

LOWER NECHES VALLEY AUTHORITY

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

DECEMBER 31, 2021 AND 2020

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FINANCIAL SECTION

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April 19, 2022

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Lower Neches Valley Authority (LNVA) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the LNVA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the LNVA as of December 31, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the Schedule of Changes in Employer's Net Pension Liability and Related Ratios on page 38, the Schedule of Employer Pension Contributions on page 39 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information on pages 4 through 10 and pages 38 through 40 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the LNVA's basic financial statements. The *Statement of Revenues and Expenses – Actual Compared to Budget* on page 41, and the *Schedule of Expenditures of Federal Awards* on page 55 as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Statement of Revenues and Expenses – Actual Compared to Budget* on page 41, and the *Schedule of Expenditures of Federal Awards* on page 55 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Exhibit "A" Annual Report Tables 1 through 5 on pages 42 through 46 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2022, on our consideration of the LNVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the LNVA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LNVA's internal control over financial reporting and compliance.

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

WATHEN, DESHONG & JUNCKER, L.L.P.

Certified Public Accountants

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021, in comparison with the prior year financial results. We encourage readers to consider the information presented here in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$151,208,489 (net position). Of this amount, \$63,650,389 (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 \$3,803,683 (2.6%). Unrestricted net position increased by \$4,547,862 (7.7%) from operational activities.
- The Authority's operating revenues increased \$1,102,774 (2.9%) to \$39,424,905 and operating expenses increased \$991,933 (3.6%) to \$28,742,103.

OVERVIEW OF FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position increased by \$3,803,683 (2.6%) from \$147,404,806 to \$151,208,489. The analysis focuses on the net position (Table 1) and changes in net position (Table 2).

Unrestricted net position represents assets that can be used to finance day-to-day operations without constraints established by debt covenants and enabling legislation. Unrestricted net position increased by \$4,547,862 from \$59,102,527 to \$63,650,389 at the end of the year.

| Table 1 | Condensed Statement of Net Position | | |
|--|--|--------------------------|--------------------------|
| | Year End 2021 | Year End 2020 | Year End 2019 |
| Current Assets | \$ 74,762,904 | \$ 66,744,802 | \$ 65,915,086 |
| Restricted Assets | 1,438,236 | 1,441,921 | 1,439,151 |
| Capital Assets | 100,924,864 | 102,315,358 | 92,954,686 |
| Total Assets | 177,126,004 | 170,502,081 | 160,308,923 |
| Deferred Outflow of Resources - Pension | 6,376,551 | 1,125,433 | 2,369,642 |
| Deferred Outflow of Resources - OPEB | 3,142,575 | 3,164,190 | 355,026 |
| Total Deferred Outflow of Resources | 9,519,126 | 4,289,623 | 2,724,668 |
| Current Liabilities | 2,413,687 | 1,885,992 | 3,731,265 |
| Non-current Liabilities | 31,758,049 | 25,480,995 | 23,624,578 |
| Total Liabilities | 34,171,736 | 27,366,987 | 27,355,843 |
| Deferred Inflow of Resources - Pension | 1,248,313 | - | - |
| Deferred Inflow of Resources - OPEB | 16,592 | 19,911 | - |
| Total Deferred Inflow of Resources | 1,264,905 | 19,911 | - |
| Net Investment in Capital Assets | 86,119,864 | 86,860,358 | 76,904,686 |
| Restricted | 1,438,236 | 1,441,921 | 1,439,151 |
| Unrestricted | 63,650,389 | 59,102,527 | 57,333,911 |
| Total Net Position | \$ 151,208,489 | \$ 147,404,806 | \$ 135,677,748 |

| Table 2 | Combined Statement of Revenues, Expenses and Changes in Net Position | | |
|-----------------------------------|---|--------------------------|--------------------------|
| | Year End 2021 | Year End 2020 | Year End 2019 |
| Operating Revenues | \$ 39,424,905 | \$ 38,322,131 | \$ 37,580,557 |
| Non-operating Revenues (Expenses) | (6,879,119) | 1,155,097 | 2,685,004 |
| Total Revenues | 32,545,786 | 39,477,228 | 40,265,561 |
| Operating Expenses | 26,099,741 | 25,355,236 | 24,808,022 |
| Depreciation Expenses | 2,638,266 | 2,390,838 | 2,206,339 |
| Amortization and Fees | 4,096 | 4,096 | 4,096 |
| Total Operating Expenses | 28,742,103 | 27,750,170 | 27,018,457 |
| Net Change in Net Position | 3,803,683 | 11,727,058 | 13,247,104 |
| Beginning Net Position | 147,404,806 | 135,677,748 | 122,430,644 |
| Ending Net Position | \$ 151,208,489 | \$ 147,404,806 | \$ 135,677,748 |

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

- Operating revenues increased \$1,102,774 (2.9%). Industrial and municipal sales increased by 6.5%. Irrigation water sales increased by 4.3%. The increase in Irrigation water was due to an increase in rice acreage by 21.2%.
- Non-operating revenues (expenses) include interest income, leases, royalties, crossing fees, management fees and administrative expenses for the Authority. Interest income decreased \$241,506 due to the decrease in interest rates. Crossing fees, one-time payments by customers, increased by \$53,093 in 2021. The fees are variable each year. Gain/Loss on Sale of Assets is comparable to 2020.
- Operating expenses increased, by \$991,933 (3.6%) from \$27,750,170 to \$28,742,103.

BUDGETARY HIGHLIGHTS

The Authority adopts an operating budget outlining an operating plan for the year. The budget plan for 2021 was to cover operating expenses and provide funding for a \$5,135,000 capital improvement program and \$7,200,000 Long Term Capital Improvement Plan. The capital improvement budget increased during the year to \$8,060,000, to cover construction of a large capital project. The Authority completed 2021 increasing net position by \$3,803,683. 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 \$3,770,564 (14.9%), mainly due to increased industrial water sales over contracted water volumes.
- The Wastewater Division revenue and expenses are linked by contract. The below budget revenue performance is a direct result of below budgeted expenditures in operating the Wastewater Division.
- Operating expenses were below budget by \$1,400,080 (4.7%), in large part due to the Wastewater Division being below budget by \$1,089,197 and the Potable Water Division being below budget by \$956,026. Freshwater supply expenses had only a minor budget variance of \$558,897.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| Table 3 Condensed Budget to Actual Comparison | | | | |
|--|----------------|----------------|---|-----------------------------|
| | Budget | Actual | Favorable (Unfavorable) Variance | Percent Variance |
| Operating Revenues | | | | |
| Fresh Water Supply Division | \$ 25,298,450 | \$ 29,069,014 | \$ 3,770,564 | 14.9% |
| Wastewater Division | 8,530,505 | 7,441,307 | (1,089,198) | -12.8% |
| Potable Water Division | 2,084,795 | 2,105,657 | 20,862 | 1.0% |
| Clean Rivers Program | 182,936 | 220,796 | 37,860 | 20.7% |
| Saltwater Barrier | 476,482 | 588,131 | 111,649 | 23.4% |
| Total Operating Revenues | 36,573,168 | 39,424,905 | 2,851,737 | 7.8% |
| Operating Expenses | | | | |
| Fresh Water Supply Division | 16,970,767 | 17,529,664 | (558,897) | -3.3% |
| Wastewater Division | 8,530,505 | 7,441,308 | 1,089,197 | 12.8% |
| Potable Water Division | 2,084,795 | 1,128,769 | 956,026 | 45.9% |
| Depreciation ⁽¹⁾ | 2,200,000 | 2,286,245 | (86,245) | -3.9% |
| Amortization and Fees | 4,095 | 4,096 | (1) | 0.0% |
| Total Operating Expenses | 29,790,162 | 28,390,082 | 1,400,080 | 4.7% |
| Non-Operating Revenues | | | | |
| Interest on Investments | 125,000 | 41,475 | (83,525) | -66.8% |
| Leases and Royalties | 235,000 | 201,573 | (33,427) | -14.2% |
| Management Fees | 1,388,459 | 1,346,939 | (41,520) | -3.0% |
| Administrative Services (Net of Fees) | (1,746,133) | (4,451,328) | (2,705,195) | n/a |
| FEMA reimbursement requests | 1,352,300 | 1,018,692 | (333,608) | -24.7% |
| Other Revenue | - | 249,509 | 249,509 | n/a |
| Gain on Disposition of Assets | 25,000 | 161,927 | 136,927 | 547.7% |
| Transfer of Assets to Governmental Entity | - | (5,447,906) | (5,447,906) | n/a |
| Total Non-Operating Revenues | 1,379,626 | (6,879,119) | (8,258,745) | -598.6% |
| Change in Net Position | 8,162,632 | 4,155,704 | (4,006,928) | -49.1% |
| Reconciling Items to GAAP Basis | | | | |
| Capital Improvement Program | 15,260,000 | 6,750,936 | (8,509,064) | -55.8% |
| Transfer to Economic Development | 300,000 | - | (300,000) | -100.0% |
| Net Change in Position (Budget Basis) | \$ (7,397,368) | \$ (2,595,232) | \$ 4,802,136 | N/A |

⁽¹⁾ Excludes unbudgeted depreciation expense for West Regional Treatment System (\$352,021).

