

LOWER NECHES VALLEY AUTHORITY

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

DECEMBER 31, 2018 AND 2017

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FINANCIAL SECTION

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May 21, 2019

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lower Neches Valley Authority (LNVA) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Lower Neches Valley Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lower Neches Valley Authority as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in the current fiscal year, Lower Neches Valley Authority adopted new accounting guidance prescribed by GASB Statement No. 75 for its Other Post-Employment Benefit (OPEB) plan. Because GASB Statement No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the Financial Statements. The Statements of Net Position disclose LNVA's Net OPEB liability and Deferred Resource Outflows related to LNVA's OPEB plan. The Statements of Revenues and Expenses and Changes in Net Position disclose the adjustment to LNVA's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

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 Statement of Revenue and Expenses – Actual Compared to Budget on page 36, the Schedule of Changes in Employer's Net Pension Liability and Related Ratios on page 37, the Schedule of Employer Pension Contributions on page 38 and the Schedule of Changes in Total OPEB liability and related ratios on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 37 through 39 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. The required supplementary information on page 36 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lower Neches Valley Authority's basic financial statements. The Other Supplementary Information Table 1 – System Revenues and Expenses on page 40, Table 2 – Net Position on page 41, Table 3 – Top Ten Water Customers on page 42, Table 4 – Number of Customers on page 43, and Table 5 – Water Rates on page 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information described above 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lower Neches Valley Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards 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. This 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, 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 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 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 Lower Neches Valley Authority'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, 2018 AND 2017

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, 2018, 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 of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$122,430,644 (net position). Of this amount, \$51,575,425 (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 \$13,015,318 (12%). Unrestricted net position increased by \$8,088,184 (19%) from capital investment and operational activities.
- The Authority's operating revenues increased \$6,212,398 (19%) to \$38,245,406 and operating expenses increased \$198,967 (0.8%) to \$24,858,615. Operating revenues increased due to increases in Industrial and Municipal customer water consumption over contracted amounts.

OVERVIEW OF FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position increased by \$13,015,318 (12%) from \$109,415,326 to \$122,430,644. 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 \$8,088,184 from \$43,487,241 to \$51,575,425 at the end of the year.

During fiscal year 2018, the Authority adopted GASB statement No. 75 for Accounting and Financial Reporting for OPEB. With GASB 75, the Authority's liability calculation for OPEB obligations changed. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of this prior period adjustment is \$1,019,072 (see Table 2).

Management has determined that certain disbursements made in periods prior to 2015, which were initially capitalized as reservoirs and water plants, should have been reported as period costs and expensed during the year of disbursement. Additionally, management had determined that an undepreciated capital outlay for office building and other equipment has no future economic value. Previously issued financial statements as of and for the year ended December 31, 2016 have been restated to reflect these changes. (see Table 2).

Table 1			
Condensed Statement of Net Position			
	Year End 2018	Year End 2017	Year End 2016
Current Assets	\$ 60,188,462	\$ 51,812,187	\$ 46,932,288
Restricted Assets	1,413,456	1,392,218	1,383,855
Capital Assets	86,066,763	81,705,867	78,406,656
Total Assets	147,668,681	134,910,272	126,722,799
Deferred Outflow of Resources - Pension	1,124,983	-	-
Deferred Outflow of Resources - OPEB	327,321	1,005,728	892,186
Total Deferred Outflow of Resources	1,452,304	1,005,728	892,186
Current Liabilities	2,699,457	3,537,143	2,273,988
Non-current Liabilities	23,990,884	22,963,531	23,260,927
Total Liabilities	26,690,341	26,500,674	25,534,915
Net Investment in Capital Assets	69,441,763	64,535,867	60,776,655
Restricted	1,413,456	1,392,218	1,383,855
Unrestricted	51,575,425	43,487,241	39,919,560
Total Net Position	\$ 122,430,644	\$ 109,415,326	\$ 102,080,070

Table 2			
Combined Statement of Revenues, Expenses and Changes in Net Position			
	Year End 2018	Year End 2017	Year End 2016
Operating Revenues	\$ 38,245,406	\$ 32,033,008	\$ 30,650,305
Non-operating Revenues (Expenses)	647,599	(38,104)	(660,712)
Total Revenues	38,893,005	31,994,904	29,989,593
Operating Expenses	22,844,019	22,781,649	20,603,683
Depreciation Expenses	2,010,500	1,873,903	1,631,412
Amortization and Fees	4,096	4,096	4,096
Total Operating Expenses	24,858,615	24,659,648	22,239,191
Change in Net Position	14,034,390	7,335,256	7,750,402
Beginning Net Position	109,415,326	102,080,070	94,469,529
Prior Period Net OPEB Liability	(1,019,072)	-	-
Prior Period Net Position in Capital Assets	-	-	(139,861)
Ending Net Position	\$ 122,430,644	\$ 109,415,326	\$ 102,080,070

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

- Operating revenues increased \$6,212,398 (19%). Industrial and municipal sales increased by 25.98%. Irrigation water sales increased by 48.5%. The increase in industrial and municipal sales was attributable to customers using more water than estimated in their 2018 contracts. Irrigation revenues increased in 2018, following the loss of crops and reduced need for water from Hurricane Harvey in 2017.
- Non-operating revenues (expenses) include interest income, leases, royalties, crossing fees, management fees and administrative expenses for the Authority. Interest income increased \$373,222 from increased interest rates and investments. Crossing fees, one time payments by customers, increase by \$251,576 in 2018. Leasing fees fluctuate each year and were more in 2018 due to the timing of contracts, which may renew every five to 10 years. Gain/Loss on Sale of Assets is more in 2018, because some assets, whose useful life had expired, were removed from the balance sheet in 2017, including a flume destroyed by Hurricane Harvey, and some assets were sold in 2018, resulting in a gain.
- Operating expenses increased \$198,967 (0.8%) from \$24,659,648 to \$24,858,615 due to Hurricane Harvey recovery expenditures.

