	4,096	4,096
Total Operating Expenses	31,450,550	28,742,103	27,750,170
Net Change in Net Position	7,627,920	3,803,683	11,727,058
Beginning Net Position	151,208,489	147,404,806	135,677,748
Ending Net Position	\$ 158,836,409	\$ 151,208,489	\$ 147,404,806

Operating revenues increased \$2,956,304 (7.5%). Industrial and municipal sales increased by 3.75%. Irrigation water sales increased by 39.58%. The increase in Irrigation water was due to an inversely related water demand from LNVA due to a 37% decrease in precipitation from 2021 to 2022.

- Non-operating revenues (expenses) include interest income, leases, royalties, crossing fees, management fees and administrative expenses for the Authority. Interest income increased \$796,495 due to the increase in interest rates. Crossing fees, one-time payments by customers, increased by \$83,579 in 2022. The fees are variable each year. Gain/Loss on Sale of Assets is comparable to 2021.
- Operating expenses increased, by \$2,506,636 (9.6%) from \$28,742,103. to \$31,450,550.

BUDGETARY HIGHLIGHTS

The Authority adopts an operating budget outlining an operating plan for the year. The budget plan for 2022 was to cover operating expenses and provide funding for a \$4,910,000 capital improvement program and \$2,400,000 Long Term Capital Improvement Plan. The capital improvement budget increased during the year to \$5,650,000 to cover total project costs of two large capital projects. The Authority completed 2022 increasing net position by \$7,627,920. 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 \$3,458,922 (12.3%), mainly due to increased industrial 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 \$754,680 (2.4%), in large part due to the Wastewater Division being below budget by \$713,698 and the Potable Water Division being below budget by \$767,095. Freshwater supply expenses had only a minor budget variance of \$840,493.

Table 3		Condensed Budget to Actual Comparison		
	Budget	Actual	Favorable (Unfavorable) Variance	Percent Variance
Operating Revenues				
Fresh Water Supply Division	\$ 28,190,900	\$ 31,649,822	\$ 3,458,922	12.3%
Wastewater Division	8,530,375	7,816,677	(713,698)	-8.4%
Potable Water Division	2,138,324	2,132,871	(5,453)	-0.3%
Clean Rivers Program	164,883	172,415	7,532	4.6%
Saltwater Barrier	483,464	609,424	125,960	26.1%
Total Operating Revenues	<u>39,507,946</u>	<u>42,381,209</u>	<u>2,873,263</u>	7.3%
Operating Expenses				
Fresh Water Supply Division	18,577,978	19,418,471	(840,493)	-4.5%
Wastewater Division	8,530,375	7,816,677	713,698	8.4%
Potable Water Division	2,138,324	1,371,229	767,095	35.9%
Depreciation ⁽¹⁾	2,600,000	2,485,619	114,381	4.4%
Amortization and Fees	4,095	4,096	(1)	0.0%
Total Operating Expenses	<u>31,850,772</u>	<u>31,096,092</u>	<u>754,680</u>	2.4%
Non-Operating Revenues				
Interest on Investments	34,000	855,249	821,249	2415.4%
Leases and Royalties	210,000	288,784	78,784	37.5%
Management Fees	1,394,691	1,363,044	(31,647)	-2.3%
Administrative Services (Net of Fees)	(1,622,710)	(3,854,371)	(2,231,661)	137.5%
FEMA reimbursement requests	-	293,455	293,455	n/a
Other Revenue	-	245,931	245,931	n/a
Gain on Disposition of Assets	25,000	145,479	120,479	481.9%
Transfer of Assets to Governmental Entity	-	(2,640,310)	(2,640,310)	n/a
Total Non-Operating Revenues	<u>40,981</u>	<u>(3,302,739)</u>	<u>(3,343,720)</u>	-8159.2%
Change in Net Position	7,698,155	7,982,378	284,223	3.7%
Reconciling Items to GAAP Basis				
Capital Improvement Program	8,050,000	8,305,589	255,589	3.2%
Transfer to Economic Development	<u>300,000</u>	<u>-</u>	<u>(300,000)</u>	-100.0%
Net Change in Position (Budget Basis)	<u>\$ (651,845)</u>	<u>\$ (323,211)</u>	<u>\$ 328,634</u>	50.4%

⁽¹⁾ Excludes unbudgeted depreciation expense for West Regional Treatment System (\$354,458).

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 2022 is adequate to meet the policy.

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 2021 to 2022. The increase in capital assets is associated with improvements throughout the system.

Table 4 Capital Assets at Year-End			
	2022	2021	2020
Investment in Saltwater Barrier	\$ 15,477,255	\$ 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	3,594,409
Reservoirs	7,179,381	7,179,381	7,179,381
Water Plant and Equipment	102,249,055	98,002,008	89,935,338
Office Building and Other Equipment	3,858,338	3,858,338	3,267,212
Construction-in-Progress	7,731,928	6,685,783	14,593,347
Accumulated Depreciation	<u>(38,682,739)</u>	<u>(36,214,749)</u>	<u>(34,064,356)</u>
Total	<u>\$ 103,750,066</u>	<u>\$ 100,924,864</u>	<u>\$ 102,315,358</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		
	Principal	Interest	Total
2023	\$ 700,000	\$ -	\$ 700,000
2024	725,000	-	725,000
2025	725,000	-	725,000
2026	780,000	-	780,000
2027	800,000	-	800,000
2028- 2032	6,200,000	-	6,200,000
2033 - 2035	4,200,000	-	4,200,000
Total	<u>\$ 14,130,000</u>	<u>\$ -</u>	<u>\$ 14,130,000</u>

At year-end, the Authority had one Water System Taxable Contract Revenue Bond outstanding in the amount of \$14,130,000 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.