Working Capital. In order to maintain fiscal stability, the Authority has adopted a working capital reserve policy to provide for short-term cash flow, such as revenue shortfalls or unanticipated expenses that the LNVA may encounter as part of its operations. This reserve is set at 3 months of the ensuing year's net position. Working capital is defined as current assets (e.g. cash, investments and accounts receivable), less current liabilities (e.g. accounts payable). The Authority's working capital as of December 2021 is adequate to meet the policy.

LOWER NECHES VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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 2020 to 2021. The increase in capital assets is associated with improvements throughout the system.

| Table 4 | Capital Assets at Year-End | | |
|--|-----------------------------------|-----------------------|----------------------|
| | 2021 | 2020 | 2019 |
| Investment in Saltwater Barrier | \$ 15,477,255 | \$ 15,477,255 | \$ 15,477,255 |
| Investment in Devers Distribution System | 2,332,772 | 2,332,772 | 2,332,772 |
| Land | 3,604,076 | 3,594,409 | 3,014,015 |
| Reservoirs | 7,179,381 | 7,179,381 | 7,179,381 |
| Water Plant and Equipment | 98,002,008 | 89,935,338 | 85,060,391 |
| Office Building and Other Equipment | 3,858,338 | 3,267,212 | 3,063,324 |
| Construction-in-Progress | 6,685,783 | 14,593,347 | 8,953,905 |
| Accumulated Depreciation | (36,214,749) | (34,064,356) | (32,126,357) |
| Total | \$ 100,924,864 | \$ 102,315,358 | \$ 92,954,686 |

Long Term Debt

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

| Table 5 | Combined Debt, All Series | | |
|------------------------------------|--|-----------------|----------------------|
| Year Ending December 31 | Water Supply Contract Revenue Refunding Bonds | | Total |
| | Principal | Interest | |
| 2022 | \$ 675,000 | \$ - | \$ 675,000 |
| 2023 | 700,000 | - | 700,000 |
| 2024 | 725,000 | - | 725,000 |
| 2025 | 725,000 | - | 725,000 |
| 2026 | 780,000 | - | 780,000 |
| 2027- 2031 | 5,650,000 | - | 5,650,000 |
| 2032 - 2035 | 5,550,000 | - | 5,550,000 |
| Total | \$ 14,805,000 | \$ - | \$ 14,805,000 |

At year-end, the Authority had one Water System Taxable Contract Revenue Bond outstanding in the amount of \$14,805,000 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, 2021 AND 2020

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Authority revenue remains stable with firm yield contracts for industrial and municipal customers. Industrial customer revenue is the largest single source of revenue representing 80.0% of freshwater sales and 59.2% of total operating revenues. Significant capital investments by the Authority are being made to address the capacity and reliability of its delivery system (both pumping plants and canals) in order to keep pace with continued industrial expansion requiring a freshwater supply in Jefferson County and to modernize the Devers Canal System in Liberty and Chambers Counties.

Sam Rayburn Reservoir, Lake B.A. Steinhagen and the flow of the Neches River are the primary sources for the Authority's water supply. Streamflow for the 2021 year was above historical norms with the Neches River discharging in excess of 8.6 million acre-feet of water as compared to a normal annual discharge of 4.60 million acre-feet. Sam Rayburn Reservoir storage volume at a full conservation pool holds 2.9 million acre-feet of water. At its lowest point during the year Rayburn held 2.5 million acre-feet water. The current demand for water supply by all Authority customers averages 320,000 acre-feet per year. Reservoir storage and river flows are sufficient to meet the needs of the Authority's customer base.

The 2022 budget was based on a normal operating year and estimates total revenues of \$41,174,237 including raw water sales, wastewater fees and potable water revenue. Raw water sales are based on contracted volumes of fresh water sold to municipal, industrial, and agricultural customers and represent 71.4% 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 \$650,000 in 2021 to \$675,000 in 2022.

| Raw Water Rates per Acre-Foot | 2022 | 2021 | 2020 |
|-------------------------------|-----------|-----------|-----------|
| Mining - Reservoir | \$ 401.58 | \$ 400.80 | \$ 400.80 |
| Mining - Excess Rate | 821.16 | 801.60 | 801.60 |
| Contract Excess | 273.72 | 267.20 | 267.20 |
| Spot Purchase | 1,368.60 | 1,336.00 | 1,336.00 |
| Industrial - Contracted | 136.86 | 133.60 | 133.60 |
| Municipal - Contracted | 102.64 | 100.20 | 100.20 |
| Irrigation Water | 34.22 | 33.40 | 33.40 |

The operating expense and debt principal requirements are balanced with the estimated revenues. Although the Authority adopts a budget for planning and controlling costs in accordance with the Texas Water Code, it is a non-appropriation budget and actual results may vary. Table 6 reflects the 2022 budget compared to actual expenses for 2021. 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, 2021 AND 2020

| Table 6 | FY 2022 Budget vs. FY 2021 Actual | | | |
|---|--|------------------------|--------------------------|---------------------------|
| | Budget 2022 | Actual 2021 | Dollar Change | Percent Change |
| Revenues by Division | | | | |
| Fresh Water Supply | \$ 28,190,900 | \$ 29,069,014 | \$ (878,114) | -3.0% |
| Wastewater Services | 8,530,375 | 7,441,307 | 1,089,068 | 14.6% |
| Potable Water Division | 2,136,924 | 2,105,657 | 31,267 | 1.5% |
| Clean Rivers Program | 164,883 | 220,796 | (55,913) | -25.3% |
| Saltwater Barrier Operating Fees | 483,464 | 588,131 | (104,667) | -17.8% |
| Total Revenues | <u>39,506,546</u> | <u>39,424,905</u> | <u>81,641</u> | 0.2% |
| Expenses by Division | | | | |
| Fresh Water Supply Division | 18,577,978 | 17,529,664 | 1,048,314 | 6.0% |
| NRTP Wastewater Operations | 8,530,375 | 7,441,308 | 1,089,067 | 14.6% |
| Potable Water Division (Excl. Depreciation) | 2,136,924 | 1,128,769 | 1,008,155 | 89.3% |
| Depreciation and Amortization | 2,604,095 | 2,290,341 | 313,754 | 13.7% |
| Total Expenses | <u>31,849,372</u> | <u>28,390,082</u> | <u>3,459,290</u> | 12.2% |
| Net Revenues Over Expenses | <u>7,657,174</u> | <u>11,034,823</u> | <u>(3,377,649)</u> | -30.6% |
| Non-Operating Revenues (Expenses) | | | | |
| Interest Income | 34,000 | 41,475 | (7,475) | -18.0% |
| Leases, Royalties and Crossing Fees | 210,000 | 201,573 | 8,427 | 4.2% |
| Management Fees | 1,394,691 | 1,346,939 | 47,752 | 3.5% |
| FEMA reimbursement requests | - | 1,018,692 | (1,018,692) | n/a |
| Other Revenue | - | 249,509 | (249,509) | n/a |
| Gain (Loss) on Disposition of Assets | 25,000 | 161,927 | (136,927) | -84.6% |
| Administrative Services (Net of Internal Fees) | (1,622,710) | (4,451,328) | 2,828,618 | -63.5% |
| Transfer of Assets Governmental Entity | - | (5,447,906) | 5,447,906 | n/a |
| Total Non-Operating Revenues | <u>40,981</u> | <u>(6,879,119)</u> | <u>6,920,100</u> | -100.6% |
| Change in Net Position | <u>7,698,155</u> | <u>4,155,704</u> | <u>3,542,451</u> | 85.2% |
| Other Budgetary Items | | | | |
| Capital Improvements | 7,310,000 | 6,750,936 | 559,064 | 8.3% |
| Economic Development | 300,000 | - | 300,000 | n/a |
| Total Other | <u>7,610,000</u> | <u>6,750,936</u> | <u>859,064</u> | 12.7% |
| Change in Net Position (Budget Basis) | <u>\$ 88,155</u> | <u>\$ (2,595,232)</u> | <u>\$ 2,683,387</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, 2021 AND 2020