BUDGETARY HIGHLIGHTS

The Authority adopts an operating budget outlining an operating plan for the year. The budget plan for 2018 was to balance the budget and provide funding for a \$8,620,000 capital improvement program. The capital improvement budget increased during the year to \$8,750,000, due to additional funds needed for rehabilitation of a flume. The Authority completed 2018 increasing net position \$13,015,318. 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 \$3,042,051 (12.3%), mainly due to increased industrial water sales over contracted water consumption.
- The Potable Water Supply Division had an unfavorable budget variance due to sludge removal and also, repairs to the plant, necessitated by Hurricane Harvey damage.
- 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 \$2,779,730 (10%). Freshwater supply expenses had a budget variance of \$1,519,696 due to employee time spent on Hurricane recovery, other than their respective departments and planned projects; unfilled employee positions; fewer self-funded health plan claims than expected; heavier than normal rainfall, resulting in less water pumped in some areas; effective aquatic vegetation control, and participation of the Texas Parks and Wildlife Department in payment for chemicals for aquatic vegetation control for Reservoirs.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Table 3	Condensed Budget to Actual Comparison			
	Budget	Actual	Favorable (Unfavorable) Variance	Percent Variance
Operating Revenues				
Fresh Water Supply Division	\$ 24,800,794	\$ 27,842,845	\$ 3,042,051	12.3%
Wastewater Division	8,638,692	7,898,079	(740,613)	-8.6%
Potable Water Division	1,730,889	1,726,179	(4,710)	-0.3%
Clean Rivers Program	165,000	127,673	(37,327)	-22.6%
Saltwater Barrier	425,300	650,630	225,330	53.0%
Total Operating Revenues	35,760,675	38,245,406	2,484,731	7%
Operating Expenses				
Fresh Water Supply	15,424,668	13,904,972	1,519,696	9.9%
Wastewater Division	8,638,692	7,898,079	740,613	8.6%
Potable Water Division	1,730,889	1,040,968	689,921	39.9%
Depreciation ⁽¹⁾	1,500,000	1,670,500	(170,500)	-11.4%
Amortization and Fees	4,096	4,096	-	0.0%
Total Operating Expenses	27,298,345	24,518,615	2,779,730	10%
Non-Operating Revenues				
Interest on Investments	305,000	761,322	456,322	150%
Leases and Royalties	160,000	336,772	176,772	110%
Management Fees	1,338,985	1,326,112	(12,873)	-1%
Administrative Services (Net of Fees)	(1,396,315)	(1,700,898)	(304,583)	22%
FEMA reimbursement requests	-	670,509	670,509	N/A
Harvey related expenses	-	(793,827)	(793,827)	N/A
Economic Development	-	-	-	N/A
Gain on Disposition of Assets	50,000	47,609	(2,391)	-5%
Total Non-Operating Revenues	457,670	647,599	189,929	41%
Change in Net Position	8,920,000	14,374,390	5,454,390	0%
Reconciling Items to GAAP Basis				
Capital Improvement Program	8,750,000	6,377,543	(2,372,457)	-27%
Transfer to Economic Development	300,000	300,000	-	0%
Net change in position (Budget Basis)	\$ (130,000)	\$ 7,696,847	\$ 7,826,847	N/A

⁽¹⁾ Excludes unbudgeted depreciation expense for Water Treatment Plant.

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 expenditures that the LNVA may encounter as part of its operations. This reserve is set at 3 months of the ensuing year's fund budget. 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 2018 is adequate to meet the policy.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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 2018 to 2016. The increase in capital assets is associated with improvements throughout the system.

Table 4	Capital Assets at Year-End		
	2018	2017	2016
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	3,014,015	3,014,015	3,014,015
Reservoirs	7,179,381	7,179,381	7,179,381
Water Plant and Equipment	82,195,423	76,725,149	72,429,430
Office Building and Other Equipment	3,063,324	3,014,123	3,163,832
Construction-in-Progress	3,169,282	2,397,031	4,406,570
Accumulated Depreciation	(30,364,689)	(28,433,859)	(29,596,599)
Total	<u>\$ 86,066,763</u>	<u>\$ 81,705,867</u>	<u>\$ 78,406,656</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		
	Water Supply Contract Revenue Refunding Bonds		
	Principal	Interest	Total
2019	\$ 575,000	\$ -	\$ 575,000
2020	595,000	-	595,000
2021	650,000	-	650,000
2022	675,000	-	675,000
2023	700,000	-	700,000
2024- 2028	4,030,000	-	4,030,000
2029 - 2033	6,600,000	-	6,600,000
2034 - 3035	2,800,000	-	2,800,000
Total	<u>\$ 16,625,000</u>	<u>\$ -</u>	<u>\$ 16,625,000</u>

At year-end, the Authority had one Water System Taxable Contract Revenue Bond outstanding in the amount of \$16,625,000 for a potable water plant to serve the Bolivar Peninsula Special Utility District. The Bonds were originally approved up to \$20,520,000 and were issued in a series of installments at a 0% interest rate. The Bonds are payable solely by a pledge of and lien on the revenues of a water supply contract financing system and do not constitute a general obligation of the Authority. The original bonds were replaced with a new issue in 2009. The outstanding bonds remained the same; however, the debt structure was revised to coincide with the recovery of Bolivar after Hurricane Ike.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The Authority's Water Supply Contract Revenue Refunding Bonds were insured by Financial Security Assurance, Inc. and carry the rating of "Aaa" with Moody's Investors Service and "AA+/A-1" with Standard & Poor's. 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 77% of freshwater sales and 57% of total 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 2018 year was above historical norms with the Neches River discharging in excess of 7.5 million acre-feet of water as compared to a normal annual discharge of 4.60 million acre-feet. Sam Rayburn Reservoir storage volume started the year at 2.63 million acre-feet and peaked at 3.8 million acre-feet, ending the year at 3.8 million acre-feet, while the more constant level Lake BA Steinhagen's storage varied between 50,536 and 80,245 acre-feet during the course of the year. 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 2019 budget was based on a normal operating year and estimates total revenues of \$42,092,723 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 60% 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 \$88,195 fixed monthly plus \$0.90 per 1,000 gallons consumed. Their debt service level will rise from \$546,150 in 2018 to \$575,000 in 2019.

Raw Water Rates per Acre-Foot	2019	2018	2017
Mining - Reservoir	\$ 196.00	\$ 196.00	\$ 188.99
Spot Purchase/Excess	260.68	260.68	162.93
Spot Purchase*	1,304.00	-	-
Industrial - Contracted	130.34	130.34	114.05
Municipal - Contracted	97.76	97.76	84.72
Irrigation Water	32.60	32.60	29.33

*In 2019, the Spot Purchase is split from the excess rate

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 2019 budget compared to actual expenses for 2018. The Authority's service area is experiencing tremendous growth. Major expansion in the industrial base projected through the decade, will have a significant impact on the Authority and the delivery of services. The Board of Directors and staff are planning for the expected increase in demand for the basin's water resources.