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. Streamflow for the 2022 year was below historical norms with the Neches River discharging 2.31 million acre-feet of water as compared to a normal annual discharge of 4.60 million acre-feet. Sam Rayburn Reservoir storage volume at a full conservation pool holds 2.9 million acre-feet of water. At its lowest point during the year Rayburn held 2.25 million acre-feet 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 2023 budget was based on a normal operating year and estimates total revenues of \$42,241,071 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 \$90,545 fixed monthly plus \$0.96 per 1,000 gallons consumed. Their debt service level will rise from \$675,000 in 2022 to \$700,000 in 2023.

Raw Water Rates per Acre-Foot	2023	2022	2021
Mining - Reservoir	\$ 430.12	\$ 401.58	\$ 400.80
Mining - Excess Rate	860.25	821.16	801.60
Contract Excess	286.75	273.72	267.20
Spot Purchase	1,433.75	1,368.60	1,336.00
Industrial - Contracted	143.37	136.86	133.60
Municipal - Contracted	107.53	102.64	100.20
Irrigation Water	37.50	34.22	33.40

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 2023 budget compared to actual expenses for 2022. 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.

Table 6	FY 2023 Budget vs. FY 2022 Actual			
	Budget 2023	Actual 2022	Dollar Change	Percent Change
Revenues by Division				
Fresh Water Supply	\$ 30,166,399	\$ 31,649,822	\$ (1,483,423)	-4.7%
Wastewater Services	9,222,488	7,816,677	1,405,811	18.0%
Potable Water Division	2,198,709	2,132,871	65,838	3.1%
Clean Rivers Program	164,883	172,415	(7,532)	-4.4%
Saltwater Barrier Operating Fees	488,592	609,424	(120,832)	-19.8%
Total Revenues	42,241,071	42,381,209	(140,138)	-0.3%
Expenses by Division				
Fresh Water Supply Division	19,867,229	19,418,471	448,758	2.3%
NRTP Wastewater Operations	9,222,488	7,816,677	1,405,811	18.0%
Potable Water Division (Excl. Depreciation)	2,198,709	1,371,229	827,480	60.3%
Depreciation and Amortization	2,604,095	2,489,715	114,380	4.6%
Total Expenses	33,892,521	31,096,092	2,796,429	9.0%
Net Revenues Over Expenses	8,348,550	11,285,117	(2,936,567)	-26.0%
Non-Operating Revenues (Expenses)				
Interest Income	610,000	855,249	(245,249)	-28.7%
Leases, Royalties and Crossing Fees	210,000	288,784	(78,784)	-27.3%
Management Fees	1,411,149	1,363,044	48,105	3.5%
FEMA reimbursement requests	-	293,455	(293,455)	n/a
Other Revenue	-	245,931	(245,931)	n/a
Gain (Loss) on Disposition of Assets	25,000	145,479	(120,479)	-82.8%
Administrative Services (Net of Internal Fees)	(1,759,700)	(3,854,371)	2,094,671	-54.3%
Transfer of Assets Governmental Entity	-	(2,640,310)	2,640,310	n/a
Total Non-Operating Revenues	496,449	(3,302,739)	3,799,188	115.0%
Change in Net Position	8,844,999	7,982,378	862,621	10.8%
Other Budgetary Items				
Capital Improvements	8,545,000	8,305,589	239,411	2.9%
Economic Development	300,000	-	300,000	n/a
Total Other	8,845,000	8,305,589	539,411	6.5%
Change in Net Position (Budget Basis)	\$ (1)	\$ (323,211)	\$ 323,210	

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, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,030,287	\$ 17,260,967
Investments	50,525,017	49,474,672
Accounts receivable	7,221,744	6,618,243
FEMA receivables	45,422	1,209,388
Other receivables	43	-
Inventory	164,255	124,512
Prepaid expenses	79,538	75,122
	<u>81,066,306</u>	<u>74,762,904</u>
RESTRICTED ASSETS		
West Regional Treatment System		
Restricted cash and investments	1,404,222	1,380,888
Bond issue expense, net of accumulated amortization	53,252	57,348
	<u>1,457,474</u>	<u>1,438,236</u>
CAPITAL ASSETS		
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
Water plant and equipment	102,249,055	98,002,008
Office building and other equipment	3,858,338	3,858,338
Construction-in-progress	7,731,928	6,685,783
Less: accumulated depreciation	<u>(38,682,739)</u>	<u>(36,214,749)</u>
	<u>103,750,066</u>	<u>100,924,864</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pension Plan	6,404,396	6,376,551
Deferred Outflows Related to OPEB	2,528,710	3,142,575
	<u>8,933,106</u>	<u>9,519,126</u>
	<u>\$ 195,206,952</u>	<u>\$ 186,645,130</u>

