

Lavaca-Navidad River Authority

Annual Financial Report
September 30, 2023

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Independent Auditor's Report

Board of Directors
Lavaca-Navidad River Authority

Opinion

We have audited the financial statements of the business-type activities and each major fund of Lavaca-Navidad River Authority (the Authority), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority, as of September 30, 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, 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 opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority adopted the recognition and disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements* (SBITA), as of October 1, 2022. As a result of the adoption, beginning property under SBITA and obligations under SBITA were restated. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 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 opinion. 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 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 an audit in accordance with GAAS, 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 Authority'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 Authority'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 and pension and other postemployment benefit information, as listed in the table of contents, 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 Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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.

RSM US LLP

San Antonio, Texas
January 8, 2024

Lavaca-Navidad River Authority

Management's Discussion and Analysis

The management of Lavaca-Navidad River Authority (the Authority) offers the reader of the Authority's basic financial statements this narrative overview and analysis of the financial performance of the Authority for the year ended September 30, 2023.

This report is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented herein, in conjunction with the financial statements and the notes to the financial statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for local governments, as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Highlights

As of September 30, 2023:

- The Authority's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by approximately \$71.9 million. This amount represents net position of approximately \$49.4 million of net investment in capital assets, approximately \$8.0 million in restricted net position for debt service and customer contract reserve and approximately \$14.5 million in unrestricted net position.
- The Authority's total assets were approximately \$120.3 million; of this amount approximately \$83.1 million represents net capital assets and approximately \$35.9 million represents cash and cash equivalents under both current and restricted assets.
- Deferred outflows of resources were approximately \$2.8 million, which is the deferred charge on refunding, pension amounts and other postemployment benefits amounts.
- Liabilities for the Authority totaled approximately \$50.8 million, of which approximately \$30.6 million accounts for obligations under long-term portion of bonds payable.
- Deferred inflows of resources were approximately \$0.4 million, which relates to pension and other postemployment benefit amounts.
- Operating revenues for the Authority were approximately \$20.2 million and exceeded operating expenses by approximately \$2.3 million. The major revenue source is water sales.
- Nonoperating expenses exceeded nonoperating revenues by approximately \$0.2 million. This is net of interest expense on bonds that totaled approximately \$1.4 million.
- Capital contributions from the Texas Department of Transportation totaled approximately \$7.8 million.

Overview of the Financial Statements

The Authority's financial statements are comprised of three basic components: (1) business-type activities financial statements, (2) notes to the financial statements and (3) required supplementary information.

Lavaca-Navidad River Authority

Management's Discussion and Analysis

The business-type activities financial statements include Enterprise Funds, which are designed to provide readers with a broad overview of the Authority's finances, presented in a manner similar to that of a private-sector business. The Authority's major Enterprise Funds are Lavaca-Navidad River Authority General Operations (LNRA), East Delivery System and West Delivery System, which are all presented as major funds.

The business-type activities distinguish functions of the Authority that are principally supported by user fees and charges. The Authority's current enabling act, public law and water supply contracts allow for fees to be charged at levels sufficient to cover its general operations, which include raw water delivery operations and water and wastewater treatment operations, debt service payments, land management, parks and recreation, reservoir management, watershed management, public outreach/education and resource planning and development.

The statement of net position presents information on all the Authority's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of the Authority's current-year operations on its financial position.

The statement of cash flows summarizes all the Authority's cash flows into four categories as applicable: (1) cash flows from operating activities, (2) cash flows from noncapital financing activities, (3) cash flows from capital and related financing activities and (4) cash flows from investing activities. The statement of cash flows can be useful in assessing the following:

- The Authority's ability to generate future cash flows
- The Authority's ability to pay its debt as the debt matures
- Reasons for the difference between the Authority's operating cash flows and operating income
- The impact of the Authority's financial position of cash and noncash transactions from investing, noncapital, capital and financing activities

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

Required supplementary information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's employee retirement plan and postemployment benefit plan.

Lavaca-Navidad River Authority

Management's Discussion and Analysis

Business-Type Activities Financial Statement Information

**Condensed Assets, Deferred Outflows of Resources, Liabilities,
Deferred Inflows of Resources and Net Position Information**

	2023	2022	Change	Percentage Change
Assets:				
Current	\$ 16,201,578	\$ 16,026,915	\$ 174,663	1.1%
Noncurrent	104,120,756	106,550,938	(2,430,182)	(2.3%)
Total assets	<u>120,322,334</u>	<u>122,577,853</u>	<u>(2,255,519)</u>	<u>(1.8%)</u>
Deferred outflows of resources	<u>2,762,547</u>	<u>2,327,462</u>	<u>435,085</u>	<u>18.7%</u>
Total assets and deferred outflows of resources	<u>\$ 123,084,881</u>	<u>\$ 124,905,315</u>	<u>\$ (1,820,434)</u>	<u>(1.5%)</u>
Liabilities:				
Current liabilities	\$ 18,103,736	\$ 24,450,197	\$ (6,346,461)	(26.0%)
Noncurrent liabilities	32,715,470	34,539,009	(1,823,539)	(5.3%)
Total liabilities	<u>50,819,206</u>	<u>58,989,206</u>	<u>(8,170,000)</u>	<u>(13.8%)</u>
Deferred inflows of resources	<u>382,522</u>	<u>3,767,464</u>	<u>(3,384,942)</u>	<u>(89.8%)</u>
Total liabilities and deferred inflows of resources	<u>51,201,728</u>	<u>62,756,670</u>	<u>(11,554,942)</u>	<u>(18.4%)</u>
Net position:				
Net investment in capital assets	49,443,971	40,970,504	8,473,467	20.7%
Restricted for debt service and contract reserve	7,957,971	7,041,875	916,096	13.0%
Unrestricted net position	14,481,211	14,136,266	344,945	2.4%
Total net position	<u>71,883,153</u>	<u>62,148,645</u>	<u>9,734,508</u>	<u>15.7%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 123,084,881</u>	<u>\$ 124,905,315</u>	<u>\$ (1,820,434)</u>	<u>(1.5%)</u>

- Deferred outflows of resources increased by approximately \$435 thousand and deferred inflows of resources decreased by approximately \$3.4 million from 2022 to 2023.
- Net investment in capital assets increased by approximately \$8.5 million, which represents a 20.7% increase from 2022 to 2023.
- Current liabilities decreased by approximately \$6.3 million and noncurrent liabilities decreased by approximately \$1.8 million from 2022 to 2023.

Lavaca-Navidad River Authority

Management's Discussion and Analysis

Condensed Revenues, Expenses and Changes in Net Position Information

	2023	2022	Change	Percentage Change
Total operating revenues	\$ 20,189,989	\$ 18,955,270	\$ 1,234,719	6.5%
Total operating expenses	17,928,302	16,208,078	1,720,224	10.6%
Operating income	2,261,687	2,747,192	(485,505)	(17.7%)
Total nonoperating expenses	(280,408)	(83,560)	(196,848)	235.6%
Capital contributions (Texas Department of Transportation)	7,753,229	-	7,753,229	100.0%
Change in net position	9,734,508	2,663,632	7,070,876	265.5%
Net position, beginning	62,148,645	59,485,013	2,663,632	4.5%
Net position, ending	<u>\$ 71,883,153</u>	<u>\$ 62,148,645</u>	<u>\$ 9,734,508</u>	15.7%

- Operating income decreased by approximately \$486 thousand, which represents a 17.7% decrease from 2022 to 2023.
- Nonoperating expenses increased by approximately \$197 thousand from 2022 to 2023.
- The Authority received capital contributions from the Texas Department of Transportation to relocate pipelines totaling approximately \$7.8 million in 2023.