ASSETS

| | 2021 | 2020 |
|---|----------------|----------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 17,260,967 | \$ 10,370,371 |
| Investments | 49,474,672 | 49,158,516 |
| Accounts receivable | 6,618,243 | 6,099,582 |
| FEMA receivables | 1,209,388 | 503,373 |
| Other receivables | - | 400,000 |
| Inventory | 124,512 | 143,689 |
| Prepaid expenses | 75,122 | 69,271 |
| Total current assets | 74,762,904 | 66,744,802 |
| RESTRICTED ASSETS | | |
| West Regional Treatment System | | |
| Restricted cash and investments | 1,380,888 | 1,380,477 |
| Bond issue expense, net of accumulated amortization | 57,348 | 61,444 |
| Total restricted assets | 1,438,236 | 1,441,921 |
| CAPITAL ASSETS | | |
| Investment in Saltwater Barrier | 15,477,255 | 15,477,255 |
| Investment in Devers Distribution System | 2,332,772 | 2,332,772 |
| Land | 3,604,076 | 3,594,409 |
| Reservoirs | 7,179,381 | 7,179,381 |
| Water plant and equipment | 98,002,008 | 89,935,338 |
| Office building and other equipment | 3,858,338 | 3,267,212 |
| Construction-in-progress | 6,685,783 | 14,593,347 |
| Less: accumulated depreciation | (36,214,749) | (34,064,356) |
| Total capital assets | 100,924,864 | 102,315,358 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows Related to Pension Plan | 6,376,551 | 1,125,433 |
| Deferred Outflows Related to OPEB | 3,142,575 | 3,164,190 |
| Total deferred outflow of resources | 9,519,126 | 4,289,623 |
| Total assets | \$ 186,645,130 | \$ 174,791,704 |

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

LIABILITIES AND NET POSITION

| | 2021 | 2020 |
|--|----------------|----------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,504,687 | \$ 1,049,993 |
| Accrued expenses and payroll deductions | 234,000 | 185,999 |
| Bonds payable, current portion | 675,000 | 650,000 |
| Total current liabilities | 2,413,687 | 1,885,992 |
| NON-CURRENT LIABILITIES | | |
| Bonds payable - Revenue Bonds Bolivar Peninsula, net of current portion | 14,130,000 | 14,805,000 |
| Other post employment benefit obligation | 12,168,492 | 10,105,269 |
| Accrued Pension liability | 5,080,594 | 191,763 |
| Advances, North Regional Treatment Plant | 378,963 | 378,963 |
| Total non-current liabilities | 31,758,049 | 25,480,995 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to Pension Plan | 1,248,313 | - |
| Deferred inflows related to OPEB | 16,592 | 19,911 |
| Total deferred inflow of resources | 1,264,905 | 19,911 |
| Total liabilities | 35,436,641 | 27,386,898 |
| NET POSITION | | |
| Net investment in capital assets | 86,119,864 | 86,860,358 |
| Restricted - West Regional Treatment System | 1,438,236 | 1,441,921 |
| Unrestricted | 63,650,389 | 59,102,527 |
| Total net position | 151,208,489 | 147,404,806 |
| Total liabilities and net position | \$ 186,645,130 | \$ 174,791,704 |

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|--|----------------|----------------|
| OPERATING REVENUES | | |
| Fresh water sales | \$ 29,069,014 | \$ 27,742,293 |
| North Regional Treatment Plant revenues | 7,441,307 | 7,604,672 |
| Potable water sales | 1,455,657 | 1,416,721 |
| West Regional Water Plant debt service revenue | 650,000 | 595,000 |
| Clean Rivers Program | 220,796 | 196,838 |
| Saltwater barrier operating fees | 588,131 | 766,607 |
| Total operating revenues | 39,424,905 | 38,322,131 |
| OPERATING EXPENSES | | |
| Fresh water supply operations | 17,529,664 | 16,483,950 |
| North Regional Treatment Plant operations | 7,441,308 | 7,604,673 |
| West Regional Water Plant operations | 1,128,769 | 1,266,613 |
| Depreciation | 2,638,266 | 2,390,838 |
| Amortization and fees | 4,096 | 4,096 |
| Total operating expenses | 28,742,103 | 27,750,170 |
| Operating income | 10,682,802 | 10,571,961 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest income | 41,475 | 282,981 |
| Management fees | 1,346,939 | 1,392,385 |
| Leases, royalties, crossing fees | 201,573 | 143,905 |
| FEMA reimbursement requests | 1,018,692 | 531,516 |
| Other revenue | 249,509 | 785,063 |
| Economic development | - | (100,000) |
| Gain (loss) on disposition of assets | 161,927 | 167,458 |
| Administrative services (net of internal fees) | (4,451,328) | (2,048,211) |
| Transfer of assets to governmental entity | (5,447,906) | - |
| Total non-operating revenues (expenses) | (6,879,119) | 1,155,097 |
| Change in net position | 3,803,683 | 11,727,058 |
| Total net position, beginning of year | 147,404,806 | 135,677,748 |
| Total net position, end of year | \$ 151,208,489 | \$ 147,404,806 |

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, 2021 AND 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 38,880,545 | \$ 39,907,001 |
| Payments to suppliers | (16,904,448) | (19,426,313) |
| Payments to employees | (9,763,056) | (9,416,153) |
| Management and operating fees | 1,372,639 | 2,029,382 |
| Leases, royalties, crossing fees, grants | 201,573 | 143,905 |
| FEMA receivables & expenses | 312,677 | 1,882,248 |
| Other revenues | 249,509 | 785,063 |
| Interest | 41,475 | 296,139 |
| | <u>14,390,914</u> | <u>16,201,272</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from sale of assets | 226,852 | 167,458 |
| Payments for capital acquisitions | (805,597) | (816,164) |
| Retirement of bonds | (650,000) | (595,000) |
| Construction-in-progress | (5,955,006) | (10,935,346) |
| | <u>(7,183,751)</u> | <u>(12,179,052)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment activity | (316,567) | (457,945) |
| | <u>(316,567)</u> | <u>(457,945)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,890,596 | 3,564,275 |
| CASH AND CASH EQUIVALENTS, at the beginning of the year | <u>10,370,371</u> | <u>6,806,096</u> |
| CASH AND CASH EQUIVALENTS, at the end of the year | <u>\$ 17,260,967</u> | <u>\$ 10,370,371</u> |

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

LOWER NECHES VALLEY AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (CONTINUED)

| | 2021 | 2020 |
|---|---------------|---------------|
| Reconciliation of change in net position to net cash provided by operating activities | | |
| Change in net position | \$ 3,803,683 | \$ 11,727,058 |
| Adjustments to reconcile change in net position to net cash provided (used) by operating activities | | |
| Depreciation | 2,638,266 | 2,390,838 |
| Amortization | 4,096 | 4,096 |
| (Gain) loss on sale of assets | (161,927) | (167,458) |
| Transfer of assets to governmental entity | 5,447,906 | - |
| GASB 68 impact on pension obligation | 886,026 | 105,645 |
| GASB 75 impact on OPEB obligation | 2,081,519 | 855,728 |
| Changes in working capital | | |
| Receivables | (518,661) | 2,235,025 |
| FEMA receivables | (706,015) | 1,350,732 |
| Other receivables | 400,000 | (400,000) |
| Inventory | 19,177 | 3,001 |
| Other current assets | (5,851) | (3,120) |
| Accounts payable | 454,694 | (1,683,272) |
| Accrued expenses | 48,001 | (217,001) |
| | \$ 14,390,914 | \$ 16,201,272 |
| 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, 2021 AND 2020

(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, 2021 AND 2020

(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, 2021 and 2020 was \$2,638,266 and \$2,390,838.