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

LIABILITIES AND NET POSITION

	2022	2021
CURRENT LIABILITIES		
Accounts payable	\$ 1,532,074	\$ 1,504,687
Accrued expenses and payroll deductions	225,000	234,000
Bonds payable, current portion	700,000	675,000
Total current liabilities	2,457,074	2,413,687
NON-CURRENT LIABILITIES		
Bonds payable - Revenue Bonds Bolivar Peninsula, net of current portion	13,430,000	14,130,000
Other post employment benefit obligation	8,631,590	12,168,492
Accrued Pension liability	7,664,904	5,080,594
Advances, North Regional Treatment Plant	378,963	378,963
Total non-current liabilities	30,105,457	31,758,049
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to Pension Plan	182,105	1,248,313
Deferred inflows related to OPEB	3,625,907	16,592
Total deferred inflow of resources	3,808,012	1,264,905
Total liabilities	36,370,543	35,436,641
NET POSITION		
Net investment in capital assets	88,945,066	86,119,864
Restricted - West Regional Treatment System	1,457,474	1,438,236
Unrestricted	68,433,869	63,650,389
Total net position	158,836,409	151,208,489
Total liabilities and net position	\$ 195,206,952	\$ 186,645,130

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Fresh water sales	\$ 31,649,822	\$ 29,069,014
North Regional Treatment Plant revenues	7,816,677	7,441,307
Potable water sales	1,456,471	1,455,657
West Regional Water Plant debt service revenue	676,400	650,000
Clean Rivers Program	172,415	220,796
Saltwater barrier operating fees	609,424	588,131
Total operating revenues	42,381,209	39,424,905
OPERATING EXPENSES		
Fresh water supply operations	19,418,471	17,529,664
North Regional Treatment Plant operations	7,816,677	7,441,308
West Regional Water Plant operations	1,371,229	1,128,769
Depreciation	2,840,077	2,638,266
Amortization and fees	4,096	4,096
Total operating expenses	31,450,550	28,742,103
Operating income	10,930,659	10,682,802
NON-OPERATING REVENUES (EXPENSES)		
Interest income	855,249	41,475
Management fees	1,363,044	1,346,939
Leases, royalties, crossing fees	288,784	201,573
FEMA reimbursement requests	293,455	1,018,692
Other revenue	245,931	249,509
Gain (loss) on disposition of assets	145,479	161,927
Administrative services (net of internal fees)	(3,854,371)	(4,451,328)
Transfer of assets to governmental entity	(2,640,310)	(5,447,906)
Total non-operating revenues (expenses)	(3,302,739)	(6,879,119)
Change in net position	7,627,920	3,803,683
Total net position, beginning of year	151,208,489	147,404,806
Total net position, end of year	\$ 158,836,409	\$ 151,208,489

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 41,768,785	\$ 38,880,545
Payments to suppliers	(19,871,058)	(16,904,448)
Payments to employees	(10,438,929)	(9,763,056)
Management and operating fees	1,371,968	1,372,639
Leases, royalties, crossing fees, grants	288,784	201,573
FEMA receivables & expenses	1,457,421	312,677
Other revenues	245,931	249,509
Interest	855,206	41,475
	15,678,108	14,390,914
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of assets	145,480	226,852
Payments for capital acquisitions	(474,671)	(805,597)
Retirement of bonds	(675,000)	(650,000)
Construction-in-progress	(7,830,918)	(5,955,006)
	(8,835,109)	(7,183,751)
Net cash (used) by capital and related financing activities		
	(8,835,109)	(7,183,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity	(1,073,679)	(316,567)
	(1,073,679)	(316,567)
Net cash (used) by investing activities		
	(1,073,679)	(316,567)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,769,320	6,890,596
CASH AND CASH EQUIVALENTS, at the beginning of the year	17,260,967	10,370,371
CASH AND CASH EQUIVALENTS, at the end of the year	\$ 23,030,287	\$ 17,260,967

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, 2022 AND 2021 (CONTINUED)

	2022	2021
Reconciliation of change in net position to net cash provided by operating activities		
Change in net position	\$ 7,627,920	\$ 3,803,683
Adjustments to reconcile change in net position to net cash provided (used) by operating activities		
Depreciation	2,840,077	2,638,266
Amortization	4,096	4,096
(Gain) loss on sale of assets	(145,479)	(161,927)
Transfer of assets to governmental entity	2,640,310	5,447,906
GASB 68 impact on pension obligation	1,490,257	886,026
GASB 75 impact on OPEB obligation	686,278	2,081,519
Changes in working capital		
Receivables	(603,502)	(518,661)
FEMA receivables	1,163,966	(706,015)
Other receivables	(43)	400,000
Inventory	(39,743)	19,177
Other current assets	(4,416)	(5,851)
Accounts payable	27,387	454,694
Accrued expenses	(9,000)	48,001
Net cash provided by operating activities	\$ 15,678,108	\$ 14,390,914

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

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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, 2022 AND 2021

(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, 2022 and 2021 was \$2,840,077 and \$2,638,266.

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 82% and 85% of operating revenues in 2022 and 2021, 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, 2022 AND 2021

(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.

Subsequent Events

LNVA has evaluated subsequent events through April 18, 2023, the date on which the financial statements were available for issue.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(2) DEPOSITS AND INVESTMENTS

At December 31, 2022 and 2021, LNVA had \$23,029,887 and \$17,260,567 in cash in banks and \$51,929,239 and \$50,855,561 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.