Capital assets: The Authority's capital assets, net of accumulated depreciation as of September 30, 2023, totaled \$83.1 million, an increase of \$6.7 million in comparison to the prior year. The change is due to depreciation/amortization expense of approximately \$4 million, capital asset additions of approximately \$10.7 million, and disposals, net of accumulated depreciation of approximately \$42 thousand. The investment in capital assets includes buildings and infrastructures; improvements other than buildings; machinery and equipment; office furniture, fixtures and equipment; vehicles; lease assets; subscription assets; and construction in progress. Additional information can be found in Note 3.

Long-term debt: At the end of the current fiscal year, the Authority had long-term debt of approximately \$30.2 million, a decrease of approximately \$2.3 million from 2022 to 2023. No new debt was issued during 2023; therefore the \$2.3 million decrease is due to principal payments made during the year. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 4.

Long-Term Debt

	2023	2022
Outstanding balance at September 30	\$ 32,470,000	\$ 34,695,000
Less current maturities	2,320,000	2,225,000
Total long-term debt	<u>\$ 30,150,000</u>	<u>\$ 32,470,000</u>

Requests for additional information: This report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager of Lavaca-Navidad River Authority, P.O. Box 429, Edna, Texas 77957.

Basic Financial Statements

Lavaca-Navidad River Authority

**Statement of Net Position
September 30, 2023**

	LNRA	East Delivery System	West Delivery System	Total Business-Type Activities
Assets				
Current assets:				
Cash and cash equivalents	\$ 14,761,781	\$ 18,443	\$ 135,268	\$ 14,915,492
Accounts receivable, net	587,168	292,550	299,348	1,179,066
Due from other funds	40,000	-	-	40,000
Other assets	67,020	-	-	67,020
Total current assets	15,455,969	310,993	434,616	16,201,578
Noncurrent assets:				
Restricted cash and cash equivalents	6,355,834	13,363,988	1,272,241	20,992,063
Capital assets, net	60,205,880	16,804,504	6,118,309	83,128,693
Total noncurrent assets	66,561,714	30,168,492	7,390,550	104,120,756
Total assets	82,017,683	30,479,485	7,825,166	120,322,334
Deferred outflows of resources:				
Pension plan	2,041,999	108,154	164,472	2,314,625
Other postemployment benefits	390,521	19,411	23,883	433,815
Loss on debt refunding	14,107	-	-	14,107
Total deferred outflows of resources	2,446,627	127,565	188,355	2,762,547
Total assets and deferred outflows of resources	84,464,310	30,607,050	8,013,521	123,084,881

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Lavaca-Navidad River Authority

Statement of Net Position (Continued)
September 30, 2023

	LNRA	East Delivery System	West Delivery System	Total Business-Type Activities
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	\$ 428,226	\$ 1,294,086	\$ 183,526	\$ 1,905,838
Retainage payable	-	311,107	-	311,107
Unearned revenue	1,187,128	11,570,488	-	12,757,616
Accrued compensated absences	299,394	15,473	19,199	334,066
Accrued interest	235,154	-	-	235,154
Lease liability	76,660	53	68	76,781
SBITA liability	123,174	-	-	123,174
Due to other funds	-	40,000	-	40,000
Water supply revenue bonds	2,320,000	-	-	2,320,000
Total current liabilities	4,669,736	13,231,207	202,793	18,103,736
Long-term liabilities:				
Accrued compensated absences	86,286	3,309	4,323	93,918
Net pension liability	297,934	28,793	18,351	345,078
Total OPEB liability	1,272,479	61,327	74,901	1,408,707
Lease liability	97,168	204	260	97,632
SBITA liability	137,635	-	-	137,635
Water supply system revenue bonds, net	30,632,500	-	-	30,632,500
Total long-term liabilities	32,524,002	93,633	97,835	32,715,470
Total liabilities	37,193,738	13,324,840	300,628	50,819,206
Deferred inflows of resources:				
Pension plan	37,117	1,827	2,787	41,731
Other postemployment benefits	307,687	14,851	18,253	340,791
Total deferred inflows of resources	344,804	16,678	21,040	382,522
Total liabilities and deferred inflows of resources	37,538,542	13,341,518	321,668	51,201,728
Net position:				
Net investment in capital assets	26,832,850	16,493,140	6,117,981	49,443,971
Restricted for:				
Debt service	3,839,298	-	-	3,839,298
Customer contract reserve	2,516,536	329,896	1,272,241	4,118,673
Unrestricted net position	13,737,084	442,496	301,631	14,481,211
Total net position	\$ 46,925,768	\$ 17,265,532	\$ 7,691,853	\$ 71,883,153

See notes to financial statements.

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Lavaca-Navidad River Authority

Statement of Revenues, Expenses and Changes in Net Position Year Ended September 30, 2023

	LNRA	East Delivery System	West Delivery System	Total Business-Type Activities
Operating revenues:				
Water sales:				
Operations and maintenance	\$ 12,181,662	\$ 1,530,915	\$ 2,796,634	\$ 16,509,211
Interruptible water sales	801,900	-	-	801,900
Capital improvements	507,593	-	-	507,593
Recreation	2,371,285	-	-	2,371,285
Total operating revenues	15,862,440	1,530,915	2,796,634	20,189,989
Operating expenses:				
Dues and subscriptions	85,449	-	-	85,449
Public relations	254,791	-	-	254,791
Depreciation	2,749,270	599,770	401,083	3,750,123
Amortization	210,452	88	490	211,030
Recreation	2,251,806	-	-	2,251,806
Insurance	113,562	16,853	37,928	168,343
Payroll and related benefits	5,494,840	369,349	541,933	6,406,122
Professional services	831,060	300,924	28,620	1,160,604
Contracts	131,979	27,750	79,964	239,693
Operations and maintenance	948,304	137,746	232,001	1,318,051
Utilities	81,605	191,097	1,575,228	1,847,930
TCEQ fees	52,442	-	-	52,442
Miscellaneous operating expenses	181,918	-	-	181,918
Total operating expenses	13,387,478	1,643,577	2,897,247	17,928,302
Operating income (loss)	2,474,962	(112,662)	(100,613)	2,261,687
Nonoperating (expenses) revenues:				
Miscellaneous income	393,375	-	-	393,375
Investment income	645,057	14,712	35,630	695,399
Gain (loss) on disposal of capital assets	18,150	-	(919)	17,231
Interest and fiscal charges	(1,386,343)	(11)	(59)	(1,386,413)
Total nonoperating (expenses) revenues	(329,761)	14,701	34,652	(280,408)
Income (loss) before transfers and capital contributions	2,145,201	(97,961)	(65,961)	1,981,279
Capital contributions (Texas Department of Transportation)	-	7,753,229	-	7,753,229
Transfers in	90,000	-	-	90,000
Transfers out	-	(40,000)	(50,000)	(90,000)
Change in net position	2,235,201	7,615,268	(115,961)	9,734,508
Net position at beginning of year	44,690,567	9,650,264	7,807,814	62,148,645
Net position at end of year	\$ 46,925,768	\$ 17,265,532	\$ 7,691,853	\$ 71,883,153

See notes to financial statements.