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 84% of operating revenues in 2021 and 2020, 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, 2021 AND 2020

(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 (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan is provided by LNVA's third party consultant and additions to/deductions from LNVA's fiduciary net position have been determined on the same basis as they are reported by that third party consultant. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. See note 13 for additional information.

Subsequent Events

LNVA has evaluated subsequent events through April 19, 2022, the date on which the financial statements were available for issue.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(2) **DEPOSITS AND INVESTMENTS**

At December 31, 2021 and 2020, LNVA had \$17,260,567 and \$10,369,971 in cash in banks and \$50,855,561 and \$50,538,993 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, 2021 AND 2020

(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, 2021 and 2020, 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 | |
|------------------------|----------------------|----------------------|
| | 2021 | 2020 |
| U.S. Treasury Notes | \$ 77,553 | \$ 78,855 |
| Certificate of Deposit | 103,010 | 101,278 |
| Texas CLASS | 17,335,753 | 17,329,455 |
| TexPool | | |
| 449/1230800002 | 27,250,369 | 27,242,258 |
| 449/1230800004 | 4,707,987 | 4,406,670 |
| 449/1230800005 | 1,380,888 | 1,380,477 |
| Total investments | <u>\$ 50,855,560</u> | <u>\$ 50,538,993</u> |

(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, 2021 and 2020 and current FEMA guidelines, LNVA staff has identified \$1,018,692 and \$503,373 in eligible disbursements, respectively. These have been submitted to FEMA for reimbursement at 90% to 100%. \$-0- and \$-0- have been reclassified from operating expenses to non-operating expenses in an attempt to match FEMA reimbursement requests to storm related expenses.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

(4) **CAPITAL ASSETS**

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

| | Balance 01/01/21 | Increases | Decreases | Transfers | Balance 12/31/21 |
|---|---------------------------|-------------------------|----------------------|---------------------------|---------------------------|
| Capital assets, not being depreciated: | | | | | |
| Investment in Saltwater Barrier | \$ 15,477,255 | \$ - | \$ - | \$ - | \$ 15,477,255 |
| Investment in Devers Distribution System | 2,332,772 | - | - | - | 2,332,772 |
| Land | 3,594,409 | 9,667 | - | - | 3,604,076 |
| Reservoirs | 7,179,381 | - | - | - | 7,179,381 |
| Construction work-in-progress | <u>14,593,347</u> | <u>6,750,936</u> | <u>-</u> | <u>(14,658,500)</u> | <u>6,685,783</u> |
| Total capital assets not being depreciated | <u>43,177,164</u> | <u>6,760,603</u> | <u>-</u> | <u>(14,658,500)</u> | <u>35,279,267</u> |
| Capital assets, being depreciated: | | | | | |
| Water plant and equipment | 89,935,338 | - | 552,798 | 8,619,468 | 98,002,008 |
| Buildings and other equipment | <u>3,267,212</u> | <u>-</u> | <u>-</u> | <u>591,126</u> | <u>3,858,338</u> |
| Total capital assets being depreciated | 93,202,550 | - | 552,798 | 9,210,594 | 101,860,346 |
| Less accumulated depreciation | <u>(34,064,356)</u> | <u>(2,638,266)</u> | <u>487,873</u> | <u>-</u> | <u>(36,214,749)</u> |
| Total capital assets being depreciated, net | <u>59,138,194</u> | <u>(2,638,266)</u> | <u>64,925</u> | <u>9,210,594</u> | <u>65,645,597</u> |
| Total capital assets | <u>\$ 102,315,358</u> | <u>\$ 4,122,337</u> | <u>\$ 64,925</u> | <u>\$ (5,447,906)</u> | <u>\$ 100,924,864</u> |

In 2021, a capital project to replace street crossings along the LNVA canal in the City of Port Neches, Texas, was completed. The project was needed to ensure adequate downstream flow in the canal. The cost of the project was funded by LNVA. After installation of the new crossings, the City would assume ownership and maintenance of the infrastructures, as is the current arrangement with the existing crossings. This resulted in a transfer out of \$5,447,906, the value of the completed asset from LNVA to the City of Port Neches, Texas.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

Capital asset activity for the year ended December 31, 2020, was as follows:

| | Balance 01/01/20 | Increases | Decreases | Transfers | Balance 12/31/20 |
|---|----------------------|---------------------|----------------|--------------------|-----------------------|
| 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 | - | - | 580,394 | 3,594,409 |
| Reservoirs | 7,179,381 | - | - | - | 7,179,381 |
| Construction work-in-progress | 8,953,905 | 11,751,511 | - | (6,112,069) | 14,593,347 |
| Total capital assets not being depreciated | <u>36,957,328</u> | <u>11,751,511</u> | <u>-</u> | <u>(5,531,675)</u> | <u>43,177,164</u> |
| Capital assets, being depreciated: | | | | | |
| Water plant and equipment | 85,060,391 | - | 452,840 | 5,327,787 | 89,935,338 |
| Buildings and other equipment | 3,063,324 | - | - | 203,888 | 3,267,212 |
| Total capital assets being depreciated | 88,123,715 | - | 452,840 | 5,531,675 | 93,202,550 |
| Less accumulated depreciation | <u>(32,126,357)</u> | <u>(2,390,839)</u> | <u>452,840</u> | <u>-</u> | <u>(34,064,356)</u> |
| Total capital assets being depreciated, net | <u>55,997,358</u> | <u>(2,390,839)</u> | <u>-</u> | <u>5,531,675</u> | <u>59,138,194</u> |
| Total capital assets | <u>\$ 92,954,686</u> | <u>\$ 9,360,672</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 102,315,358</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 (\$4,707,987 at December 31, 2021 and \$4,406,670 at December 31, 2020) 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, 2021 AND 2020

(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, 2021 AND 2020

(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, 2021 and 2020 was as follows:

| | Construction Costs | |
|---------------------------------|--------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Canal Crossing | \$ - | \$ 7,373,229 |
| Dry Floodproofing | 1,491,945 | 542,372 |
| Engine Replacements/Repairs | 13,251 | - |
| Flume | 12,838 | - |
| Gate Actuators | 77,603 | - |
| Heat Exchangers, Coolers, Pipes | 60,000 | 60,000 |
| Improvements/Renovations | - | 587,208 |
| Muffler Replacement | - | 168,756 |
| Neches Welding Shop | - | 58,310 |
| Other | 213,898 | 367,062 |
| Other Canal Improvements | 2,888,660 | 766,595 |
| Pipe Coating Rehabilitation | - | 3,435,960 |
| Plant Relocation | 655,184 | 348,460 |
| Stop Logs | 1,009,225 | 885,395 |
| Walkway Replacements | 263,179 | - |
| | \$ 6,685,783 | \$ 14,593,347 |

(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, 2021 and 2020, LNVA has incurred reimbursable expenses totaling \$220,796 and \$196,838, respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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, 2021 | December 31, 2020 |
| Bond issue costs | \$ 110,596 | \$ 110,596 |
| Accumulated amortization | (53,248) | (49,152) |
| | \$ 57,348 | \$ 61,444 |

Amortization expense for the years ended December 31, 2021 and 2020 was \$4,096 and \$4,096, respectively.

A summary of changes in long-term debt for the years ended December 31, 2021 and 2020 is as follows:

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

Related interest for the years ended December 31, 2021 and 2020 was \$-0- and \$-0-.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

Debt service requirements are as follows:

| Year Ending December 31, | Principal | Interest | Total Requirements |
|-----------------------------|---------------|----------|-----------------------|
| 2022 | \$ 675,000 | \$ - | \$ 675,000 |
| 2023 | 700,000 | - | 700,000 |
| 2024 | 725,000 | - | 725,000 |
| 2025 | 725,000 | - | 725,000 |
| 2026 | 780,000 | - | 780,000 |
| 2027- 2031 | 5,650,000 | - | 5,650,000 |
| 2032 - 2035 | 5,550,000 | - | 5,550,000 |
| | \$ 14,805,000 | \$ - | \$ 14,805,000 |

(10) **LEASE OBLIGATIONS**

LNVA is obligated under operating (noncapitalized) leases for equipment. Lease expenditures were \$22,167 and \$22,167 for the years ended December 31, 2021 and 2020. The following is a schedule of minimum lease payments under non-cancelable operating leases as of December 31, 2021.

| Year Ended December 31 | Lease Obligations |
|---------------------------|----------------------|
| 2022 | \$ 5,258 |
| 2023 | 4,620 |
| 2024 | 385 |
| | \$ 10,263 |

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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, 2021 and 2020 follows:

| | Balance 2021 | Balance 2020 | 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 | <u>20,560,000</u> | <u>20,560,000</u> | 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, 2021 and 2020 were approximately \$688,398 and \$688,398, 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, 2021 AND 2020

(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 to provide this plan was \$2,571,426 and \$2,812,471 for the years ended December 31, 2021 and 2020, respectively. Aggregate medical claims of \$3,312,186 and \$3,569,245 for 2021 and 2020, 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 2021 and 2020.