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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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, 2022 and 2021, 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	
	2022	2021
U.S. Treasury Notes	\$ 73,007	\$ 77,553
Certificate of Deposit	103,452	103,010
Texas CLASS	17,581,577	17,335,753
TexPool		
Capital Replacement	27,682,837	27,250,369
Economic Development	5,084,144	4,707,987
WRTS Debt	1,404,222	1,380,888
	\$ 51,929,239	\$ 50,855,560

(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, 2022 and 2021 and current FEMA guidelines, LNVA staff has identified \$1,750,876 and \$1,018,692 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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

(4) **CAPITAL ASSETS**

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	 \$ 100,924,864	 \$ 5,465,512	 \$ -	 \$ (2,640,310)	 \$ 103,750,066

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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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

Capital asset activity for the year ended December 31, 2021, was as follows:

	Balance 01/01/21	Increases	Decreases	Transfers	Balance 12/31/21
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	3,594,409	9,667	-	-	3,604,076
Reservoirs	7,179,381	-	-	-	7,179,381
Construction work-in-progress	14,593,347	6,750,936	-	(14,658,500)	6,685,783
Total capital assets not being depreciated	43,177,164	6,760,603	-	(14,658,500)	35,279,267
Capital assets, being depreciated:					
Water plant and equipment	89,935,338	-	552,798	8,619,468	98,002,008
Buildings and other equipment	3,267,212	-	-	591,126	3,858,338
Total capital assets being depreciated	93,202,550	-	552,798	9,210,594	101,860,346
Less accumulated depreciation	(34,064,356)	(2,638,266)	487,873	-	(36,214,749)
Total capital assets being depreciated, net	59,138,194	(2,638,266)	64,925	9,210,594	65,645,597
Total capital assets	\$ 102,315,358	\$ 4,122,337	\$ 64,925	\$ (5,447,906)	\$ 100,924,864

In 2021, a capital project to replace street crossings along the LNVA canal in the City of Port Neches, Texas, was completed. 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 would assume ownership and maintenance of the infrastructures, as is the current arrangement with the existing crossings. This resulted in a transfer out of \$5,447,906, the value of the completed asset from LNVA to the City of Port Neches, 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 (\$5,084,144 at December 31, 2022 and \$4,707,987 at December 31, 2021) has been designated for economic development. These designated funds are reported as current assets.

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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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.

(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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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, 2022 and 2021 was as follows:

	Construction Costs	
	December 31, 2022	December 31, 2021
Dry Floodproofing	\$ 983,315	\$ 1,491,945
Engine Replacements/Repairs	924,355	13,251
Flume	367,576	12,838
Gate Actuators	113,917	77,603
Heat Exchangers, Coolers, Pipes	113,346	60,000
Reservoir	24,540	-
Intake Structure	1,982,067	75,036
Other	155,563	138,862
Other Canal Improvements	284,688	2,888,660
Rehabilitation	510,870	-
Plant Relocation	1,262,466	655,184
Stop Logs	1,009,225	1,009,225
Walkway Replacements	-	263,179
	\$ 7,731,928	\$ 6,685,783

(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, 2022 and 2021, LNVA has incurred reimbursable expenses totaling \$172,415 and \$220,796, respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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, 2022	December 31, 2021
Bond issue costs	\$ 110,596	\$ 110,596
Accumulated amortization	(57,344)	(53,248)
	\$ 53,252	\$ 57,348

Amortization expense for the years ended December 31, 2022 and 2021 was \$4,096 and \$4,096, respectively.

A summary of changes in long-term debt for the years ended December 31, 2022 and 2021 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

Related interest for the years ended December 31, 2022 and 2021 was \$-0- and \$-0-.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

Debt service requirements are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2023	\$ 700,000	\$ -	\$ 700,000
2024	725,000	-	725,000
2025	725,000	-	725,000
2026	780,000	-	780,000
2027	800,000	-	800,000
2028- 2032	6,200,000	-	6,200,000
2033 - 2035	4,200,000	-	4,200,000
	<u>\$ 14,130,000</u>	<u>\$ -</u>	<u>\$ 14,130,000</u>

(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, 2022 and 2021 follows:

	Balance 2022	Balance 2021	Interest Rate	Date of Issue	Date of Maturity
E Exxon Capital Ventures, Inc.	\$ 17,000,000	\$ 17,000,000	variable	04/01/99	04/01/29
E Exxon Capital Ventures, Inc.	10,330,000	10,330,000	variable	02/01/08	03/01/33
E Exxon Capital Ventures, Inc.	-	3,100,000	variable	02/01/08	05/01/22
E Exxon Capital Ventures, Inc.	5,835,000	5,835,000	variable	01/10/06	04/01/26
E Exxon Capital Ventures, Inc. 2001 A	71,975,000	71,975,000	variable	03/16/01	11/01/29
E Exxon Capital Ventures, Inc. 2001 B	87,055,000	87,055,000	variable	03/16/01	11/01/29
E Exxon Capital Ventures, Inc. 2001 A2	-	5,750,000	variable	12/02/03	08/01/22
E Exxon Capital Ventures, Inc. 2001 B2	32,780,000	32,780,000	variable	12/02/04	12/01/39
E Exxon Capital Ventures, Inc.	163,200,000	163,200,000	variable	11/09/10	11/01/38
E Exxon Capital Ventures, Inc.	59,152,000	59,152,000	variable	11/09/11	11/01/51
E Exxon Capital Ventures, Inc.	100,000,000	100,000,000	variable	05/01/12	05/01/46
E Onyx Environmental Services, LLC	20,560,000	20,560,000	variable	05/01/03	05/01/28
	<u>\$ 567,887,000</u>	<u>\$ 576,737,000</u>			

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

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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 Mobil Oil 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, 2022 and 2021 were approximately \$686,289 and \$688,398, respectively.