Lavaca-Navidad River Authority

**Statement of Cash Flows
Year Ended September 30, 2023**

	LNRA	East Delivery System	West Delivery System	Total Business-Type Activities
Cash flows from operating activities:				
Cash received from customers	\$ 15,746,227	\$ 1,383,914	\$ 3,424,206	\$ 20,554,347
Cash paid to suppliers for goods and services	(5,056,532)	117,804	(1,958,031)	(6,896,759)
Cash paid to employees for services	(5,647,985)	(379,774)	(559,290)	(6,587,049)
Net cash provided by operating activities	5,041,710	1,121,944	906,885	7,070,539
Cash flows from noncapital financing activities:				
Transfers in	90,000	-	-	90,000
Transfers out	-	(40,000)	(50,000)	(90,000)
Net cash provided by (used in) noncapital financing activities	90,000	(40,000)	(50,000)	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,877,153)	(8,196,185)	(126,932)	(10,200,270)
Other nonoperating receipts	393,375	-	-	393,375
Principal paid on revenue bonds	(2,225,000)	-	-	(2,225,000)
Lease payments	(164,166)	(302)	(384)	(164,852)
SBITA payments	(85,346)	-	-	(85,346)
Interest paid on revenue bonds	(1,471,401)	-	-	(1,471,401)
Proceeds from sale of capital assets	20,197	213	258	20,668
Net cash used in capital and related financing activities	(5,409,494)	(8,196,274)	(127,058)	(13,732,826)
Cash flows from investing activities:				
Interest on investments	645,057	182,057	35,630	862,744
Net cash provided by investing activities	645,057	182,057	35,630	862,744
Net increase (decrease) in cash and cash equivalents	367,273	(6,932,273)	765,457	(5,799,543)
Cash and cash equivalents at beginning of year	20,750,342	20,314,704	642,052	41,707,098
Cash and cash equivalents at end of year	\$ 21,117,615	\$ 13,382,431	\$ 1,407,509	\$ 35,907,555
Reconciliation of cash and cash equivalents:				
Unrestricted cash and cash equivalents	\$ 14,761,781	\$ 18,443	\$ 135,268	\$ 14,915,492
Restricted cash and cash equivalents	6,355,834	13,363,988	1,272,241	20,992,063
Total	\$ 21,117,615	\$ 13,382,431	\$ 1,407,509	\$ 35,907,555

(Continued)

Lavaca-Navidad River Authority

**Statement of Cash Flows (Continued)
Year Ended September 30, 2023**

	LNRA	East Delivery System	West Delivery System	Total Business-Type Activities
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 2,474,962	\$ (112,662)	\$ (100,613)	\$ 2,261,687
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,959,722	599,858	401,573	3,961,153
Net changes in assets and liabilities:				
Accounts receivable, net	(463,935)	(147,001)	627,572	16,636
Due from other funds	(40,000)	-	-	(40,000)
Other assets	(8,946)	-	-	(8,946)
Net pension asset	3,093,783	157,401	240,179	3,491,363
Deferred outflows of resources	(376,992)	(23,918)	(34,175)	(435,085)
Accounts payable and accrued expenses	(83,616)	441,067	(4,290)	353,161
Retainage payable	-	311,107	-	311,107
Unearned revenue	356,668	-	-	356,668
Accrued compensated absences	4,717	(1,447)	(1,811)	1,459
Due to other funds	-	40,000	-	40,000
Total OPEB liability	137,897	3,750	4,631	146,278
Deferred inflows of resources	(3,012,550)	(146,211)	(226,181)	(3,384,942)
Total adjustments	2,566,748	1,234,606	1,007,498	4,808,852
Net cash provided by operating activities	\$ 5,041,710	\$ 1,121,944	\$ 906,885	\$ 7,070,539
Noncash capital and related financing activities				
Right-to-use (lease and SBITA) assets obtained	\$ 221,842	\$ 213	\$ 21,041	\$ 243,096

See notes to financial statements.

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Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of Lavaca-Navidad River Authority (the Authority) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Authority's significant policies.

Reporting entity: The Authority was first created to operate as the Jackson County Flood Control District, as authorized by Article 8280-131 (VACS) May 27, 1941. In 1969, by act of the 61st Legislature of Texas, its name was changed to Lavaca-Navidad River Authority. The Authority is subject to supervision by the Texas Commission on Environmental Quality, under Texas Water Code §12.081, and the audit requirements of Chapter 49, Texas Water Code. The Authority is controlled by a nine-member Board of Directors (the Board). Each director is appointed by the Governor and serves a four-year term. The Authority is responsible for the operations of the Palmetto Bend Reservoir Project (the Palmetto Bend Project).

The Palmetto Bend Project was a collaborative effort of the United States Bureau of Reclamation (BOR), a federal agency; the Texas Water Development Board (TWDB), a state agency, and the Authority. During fiscal year 2001, TWDB and the Authority purchased BOR's interest in the Palmetto Bend Project. During fiscal year 2002, the Authority purchased TWDB's interest in the Palmetto Bend Project by the issuance of water contract revenue bonds. Therefore, the Authority has sole ownership of the Palmetto Bend Project, subject to outstanding debt.

The Authority was established to develop, conserve and protect the water resources of the Lavaca Basin. The Palmetto Bend Project, commonly referred to as Lake Texana, was authorized by Congress to provide a reliable water supply for municipal, industrial and environmental interests; to develop and enhance fish and wildlife resources; and to enhance and provide public recreation opportunities. The Authority manages these various competing interests through operational and management decisions designed to protect the integrity of Lavaca Basin, Lake Texana and the lands comprising the Palmetto Bend Project. The mission of the Authority is to manage, conserve and protect the natural resources of the Lavaca Basin in a responsible manner that provides opportunities for growth and benefits the public.

Measurement focus and basis of accounting: The Authority's activities are reported as business-type activities, which include three Enterprise Funds (a proprietary fund type) and are prepared on the accrual basis of accounting and economic resource measurement focus in accordance with U.S. GAAP. Under this approach, all assets, deferred outflow of resources, liabilities and deferred inflows of resources of the Authority are reported in the statement of net position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

Revenue recognition: The Authority recognizes revenue on a monthly basis based on the contractually obligated maximum amount of water to be supplied per year. The volume of water distributed by the Authority is determined based on contractual requirements, customer demand and availability of water. Under the current water supply contracts, the water customers agree to take and pay for contracted amounts (whether taken or not) based on Board-approved budgets and corresponding rates. In addition to its take or pay contracts, the Authority also has contracted with the City of Corpus Christi for interruptible water classified as interruptible water sales. Recreation revenue is recognized as goods or services are provided.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The following major Enterprise Funds are maintained by the Authority.

Lavaca-Navidad River Authority General Operations (LNRA): The general operations of LNRA are based on the Board-approved annual water operations budget, which is billed proportionally to customers based on the number of acre-feet of water determined by the customers' water supply contracts. In accordance with a Letter of Agreement, dated August 21, 2003, each customer is proportionally billed for capital improvements related to the maintenance, repairs and improvements of LNRA's infrastructure. The Letter of Agreement was updated on August 16, 2023 to increase LNRA's annual capital accrual rate. Lastly, and in accordance with the water supply contracts, each customer is billed for its proportionate share of LNRA's debt service related to the Water Supply Contract Revenue Bonds, Series 2014 A, B and C.

East Delivery System: The East Delivery System is used to account for the operations of the water intake pumping plant and delivery pipeline system, which provides water to Inteplast Corporation (Inteplast), Formosa Plastics (Formosa), City of Point Comfort, Texas (Point Comfort) and Calhoun Port Authority through a 36-inch and 54-inch pipeline system.

West Delivery System: The West Delivery System is used to account for the operations of the water intake pumping plant and approximately 2,200 feet of the delivery pipeline system, along with the cost of providing for the operation and maintenance of the City of Corpus Christi's Mary Rhodes Phase II delivery system, which when operated independently or jointly, provides water to the City of Corpus Christi.

Revenue and expense classification: The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water sales. Water sales are based on existing customer water supply contracts. Operating expenses include the cost of service, administrative expenses and depreciation of capital items. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions. This will affect the reported amounts in the financial statements and the accompanying notes. Actual results could differ from these estimates.

Cash and cash equivalents: The Authority's cash and cash equivalents, including restricted cash and cash equivalents, are considered to be cash on hand and includes demand deposits, external investment pools and short-term investments with original maturities of 90 days or less from the date of acquisition. Restricted cash and cash equivalents represent amounts restricted for debt service and customer contract reserves. External investment pools are valued at amortized cost or net asset value, as applicable.