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 \$234,000 and \$186,000 at December 31, 2021 and 2020, respectively. As required by this statement, a reconciliation of claims liabilities is shown below:

| <u>Reconciliations of Claims Liabilities</u> | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Claims liabilities at January 1 | \$ 185,999 | \$ 403,000 |
| Incurred claims | 2,571,426 | 1,562,359 |
| Stop loss reimbursements | - | 308,336 |
| Payments on claims | <u>(2,523,425)</u> | <u>(2,087,696)</u> |
| Claims liabilities at December 31 | <u>\$ 234,000</u> | <u>\$ 185,999</u> |

This liability is recorded in accrued expenses at December 31, 2021 and 2020.

The contract between LNVA and a third party claims administrator is renewable December 1, 2022 and terms of coverage and contribution costs are included in contractual provisions.

Beginning in 1987, a retiree and spouse are eligible to remain on the Authority's group insurance plan until each becomes eligible for Medicare. Retirees may maintain plan coverage as supplemental insurance until age 70. Cost to the retiree is slightly higher than cost to current employees. At December 31, 2021 and 2020, eight former employees and four spouses were participating in the plan. During 1995, LNVA began self-funding a portion of employee health care costs and established a Section 125 Cafeteria Plan to include employee participation in the benefit programs.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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, 2021, the following employees were covered by the benefit terms:

| | |
|-------------------------------------|-----------|
| Active employees | 39 |
| Terminated vested & other inactives | 12 |
| Retirees and beneficiaries | <u>6</u> |
| Total | <u>57</u> |

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation date is January 1, 2021. This is the date as of which the actuarial valuation is performed. The Measurement date is December 31, 2021. This is the date as of which the net pension liability is determined. The Reporting date is December 31, 2021. This is the employer's fiscal year ending date.

Effective December 31, 2021, LNVA has elected to change the measurement date from December 31, 2020 to December 31, 2021.

Significant Changes

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

Effective January 1, 2021, the valuation software used to produce valuation results for the Plan was changed from prior actuary's valuation system to Milliman's valuation system.

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, 2021. See the Plan Description maintained at the offices of LNVA for further details.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability / Asset

| | 2021 | 2019 |
|--|---------------|--------------|
| Total pension liability | \$ 18,822,919 | \$ 9,705,588 |
| Fiduciary net position | 13,742,325 | 9,513,825 |
| Net pension liability / (asset) | 5,080,594 | 191,763 |
| Fiduciary net position as a % of total pension liability | 73.01% | 98.02% |
| Pensionable covered payroll | 3,635,843 | 3,533,861 |
| Net pension liability as of % of covered payroll | 139.74% | 5.43% |

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67 and 68.

Discount Rate

| | 2021 | 2019 |
|--|-------|-------|
| Discount rate | 6.50% | 6.50% |
| Long-term expected rate of return, net of investment expense | 6.50% | 6.50% |
| Municipal bond rate | N/A | N/A |

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

Other Key Actuarial Assumptions

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

| | 2021 | 2019 |
|--------------------------------------|--|-------------------|
| Valuation date | January 1, 2021 | January 1, 2019 |
| Measurement date* | December 31, 2021 | December 31, 2019 |
| Actuarial cost method | Entry Age Normal | |
| Inflation | 2.20% | 0.00% |
| Salary increases including inflation | 3.50% | 0.00% |
| Mortality | PubG-2010 Public 1983 Group Annuity Retirement Plans Total Dataset Amount-Weighted Mortality Tables with Mortality Tables generational projected with Scale projection per Scale MP-2020 AA (unisex) | |

*Effective December 31, 2021, LNVA has elected to change the measurement date from December 31, 2020 to December 31, 2021.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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, 2020 | \$ 9,705,588 | \$ 9,513,825 | \$ 191,763 |
| Changes for the year*: | | | |
| Service cost | 486,978 | - | 486,978 |
| Interest on total pension liability | 1,324,860 | - | 1,324,860 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic gains/losses | 5,048,862 | - | 5,048,862 |
| Effect of assumptions changes or inputs | 2,921,826 | - | 2,921,826 |
| Benefit payments | (665,195) | (665,195) | - |
| Employer contributions | - | 1,770,000 | (1,770,000) |
| Member contributions | - | - | - |
| Net investment income | - | 3,161,845 | (3,161,845) |
| Administrative expenses | - | (38,150) | 38,150 |
| Net changes | <u>9,117,331</u> | <u>4,228,500</u> | <u>4,888,831</u> |
| Balances as of December 31, 2021 | <u>\$ 18,822,919</u> | <u>\$ 13,742,325</u> | <u>\$ 5,080,594</u> |

*Changes for the year are for a two year period from the previous measurement date of December 31, 2019 to the current measurement date of December 31, 2021.

Sensitivity Analysis

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

| | <u>1% Decrease 5.50%</u> | <u>Current Discount Rate 6.50%</u> | <u>1% Increase 7.50%</u> |
|-------------------------|----------------------------------|--|----------------------------------|
| Total pension liability | \$ 21,501,222 | \$ 18,822,919 | \$ 16,574,360 |
| Fiduciary net position | <u>13,742,325</u> | <u>13,742,325</u> | <u>13,742,325</u> |
| Net pension liability | <u>\$ 7,758,897</u> | <u>\$ 5,080,594</u> | <u>\$ 2,832,035</u> |

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Expense / (Income)

| | January 1, 2021 to December 31, 2021 | January 1, 2020 to December 31, 2020 |
|---|---|---|
| Service cost | \$ 486,978 | \$ 1,475,967 |
| Interest on total pension liability | 1,324,860 | 95,937 |
| Effect of plan changes | - | - |
| Administrative expenses | 38,150 | 7,965 |
| Member contributions | - | - |
| Expected investment return net of investment expenses | (1,346,326) | (372,125) |
| Recognition of Deferred Inflow/Outflows of Resources | | |
| Recognition of economic/demographic gains or losses | 1,009,772 | - |
| Recognition of assumption changes and inputs | 584,365 | - |
| Recognition of investment gains or losses | (281,772) | 55,236 |
| Total pension expense* | \$ 1,816,027 | \$ 1,262,980 |

*The components of Pension Expense are for a two year period from the previous measurement date of December 31, 2019 to the current measurement date of December 31, 2021.

Deferred Inflow and outflow of resources

At December 31, 2021, the deferred inflows and deferred outflow of resources related to pensions from the following sources are as follows:

| | 2021 | 2020 |
|---|-------------------------------------|-------------------------------------|
| | Deferred Outflow of Resources | Deferred Outflow of Resources |
| Differences between expected and actual experience | \$ 4,039,090 | \$ - |
| Changes of assumption | 2,337,461 | - |
| Net difference between projected and actual earnings on plan investments | - | 285,433 |
| Contributions made subsequent to measurement date | - | 840,000 |
| | \$ 6,376,551 | \$ 1,125,433 |
| | 2021 | 2020 |
| | Deferred Inflow of Resources | Deferred Inflow of Resources |
| Net difference between projected and actual earnings on plan investments | \$ (1,248,313) | \$ - |
| | \$ (1,248,313) | \$ - |

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflow and outflow of resources (Continued)

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

| Year ended December 31: | |
|-------------------------|--------------|
| 2022 | \$ 1,310,592 |
| 2023 | 1,300,338 |
| 2024 | 1,286,270 |
| 2025 | 1,231,038 |
| 2026 | - |
| Thereafter** | - |

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

401(K) PLAN

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

Retirement plan expense for the years ended December 31, 2021 and 2020 was \$895,124 and \$860,925 respectively.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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, 2021

| | |
|---------------------|------------|
| Actives | 114 |
| Retirees | 11 |
| Beneficiaries | 0 |
| Spouses of Retirees | 4 |
| | <u>129</u> |

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation date is December 1, 2020. This is the date as of which the actuarial valuation is performed. The Measurement date is December 31, 2021. This is the date as of which the OPEB liability is determined. The Reporting date is December 31, 2021. This is the employer's fiscal year ending date.