(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 is working with residents on the estimates of their potential claims. As of August 17, 2022, the insurance company made a final determination to approve and respond to the claims associated with the levee breach. 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 \$2,345,916 and \$2,571,426 for the years ended December 31, 2022 and 2021, respectively. Aggregate medical claims of \$3,152,310 and \$3,312,186 for 2022 and 2021, 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 2022 and 2021.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

HEALTHCARE (CONTINUED)

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 \$225,000 and \$234,000 at December 31, 2022 and 2021, respectively. As required by this statement, a reconciliation of claims liabilities is shown below:

Reconciliations of Claims Liabilities	2022	2021
Claims liabilities at January 1	\$ 234,000	\$ 185,999
Incurred claims	2,345,916	2,571,426
Stop loss reimbursements	184,362	-
Payments on claims	(2,539,278)	(2,523,425)
Claims liabilities at December 31	\$ 225,000	\$ 234,000

This liability is recorded in accrued expenses at December 31, 2022 and 2021.

The contract between LNVA and a third party claims administrator is renewable December 1, 2023 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, 2022, eight former employees and three spouses were participating in the plan. At December 31, 2021, eight former employees and four 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 Qualified Plan Administration 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, 2022 AND 2021

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

At December 31, 2022, the following employees were covered by the benefit terms:

Active employees	38
Terminated vested & other inactives	10
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, 2022. This is the date as of which the actuarial valuation is performed. The Measurement date is December 31, 2022. This is the date as of which the net pension liability is determined. The Reporting date is December 31, 2022. 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 Actuarially Determined Contribution (previously termed the Annual Required Contribution). 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.

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, 2022 AND 2021

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability / Asset

	2022	2021
Total pension liability	\$ 20,074,915	\$ 18,822,919
Fiduciary net position	12,410,011	13,742,325
Net pension liability / (asset)	7,664,904	5,080,594
Fiduciary net position as a % of total pension liability	61.82%	73.01%
Pensionable covered payroll	3,636,232	3,635,843
Net pension liability as of % of covered payroll	210.79%	139.74%

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. Any significant changes during this period have been reflected as prescribed by GASB 67 and 68.

Discount Rate

	2022	2021
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.

	2022	2021
Valuation date	January 1, 2022	January 1, 2021
Measurement date	December 31, 2022	December 31, 2021
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation (for benefit purposes)	2.30%	2.20%
Inflation (for expected return on assets assumption)	2.35%	2.30%
Salary increases including inflation	3.50%	3.50%
Mortality	PubG-2010 Public Retirement Plans Amount-Weighted Mortality Tables projected with Scale MP-2020	PubG-2010 Public Retirement Plans Amount-Weighted Mortality Tables projected with Scale MP-2020

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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, 2021	\$ 18,822,919	\$ 13,742,325	\$ 5,080,594
Changes for the year:			
Service cost	267,002	-	267,002
Interest on total pension liability	1,236,801	-	1,236,801
Effect of plan changes	113,616	-	113,616
Effect of economic/demographic gains/losses	(158,383)	-	(158,383)
Effect of assumptions changes or inputs	(80,629)	-	(80,629)
Benefit payments	(126,411)	(126,411)	-
Employer contributions	-	1,122,000	(1,122,000)
Member contributions	-	-	-
Net investment income	-	(2,308,903)	2,308,903
Administrative expenses	-	(19,000)	19,000
Net changes	<u>1,251,996</u>	<u>(1,332,314)</u>	<u>2,584,310</u>
Balances as of December 31, 2022	<u>\$ 20,074,915</u>	<u>\$ 12,410,011</u>	<u>\$ 7,664,904</u>

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	\$ 22,737,411	\$ 20,074,915	\$ 17,832,301
Fiduciary net position	<u>12,410,011</u>	<u>12,410,011</u>	<u>12,410,011</u>
Net pension liability	<u>\$ 10,327,400</u>	<u>\$ 7,664,904</u>	<u>\$ 5,422,290</u>

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense / (Income)

	January 1, 2022 to December 31, 2022	January 1, 2021 to December 31, 2021
Service cost	\$ 267,002	\$ 486,978
Interest on total pension liability	1,236,801	1,324,860
Effect of plan changes	113,616	-
Administrative expenses	19,000	38,150
Member contributions	-	-
Expected investment return net of investment expenses	(924,535)	(1,346,326)
Recognition of Deferred Inflow/Outflows of Resources		
Recognition of economic/demographic gains or losses	972,062	1,009,772
Recognition of assumption changes and inputs	565,168	584,365
Recognition of investment gains or losses	363,143	(281,772)
Total pension expense	\$ 2,612,257	\$ 1,816,027

Deferred Inflow and outflow of resources

At December 31, 2022, the deferred inflows and deferred outflow of resources related to pensions from the following sources are as follows:

	2022	2021
	Deferred Outflow of Resources	Deferred Outflow of Resources
Differences between expected and actual experience	\$ 3,029,318	\$ 4,039,090
Changes of assumption	1,753,096	2,337,461
Net difference between projected and actual earnings	1,621,981	-
Contributions made subsequent to measurement date	-	-
	\$ 6,404,395	\$ 6,376,551
	2022	2021
	Deferred Inflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ (120,673)	\$ -
Net difference between projected and actual earnings	(61,432)	(1,248,313)
	\$ (182,105)	\$ (1,248,313)

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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:	
2023	\$ 1,890,119
2024	1,876,051
2025	1,820,818
2026	635,303
2027	-
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, 2022 and 2021 was \$1,075,637 and \$895,124 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, 2022 AND 2021

(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.
- Valuation Assets are equal to the market value of assets as of the valuation date, if any.
- Unfunded Actuarial Accrued Liability is the difference between the Actuarial Accrued Liability and the Valuation Assets.