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

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Table 6	FY 2019 Budget vs. FY 2018 Actual			
	Budget 2019	Actual 2018	Dollar Change	Percent Change
Revenues by Division				
Fresh Water Supply	\$ 25,162,600	\$ 27,842,845	\$ (2,680,245)	-10%
Wastewater Services	8,831,233	7,898,079	933,154	12%
Potable Water Division	1,952,389	1,726,179	226,210	13%
Clean Rivers Program	165,000	127,673	37,327	29%
Saltwater Barrier Operating Fees	421,800	650,630	(228,830)	-35%
Total Revenues	<u>36,533,022</u>	<u>38,245,406</u>	<u>(1,712,384)</u>	<u>-4%</u>
Expenses by Division				
Fresh Water Supply Division	16,265,652	13,904,972	2,360,680	17%
NRTP Wastewater Operations	8,831,233	7,898,079	933,154	12%
Potable Water Division (Excl. Depreciation)	1,952,389	1,040,968	911,421	88%
Depreciation and Amortization	1,804,096	1,674,596	129,500	8%
Total Expenses	<u>28,853,370</u>	<u>24,518,615</u>	<u>4,334,755</u>	<u>18%</u>
Net Revenues Over Expenses	<u>7,679,652</u>	<u>13,726,791</u>	<u>(6,047,139)</u>	<u>-44%</u>
Non-Operating Revenues (Expenses)				
Interest Income	605,000	761,322	(156,322)	-21%
Leases, Royalties and Crossing Fees	160,000	336,772	(176,772)	-52%
Management Fees	1,387,701	1,326,112	61,589	5%
FEMA reimbursement requests	3,382,000	670,509	2,711,491	404%
Harvey related expenses	-	(793,827)	793,827	-100%
Gain (Loss) on Disposition of Assets	25,000	47,609	(22,609)	-47%
Administrative Services (Net of Internal Fees)	(1,697,353)	(1,700,898)	3,545	0%
Total Non-Operating Revenues	<u>3,862,348</u>	<u>647,599</u>	<u>3,214,749</u>	<u>496%</u>
Change in Net Position	<u>11,542,000</u>	<u>14,374,390</u>	<u>(2,832,390)</u>	<u>-20%</u>
Other Budgetary Items				
Capital Improvements	11,242,000	6,377,543	4,864,457	76%
Economic Development	300,000	300,000	-	0%
Total Other	<u>11,542,000</u>	<u>6,677,543</u>	<u>4,864,457</u>	<u>73%</u>
Change in Net Position (Budget Basis)	<u>\$ -</u>	<u>\$ 7,696,847</u>	<u>\$ (7,696,847)</u>	

CONTACTING THE AUTHORITY'S FINANCE MANAGEMENT

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

FINANCIAL STATEMENTS

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF NET POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,235,384	\$ 3,462,413
Investments	44,218,108	39,066,319
Accrued interest receivable	26,108	25,275
Accounts receivable	5,552,173	6,351,935
FEMA receivables	1,899,301	2,700,000
Other receivables	15,000	-
Inventory	167,057	135,543
Prepaid expenses	75,331	70,702
	<u>60,188,462</u>	<u>51,812,187</u>
RESTRICTED ASSETS		
West Regional Treatment System		
Restricted cash and investments	1,343,820	1,318,486
Bond issue expense, net of accumulated amortization	69,636	73,732
Total restricted assets	<u>1,413,456</u>	<u>1,392,218</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	3,014,015	3,014,015
Reservoirs	7,179,381	7,179,381
Water plant and equipment	82,195,423	76,725,149
Office Building and other equipment	3,063,324	3,014,123
Construction-in-progress	3,169,282	2,397,031
Less: accumulated depreciation	<u>(30,364,689)</u>	<u>(28,433,859)</u>
Total capital assets	<u>86,066,763</u>	<u>81,705,867</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pension Plan	1,124,983	1,005,728
Deferred Outflows Related to OPEB	327,321	-
Total deferred outflow of resources	<u>1,452,304</u>	<u>1,005,728</u>
Total assets	<u>\$ 149,120,985</u>	<u>\$ 135,916,000</u>

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

LIABILITIES AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 1,451,800	\$ 2,734,273
Accrued expenses and payroll deductions	595,150	257,870
Deferred FEMA revenue	77,507	-
Bonds payable, current portion	575,000	545,000
Total current liabilities	2,699,457	3,537,143
NON-CURRENT LIABILITIES		
Bonds payable - Revenue Bonds Bolivar Peninsula, net of current portion	16,050,000	16,625,000
Other post employment benefit obligation	6,060,288	4,460,000
Accrued pension liability	1,501,633	1,499,568
Advances, North Regional Treatment Plant	378,963	378,963
Total non-current liabilities	23,990,884	22,963,531
Total liabilities	26,690,341	26,500,674
NET POSITION		
Net investment in capital assets	69,441,763	64,535,867
Restricted		
West Regional Treatment System	1,413,456	1,392,218
Unrestricted	51,575,425	43,487,241
Total net position	122,430,644	109,415,326
Total liabilities and net position	\$ 149,120,985	\$ 135,916,000

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Fresh water sales	\$ 27,842,845	\$ 21,672,470
North Regional Treatment Plant revenues	7,898,079	7,872,037
Potable water sales	1,180,029	1,026,841
West Regional Water Plant Debt Service Revenue	546,150	465,400
Clean Rivers Program	127,673	153,877
Saltwater barrier operating fees	650,630	842,383
Total operating revenues	38,245,406	32,033,008
OPERATING EXPENSES		
Fresh water supply operations	13,904,972	13,550,566
North Regional Treatment Plant operations	7,898,079	7,872,037
West Regional Water Plant operations	1,040,968	1,359,046
Depreciation	2,010,500	1,873,903
Amortization and fees	4,096	4,096
Total operating expenses	24,858,615	24,659,648
Operating income	13,386,791	7,373,360
NON-OPERATING REVENUES (EXPENSES)		
Interest income	761,322	378,100
Management fees	1,326,112	1,338,164
Leases, royalties, crossing fees	336,772	81,403
FEMA reimbursement requests	670,509	2,700,000
Harvey related expenses	(793,827)	(2,775,376)
Gain (loss) on disposition of assets	47,609	(19,101)
Economic Development	-	(50,000)
Administrative services (net of internal fees)	(1,700,898)	(1,691,294)
Total non-operating revenues (expenses)	647,599	(38,104)
Change in net position	14,034,390	7,335,256
Total net position, beginning of year	109,415,326	102,080,070
Prior Period Adjustment - OPEB liability	(1,019,072)	-
Total net position, end of year	\$ 122,430,644	\$ 109,415,326

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 39,045,168	\$ 30,864,355
Payments to suppliers	(18,447,305)	(18,113,202)
Payments to employees	(7,673,562)	(7,836,403)
Management and operating fees	1,326,112	1,352,747
Leases, royalties, crossing fees, grants	336,772	81,403
FEMA receivables & expenses	1,471,208	-
Interest	760,489	374,337
	16,818,882	6,723,237
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds(loss) from sale of assets	53,754	156,390
Payments for capital acquisitions	(560,395)	(217,387)
Retirement of bonds	(545,000)	(460,000)
Construction-in-progress	(5,817,147)	(5,131,218)
	(6,868,788)	(5,652,215)
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity	(5,177,123)	(7,302,150)
	(5,177,123)	(7,302,150)
Net cash used by investing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,772,971	(6,231,128)
CASH AND CASH EQUIVALENTS, at the beginning of the year	3,462,413	9,693,541
CASH AND CASH EQUIVALENTS, at the end of the year	\$ 8,235,384	\$ 3,462,413

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, 2018 AND 2017 (CONTINUED)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Income (loss) before capital contribution	\$ 14,034,390	\$ 7,335,256
Adjustments to reconcile income before capital contribution to net cash provided (used) by operating activities		
Depreciation	2,010,500	1,873,903
Amortization	4,096	4,096
(Gain) loss on sale of assets	(47,609)	19,101
GASB 68 impact on pension obligation	(117,190)	(139,938)
GASB 75 impact on OPEB obligation	253,895	-
Changes in working capital		
Receivables	798,929	(1,157,833)
FEMA receivables	800,699	(2,700,000)
Other receivables	(15,000)	-
Inventory	(31,514)	36,402
Other current assets	(4,629)	95
Accounts payable	(1,282,473)	1,201,671
Accrued expenses	337,281	250,484
Deferred FEMA revenue	77,507	-
	\$ 16,818,882	\$ 6,723,237
Net cash provided by operating activities		

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

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(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, 2018 AND 2017

(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, 2018 and 2017 was \$2,010,500 and \$1,873,903.