Accounts receivable, net: The allowance for uncollectible accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes it is probable the receivable will not be recovered. Subsequent recoveries, if any, are taken against the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. As of September 30, 2023, management determined accounts receivable to be fully collectible with the exception of property taxes receivable noted below; accordingly, no other allowance for uncollectible accounts was deemed necessary as of year-end.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Leases: The Authority is a lessee for noncancelable leases of machinery, equipment, office furniture, fixtures and equipment. The Authority recognizes a lease liability and an intangible right-to-use lease asset in the statement of net position. Lease assets are reported with capital assets in the statement of net position. The Authority recognizes lease assets with an initial value of \$5,000 or more.

At the commencement of the lease, the Authority measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of lease liability, adjusted for any payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The lease contracts did not contain an implicit rate; therefore, the Authority used an incremental borrowing rate. The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and renewal options that the Authority is reasonably certain to exercise.

Re-measurement of lease payables occur when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the liability will be reduced and will include a gain or loss for the difference.

For lease contracts that are short-term, the Authority recognizes short-term lease payments as outflows of resources (expenses) based on the payment provisions of the lease contract.

Subscription-based information technology arrangements: The Authority has recorded subscription-based information technology arrangements (SBITA) assets and liabilities as a result of implementing GASB Statement No. 96. The SBITA assets are initially measured at an amount equal to the initial measurement of the related SBITA liability plus any SBITA payments made prior to the subscription term, less SBITA incentives, plus any ancillary charges necessary to place the SBITA into service. The SBITA assets are amortized on a straight-line basis over the life of the related contract.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend the asset lives are not capitalized and are expensed as incurred.

The Authority monitors changes in circumstances that would require a remeasurement of its SBITAs and will do so if certain changes occur that would be expected to significantly affect the amount of the lease liability.

SBITA assets are reported with capital assets in the statement of net position.

Capital assets: Capital assets are stated at cost. The Authority's policy is to capitalize purchases of assets if the asset has a useful life of more than one year and an individual value of \$5,000 or greater. Donated capital assets are valued at their acquisition value on the date received. Construction in progress will be depreciated when the related asset is placed in service. Depreciation is calculated on the straight-line method based on the following estimated useful lives:

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Pipelines	40-50 years
Buildings and infrastructures	20-50 years
Improvements other than buildings	10-20 years
Machinery and equipment	10-20 years
Office furniture, fixtures and equipment	5-10 years
Vehicles	5 years

Compensated absences: The Authority pays any unused vacation leave time earned at the time an employee terminates employment with the Authority. The maximum accrued vacation leave that may be carried forward from one calendar year to the next is 240 hours. Hours in excess of 240 at the end of the calendar year are automatically lost. Terminated employees are not paid for accumulated sick leave.

Unearned revenue: The Authority bills certain customers in advance for services related to water supply contracts. Payments received prior to year-end for services to be performed and due in fiscal year 2024 are included in unearned revenue. The Authority entered into two agreements with the Texas Department of Transportation to relocate specified sections of the East Delivery System pipelines. Payments received in advance are included in unearned revenue initially, then recognized as revenue as expenses are incurred to relocate the pipelines under the terms of the agreements.

Net position: Net position represents the residual of assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent bond proceeds, as applicable.

A summary of the net investment in capital assets as of September 30, 2023, is as follows:

Capital assets, net of accumulated depreciation	\$ 83,128,693
Lease liability	(174,413)
SBITA liability	(260,809)
Retainage payable	(311,107)
Deferred outflows of resources—loss on refunding	14,107
Long-term bonds payable	(32,952,500)
Net investment in capital assets	<u>\$ 49,443,971</u>

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

Net pension liability: 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 Authority's participation in the Texas Counties and District Retirement System (TCDRS), an agent multiple-employer defined-benefit plan, and additions to/deductions from TCERS' fiduciary net position have been determined on the same basis as they are reported by TCERS. 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.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Total other postemployment benefits (OPEB) liability: For purposes of measuring the total 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 Authority's participation in the TCDRS, and additions to/deductions from TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. There are no investments in the plan as this is a pay-as-you-go plan.

Deferred outflows of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses) until then. The Authority has three items that qualify for reporting in this category. One is the deferred charge for pension, which consists of contributions made after the measurement date of December 31, 2022, and differences between the expected and actual experience and changes of assumptions. The second is a loss on refunding of revenue bonds. The loss on debt refunding is the difference in the carrying value of refunded debt and its acquisition price. The third is the deferred charge for OPEB, which consists of unamortized items not yet charged to OPEB expense.

Deferred inflows of resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. One is the deferred charge for pension, which includes the differences between expected and actual experience and the net difference between projected and actual earnings. The second is the deferred charge for OPEB, which consists of unamortized items not yet charged against OPEB expense.

Interfund transactions: Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expensed, are separately reported in the respective funds' operating statements as transfers in and transfers out.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to (from) other funds."

Contingencies: Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Authority, but which will only be resolved when one or more future events occur or fail to occur. The Authority's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Authority or unasserted claims that may result in such proceedings, the Authority's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred, and the amount of the liability can be estimated, then the estimated liability would be accrued in the Authority's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Adopted accounting pronouncements: In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which became effective for fiscal year ended September 30, 2023. This standard will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This standard did not have an impact on the Authority's financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, which became effective for fiscal year ended September 30, 2022, with the exception of the removal of the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate which became effective for fiscal year ended September 30, 2023. This standard did not have an impact on the Authority's financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* which became effective for fiscal year ended September 30, 2023. The requirements of this statement will improve financial reporting by establishing the definitions of public-private and public-public partnership (PPPs) arrangements and availability payment arrangements and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. This standard did not have an impact on the Authority's financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) which became effective for fiscal year ended September 30, 2023. The objective of this statement is to improve financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. This statement requires the cumulative effect of applying this statement be reported as a restatement of beginning net position and impacts the beginning balances in Notes 3, 4, and 6. The cumulative effect of applying this standard is reported as shown below:

	Right-to-Use SBITA Asset	SBITA Liability
Balance at September 30, 2022, as previously reported	\$ -	\$ -
Adjustment for implementation of GASB 96	181,426	181,426
Balance at October 1, 2022, as restated	<u>\$ 181,426</u>	<u>\$ 181,426</u>

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*, which became effective, in part, for fiscal year ended September 30, 2023. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

- The requirements related to leases, PPPs, and SBITAs became effective for fiscal year ended September 30, 2023, and are implemented in the Authority's financial statements, as applicable.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 will become effective for fiscal year ending September 30, 2024. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements.

Recently issued accounting pronouncements: In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, which will become effective for fiscal year ending September 30, 2024. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This standard is not expected to impact the Authority's financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which will become effective for the fiscal year ending September 30, 2025. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements.

Note 2. Deposits and Investments

Cash and cash equivalents as of September 30, 2023, are classified in the accompanying financial statements as follows:

Current:

Cash and cash equivalents—unrestricted	\$ 14,915,492
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Noncurrent:

Cash and cash equivalents—restricted	20,992,063
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Total cash and cash equivalents	<u>\$ 35,907,555</u>
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Cash and cash equivalents as of September 30, 2023, consist of the following:

Deposits held by financial institutions	\$ 7,896,730
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Deposits held by bond trustee	3,554,036
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Cash on hand	1,900
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Cash equivalents—TexPool investment fund	24,454,889
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Total cash and cash equivalents	<u>\$ 35,907,555</u>
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Deposits: The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities in an amount sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash deposits: At September 30, 2023, the carrying amount of the Authority's deposits was \$7,896,730, and the bank balance was \$8,271,357. The Authority also had \$1,900 in petty cash.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 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 government's deposits may not be returned to it. The Authority's cash deposits as of and for the year ended September 30, 2023, were entirely covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Prosperity Bank; Edna, Texas.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit totaled \$31,479,449.
- c. The highest combined balances of cash, savings and time deposit accounts totaled \$25,757,159 and occurred during the month of December.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

Deposits held by bond trustee are not collateralized.