Employees Covered by Benefit Term at December 31, 2022

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, 2022. 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, 2022. This is the employer’s fiscal year ending date.

Significant Changes

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

LOWER NECHES VALLEY AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

(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 OBEB Liability December 31, 2022 Measurement Date	Total OBEB Liability December 31, 2021 Measurement Date
\$8,631,590	\$12,168,492
OBEB Expense for 2022 Financial Reporting	OBEB Expense for 2021 Financial Reporting
\$849,438	\$2,256,896

Total OPEB Liability

	<u>12/31/2022</u>	<u>12/31/2021</u>
Total OPEB liability	\$ 8,631,590	\$ 12,168,492
Covered Employee Payroll	10,944,168	10,230,482
Total OPEB liability as a % of covered payroll	78.87%	118.94%

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>12/31/22</u>	<u>12/31/21</u>
Valuation date	December 1, 2022	December 1, 2020
Measurement date	December 31, 2022	December 31, 2021
GASB 75 reporting date	December 31, 2022	December 31, 2021

Discount Rate

	<u>12/31/22</u>	<u>12/31/21</u>
Discount Rate	3.72%	2.06%
20 Year Tax-Exempt Municipal Bond Yield	3.72%	2.06%

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, 2022 AND 2021

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Other Key Actuarial Assumptions

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

	2022	2021
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, 2021	\$ 12,168,492
Changes for the year:	
Service Cost	600,393
Interest on total OPEB liability	261,367
Effect of plan changes	-
Effect of economic/demographic gains or losses	(3,045,931)
Effect of assumptions changes or inputs	(1,189,571)
Benefit payments	(163,160)
Balance as of December 31, 2022	\$ 8,631,590

Sensitivity Analysis

The following presents the total OPEB liability of LNVA as of December 31, 2022, calculated using the discount rate of 3.72%, 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 (2.72%) or 1 percentage point higher (4.72%) than the current rate.

	1% Decrease	Discount Rate	1% Increase
	2.72%	3.72%	4.72%
Total OPEB Liability	\$ 9,322,297	\$ 8,631,590	\$ 8,011,995

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(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, 2022, 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	\$ 7,908,061	\$ 8,631,590	\$ 9,465,081

OPEB Expense

	January 1, 2022 to December 31, 2022	January 1, 2021 to December 31, 2021
Service cost	\$ 600,393	\$ 1,339,006
Interest on total OPEB liability	261,367	307,344
Effect of plan changes	-	-
Recognition of Deferred Inflow/Outflow of Resources		
Recognition of economic/demographic gains or losses	(401,556)	46,375
Recognition of assumption changes or inputs	389,234	564,171
OPEB Expense	\$ 849,438	\$ 2,256,896

Deferred Inflows / Outflows of Resources

As of December 31, 2022 and 2021, the deferred outflows of resources related to OPEB from the following sources are as follows:

	2022	2021
	Deferred Outflow of Resources	Deferred Outflow of Resources
Differences between expected and actual experience	\$ 248,472	\$ 298,166
Changes of assumptions	2,280,238	2,844,409
Contributions subsequent to the measurement date	-	-
	\$ 2,528,710	\$ 3,142,575

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Deferred Inflows / Outflows of Resources (Continued)

As of December 31, 2022 and 2021, the deferred inflows of resources related to OPEB from the following sources are as follows:

	2022	2021
	Deferred Inflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ (2,611,273)	\$ (16,592)
Changes of assumptions	(1,014,634)	-
	\$ (3,625,907)	\$ (16,592)

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.

	2022
Year ended December 31:	
2023	\$ (12,322)
2024	(14,068)
2025	(37,296)
2026	(37,292)
2027	(497,925)
Thereafter	(498,294)

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, 2022 THROUGH 2015

	FY 2022 Plan Year 2022	FY 2021 Plan Year 2021	FY 2020 Plan Year 2019
Total Pension Liability			
Service cost	\$ 267,002	\$ 486,978	\$ 1,475,967
Interest on total pension liability	1,236,801	1,324,860	95,937
Effect of plan changes	113,616	-	-
Effect of economic/demographic (gains) or losses	(158,383)	5,048,862	-
Effect of assumption changes or inputs	(80,629)	2,921,826	-
Benefit payments	<u>(126,411)</u>	<u>(665,195)</u>	<u>(838,044)</u>
Net change in total pension liability	1,251,996	9,117,331	733,860
Total pension liability, beginning	<u>18,822,919</u>	<u>9,705,588</u>	<u>8,971,728</u>
Total pension liability, ending (a)	<u>20,074,915</u>	<u>18,822,919</u>	<u>9,705,588</u>
Fiduciary Net Position			
Employer contributions	1,122,000	1,770,000	2,346,308
Member contributions	-	-	-
Net investment income	(2,308,903)	3,161,845	372,125
Benefit payment	(126,411)	(665,195)	(838,044)
Administrative expenses	<u>(19,000)</u>	<u>(38,150)</u>	<u>(7,965)</u>
Net change in plan fiduciary net position	(1,332,314)	4,228,500	1,872,424
Fiduciary net position, beginning	<u>13,742,325</u>	<u>9,513,825</u>	<u>7,641,401</u>
Fiduciary net position, ending (b)	<u>12,410,011</u>	<u>13,742,325</u>	<u>9,513,825</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 7,664,904</u>	<u>\$ 5,080,594</u>	<u>\$ 191,763</u>
Fiduciary net position as a % of total pension liability	61.82%	73.01%	98.02%
Covered payroll	\$ 3,636,232	\$ 3,635,843	\$ 3,533,861
Net pension liability as a % of covered payroll	210.79%	139.74%	5.43%

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, 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.