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 85% and 86% of operating revenues in 2018 and 2017, 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, 2018 AND 2017

(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 13 for additional information.

Other Post Employment Benefits

In the current fiscal year, the Authority implemented the following new standard: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* ("GASB 75") which establishes accounting and financial reporting standards for other post-employment benefits (OPEB) that are provided to the employees of state and local governmental employers through plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflow of resources and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information. See note 13 for additional information.

Subsequent Events

LNVA has evaluated subsequent events through May 21, 2019, the date on which the financial statements were available for issue.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(2) DEPOSITS AND INVESTMENTS

At December 31, 2018 and 2017, LNVA had \$8,234,984 and \$3,462,013 in cash in banks and \$45,561,928 and \$40,384,805 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. 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, 2018 AND 2017

(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, 2018 and 2017, 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	
	December 31, 2018	
	Carrying Amount	Market Value
U.S. Government Agencies	\$ 8,799,623	\$ 8,695,400
U.S. Treasury notes	65,622	68,217
Certificate of Deposit	100,000	100,000
Texas CLASS	5,034,239	5,034,239
TexPool		
449/1230800002	26,518,848	26,518,848
449/1230800004	3,801,404	3,801,404
449/1230800005	1,343,820	1,343,820
	\$ 45,663,556	\$ 45,561,928
Total investments		
	December 31, 2017	
	Carrying Amount	Market Value
U.S. Government Agencies	\$ 8,799,177	\$ 8,670,628
U.S. Treasury notes	63,282	67,269
Certificate of Deposit	100,000	100,000
TexPool		
449/1230800002	26,790,161	26,790,161
449/1230800004	3,438,261	3,438,261
449/1230800005	1,318,486	1,318,486
	\$ 40,509,367	\$ 40,384,805

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(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, 2018 and 2017 and current FEMA guidelines, LNVA staff has identified \$718,736 and \$2,992,763 in eligible disbursements, respectively. These have been submitted to FEMA for reimbursement at 90% to 100%. After recording \$217,387 as upgrades to water plant and equipment in 2017, \$793,827 and \$2,775,376 have been reclassified from operating expenses to non-operating expenses in an attempt to match FEMA reimbursement requests to storm related expenses.

(4) **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 01/01/18	Increases	Decreases	Transfers	Balance 12/31/18
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	3,014,015	-	-	-	3,014,015
Reservoirs	7,179,381	-	-	-	7,179,381
Construction work-in-progress	2,397,031	6,377,542		(5,605,291)	3,169,282
Total capital assets not being depreciated	<u>30,400,454</u>	<u>6,377,542</u>	<u>-</u>	<u>(5,605,291)</u>	<u>31,172,705</u>
Capital assets, being depreciated:					
Water plant and equipment	76,725,149	-	85,816	5,556,090	82,195,423
Buildings and other equipment	3,014,123	-	-	49,201	3,063,324
Total capital assets being depreciated	79,739,272	-	85,816	5,605,291	85,258,747
Less accumulated depreciation	<u>(28,433,859)</u>	<u>(2,010,501)</u>	<u>79,671</u>	<u>-</u>	<u>(30,364,689)</u>
Total capital assets being depreciated, net	<u>51,305,413</u>	<u>(2,010,501)</u>	<u>6,145</u>	<u>5,605,291</u>	<u>54,894,058</u>
Total capital assets	<u>\$ 81,705,867</u>	<u>\$ 4,367,041</u>	<u>\$ 6,145</u>	<u>\$ -</u>	<u>\$ 86,066,763</u>

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 01/01/17	Increases	Decreases	Transfers	Balance 12/31/17
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	3,014,015	-	-	-	3,014,015
Reservoirs	7,179,381	-	-	-	7,179,381
Construction work-in-progress	4,406,570	5,131,218	-	(7,140,757)	2,397,031
Total capital assets not being depreciated	32,409,993	5,131,218	-	(7,140,757)	30,400,454
Capital assets, being depreciated:					
Water plant and equipment	72,429,430	217,387	2,637,971	6,716,303	76,725,149
Buildings and other equipment	3,163,832	-	574,163	424,454	3,014,123
Total capital assets being depreciated	75,593,262	217,387	3,212,134	7,140,757	79,739,272
Less accumulated depreciation	(29,596,599)	(1,873,903)	3,036,643	-	(28,433,859)
Total capital assets being depreciated, net	45,996,663	(1,656,516)	175,491	7,140,757	51,305,413
Total capital assets	<u>\$ 78,406,656</u>	<u>\$ 3,474,702</u>	<u>\$ 175,491</u>	<u>\$ -</u>	<u>\$ 81,705,867</u>

(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 (\$3,801,404 at December 31, 2018 and \$3,438,261 at December 31, 2017) 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.

(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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

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, 2018 AND 2017

(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, 2018 and 2017 was as follows:

	Construction Costs	
	December 31, 2018	December 31, 2017
Remote Operated Gates	\$ 200,229	\$ 200,229
Recoat Discharge Pipes	-	199,889
Neches Pump Replacements	997,587	319,388
Piping Gate Valve Replacements	116,114	116,114
Flume	1,323,991	1,462,465
Replace Pump Impellers	165,952	-
Canal Crossing	216,223	12,814
Other	149,186	86,132
	\$ 3,169,282	\$ 2,397,031

(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, 2018 and 2017, LNVA has incurred reimbursable expenses totaling \$127,673 and \$153,877, respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(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, 2018	December 31, 2017
Bond issue costs	\$ 110,596	\$ 110,596
Accumulated amortization	(40,960)	(36,864)
	\$ 69,636	\$ 73,732

Amortization expense for the years ended December 31, 2018 and 2017 was \$4,096 and \$4,096, respectively.