Investments: The Authority is required by Government Code Chapter 2256, The Public Funds Investment Act (PFIA), to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable instruments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for certificates of deposit (CDs).

PFIA determines the types of investments which are allowable for the Authority. These include, with certain restrictions, (1) obligations of the United States Treasury, certain United States agencies and state of Texas; (2) CDs; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; and (9) guaranteed investment contracts.

Public funds investment pools: Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of PFIA, Chapter 2256 of the Texas Government Code. In addition to other provisions of PFIA designed to promote liquidity and safety of principal, it requires Pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Authority's investments in Pools are reported at amortized cost in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Texas Local Government Investment Pool (TexPool): TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the PFIA. It is not Securities and Exchange Commission-registered. 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. Additionally, the State Comptroller of Public Accounts has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority manages its exposure to interest rate risk by investing in instruments whose maturities do not exceed one year from the time of purchase.

Information about the sensitivity of the fair values of the Authority’s investments to market interest rate fluctuations is provided by the following table that shows the investments and its maturity as of September 30, 2023:

Description	Weighted-Average Maturity
TexPool investment fund	28 days

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Authority’s investment policy and the PFIA and the actual rating as of September 30, 2023, for the investment:

Description	Investment Policy Minimum Rating	Investment Rating	Rating Organization	Amortized Cost	Percentage Invested
TexPool investment fund	AAA	AAAm	Standard & Poor’s	\$ 24,454,889	100%

Concentration of credit risk: The Authority is required to disclose investments in any one issuer that represent 5% or more of total investments. However, investments issued or explicitly guaranteed by the United States government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The Authority’s investments were not subject to this risk.

Custodial credit risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority’s TexPool investments are not exposed to custodial credit risk as of September 30, 2023.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 3. Changes in Capital Assets

A summary of the changes in the Authority's capital assets is shown below:

	Balance at October 1, 2022, as restated	Additions	Deletions	Transfer/ Reclassify	Balance at September 30, 2023
Nondepreciable assets:					
LNRA:					
Land	\$ 8,876,670	\$ -	\$ -	\$ -	\$ 8,876,670
Construction in progress	39,044	-	-	(39,044)	-
Total LNRA nondepreciable assets	8,915,714	-	-	(39,044)	8,876,670
East Delivery System:					
Land	15,000	-	-	-	15,000
Construction in progress	739,752	7,842,404	-	-	8,582,156
Total East Delivery System nondepreciable assets	754,752	7,842,404	-	-	8,597,156
West Delivery System:					
Construction in progress	-	10,897	-	-	10,897
Total West Delivery System nondepreciable assets	-	10,897	-	-	10,897
Total nondepreciable assets	9,670,466	7,853,301	-	(39,044)	17,484,723
Depreciable assets:					
LNRA:					
Buildings and infrastructures	88,111,467	1,280,747	-	-	89,392,214
Improvements other than buildings	8,345,305	197,083	-	39,044	8,581,432
Machinery and equipment	1,941,126	239,560	(81,465)	-	2,099,221
Lease machinery and equipment	262,423	-	-	-	262,423
Office furniture, fixtures and equipment	2,469,153	68,267	(1,500)	-	2,535,920
Lease office furniture, fixtures and equipment	35,178	104,371	(35,178)	-	104,371
Subscription assets	181,426	174,011	-	-	355,437
Vehicles	1,745,146	91,496	(61,910)	-	1,774,732
Total LNRA depreciable assets	103,091,224	2,155,535	(180,053)	39,044	105,105,750
East Delivery System:					
Buildings and infrastructures	25,385,687	-	-	-	25,385,687
Improvements other than buildings	331,656	12,795	-	-	344,451
Machinery and equipment	392,604	263,436	-	-	656,040
Office furniture, fixtures and equipment	90,679	77,550	-	-	168,229
Lease office furniture, fixtures and equipment	563	302	(563)	-	302
Vehicles	10,597	-	-	-	10,597
Total East Delivery System depreciable assets	26,211,786	354,083	(563)	-	26,565,306
West Delivery System:					
Buildings and infrastructures	6,572,187	20,856	-	-	6,593,043
Improvements other than buildings	572,638	29,385	-	-	602,023
Machinery and equipment	4,564,194	50,129	-	-	4,614,323
Lease machinery and equipment	27,222	-	(27,222)	-	-
Office furniture, fixtures and equipment	294,046	15,665	-	-	309,711
Lease office furniture, fixtures and equipment	717	384	(717)	-	384
Vehicles	13,486	-	-	-	13,486
Total West Delivery System depreciable assets	12,044,490	116,419	(27,939)	-	12,132,970
Total depreciable assets	141,347,500	2,626,037	(208,555)	39,044	143,804,026
Less accumulated depreciation:					
Buildings and infrastructures	(62,251,708)	(2,557,336)	-	-	(64,809,044)
Improvements other than buildings	(4,718,419)	(431,873)	-	-	(5,150,292)
Machinery and equipment	(3,900,961)	(398,585)	79,734	-	(4,219,812)
Lease machinery and equipment	(76,581)	(103,297)	4,915	-	(174,963)
Office furniture, fixtures and equipment	(2,012,772)	(225,295)	1,500	-	(2,236,567)
Lease office furniture, fixtures and equipment	(15,728)	(22,784)	18,884	-	(19,628)
Subscription assets	-	(84,950)	-	-	(84,950)
Vehicles	(1,389,677)	(137,033)	61,910	-	(1,464,800)
Total accumulated depreciation	(74,365,846)	(3,961,153)	166,943	-	(78,160,056)
Total depreciable assets, net	66,981,654	(1,335,116)	(41,612)	39,044	65,643,970
Total capital assets, net	\$ 76,652,120	\$ 6,518,185	\$ (41,612)	\$ -	\$ 83,128,693

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 4. Long-Term Debt

A summary of changes in notes and bonds for the Authority is shown below:

Series	Maturity Date	Effective Interest Rate	Original Amount	Outstanding at October 1, 2022	Additions	Deletions	Outstanding at September 30, 2023	Amount Due Within One Year
Notes and bonds:								
LNRA:								
Water Supply Contract Revenue:								
Series 2014-A Bond	2035	(a)	\$ 12,830,000	\$ 9,150,000	\$ -	\$ 540,000	\$ 8,610,000	\$ 565,000
Series 2014-B Bond	2035	(a)	12,460,000	8,780,000	-	515,000	8,265,000	545,000
Series 2014-C Bond	2035	(a)	22,060,000	15,510,000	-	940,000	14,570,000	970,000
Contract Revenue—Series 2007								
Bond	2027	(b)	3,500,000	1,255,000	-	230,000	1,025,000	240,000
Total			<u>\$ 50,850,000</u>	<u>34,695,000</u>	<u>-</u>	<u>2,225,000</u>	<u>32,470,000</u>	<u>2,320,000</u>
Bond premiums				586,281	-	103,781	482,500	-
Total long-term liabilities				<u>\$ 35,281,281</u>	<u>\$ -</u>	<u>\$ 2,328,781</u>	<u>\$ 32,952,500</u>	<u>\$ 2,320,000</u>

Principal and interest requirements for all long-term debt of the Authority as of September 30, 2023, are summarized as follows:

Years ending September 30:	Principal	Interest	Total
2024	\$ 2,320,000	\$ 1,388,043	\$ 3,708,043
2025	2,420,000	1,287,913	3,707,913
2026	2,525,000	1,181,855	3,706,855
2027	2,640,000	1,068,995	3,708,995
2028	2,450,000	971,795	3,421,795
2029-2033	13,735,000	3,376,288	17,111,288
2034-2035	6,380,000	456,714	6,836,714
	<u>\$ 32,470,000</u>	<u>\$ 9,731,603</u>	<u>\$ 42,201,603</u>