Effective December 31, 2021, LNVA has elected to change the measurement date from December 31, 2020 to December 31, 2021.

Significant Changes

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

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability

| | <u>12/31/2021</u> | <u>12/31/2020</u> |
|--|-------------------|-------------------|
| Total OPEB liability | \$ 12,168,492 | \$ 10,105,269 |
| Covered Payroll | 10,230,482 | 9,424,530 |
| Total OPEB liability as a % of covered payroll | 118.94% | 107.22% |

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 75.

Discount Rate

| | <u>12/31/21</u> | <u>12/31/20</u> |
|---|-----------------|-----------------|
| Discount Rate | 2.06% | 2.74% |
| 20 Year Tax-Exempt Municipal Bond Yield | 2.06% | 2.74% |

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.

| | <u>12/31/21</u> | <u>12/31/20</u> |
|--------------------------------------|-------------------|-------------------|
| Valuation date | December 1, 2020 | December 1, 2020 |
| Measurement date* | December 31, 2021 | December 31, 2019 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal |
| Inflation | 2.30% | 2.20% |
| Salary increases including inflation | 3.50% | 3.50% |

*Effective December 31, 2021, LNVA has elected to change the measurement date from December 31, 2020 to December 31, 2021.

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in Total OPEB Liability

| | |
|--|---------------|
| Balance as of December 31, 2020 | \$ 10,105,269 |
| Changes for the year*: | |
| Service Cost | 1,339,006 |
| Interest on total OPEB liability | 307,344 |
| Effect of plan changes | - |
| Effect of economic/demographic gains or losses | 347,860 |
| Effect of assumptions changes or inputs | 526,747 |
| Benefit payments | (457,734) |
| Balance as of December 31, 2021 | \$ 12,168,492 |

*Changes for the year are for a two year period from the previous measurement date of December 31, 2019 to the current measurement date of December 31, 2021.

Sensitivity Analysis

The following presents the total OPEB liability of LNVA, calculated using the discount rate of 2.06%, as well as what the LNVA's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.06%) or 1 percentage point higher (3.06%) than the current rate.

| | 1% Decrease 1.06% | Discount Rate 2.06% | 1% Increase 3.06% |
|----------------------|----------------------|------------------------|----------------------|
| Total OPEB Liability | \$ 13,147,154 | \$ 12,168,492 | \$ 11,288,970 |

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 | \$ 11,014,065 | \$ 12,168,492 | \$ 13,512,807 |

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense

| | January 1, 2021 to December 31, 2021 | January 1, 2020 to December 31, 2020 |
|---|---|---|
| Service cost | \$ 1,339,006 | \$ 420,429 |
| Interest on total OPEB liability | 307,344 | 232,730 |
| Effect of plan changes | - | - |
| Recognition of Deferred Inflow/Outflow of Resources | | |
| Recognition of economic/demographic gains or losses | 46,375 | (3,319) |
| Recognition of assumption changes or inputs | 564,171 | 488,921 |
| OPEB Expense* | \$ 2,256,896 | \$ 1,138,761 |

*The components of OPEB Expense are for a two year period from the previous measurement date of December 31, 2019 to the current measurement date of December 31, 2021.

Deferred Inflows / Outflows of Resources

As of December 31, 2021 and 2020, the deferred outflows of resources related to OPEB from the following sources are as follows:

| | 2021 | 2020 |
|--|--|--|
| | Deferred Outflow of Resources | Deferred Outflow of Resources |
| Differences between expected and actual experience | \$ 298,166 | \$ - |
| Changes of assumptions | 2,844,409 | 2,881,833 |
| Contributions subsequent to the measurement date | - | 282,357 |
| | \$ 3,142,575 | \$ 3,164,190 |

LOWER NECHES VALLEY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

As of December 31, 2021 and 2020, the deferred inflows of resources related to OPEB from the following sources are as follows:

| | 2021 | 2020 |
|--|---|---|
| | Deferred Inflow of Resources | Deferred Inflow of Resources |
| Differences between expected and actual experience | \$ (16,592) | \$ (19,911) |
| Changes of assumptions | - | - |
| Contributions subsequent to the measurement date | - | - |
| | \$ (16,592) | \$ (19,911) |

Deferred Inflows / Outflows of Resources (Continued)

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

| | 2021 |
|-------------------------|-------------|
| Year ended December 31: | |
| 2022 | \$ 610,546 |
| 2023 | 610,546 |
| 2024 | 608,800 |
| 2025 | 585,572 |
| 2026 | 585,576 |
| Thereafter | 124,943 |

REQUIRED SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2021 THROUGH 2015

| | FY 2021 <u>Plan Year 2021</u> | FY 2020 <u>Plan Year 2019</u> | FY 2019 <u>Plan Year 2018</u> |
|--|----------------------------------|----------------------------------|----------------------------------|
| Total Pension Liability | | | |
| Service cost | \$ 486,978 | \$ 1,475,967 | \$ 1,036,703 |
| Interest on total pension liability | 1,324,860 | 95,937 | 100,262 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic (gains) or losses | 5,048,862 | - | - |
| Effect of assumption changes or inputs | 2,921,826 | - | - |
| Benefit payments | <u>(665,195)</u> | <u>(838,044)</u> | <u>(190,119)</u> |
| Net change in total pension liability | 9,117,331 | 733,860 | 946,846 |
| Total pension liability, beginning | <u>9,705,588</u> | <u>8,971,728</u> | <u>8,024,882</u> |
| Total pension liability, ending (a) | <u>18,822,919</u> | <u>9,705,588</u> | <u>8,971,728</u> |
| Fiduciary Net Position | | | |
| Employer contributions | 1,770,000 | 2,346,308 | 1,155,816 |
| Member contributions | - | - | - |
| Net investment income | 3,161,845 | 372,125 | 170,602 |
| Benefit payment | (665,195) | (838,044) | (190,119) |
| Administrative expenses | (38,150) | (7,965) | (18,147) |
| Other | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in plan fiduciary net position | 4,228,500 | 1,872,424 | 1,118,152 |
| Fiduciary net position, beginning | <u>9,513,825</u> | <u>7,641,401</u> | <u>6,523,249</u> |
| Fiduciary net position, ending (b) | <u>13,742,325</u> | <u>9,513,825</u> | <u>7,641,401</u> |
| Net pension liability / (asset), ending = (a) - (b) | <u>\$ 5,080,594</u> | <u>\$ 191,763</u> | <u>\$ 1,330,327</u> |
| Fiduciary net position as a % of total pension liability | 73.01% | 98.02% | 85.17% |
| Covered payroll | \$ 3,635,843 | \$ 3,533,861 | \$ 3,979,443 |
| Net pension liability as a % of covered payroll | 139.74% | 5.43% | 33.43% |

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

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

| <u>FY 2018</u> <u>Plan Year 2017</u> | <u>FY 2017</u> <u>Plan Year 2016</u> | <u>FY 2016</u> <u>Plan Year 2015</u> | <u>FY 2015</u> <u>Plan Year 2014</u> |
|---|---|---|---|
| \$ 1,059,218 | \$ 799,125 | \$ 762,125 | \$ 710,281 |
| 112,889 | 152,814 | 172,319 | 191,106 |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| <u>(546,626)</u> | <u>(206,010)</u> | <u>(620,382)</u> | <u>(629,926)</u> |
| 625,481 | 745,929 | 314,062 | 271,461 |
| <u>7,399,401</u> | <u>6,653,472</u> | <u>6,339,410</u> | <u>6,067,949</u> |
| <u>8,024,882</u> | <u>7,399,401</u> | <u>6,653,472</u> | <u>6,339,410</u> |
| 1,026,892 | 844,195 | 749,310 | 684,839 |
| - | - | - | - |
| 159,040 | 148,005 | 136,057 | 143,017 |
| <u>(546,626)</u> | <u>(206,010)</u> | <u>(620,382)</u> | <u>(629,926)</u> |
| <u>(15,890)</u> | <u>(13,864)</u> | <u>(13,310)</u> | <u>(12,838)</u> |
| - | - | - | - |
| 623,416 | 772,326 | 251,675 | 185,092 |
| <u>5,899,833</u> | <u>5,127,507</u> | <u>4,875,832</u> | <u>4,690,740</u> |
| <u>6,523,249</u> | <u>5,899,833</u> | <u>5,127,507</u> | <u>4,875,832</u> |
| <u>\$ 1,501,633</u> | <u>\$ 1,499,568</u> | <u>\$ 1,525,965</u> | <u>\$ 1,463,578</u> |
| 81.29% | 79.73% | 77.07% | 76.91% |
| \$ 4,398,167 | \$ 4,506,583 | \$ 4,693,609 | \$ 4,586,315 |
| 34.14% | 33.28% | 32.51% | 31.91% |