A summary of changes in long-term debt for the years ended December 31, 2018 and 2017 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

Related interest for the years ended December 31, 2018 and 2017 was \$-0- and \$-0-.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Debt service requirements are as follows:

Year Ended December 31,	Principal	Interest	Total Requirements
2019	\$ 575,000	\$ -	\$ 575,000
2020	595,000	-	595,000
2021	650,000	-	650,000
2022	675,000	-	675,000
2023	700,000	-	700,000
2024- 2028	4,030,000	-	4,030,000
2029 - 2033	6,600,000	-	6,600,000
2034 - 3035	2,800,000	-	2,800,000
	\$ 16,625,000	\$ -	\$ 16,625,000

(10) **LEASE OBLIGATIONS**

LNVA is obligated under operating (noncapitalized) leases for equipment. Lease expenditures were \$18,795 and \$14,508 for the years ended December 31, 2018 and 2017. The following is a schedule of minimum lease payments under non-cancelable operating leases as of December 31, 2018.

Year Ended December 31	Lease Obligations
2019	\$ 13,079
2020	11,124
2021	7,659
2022	638
	\$ 32,500

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(11) **LOWER NECHES VALLEY AUTHORITY INDUSTRIAL DEVELOPMENT CORPORATION**

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, 2018 and 2017 follows:

	Balance 2018	Balance 2017	Interest Rate	Date of Issue	Date of Maturity
Exxon Capital Ventures, Inc.	\$ 17,000,000	\$ 17,000,000	variable	04/01/99	04/01/29
Exxon Capital Ventures, Inc.	10,330,000	10,330,000	variable	02/01/08	03/01/33
Exxon Capital Ventures, Inc.	3,100,000	3,100,000	variable	02/01/08	05/01/22
Exxon Capital Ventures, Inc.	5,835,000	5,835,000	variable	01/10/06	04/01/26
Exxon Capital Ventures, Inc. 2001 A	71,975,000	71,975,000	variable	03/16/01	11/01/29
Exxon Capital Ventures, Inc. 2001 B	87,055,000	87,055,000	variable	03/16/01	11/01/29
Exxon Capital Ventures, Inc. 2001 A2	5,750,000	5,750,000	variable	12/02/03	08/01/22
Exxon Capital Ventures, Inc. 2001 B2	32,780,000	32,780,000	variable	12/02/04	12/01/39
Exxon Capital Ventures, Inc.	163,200,000	163,200,000	variable	11/09/10	11/01/38
Exxon Capital Ventures, Inc.	59,152,000	59,152,000	variable	11/09/11	11/01/51
Exxon Capital Ventures, Inc.	100,000,000	100,000,000	variable	05/01/12	05/01/46
Onyx Environmental Services, LLC	20,560,000	20,560,000	variable	05/01/03	05/01/28
	<u>\$ 576,737,000</u>	<u>\$ 576,737,000</u>			

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

LNVA has entered into a management agreement with LNVAIDC, whereby LNVA will receive the following management fees for management services related to outstanding bond issues. The fee for the remaining outstanding portion of the Exxon MobilOil Corporation '99, '10, '11, and '12 bonds and the Onyx bonds is equal to .00125 per annum of the principal amount outstanding. The fee for the remainder of the bonds is .00110 per annum of the principal amount outstanding. The management fees earned in the years ended December 31, 2018 and 2017 were approximately \$688,398 and \$695,689, respectively.

(12) **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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **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 and administration to provide this plan was \$3,382,759 and \$3,084,919 for the years ended December 31, 2018 and 2017, respectively. Aggregate medical claims exceeding \$3,506,294 and \$2,476,771 for 2018 and 2017, 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 2018 and 2017.

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 \$595,150 and \$257,870 at December 31, 2018 and 2017, respectively. As required by this statement, a reconciliation of claims liabilities is shown below:

<u>Reconciliations of Claims Liabilities</u>	<u>2018</u>	<u>2017</u>
Claims liabilities at January 1	\$ 257,870	\$ 281,386
Incurred claims	2,350,518	2,152,788
Stop loss reimbursements	1,121,844	714,542
Payments on claims	(3,135,082)	(2,890,846)
Claims liabilities at December 31	\$ 595,150	\$ 257,870

This liability is recorded in accrued expenses at December 31, 2018 and 2017.

The contract between LNVA and a third party claims administrator is renewable December 1, 2019 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 the same as to current employees. At December 31, 2018 and 2017, eleven former employees and three spouses were participating in the plan. During 1995, LNVA began self-funding a portion of employee health care costs and established a Section 125 Cafeteria Plan to include employee participation in the benefit programs.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

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.

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>57</u>
	<u>66</u>

Contributions

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a 30-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Actuarial assumptions, benefit provisions and other factors used to determine pension contribution requirements were not revised during the year ended December 31, 2018. See the Plan Description maintained at the offices of LNVA for further details.

Net Pension Liability / Asset

	2017	2016
Total pension liability	\$ 8,024,881	\$ 7,399,401
Fiduciary net position	6,523,248	5,899,833
Net pension liability / (asset)	1,501,633	1,499,568
Fiduciary net position as a % of total pension liability	81.29%	79.73%
Pensionable covered payroll	4,398,167	4,506,583
Net pension liability as of % of covered payroll	34.14%	33.28%

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.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

Development of Single discount rate	7.5%
Long-term expected rate of investment return	7.5%
Municipal bond rate	3.2%
<i>(20-bond index of general obligation municipal bonds as of December 2016)</i>	

Other Key Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2008 – December 31, 2013, except where required to be different by GASB 68.

Actuarial valuation date	January 1, 2017
Measurement date of the Net Pension Liability	December 31, 2017
Employers fiscal year end date (reporting date)	December 31, 2018

Actuarial Methods and Assumptions Used for GASB Calculations

Valuation Date	January 1 2017 – December 31, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar – lesser of 20 years and life expectancy of group
Asset Valuation Method	Market value at time of valuation
Inflation	n/a
Salary Scale	n/a – no cost of living adjustments
Turnover	n/a
Investment Rate of Return	7.5%
Normal Retirement Age	Attainment of age 65
Mortality	1971 Group Annuity Table – age nearest birthday Male / Female no set back

This plan does not benefit any employee hired after January 1, 2008.

There were no benefit changes during the year.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **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, 2016	<u>\$ 7,399,401</u>	<u>\$ 5,899,833</u>	<u>\$ 1,499,568</u>
Changes for the year:			
Service cost	1,059,218	-	1,059,218
Interest on total pension liability	112,889	-	112,889
Effect of plan changes	-	-	-
Effect of economic/demographic gains/losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(546,626)	(546,626)	-
Administrative expense	-	(15,890)	15,890
Net investment income	-	159,040	(159,040)
Employer contributions	-	1,026,892	(1,026,892)
Other	-	-	-
Net changes	<u>625,481</u>	<u>623,416</u>	<u>2,065</u>
Balances as of December 31, 2017	<u>\$ 8,024,882</u>	<u>\$ 6,523,249</u>	<u>\$ 1,501,633</u>

Pension Expense / (Income)

For the year ended December 31, 2017, the Authority recognized pension expense of \$1,034,619.