The Authority's outstanding notes from direct borrowings related to business-type activities of \$32,470,000 are secured with pledged collateral. Details about these direct borrowings are as follows:

- (a) On December 2, 2014, the Authority issued the Water Supply Contract Revenue Refunding Bonds, Series 2014-A; the Water Supply Contract Revenue Refunding Bonds, Series 2014-B and the Water Supply Contract Taxable Revenue Refunding Bonds, Series 2014-C (collectively, the Series 2014 Bonds). The Authority has pledged future Water Supply Contract revenue entered into with customers, net of specified operating expenses, to repay \$47,350,000 of the Series 2014 Bonds. Proceeds from the sale of the Series 2014 Bonds were used to (i) refund the Authority's outstanding Contract Revenue Refunding Bonds, Series 2001; Water Supply Contract Revenue Bonds, Taxable Series 2002-A Bonds; and Water Supply Contract Revenue Bonds, Taxable Series 2002-B Bonds to achieve debt service savings; (ii) fund deposits into a reserve account; and (iii) pay issuance costs on the Series 2014 Bonds. The Series 2014 Bonds are payable solely from water customer net revenues and are payable through 2035. Annual principal and interest payments on the Series 2014 Bonds are expected to require approximately 64% of net revenues. The total principal and interest remaining to be paid on the bonds is \$41,060,013. Principal and interest paid for the current year and total customer net revenue were \$3,422,140 and \$5,315,205, respectively.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 4. Long-Term Debt (Continued)

In addition, the Authority has covenanted to apply the Authority's unrestricted reserves to the payment of the Series 2014 Bonds in the event pledged revenues are insufficient. The reserves of \$3,554,036 are included in restricted cash and cash equivalents in the statement of net position. The Authority has also covenanted to charge and collect from each water customer a rate that is sufficient to pay the principal and interest of the Series 2014 Bonds, to make punctual payments and to enforce the Water Supply Contracts to ensure that adequate pledged revenues are available to pay the principal and interest of the Bonds.

Pledged revenues were defined as the revenue derived from each customer under the respective Water Supply Contract with the Authority for the debt service of the bonds and parity obligations. The net revenues, as defined in the following, shall not be pledged revenues for the Series 2014 Bonds:

- (i) The pledged revenue, as defined in the Trust Indenture between LNRA and Norwest Bank Texas, National Association made and entered into as of March 1, 1997, in connection with the net revenues from the Authority's Interruptible Water Supply Contract with the City of Corpus Christi, as defined in the Resolution authorizing the \$3,500,000 Lavaca-Navidad River Authority Contract Revenue Bond, Series 2007 (Brackenridge Recreation Complex Project).
- (b) The Series 2007 Contract Revenue Bonds were issued for the purpose of the development, design and construction of the Brackenridge Recreation Complex Project—Lake Texana. The Authority and the City of Corpus Christi, Texas, have executed a water supply contract dated December 14, 1993, where the Authority provides water to the City of Corpus Christi, Texas, under an interruptible water supply agreement dated July 24, 2001, as amended July 22, 2003. The issuance is part of special obligations of the Authority and principal and interest are payable solely from and equally secured by first lien on and pledged revenue as defined by the resolution—City of Corpus Christi, Texas (Interruptible Water Supply Contract, which requires all revenue above the delivery cost to be dedicated to the development and implementation of environmental enhancements and recreational projects within the Palmetto Bend Project and the Lavaca-Navidad basin and water conservation) and are payable through 2027. The total principal and interest remaining to be paid on the Series 2007 Contract Revenue Bonds is \$1,141,590. Pledged revenue from interruptible water sales and the related principal and interest paid for in the current year totaled \$801,900 and \$285,848, respectively.

In addition, there are covenants to maintain a specific balance in a bond reserve fund, as well as to limit the use of the bond proceeds from private business use, financing loans to persons other than state or local government units or treating the Bond as private activity bonds. The reserves of \$285,262 are included in restricted cash and cash equivalents in the statement of net position.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 4. Long-Term Debt (Continued)

The following are the changes in long-term liabilities as of September 30, 2023:

	Changes in Long-Term Liabilities				
	Balance at October 1, 2022, as restated	Additions	Reductions	Balance at September 30, 2023	Due Within One Year
Business-type activities:					
Bonds payable:					
Notes and bonds	\$ 34,695,000	\$ -	\$ (2,225,000)	\$ 32,470,000	\$ 2,320,000
Bond premium	586,281	-	(103,781)	482,500	-
Total bonds payable	35,281,281	-	(2,328,781)	32,952,500	2,320,000
Compensated absences	426,525	363,037	(361,578)	427,984	334,066
Lease liability	234,208	105,057	(164,852)	174,413	76,781
SBITA liability	181,426	164,729	(85,346)	260,809	123,174
Net pension (asset) liability	(3,146,285)	4,713,206	(1,221,843)	345,078	-
Total OPEB liability	1,262,429	264,905	(118,627)	1,408,707	-
Business-type long-term liabilities	\$ 34,239,584	\$ 5,610,934	\$ (4,281,027)	\$ 35,569,491	\$ 2,854,021

Note 5. Leases

The Authority leases equipment used in LNRA, East Delivery System and West Delivery System Enterprise Funds. The leases have terms between two and six years, requiring monthly payments, with interest rates ranging from 4.25% to 5%. As of September 30, 2023, the principal and interest requirements to maturity for the lease liability is as follows:

Years ending September 30:	Principal	Interest	Total
2024	\$ 76,781	\$ 6,486	\$ 83,267
2025	56,226	3,061	59,287
2026	16,852	1,664	18,516
2027	17,715	800	18,515
2028	6,839	78	6,917
Total	\$ 174,413	\$ 12,089	\$ 186,502

Note 6. Subscription-Based Information Technology Arrangements

The Authority has recorded several multi-year subscription-based information technology arrangements (SBITAs) as a result of implementing GASB Statement No. 96. The Authority has discounted the future minimum payments using its incremental borrowing rate of 5%.

A summary of changes in SBITAs liabilities for the fiscal year ended September 30, 2023, is as follows:

	Interest Rate	Balance at			Balance at
		October 1, 2022, as restated	Increases	Decreases	September 30, 2023
Software	5.00%	\$ 181,426	\$ 164,729	\$ (85,346)	\$ 260,809
Total		\$ 181,426	\$ 164,729	\$ (85,346)	\$ 260,809

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 6. Subscription-Based Information Technology Arrangements (Continued)

Future minimum lease payments and the present value of the minimum lease payments as of September 30, 2023, are as follows:

	Principal	Interest	Total
Years ending September 30:			
2024	\$ 123,174	\$ 9,708	\$ 132,882
2025	85,003	4,028	89,031
2026	49,276	1,021	50,297
2027	3,356	130	3,486
Total	\$ 260,809	\$ 14,887	\$ 275,696

Note 7. Employees' Retirement Plan

TCDRS plan description: The Authority provides retirement, retirement disability and group term life benefits for its employees (except temporary employees) through a nontraditional defined benefit pension plan in the statewide TCDRS. The board of trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 677 nontraditional defined benefit pension plans. TCDRS was established by legislative act in 1967 under authority of Article XVI of the Texas Constitution. The TCDRS Act (Subtitle F, Title 8, Texas Government Code) is the basis for TCDRS' administration. TCDRS, in the aggregate, issues a publicly available annual comprehensive financial report (ACFR) on a calendar-year basis. The ACFR is available upon written request from TCDRS's board of trustees at P.O. Box 2034, Austin, Texas 78768-2034 or may be downloaded at <http://www.tcdrs.com>.