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$	1,036,703	\$ 1,059,218	\$ 799,125	\$ 762,125	\$ 710,281
	100,262	112,889	152,814	172,319	191,106
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	<u>(190,119)</u>	<u>(546,626)</u>	<u>(206,010)</u>	<u>(620,382)</u>	<u>(629,926)</u>
	946,846	625,481	745,929	314,062	271,461
	<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>8,971,728</u>	<u>8,024,882</u>	<u>7,399,401</u>	<u>6,653,472</u>	<u>6,339,410</u>
	1,155,816	1,026,892	844,195	749,310	684,839
	-	-	-	-	-
	170,602	159,040	148,005	136,057	143,017
	(190,119)	(546,626)	(206,010)	(620,382)	(629,926)
	<u>(18,147)</u>	<u>(15,890)</u>	<u>(13,864)</u>	<u>(13,310)</u>	<u>(12,838)</u>
	1,118,152	623,416	772,326	251,675	185,092
	<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>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>1,330,327</u>	<u>\$ 1,501,633</u>	<u>\$ 1,499,568</u>	<u>\$ 1,525,965</u>	<u>\$ 1,463,578</u>
	85.17%	81.29%	79.73%	77.07%	76.91%
\$	3,979,443	\$ 4,398,167	\$ 4,506,583	\$ 4,693,609	\$ 4,586,315
	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, 2022

<u>Year Ending December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2013	\$ 611,868	\$ 624,658	\$ (12,790)	\$ 5,233,780	11.94%
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%

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2022 THROUGH 2018

	FY 2022	FY 2021	FY 2020
	<u>Plan Year 2022</u>	<u>Plan Year 2021</u>	<u>Plan Year 2019</u>
Total OPEB Liability			
Service cost	\$ 600,393	\$ 1,339,006	\$ 420,429
Interest on total OPEB liability	261,367	307,344	232,730
Changes of benefit terms	-	-	-
Effect of economic/demographic (gains) or losses	(3,045,931)	347,860	(23,230)
Effect of assumption changes or inputs	(1,189,572)	526,747	3,247,630
Benefit payments	<u>(163,159)</u>	<u>(457,734)</u>	<u>(232,578)</u>
Net change in total OPEB liability	(3,536,902)	2,063,223	3,644,981
Total OPEB liability, beginning	<u>12,168,492</u>	<u>10,105,269</u>	<u>6,460,288</u>
Increase in net OPEB obligation (Estimated)	-	-	-
Total OPEB liability, ending	<u>\$ 8,631,590</u>	<u>\$ 12,168,492</u>	<u>\$ 10,105,269</u>
Covered payroll	\$ 10,944,169	\$ 10,230,482	\$ 9,424,530
Total OPEB liability as a % of covered payroll	78.87%	118.94%	107.22%

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 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 2019 <u>Plan Year 2018</u>	FY 2018 <u>Plan Year 2017</u>
\$ -	\$ 330,026
-	216,984
-	-
-	-
-	173,072
-	<u>(138,866)</u>
-	581,216
<u>6,060,288</u>	<u>5,479,072</u>
400,000	-
<u>\$ 6,460,288</u>	<u>\$ 6,060,288</u>
N/A	\$ 8,144,233
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, 2022

	Actual	Budget	Actual Favorable (Unfavorable) Compared to Budget
REVENUES			
Fresh water sales	\$ 31,649,822	\$ 28,190,900	\$ 3,458,922
Wastewater Services	7,816,677	8,530,375	(713,698)
Potable water division	2,132,871	2,138,324	(5,453)
Clean Rivers Program	172,415	164,883	7,532
Saltwater barrier	609,424	483,464	125,960
Total revenues	42,381,209	39,507,946	2,873,263
EXPENSES			
Fresh water supply	19,418,471	18,577,978	(840,493)
North Regional Treatment Plant	7,816,677	8,530,375	713,698
West Regional Water Plant	1,371,229	1,461,924	90,695
West Regional Water Plant budgeted debt principal	-	676,400	676,400
Depreciation	2,485,619	2,600,000	114,381
Amortization and Fees	4,096	4,095	(1)
Total expenses	31,096,092	31,850,772	754,680
Operating Income (Loss)	11,285,117	7,657,174	3,627,943
NON-OPERATING REVENUES (EXPENSES)			
Interest income	855,249	34,000	821,249
Management fees	1,363,044	1,394,691	(31,647)
Leases, royalties, crossing fees	288,784	210,000	78,784
FEMA reimbursements	293,455	-	293,455
Other revenue	245,931	-	245,931
Gain on disposal of assets	145,479	25,000	120,479
Administrative services (net of fees)	(3,854,371)	(1,622,710)	(2,231,661)
Transfer of assets to governmental entity	(2,640,310)	-	(2,640,310)
Total non-operating revenues (expenses)	(3,302,739)	40,981	(3,343,720)
CHANGE IN NET POSITION	7,982,378	7,698,155	284,223
OTHER USES (Budgetary item)			
Capital improvements	8,305,589	8,050,000	255,589
Economic development	-	300,000	(300,000)
Total other uses	8,305,589	8,350,000	(44,411)
Change in net position (budget basis)	(323,211)	(651,845)	328,634
RECONCILING ITEMS TO GAAP BASIS			
Capital contribution	8,305,589	8,050,000	255,589
Unbudgeted depreciation WRWP	(354,458)	-	(354,458)
Change in net position (GAAP)	\$ 7,627,920	\$ 7,398,155	\$ 229,765

OTHER INFORMATION

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the revenues of the System for Fiscal Years 2022 through 2018.