	January 1, 2017 to December 31, 2017
Pension Expense	
Service cost	\$ 1,059,218
Interest on total pension liability	112,889
Effect of plan changes	-
Employee Contributions	-
Expected investment return net of expenses	(163,500)
Pension plan administrative expense	15,890
Recognition of deferred inflow/outflows	-
Recognition of economic/demographic gains, losses	-
Recognition of assumption changes	-
Recognition of investment gains or losses	<u>10,122</u>
Total pension expense	<u>\$ 1,034,619</u>

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflow and outflow of resources

At December 31, 2018 and 2017, the Authority reported deferred outflow of resources related to pensions from the following sources:

	2018	2017
	Deferred Outflow of Resources	Deferred Outflow of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumption	-	-
Net difference between projected and actual earnings on plan investments	68,983	45,728
Contributions made subsequent to measurement date	1,056,000	960,000
	\$ 1,124,983	\$ 1,005,728

There were no deferred inflows of resources.

An amount of \$1,056,000 and \$960,000, respectively, reported as deferred outflow of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the years ended December 31, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	2018		2017
Year ended December 31:		Year ended December 31:	
2019	\$ 27,356	2018	\$ 17,234
2020	19,348	2019	17,234
2021	12,025	2020	9,226
2022	10,254	2021	1,903
2023	-	2022	131
Thereafter	-	Thereafter	-

Additional future deferred inflows and outflows of resources may impact these numbers.

Investment gain/losses are recognized in pension expense over a period of five years; economic/demographic gain/losses and assumption changes or inputs are recognized over the average remaining service life for all participants.

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, 2018 and 2017 was \$648,918 and \$616,287 respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

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.

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year, the LNVA funding policy paid only for current cost share premiums, which means no assets were set aside for future benefits. Therefore, a net OPEB obligation exists at each year-end.

Employees Covered by Benefit Term at December 31, 2017

Actives	112
Retirees	12
Beneficiaries	0
Spouses of Retirees	3
Total	<u>127</u>

Total OPEB Liability

	<u>12/31/2017</u>	<u>12/31/2018</u>
Total OPEB liability	\$ 5,479,072	\$ 6,060,288
Covered Payroll	7,941,740	8,144,233
Total OPEB liability as a % of covered payroll	68.99%	74.41%

The Authority's total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below. Liabilities and costs were adjusted from the valuation date to the measurement date.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate

	<u>12/31/17</u>	<u>12/31/18</u>
Discount Rate	3.78%	3.44%
20 Year Tax-Exempt Municipal Bond Yield	3.78%	3.44%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Other Key Actuarial Assumptions

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

Valuation date	December 31, 2017	December 31, 2017
Measurement date	December 31, 2016	December 31, 2017
Actuarial cost method	Entry Age Normal	Entry Age Normal
Inflation	2.30%	2.30%
Salary increases including inflation	3.50%	3.50%
Mortality Rates	RP-2014 Total Dataset Mortality Tables Adjusted to 2006 and projected generationally using Scale MP-2017	
Withdrawal Rates	1.9% to 19.5% based on age	
Retirement Rates	14% to 100% based on retirement age	
Disability Rates	None	
Spousal Coverage	Assume 60% of active participants are married and elect coverage for their spouse	
Spouse Age Difference	Wives are assumed to be 3 years younger than husbands	
Plan Participation	100% of participants will elect coverage after retiring	

There have been no significant changes between the valuation date and fiscal year end.

Changes in Total OPEB Liability

Balance as of December 31, 2017	\$ 5,479,072
Changes for the year:	
Service Cost	330,026
Interest on total OPEB liability	216,984
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	173,072
Benefit payments	(138,866)
Balance as of December 31, 2018	\$ 6,060,288

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity Analysis

The following presents the total OPEB liability of the Authority, calculated using the discount rate of 3.44%, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current rate.

	1% Decrease	Discount Rate	1% Increase
	2.44%	3.44%	4.44%
Total OPEB Liability	\$ 6,607,411	\$ 6,060,288	\$ 5,568,830

The following presents the total OPEB liability of the Authority, calculated using the current healthcare cost trend rates as well as what the Authority'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	\$ 5,498,107	\$ 6,060,288	\$ 6,705,767

OPEB Expense

Service cost	\$	330,026	
Interest on total OPEB liability		216,984	
Effect of plan changes		-	
Recognition of Deferred Inflow/Outflow of Resources			
Recognition of economic/demographic gains or losses		-	
Recognition of assumption changes or inputs		24,974	
OPEB Expense		\$ 571,984	

Deferred Inflows / Outflows of Resources

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflow	Deferred Outflow
	of Resources	of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	148,098
Contributions subsequent to the measurement date	-	179,223
	\$ -	\$ 327,321

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(13) **EMPLOYEE BENEFIT PLANS (CONTINUED)**

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Deferred Inflows / Outflows of Resources (Continued)

The \$179,223 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended 12/31/2019. Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflows / Inflows of Resources	
Fiscal Year ended December 31, 2018:		
2019	\$	24,974
2020		24,974
2021		24,974
2022		24,974
2023		24,974
Thereafter		23,228

(14) **PRIOR PERIOD ADJUSTMENTS**

LNVA adopted Government Accounting Standards Board (GASB) Statement No. 75 effective January 1, 2018. This statement revises the accounting and reporting requirements for entities with Postemployment Benefits Other than Pension plans. As a result of this adoption, these financial statements include a prior period adjustment in the amount of \$1,019,072 for the prior period GASB 75 liability.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

STATEMENT OF REVENUES AND EXPENSES – ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2018

	Actual	Budget	Actual Favorable (Unfavorable) Compared to Budget
REVENUES			
Fresh water sales	\$ 27,842,845	\$ 24,800,794	\$ 3,042,051
Wastewater Services	7,898,079	8,638,692	(740,613)
Potable water division	1,726,179	1,730,889	(4,710)
Clean Rivers Program	127,673	165,000	(37,327)
Saltwater barrier	650,630	425,300	225,330
	38,245,406	35,760,675	2,484,731
EXPENSES			
Fresh water supply	13,904,972	15,424,668	1,519,696
North Regional Treatment Plant	7,898,079	8,638,692	740,613
West Regional Water Plant	1,040,968	1,730,889	689,921
Depreciation	1,670,500	1,500,000	(170,500)
Amortization and Fees	4,096	4,096	-
	24,518,615	27,298,345	2,779,730
Operating Income (Loss)	13,726,791	8,462,330	5,264,461
NON-OPERATING REVENUES (EXPENSES)			
Interest income	761,322	305,000	456,322
Management fees	1,326,112	1,338,985	(12,873)
Leases, royalties, crossing fees	336,772	160,000	176,772
FEMA reimbursements	670,509	-	670,509
Harvey related expenses	(793,827)	-	(793,827)
Gain on disposal of assets	47,609	50,000	(2,391)
Economic Development	-	-	-
Administrative services (net of fees)	(1,700,898)	(1,396,315)	(304,583)
	647,599	457,670	189,929
CHANGE IN NET POSITION	14,374,390	8,920,000	5,454,390
OTHER USES (Budgetary item)			
Capital improvements	6,377,543	8,750,000	(2,372,457)
Economic development	300,000	300,000	-
	6,677,543	9,050,000	(2,372,457)
Change in net position (budget basis)	7,696,847	(130,000)	7,826,847
RECONCILING ITEMS TO GAAP BASIS			
Capital Contribution	6,377,543	8,750,000	(2,372,457)
Economic Development	300,000	300,000	-
Unbudgeted Depreciation W RTP	(340,000)	-	(340,000)
Change in net position (GAAP)	\$ 14,034,390	\$ 8,920,000	\$ 5,114,390