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS FOR THE YEAR ENDED DECEMBER 31, 2021

| <u>Year Ending December 31</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Employer Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Pensionable Covered Payroll</u> | <u>Actual Contribution as a % of Covered Payroll</u> |
|------------------------------------|--|---|---|--|--|
| 2012 | \$ 557,661 | \$ 576,735 | \$ (19,074) | \$ 5,382,250 | 10.72% |
| 2013 | 611,868 | 624,658 | (12,790) | 5,233,780 | 11.94% |
| 2014 | 586,251 | 684,839 | (98,588) | 4,586,315 | 14.93% |
| 2015 | 625,551 | 749,310 | (123,759) | 4,693,609 | 15.96% |
| 2016 | 665,784 | 844,195 | (178,411) | 4,506,583 | 18.73% |
| 2017 | 939,161 | 1,026,892 | (87,731) | 4,398,167 | 23.35% |
| 2018 | 914,957 | 1,155,816 | (240,859) | 3,979,443 | 29.04% |
| 2019 | 1,126,235 | 2,346,308 | (1,220,073) | 3,533,861 | 66.40% |
| 2020 | 1,164,795 | 840,000 | 324,795 | 3,698,534 | 22.71% |
| 2021 | 929,057 | 930,000 | (943) | 3,635,843 | 25.58% |

LOWER NECHES VALLEY AUTHORITY

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2021 THROUGH 2018

| | FY 2021 <u>Plan Year 2021</u> | FY 2020 <u>Plan Year 2019</u> |
|--|----------------------------------|----------------------------------|
| Total OPEB Liability | | |
| Service cost | \$ 1,339,006 | \$ 420,429 |
| Interest on total OPEB liability | 307,344 | 232,730 |
| Effect of plan changes | - | - |
| Effect of economic/demographic (gains) or losses | 347,860 | (23,230) |
| Effect of assumption changes or inputs | 526,747 | 3,247,630 |
| Benefit payments | <u>(457,734)</u> | <u>(232,578)</u> |
| Net change in total OPEB liability | 2,063,223 | 3,644,981 |
| Total OPEB liability, beginning | <u>10,105,269</u> | <u>6,460,288</u> |
| Increase in net OPEB obligation (Estimated) | - | - |
| Total OPEB liability, ending | <u>\$ 12,168,492</u> | <u>\$ 10,105,269</u> |
| Covered payroll | \$ 10,230,482 | \$ 9,424,530 |
| Total OPEB liability as a % of covered payroll | 118.94% | 107.22% |

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY2021 are based on the December 31, 2021 measurement date, FY 2020 are based on the December 31, 2019 measurement date and the amounts reported for FY 2018 are based on the December 31, 2017 measurement date.

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

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

| <u>FY 2019</u> <u>Plan Year 2018</u> | <u>FY 2018</u> <u>Plan Year 2017</u> |
|---|---|
| \$ - | \$ 330,026 |
| - | 216,984 |
| - | - |
| - | - |
| - | 173,072 |
| - | <u>(138,866)</u> |
| - | 581,216 |
| <u>6,060,288</u> | <u>5,479,072</u> |
| 400,000 | - |
| <u>\$ 6,460,288</u> | <u>\$ 6,060,288</u> |
| N/A | \$ 8,144,233 |
| N/A | 74.41% |

SUPPLEMENTARY INFORMATION

LOWER NECHES VALLEY AUTHORITY

STATEMENT OF REVENUES AND EXPENSES – ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2021

| | Actual | Budget | Actual Favorable (Unfavorable) Compared to Budget |
|---|---------------------|---------------------|---|
| REVENUES | | | |
| Fresh water sales | \$ 29,069,014 | \$ 25,298,450 | \$ 3,770,564 |
| Wastewater Services | 7,441,307 | 8,530,505 | (1,089,198) |
| Potable water division | 2,105,657 | 2,084,795 | 20,862 |
| Clean Rivers Program | 220,796 | 182,936 | 37,860 |
| Saltwater barrier | 588,131 | 476,482 | 111,649 |
| | <u>39,424,905</u> | <u>36,573,168</u> | <u>2,851,737</u> |
| Total revenues | | | |
| EXPENSES | | | |
| Fresh water supply | 17,529,664 | 16,970,767 | (558,897) |
| North Regional Treatment Plant | 7,441,308 | 8,530,505 | 1,089,197 |
| West Regional Water Plant | 1,128,769 | 1,434,795 | 306,026 |
| West Regional Water Plant budgeted debt principal | - | 650,000 | 650,000 |
| Depreciation | 2,286,245 | 2,200,000 | (86,245) |
| Amortization and Fees | 4,096 | 4,095 | (1) |
| | <u>28,390,082</u> | <u>29,790,162</u> | <u>1,400,080</u> |
| Total expenses | | | |
| Operating Income (Loss) | <u>11,034,823</u> | <u>6,783,006</u> | <u>4,251,817</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | 41,475 | 125,000 | (83,525) |
| Management fees | 1,346,939 | 1,388,459 | (41,520) |
| Leases, royalties, crossing fees | 201,573 | 235,000 | (33,427) |
| FEMA reimbursements | 1,018,692 | 1,352,300 | (333,608) |
| Other revenue | 249,509 | - | 249,509 |
| Gain on disposal of assets | 161,927 | 25,000 | 136,927 |
| Administrative services (net of fees) | (4,451,328) | (1,746,133) | (2,705,195) |
| Transfer of assets to governmental entity | (5,447,906) | - | (5,447,906) |
| | <u>(6,879,119)</u> | <u>1,379,626</u> | <u>(8,258,745)</u> |
| Total non-operating revenues (expenses) | | | |
| CHANGE IN NET POSITION | 4,155,704 | 8,162,632 | (4,006,928) |
| OTHER USES (Budgetary item) | | | |
| Capital improvements | 6,750,936 | 15,260,000 | (8,509,064) |
| Economic development | - | 300,000 | (300,000) |
| | <u>6,750,936</u> | <u>15,560,000</u> | <u>(8,809,064)</u> |
| Total other uses | | | |
| Change in net position (budget basis) | <u>(2,595,232)</u> | <u>(7,397,368)</u> | <u>4,802,136</u> |
| RECONCILING ITEMS TO GAAP BASIS | | | |
| Capital contribution | 6,750,936 | 15,260,000 | (8,509,064) |
| Unbudgeted depreciation WRWP | (352,021) | - | (352,021) |
| | <u>\$ 3,803,683</u> | <u>\$ 7,862,632</u> | <u>\$ (4,058,949)</u> |
| Change in net position (GAAP) | | | |

OTHER INFORMATION

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the revenues of the System for Fiscal Years 2021 through 2017.