The plan's provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding policy: The Authority has chosen a fixed rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employees and the Authority based on the covered payroll of the employees. Under the TCDRS Act, the regular contribution rate for the Authority's employees is a fixed percent equal to the 7% contribution payable to the employee. The matching employer contribution adopted by the governing body of the Authority was 200% of the required employee contribution. This regular contribution rate of the Authority is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the Authority at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the Authority to contribute the same amount as the employees. The employee contribution rate and the Authority contribution rate may be changed by the governing body of the Authority within the options available in the TCDRS Act.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the TCDRS's actuary above the regular rate. During the year, the Authority contributed a total rate of 15%.

Plan benefits: Effective on the date of participation, the Authority provides retirement, disability and death benefits. Based on the aforementioned funding policy, the employee's savings, by law, grow at a rate of 7%, compounded annually at retirement, the employee's account balance is combined with the Authority's matching and converted into a lifetime monthly benefit. Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older.

The Authority adopted a 10 year/Age 60 Retirement Eligibility described in section 844.207 of the TCDRS Act, under which any TCDRS member who has 10 or more years of service credit with the Authority and other subdivisions that have adopted the provisions of sections 844.207 or 844.210, is a vested member and shall have the right to retire and receive a service retirement annuity after attaining age 60.

Any TCDRS member who is a vested member may terminate employment with all participating subdivisions prior to attaining age 60 and remain eligible to retire and receive a service retirement annuity after attaining age 60 provided his or her membership is not terminated other than by retirement. Any TCDRS member who is a vested member under section 844.207 may retire and receive a disability retirement annuity if he or she is certified as disabled, as defined by the plan.

Any TCDRS member who has four or more years of service credit with the Authority and other subdivisions is eligible for purpose of the Survivor Annuity Death Benefit.

Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options. Prior service gives employees monetary credit for time worked for an eligible organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit. In addition, the Authority may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

Employees covered by benefit terms: At September 30, 2023, the following types of employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to, but not yet receiving benefits	31
Active employees	79
Total	<u>149</u>

Contributions: Employees and the Authority are required to contribute at a rate set by statute. The contribution requirements of the employees and the Authority are established and may be amended. For 2023 and 2022, the contribution rate for the employees was 7% of gross pay. The Authority pays a matching portion to the defined contribution pension plan totaling 14% of gross pay for 2023 and 2022, which totaled \$818,745 and \$811,987 for 2023 and 2022, respectively.

Net pension liability: The Authority's net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

Actuarial assumptions: The actuarial assumptions that determined the total pension liability as of December 31, 2022, were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2020, except where required to be different by GASB Statement No. 68.

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	4.70%, including inflation
Investment rate of return	7.50%, including inflation

Mortality rates were based on the following:

Depositing members: 135% of the Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Service retirees, beneficiaries and nondepositing members: 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Disabled retirees: 160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

Long-term rate of return on assets: The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The numbers shown are based on January 2023 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2021.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected Minus Inflation) (2)
United States equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global equities	MSCI World (net) Index	2.50%	4.95%
International equities—developed	MSCI World Ex USA (net) Index	5.00%	4.95%
International equities—emerging	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment-grade bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	2.40%
Strategic credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct lending	S&P/LSTA Leveraged Loan Index	16.00%	6.95%
Distressed debt	Cambridge Associates Distressed Securities Index (3)	4.00%	7.60%
REIT equities	67% FTSE NAREIT Equity REITs Index plus 33% S&P Global REIT (net) Index	2.00%	4.15%
Master limited partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private real estate partnerships	Cambridge Associates Real Estate Index (4)	6.00%	5.70%
Private equity	Cambridge Associates Global Private Equity & Venture Capital Index (5)	25.00%	7.95%
Hedge funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash equivalents	90-Day U.S. Treasury	2.00%	0.20%
		100.00%	

- (1) Target asset allocation adopted at the March 2023 TCDRS board meeting.
- (2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.3%, per investment consultant's 2023 capital market assumptions.
- (3) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.
- (4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.
- (5) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount rate: The discount rate used to measure the total pension liability was 7.6%. In order to determine the discount rate to be used by the employer, the pension's actuary has used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The pension's actuary alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

- (1) TCDRS has a funding policy where the unfunded actuarial accrued liability shall be amortized as a level percent of pay over 20-year closed layered periods.
- (2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- (3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- (4) Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position, as a percentage of total pension liability, is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension asset of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB Statement No. 68 purposes. Therefore, the Authority agreed to the use of a discount rate of 7.6%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.5%, net of all expenses, increased by 0.1% to be gross of administrative expenses.

Changes in net pension liability: Following are changes in the net pension liability (asset) for the year ended September 30, 2023.

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances as of December 31, 2021	\$ 26,643,784	\$ 29,790,069	\$ (3,146,285)
Changes for the year:			
Service cost	770,547	-	770,547
Interest on total pension liability (1)	2,048,848	-	2,048,848
Effect of economic/demographic	110,828	-	110,828
Refund of contributions	(34,816)	(34,816)	-
Benefit payments	(893,802)	(893,802)	-
Administrative expenses	-	(16,585)	16,585
Member contributions	-	370,310	(370,310)
Net investment income	-	(1,766,398)	1,766,398
Employer contributions	-	793,522	(793,522)
Other (3)	-	58,011	(58,011)
Balances as of December 31, 2022	<u>\$ 28,645,389</u>	<u>\$ 28,300,311</u>	<u>\$ 345,078</u>

- (1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
- (2) No plan changes valued.
- (3) Relates to allocation of system-wide items.

Sensitivity analysis: The following presents the net pension liability of the Authority, calculated using the discount rate of 7.6%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1.0 percentage point lower (6.6%) or 1.0 percentage point higher (8.6%) than the current rate.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

	1.0% Decrease (6.6%)	Current Discount Rate (7.6%)	1.0% Increase (8.6%)
Total pension liability (a)	\$ 32,570,160	\$ 28,645,388	\$ 25,342,495
Fiduciary net position (b)	28,300,313	28,300,310	28,300,313
Net pension (asset) liability (a)-(b)	<u>\$ 4,269,847</u>	<u>\$ 345,078</u>	<u>\$ (2,957,818)</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS report.

Pension expense: The Authority recognized the following pension-related expense (income):

Pension Expense (Income)	January 1, 2022 Through December 31, 2022
Service cost	\$ 770,547
Interest on total pension liability (1)	2,048,848
Administrative expenses	16,585
Member contributions	(370,310)
Expected investment return net of investment expenses	(2,274,365)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	98,562
Recognition of assumption changes or inputs	249,865
Recognition of investment gains or losses	79,081
Other (2)	(58,011)
Pension expense	<u>\$ 560,802</u>

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 7. Employees' Retirement Plan (Continued)

Deferred outflows of resources and deferred inflows of resources related to pensions: At September 30, 2023, the Authority reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 285,953	\$ -
Changes of assumptions	765,438	41,731
Net difference between projected and actual earnings	637,231	-
Subtotal	1,688,622	41,731
Contributions made subsequent to measurement date	626,003	-
	\$ 2,314,625	\$ 41,731

Contributions made subsequent to the measurement date are eligible employer contributions made from January 1, 2022 through September 30, 2023, and will be recognized as a decrease of net pension liability for the year ended September 30, 2023. Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense through the year ended September 30, 2027, as follows:

Years ended December 31:	
2023	\$ 55,703
2024	338,492
2025	404,361
2026	829,871
2027	18,464
	\$ 1,646,891

Note 8. Other Postemployment Benefits

Plan description: In addition to providing pension benefits described previously, the Authority provides certain health care benefits for eligible retirees and their dependents through Tx Health Benefits Pool under an agent multiple-employer plan. The plan is administered by the Tx Health Benefits Pool and management has the authority to establish or amend the plan provisions or contribution requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue a stand-alone financial report.