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, 2016 AND 2015

	FY 2018 <u>Plan Year 2017</u>	FY 2017 <u>Plan Year 2016</u>	FY 2016 <u>Plan Year 2015</u>	FY 2015 <u>Plan Year 2014</u>
Total Pension Liability				
Service cost	\$ 1,059,218	\$ 799,125	\$ 762,125	\$ 710,281
Interest on total pension liability	112,889	152,814	172,319	191,106
Effect of plan changes	-	-	-	-
Effect of assumption changes or inputs	-	-	-	-
Effect of economic/demographic (gains) or losses	-	-	-	-
Benefit payments/refunds of contributions	<u>(546,626)</u>	<u>(206,010)</u>	<u>(620,382)</u>	<u>(629,926)</u>
Net change in total pension liability	625,481	745,929	314,062	271,461
Net pension liability, beginning	<u>7,399,401</u>	<u>6,653,472</u>	<u>6,339,410</u>	<u>6,067,949</u>
Total pension liability, ending (a)	<u>8,024,882</u>	<u>7,399,401</u>	<u>6,653,472</u>	<u>6,339,410</u>
Fiduciary Net Position				
Employer contributions	1,026,892	844,195	749,310	684,839
Member contributions	-	-	-	-
Investment income net of investment expenses	159,040	148,005	136,057	143,017
Benefit payments/refunds of contributions	(546,626)	(206,010)	(620,382)	(629,926)
Administrative expenses	(15,890)	(13,864)	(13,310)	(12,838)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fiduciary net position	623,416	772,326	251,675	185,092
Fiduciary net position, beginning	<u>5,899,833</u>	<u>5,127,507</u>	<u>4,875,832</u>	<u>4,690,740</u>
Fiduciary net position, ending (b)	<u>6,523,249</u>	<u>5,899,833</u>	<u>5,127,507</u>	<u>4,875,832</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 1,501,633</u>	<u>\$ 1,499,568</u>	<u>\$ 1,525,965</u>	<u>\$ 1,463,578</u>
Fiduciary net position as a % of total pension liability	81.29%	79.73%	77.07%	76.91%
Pensionable covered payroll	\$ 4,398,167	\$ 4,506,583	\$ 4,693,609	\$ 4,586,315
Net pension liability as a % of covered payroll	34.14%	33.28%	32.51%	31.91%

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, 2017 for year 2018, December 31, 2016 for year 2017, December 31, 2015 for year 2016, and December 31, 2014 for year 2015.

Note: Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS FOR THE YEAR ENDED DECEMBER 31, 2018

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2008	\$ 515,792	\$ 486,108	\$ 29,684	\$ 4,728,086	10%
2009	570,618	570,618	-	5,268,784	11%
2010	520,297	530,100	(9,803)	5,061,388	10%
2011	554,496	560,500	(6,004)	5,455,975	10%
2012	557,661	576,735	(19,074)	5,382,250	11%
2013	611,868	624,658	(12,790)	5,233,780	12%
2014	586,251	684,839	(98,588)	4,586,315	15%
2015	625,551	749,310	(123,759)	4,693,609	16%
2016	665,784	844,195	(178,411)	4,506,583	19%
2017	939,161	1,026,892	(87,731)	4,398,167	23%

LOWER NECHES VALLEY AUTHORITY

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

	FY 2018 <u>Plan Year 2017</u>
Total OPEB Liability	
Service cost	\$ 330,026
Interest on total OPEB liability	216,984
Effect of plan changes	-
Effect of economic/demographic (gains) or losses	-
Effect of assumption changes or inputs	173,072
Benefit payments	<u>(138,866)</u>
Net change in total OPEB liability	581,216
Total OPEB liability, beginning	<u>5,479,072</u>
Total OPEB liability, ending (a)	<u>6,060,288</u>
Covered payroll	\$ 8,144,233
Total OPEB liability as a % of covered payroll	74.41%

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

Note: Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

OTHER SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the revenues of the System for Fiscal Years 2014 through 2018.

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

	2018	2017	2016	2015	2014
OPERATING REVENUES					
Fresh water sales	\$ 28,621,148	\$ 22,668,730	\$ 21,921,523	\$ 21,724,538	\$ 20,396,575
North Regional Treatment Plant revenues	7,898,079	7,872,037	7,340,001	7,159,487	6,770,513
Potable water sales	1,726,179	1,492,241	1,388,781	1,241,198	743,215
Total operating revenues	<u>38,245,406</u>	<u>32,033,008</u>	<u>30,650,305</u>	<u>30,125,223</u>	<u>27,910,303</u>
OPERATING EXPENSES					
Fresh water supply operations	13,904,972	13,550,566	12,359,679	12,230,158	11,184,674
North Regional Treatment Plant operations	7,898,079	7,872,037	7,340,001	7,159,487	6,770,513
West Regional Water Plant operations	1,040,968	1,359,046	904,003	814,463	804,588
Depreciation	2,010,500	1,873,903	1,631,412	1,488,939	1,247,209
Interest Expense, Amortization and Fees	4,096	4,096	4,096	4,096	4,096
Total operating expenses	<u>24,858,615</u>	<u>24,659,648</u>	<u>22,239,191</u>	<u>21,697,143</u>	<u>20,011,080</u>
Operating income	<u>13,386,791</u>	<u>7,373,360</u>	<u>8,411,114</u>	<u>8,428,080</u>	<u>7,899,223</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	761,322	378,100	120,983	79,435	59,437
Administrative services (net of fees)	(1,700,898)	(1,691,294)	(2,628,868)	(1,989,718)	(1,801,404)
Management and administrative fees	1,326,112	1,338,164	1,325,870	1,278,486	1,280,625
Leases, royalties and crossing fees	336,772	81,403	418,496	242,658	269,669
FEMA reimbursement	670,509	2,700,000	-	-	-
Harvey related expenses	(793,827)	(2,775,376)	-	-	-
Gain (loss) on disposition of assets	47,609	(19,101)	105,154	90,026	102,649
Economic Development	-	(50,000)	(2,347)	-	-
Total non-operating revenues (expenses)	<u>647,599</u>	<u>(38,104)</u>	<u>(660,712)</u>	<u>(299,113)</u>	<u>(89,024)</u>
CHANGE IN NET POSITION	<u>\$ 14,034,390</u>	<u>\$ 7,335,256</u>	<u>\$ 7,750,402</u>	<u>\$ 8,128,967</u>	<u>\$ 7,810,199</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the Authority's Net Position as of December 31, 2018.