Table 1 – System Revenues and Expenses
Unaudited

	2022	2021	2020	2019	2018
OPERATING REVENUES					
Fresh water sales	\$ 32,431,661	\$ 29,877,941	\$ 28,705,738	\$ 27,712,973	\$ 28,621,148
North Regional Treatment Plant revenues	7,816,677	7,441,307	7,604,672	7,912,769	7,898,079
Potable water sales	2,132,871	2,105,657	2,011,721	1,954,815	1,726,179
Total operating revenues	42,381,209	39,424,905	38,322,131	37,580,557	38,245,406
OPERATING EXPENSES					
Fresh water supply operations	19,418,471	17,529,664	16,483,950	15,618,644	13,904,972
North Regional Treatment Plant operations	7,816,677	7,441,308	7,604,673	7,912,769	7,898,079
West Regional Water Plant operations	1,371,229	1,128,769	1,266,613	1,276,609	1,040,968
Depreciation	2,840,077	2,638,266	2,390,838	2,206,339	2,010,500
Interest Expense, Amortization and Fees	4,096	4,096	4,096	4,096	4,096
Total operating expenses	31,450,550	28,742,103	27,750,170	27,018,457	24,858,615
Operating income	10,930,659	10,682,802	10,571,961	10,562,100	13,386,791
NON-OPERATING REVENUES (EXPENSES)					
Interest income	855,249	41,475	282,981	1,180,254	761,322
Administrative services (net of fees)	(3,854,371)	(4,451,328)	(2,048,211)	(1,091,933)	(1,700,898)
Management and administrative fees	1,363,044	1,346,939	1,392,385	1,364,829	1,326,112
Leases, royalties and crossing fees	288,784	201,573	143,905	1,051,925	336,772
FEMA reimbursement	293,455	1,018,692	531,516	80,445	670,509
Other revenue	245,931	249,509	785,063	-	-
Harvey related expenses	-	-	-	-	(793,827)
Gain (loss) on disposition of assets	145,479	161,927	167,458	99,484	47,609
Transfer of assets to governmental entity	(2,640,310)	(5,447,906)	-	-	-
Economic Development	-	-	(100,000)	-	-
Total non-operating revenues (expenses)	(3,302,739)	(6,879,119)	1,155,097	2,685,004	647,599
CHANGE IN NET POSITION	\$ 7,627,920	\$ 3,803,683	\$ 11,727,058	\$ 13,247,104	\$ 14,034,390

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the Authority's Net Position as of December 31, 2022.

Table 2 - Net Position

Unrestricted	\$ 68,433,869
Restricted - West Regional Treatment Debt & Reserve Fund	<u>1,457,474</u>
	<u>\$ 69,891,343</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

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

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>

Fiscal Year 2021

Customer	Volume of Water (thousand gallons)	Annual Billing	Billing as % of Total Sales
Motiva Enterprises	10,945,796	\$ 4,674,539	16.4%
ExxonMobil Oil Corporation	8,021,205	3,568,203	12.5%
Valero Port Arthur Refinery	6,983,400	3,197,698	11.2%
Indorama Ventures Oxides LLC	5,462,754	2,325,707	8.1%
City of Port Arthur	2,502,535	1,672,740	5.9%
Lucite International Inc.	4,933,091	1,516,805	5.3%
BASF Fina Petrochemicals	2,889,100	1,417,467	5.0%
TOTAL Petrochemical	3,105,830	1,358,762	4.8%
ExxonMobil Oil Corp. (O&A)	1,139,890	861,925	3.0%
Natgasoline, LLC	1,622,842	829,629	2.9%
Top Ten	47,606,443	21,423,475	75.0%
All Others	33,442,383	7,132,134	25.0%
Total	<u>81,048,826</u>	<u>\$ 28,555,609</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>
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
2013	32	105	12	149

* 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	\$ 0.8400	\$ 273.72
Industrial – Contracted	\$ 0.4200	\$ 136.86
Municipal – Contracted	\$ 0.3150	\$ 102.64
<i>* \$200 per month minimum; Plus Fuel Surcharge when Natural Gas Rate exceeds \$4.00 per MMBTU</i>		
Agriculture Water - Metered	\$ 0.1050	\$ 34.22
Agriculture Water – Unmetered per Acre		\$ 119.77
Duck Ponds (10 Acre minimum of \$91.00/Acre)	\$ 900.00	Minimum
Other Rates		
Rayburn Water Permit	\$ 200.00	Per Year
Potable Water Rate	\$ 88,195.00	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
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Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
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Jeremy R. Triska, CPA
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April 18, 2023

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*

Independent Auditor's Report

To the Board of Directors
Lower Neches Valley Authority
Beaumont, Texas

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, the financial statements of the business-type activities of the Lower Neches Valley Authority (LNVA), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the LNVA's basic financial statements, and have issued our report thereon dated April 18, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the LNVA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the 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 the 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