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

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|---------------------|----------------------|----------------------|----------------------|---------------------|
| OPERATING REVENUES | | | | | |
| Fresh water sales | \$ 29,877,941 | \$ 28,705,738 | \$ 27,712,973 | \$ 28,621,148 | \$ 22,668,730 |
| North Regional Treatment Plant revenues | 7,441,307 | 7,604,672 | 7,912,769 | 7,898,079 | 7,872,037 |
| Potable water sales | 2,105,657 | 2,011,721 | 1,954,815 | 1,726,179 | 1,492,241 |
| Total operating revenues | 39,424,905 | 38,322,131 | 37,580,557 | 38,245,406 | 32,033,008 |
| OPERATING EXPENSES | | | | | |
| Fresh water supply operations | 17,529,664 | 16,483,950 | 15,618,644 | 13,904,972 | 13,550,566 |
| North Regional Treatment Plant operations | 7,441,308 | 7,604,673 | 7,912,769 | 7,898,079 | 7,872,037 |
| West Regional Water Plant operations | 1,128,769 | 1,266,613 | 1,276,609 | 1,040,968 | 1,359,046 |
| Depreciation | 2,638,266 | 2,390,838 | 2,206,339 | 2,010,500 | 1,873,903 |
| Interest Expense, Amortization and Fees | 4,096 | 4,096 | 4,096 | 4,096 | 4,096 |
| Total operating expenses | 28,742,103 | 27,750,170 | 27,018,457 | 24,858,615 | 24,659,648 |
| Operating income | 10,682,802 | 10,571,961 | 10,562,100 | 13,386,791 | 7,373,360 |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Interest income | 41,475 | 282,981 | 1,180,254 | 761,322 | 378,100 |
| Administrative services (net of fees) | (4,451,328) | (2,048,211) | (1,091,933) | (1,700,898) | (1,691,294) |
| Management and administrative fees | 1,346,939 | 1,392,385 | 1,364,829 | 1,326,112 | 1,338,164 |
| Leases, royalties and crossing fees | 201,573 | 143,905 | 1,051,925 | 336,772 | 81,403 |
| FEMA reimbursement | 1,018,692 | 531,516 | 80,445 | 670,509 | 2,700,000 |
| Other revenue | 249,509 | 785,063 | - | - | - |
| Harvey related expenses | - | - | - | (793,827) | (2,775,376) |
| Gain (loss) on disposition of assets | 161,927 | 167,458 | 99,484 | 47,609 | (19,101) |
| Transfer of assets to governmental entity | (5,447,906) | - | - | - | - |
| Economic Development | - | (100,000) | - | - | (50,000) |
| Total non-operating revenues (expenses) | (6,879,119) | 1,155,097 | 2,685,004 | 647,599 | (38,104) |
| CHANGE IN NET POSITION | \$ 3,803,683 | \$ 11,727,058 | \$ 13,247,104 | \$ 14,034,390 | \$ 7,335,256 |

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

The following table sets forth the Authority's Net Position as of December 31, 2021.

Table 2 - Net Position

| | |
|---|----------------------|
| Unrestricted | \$ 63,650,389 |
| Restricted - West Regional Treatment Debt & Reserve Fund | <u>1,438,236</u> |
| | <u>\$ 65,088,625</u> |

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

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

Fiscal Year 2021

| Customer | Volume of Water (thousand gallons) | Annual Billing | Billing as % of Total Sales |
|--------------------------------|---|-------------------|-----------------------------------|
| Motiva Enterprises, LLC | 10,945,796 | \$ 4,674,539 | 16.4% |
| Valero Port Arthur Refinery | 8,021,205 | 3,568,203 | 12.5% |
| ExxonMobil Oil Corporation | 6,983,400 | 3,197,698 | 11.2% |
| Indorama Ventures Oxides, LLC | 5,462,754 | 2,325,707 | 8.1% |
| TOTAL Petrochemical USA, Inc. | 2,502,535 | 1,672,740 | 5.9% |
| City of Port Arthur | 4,933,091 | 1,516,805 | 5.3% |
| BASF Total Petrochemicals, LLC | 2,889,100 | 1,417,467 | 5.0% |
| Lucite International Inc. | 3,105,830 | 1,358,762 | 4.8% |
| Natgasoline, LLC | 1,139,890 | 861,925 | 3.0% |
| Goodyear Tire & Rubber Company | 1,622,842 | 829,629 | 2.9% |
| Top Ten | 47,606,443 | 21,423,475 | 75.0% |
| All Others | 33,442,383 | 7,132,134 | 25.0% |
| Total | 81,048,826 | \$ 28,555,609 | 100.0% |

Fiscal Year 2020

| Customer | Volume of Water (thousand gallons) | Annual Billing | Billing as % of Total Sales |
|------------------------------|---|-------------------|-----------------------------------|
| Motiva Enterprises | 10,660,585 | \$ 4,618,731 | 16.9% |
| ExxonMobil Oil Corporation | 6,983,740 | 3,555,684 | 13.0% |
| Valero Port Arthur Refinery | 7,269,161 | 3,238,522 | 11.8% |
| Indorama Ventures Oxides LLC | 4,953,966 | 2,277,071 | 8.3% |
| City of Port Arthur | 5,125,516 | 1,576,096 | 5.8% |
| Lucite International Inc. | 2,909,880 | 1,328,791 | 4.8% |
| BASF Fina Petrochemicals | 1,326,990 | 1,101,234 | 4.0% |
| TOTAL Petrochemical | 1,842,938 | 1,043,040 | 3.8% |
| ExxonMobil Oil Corp. (O&A) | 1,976,034 | 862,167 | 3.1% |
| Natgasoline, LLC | 1,281,410 | 861,984 | 3.1% |
| Top Ten | 44,330,220 | 20,463,320 | 74.7% |
| All Others | 32,546,847 | 6,945,293 | 25.3% |
| Total | 76,877,067 | \$ 27,408,613 | 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> |
|-------------|-------------------|---------------------|------------------|--------------|
| 2021 | 31 | 83 | 11 | 125 |
| 2020 | 31 | 79 | 11 | 121 |
| 2019 | 29 | 67 | 11 | 107 |
| 2018 | 30 | 68 | 11 | 109 |
| 2017 | 29 | 64 | 12 | 105 |
| 2016 | 29 | 66 | 12 | 107 |
| 2015 | 33 | 122 | 11 | 166 |
| 2014 | 33 | 111 | 12 | 156 |
| 2013 | 32 | 105 | 12 | 149 |
| 2012 | 30 | 74 | 10 | 114 |

* Revised in 2016 to remove inactives

LOWER NECHES VALLEY AUTHORITY

EXHIBIT "A" ANNUAL REPORT

**Table 5 – Water Rates
Unaudited**

| | Per 1,000 Gallons | Per Acre Foot |
|--|-------------------|---------------|
| <u>Raw Water*</u> | | |
| Municipal & Industrial Excess Rate | \$ 0.8200 | \$ 267.20 |
| Industrial – Contracted | \$ 0.4100 | \$ 133.60 |
| Municipal – Contracted | \$ 0.3075 | \$ 100.20 |
| <i>* \$200 per month minimum; Plus Fuel Surcharge when Natural Gas Rate exceeds \$4.00 per MMBTU</i> | | |
| Agriculture Water - Metered | \$ 0.1025 | \$ 33.40 |
| Agriculture Water – Unmetered per Acre | | \$ 116.90 |
| Duck Ponds (10 Acre minimum of \$88.66/Acre) | \$ 886.63 | Minimum |
| Other Rates | | |
| Rayburn Water Permit | \$ 125.00 | Per Year |
| Potable Water Rate | \$ 88,195.00 | Per Month |
| | \$ 0.96 | 1,000 Gallons |

COMPLIANCE AND INTERNAL CONTROLS SECTION

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



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

April 19, 2022

Report On Internal Control Over Financial Reporting And On Compliance And
Other Matters Based On An Audit Of Financial Statements Performed In Accordance
With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Lower Neches Valley Authority (LNVA), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the LNVA's basic financial statements, and have issued our report thereon dated April 19, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this report

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

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

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

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA
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Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA
Jeremy R. Triska, CPA

April 19, 2022

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Lower Neches Valley Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of LNVA's major federal programs for the year ended December 31, 2021. LNVA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Lower Neches Valley Authority complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of LNVA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of LNVA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to LNVA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on LNVA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about LNVA's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding LNVA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of LNVA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of LNVA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2021**

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>Federal Assistance Listing No.</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, 2021

(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, 2021**

--Not Applicable--

LOWER NECHES VALLEY AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

| Federal Grantor/Pass Through Grantor/Program | (02) Federal Assistance Listing No. | (2A) Pass-Through Entity Identifying Number | (03) Federal Expenditures |
|--|--|--|---------------------------------|
| DEPARTMENT OF HOMELAND SECURITY FEMA | | | |
| Passed Through State Department of Public Safety | | | |
| Public Assist. Grant, 4332, Texas Hurricane Harvey | 97.036 | TX-09102017 | \$ 1,018,692 |
| Total Passed Through State Department of Public Safety | | | 1,018,692 |
| TOTAL DEPARTMENT OF HOMELAND SECURITY FEMA | | | 1,018,692 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 1,018,692 |

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, 2021

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, 2021. 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. LNVA does not utilize a Federal indirect cost rate.