**Table 2 - Net Position
Unaudited**

Revenue Fund	\$ 51,575,425
West Regional Treatment Debt & Reserve Fund	<u>1,413,456</u>
	<u>\$ 52,988,881</u>

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

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

Fiscal Year 2018

Customer	Volume of Water (thousand gallons)	Annual Billing	Billing as % of Total Sales
Motiva Enterprises	10,237,105	\$ 4,387,763	15.9%
ExxonMobil Oil Corporation	7,320,940	3,468,960	12.6%
Valero	7,345,545	3,292,595	12.0%
Huntsman PetroChemical	6,745,100	3,128,080	11.4%
City of Port Arthur	5,682,627	1,704,788	6.2%
BASF Fina Petrochemicals	2,950,090	1,310,072	4.8%
Lucite International Inc	2,863,532	1,153,071	4.2%
TOTAL PetroChemical	2,253,585	1,030,870	3.7%
Natgasoline, LLC	1,126,300	840,960	3.1%
Westrock Texas, LP	2,648,659	837,167	3.0%
Top Ten	49,173,483	21,154,326	76.9%
All Others	21,597,938	6,359,403	23.1%
Total	70,771,421	\$ 27,513,729	100.0%

Fiscal Year 2017

Customer	Volume of Water (thousand gallons)	Annual Billing	Billing as % of Total Sales
Motiva Enterprises	9,998,400	\$ 3,716,354	17.4%
ExxonMobil Oil Corporation	7,002,200	3,035,340	14.2%
Valero	6,813,560	2,767,947	12.9%
Huntsman PetroChemical	6,061,579	2,242,682	10.5%
City of Port Arthur	5,303,092	1,378,804	6.4%
BASF - Port Arthur	2,718,050	1,064,340	5.0%
Lucite	2,688,382	1,001,056	4.7%
TOTAL PetroChemical	1,742,533	890,400	4.2%
ExxonMobil, O&A	1,460,714	630,000	2.9%
Goodyear Tire & Rubber	967,034	434,860	2.0%
Top Ten	44,755,544	17,161,783	80.1%
All Others	21,733,954	4,253,262	19.9%
Total	66,489,498	\$ 21,415,045	100.0%

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>
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
2012	30	74	10	114
2011	30	60	10	100
2010	30	67	10	107
2009	28	62	10	100

* 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>		
Other – Uncontracted	\$ 0.80	\$ 260.68
Industrial – Contracted	\$ 0.40	\$ 130.34
Municipal – Contracted	\$ 0.30	\$ 97.76
<i>* \$200 per month minimum; Plus Fuel Surcharge when Natural Gas Rate exceeds \$4.00 per MMBTU</i>		
Agriculture Water - Metered	\$ 0.10	\$ 32.60
Agriculture Water – Unmetered per Acre		\$ 114.10
Duck Ponds (10 Acre minimum of \$86.50/Acre)	\$ 865.00	Minimum
 Other Rates		
Rayburn Water Permit	\$ 125.00	Per Year
Potable Water Rate	\$ 72,291.00	Per Month
	\$ 0.90	1,000 Gallons

COMPLIANCE AND INTERNAL CONTROLS SECTION

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA (Dave Ramsey ELP)



Troy W. Domingue, CPA
Stanley (Chip) Majors, Jr., CPA, CITP, CGMA
Jane P. Burns, CPA, CDFA

May 21, 2019

Independent Auditor's Report

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*

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 Lower Neches Valley Authority (LNVA), as of and for the years ended December 31, 2018, and 2017, and the related notes to the financial statements, which collectively comprise LNVA's basic financial statements, and have issued our report thereon dated May 21, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lower Neches Valley Authority's financial statements are free of 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 determination of financial statement amounts. 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 entity'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 entity'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

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA (Dave Ramsey ELP)



Troy W. Domingue, CPA
Stanley (Chip) Majors, Jr., CPA, CITP, CGMA
Jane P. Burns, CPA, CDFA

May 21, 2019

Independent Auditor's Report

Report on Compliance for Each Major Federal Program and Report On Internal Controls Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Lower Neches Valley Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended December 31, 2018. LNVA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LNVA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LNVA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However our audit does not provide a legal determination of LNVA's compliance.

Opinion on Each Major Federal Program

In our opinion, Lower Neches Valley Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report of Internal Control Over Compliance

The management of Lower Neches Valley Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the LNVA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LNVA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

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

LOWER NECHES VALLEY AUTHORITY

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.036	FEMA Public Assistance Grant 4332-DR-TX Texas
	Hurricane Harvey

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

(CONTINUED)

Section II - Financial Statement Findings and Responses

-- NONE NOTED --

Section III - Federal Award Findings and Responses

-- NONE NOTED -

LOWER NECHES VALLEY AUTHORITY

**STATUS OF PRIOR YEAR'S FINDINGS
YEAR ENDED DECEMBER 31, 2018**

--Not Applicable--

LOWER NECHES VALLEY AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>(02) Federal CFDA Number</u>	<u>(2A) Pass-Through Entity Identifying Number</u>	<u>(03) Federal Expenditures</u>
DEPARTMENT OF HOMELAND SECURITY FEMA			
Passed Through State Department of Public Safety			
Public Assist. Grant, 4332, Texas Hurricane Harvey	97.036	TX-09102017	\$ 1,549,250
Total Passed Through State Department of Public Safety			1,549,250
TOTAL DEPARTMENT OF HOMELAND SECURITY FEMA			1,549,250
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,549,250

See Accompanying Notes to the Schedule of Expenditures
of Federal Awards

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2018

1. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Lower Neches Valley Authority under programs of the Federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of LNVA, it is not intended to and does not present the financial position, changes in net position or cash flows of LNVA.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.
3. Federal funds are considered to be earned to the extent of expenditures made under the provisions of the grant and subsequent approval by both Federal Emergency Management Agency and Texas Division of Emergency Management.
4. A reconciliation of FEMA receivables and Deferred FEMA revenue reported on the Statements of Net Position and the FEMA reimbursement requests reported on the Statement of Revenues, Expenses, and Changes in Net Position to the Federal Revenue reported on the Schedule of Expenditures of Federal Awards follows:

FEMA funds received through 12/31/2018	\$	1,549,250
Receivable from FEMA at 12/31/2018		1,899,301
FEMA overpayments		(535)
FEMA Projects approved through 12/31/2018	<u>\$</u>	<u>3,448,016</u>
Revenue recognized in 2017	\$	2,700,000
Revenue recognized in 2018		670,509
Deferred FEMA Revenue		77,507
FEMA Projects approved through 12/31/2018	<u>\$</u>	<u>3,448,016</u>