Benefits provided: The Authority pays 100% of a retiree's medical insurance premium and 50% of a dependent's medical insurance premium until the retiree reaches age 65, then the Authority's contribution ceases for both the retiree and dependent. Coverage also ceases for both the retiree and dependent upon the death of the retiree. For employees retiring on or after October 1, 2017, the Authority also pays 100% of the retiree's dental and vision insurance premiums and 50% of the dependent's dental and vision premiums. The Authority provides a post-65 Voluntary Supplemental Medical and Drug Plan that is paid entirely by the retirees.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Eligibility: The eligibility requirements for participation in this plan are as follows:

- Retiree must have been a full-time (minimum 40 hours weekly) employee for a minimum of 10 consecutive years immediately prior to retirement and be between the ages of 59 and 65.
- Retiree must also be eligible for retirement with TCDRS, as summarized below:
 - Age 60 with 10 years of service
 - Any age with 30 years of service
 - Age plus years of service equals 80 (Rule of 80)

Contributions: The Authority's Board has elected to participate and offer this benefit to its employees. Accordingly, the Authority's management has the authority to establish and amend contribution requirements. The Authority's management establishes rates based on an actuarially determined rate. For the year ended September 30, 2023, the Authority's average contribution rate was 25.88% of covered payroll. Employees are not required to contribute to the plan.

Plan participants as of October 1, 2022 (the most recent actuarial valuation date):

Actives	78
Inactives entitled to, but not yet receiving, benefit payments	-
Inactives currently receiving benefit payments	4
	<hr/> <hr/> 82

Total OPEB liability: The Authority's total OPEB liability of \$1,408,707 was measured as of September 30, 2023, and was determined by an actuarial valuation as of October 1, 2022.

Actuarial methods and assumptions: The total OPEB liability in the October 1, 2022, actuarial valuation was determined using the following actuarial methods, assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases:	3.00% per year, plus Merit Salary increase rates
Discount rate:	4.09% per Bond Buyer 20-Bond GO Index
Inflation:	2.30% per year
Medical trend rate:	Implied inflation of 2.30% per year
Mortality table:	Pub-2010 Mortality (headcount weighted) for Employees, Healthy Annuitants, and Contingent Annuitants projected forward (fully generational) with MP-2021

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Changes in the total OPEB liability:

	Total OPEB Liability
Balance as of September 30, 2022	\$ 1,262,429
Changes for the year:	
Service cost	72,568
Interest on total OPEB liability	52,300
Effect of economic/demographic (gains) or losses	140,037
Effect of assumptions changes or inputs	(49,922)
Benefit payments	(68,705)
Balance as of September 30, 2023	<u>\$ 1,408,707</u>

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the Authority, as well as what the Authority's approximate total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.09%) or 1 percentage point higher (5.09%) than the current discount rate:

	1% Decrease (3.09%)	Discount Rate (4.09%)	1% Increase (5.09%)
Total OPEB liability	\$ 1,516,243	\$ 1,408,707	\$ 1,307,226

Sensitivity of the total OPEB liability to changes in the health care cost trend rates: The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using health care cost trend rates that are 1 percentage point lower (1%) or 1 percentage point higher (3%) than the current health care cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 1,258,154	\$ 1,408,707	\$ 1,585,206

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB: For the year ended September 30, 2023, the Authority recognized OPEB expense of \$143,063. At September 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following source:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 362,846	\$ 82,895
Changes in assumptions	70,969	257,896
	<u>\$ 433,815</u>	<u>\$ 340,791</u>

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 8. Other Postemployment Benefits (Continued)

Amounts reported as the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense over the average future service to retirement of plan participants through the year ended September 30, 2029 as follows:

Years ending December 31:	
2024	\$ 18,195
2025	15,883
2026	22,975
2027	18,754
2028	14,371
Thereafter	2,846
	<u>\$ 93,024</u>

Note 9. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. Except in specified circumstances, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The Authority has transferred these plan assets to an independent trust for the exclusive benefit of the participants and their beneficiaries. The Authority does not, and is not required to, make contributions into this plan. Employee participation is strictly voluntary.

Note 10. Major Customers

Approximately \$9.4 million of LNRA's operating revenues, which accounts for more than 59% of the total operating revenues for the year ended September 30, 2023, were derived from two primary customers. Approximately \$1.5 million of East Delivery System's operating revenues, which accounts for more than 97% of the total operating revenues for the year ended September 30, 2023, were derived from one primary customer. Approximately \$2.8 million of West Delivery System's operating revenues, which accounts for more than 99% of the total operating revenues for the year ended September 30, 2023, were derived from one primary customer.

Note 11. Risk Management

The Authority 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. The Authority purchased commercial insurance to cover risks associated with potential claims in fiscal year 2023. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The Authority has divided its risk of loss into two major categories: (1) uninsured risk and (2) insured risk. Property included in the uninsured risk category includes infrastructure assets. Property included in the insured risk category includes buildings, vehicles, equipment, the above-ground components of the water delivery system and the pumping facilities. Additionally, the Authority, for risk management purposes, includes risk for general and law enforcement liability, errors and omissions liability and workers' compensation liability as part of the insured risk category. The Authority assumes uninsured risks, and management has designated a portion of its net position to meet the financial demands of risk for uninsured property.

Lavaca-Navidad River Authority

Notes to Financial Statements

Note 12. Commitments

A purchase and sale contract exists between LNRA and Formosa Plastics dated July 15, 2015, whereby Formosa Plastics agree to sell 2,500 acres of land to LNRA for the price of \$400.00 per acre. The parties agreed to a five-year inspection period with the option to extend the inspection period up to three additional years. During that time, LNRA will evaluate if the land is suitable for the intended use. LNRA and Formosa Plastics have agreed to a five-year extension moving the action date from July 15, 2023, to July 15, 2028. The additional five (5) years allows the LNRA to finalize their water right on the Lavaca and make a final determination of need.

The Authority had a contractual commitment related to a construction project at September 30, 2023. At September 30, 2023, the Authority has spent \$6,222,149 on this project and had remaining contractual commitments with contractor of \$9,891,060. This project is being funded by the Texas Department of Transportation.

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Required Supplementary Information

Lavaca-Navidad River Authority

**Schedule of Changes in the Authority's Net Pension Liability
Year Ended September 30,**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability:									
Service cost	\$ 770,547	\$ 725,493	\$ 629,219	\$ 590,446	\$ 564,347	\$ 558,901	\$ 550,247	\$ 497,882	\$ 480,840
Interest on total pension liability	2,048,848	1,912,409	1,757,987	1,625,603	1,511,297	1,396,364	1,270,974	1,159,132	1,069,804
Effect on plan changes	-	-	188,340	-	-	-	-	77,395	-
Effect of economic/demographic gains or losses	110,828	82,074	128,495	177,863	39,822	60,996	35,100	116,095	(126,442)
Effect of assumptions changes or inputs	-	(62,596)	1,515,419	-	-	54,097	-	141,553	-
Benefit payments/refunds of contributions	(928,618)	(886,528)	(825,626)	(772,053)	(690,293)	(624,733)	(571,180)	(489,662)	(386,507)
Net change in total pension liability	2,001,605	1,770,852	3,393,834	1,621,859	1,425,173	1,445,625	1,285,141	1,502,395	1,037,695
Total pension liability at beginning of year	26,643,784	24,872,932	21,479,098	19,857,239	18,432,066	16,986,441	15,701,300	14,198,905	13,161,210
Total pension liability at end of year (a)	28,645,389	26,643,784	24,872,932	21,479,098	19,857,239	18,432,066	16,986,441	15,701,300	14,198,905
Fiduciary net position:									
Employer contributions	793,522	753,251	713,713	691,737	643,117	612,440	574,562	578,473	521,409
Member contributions	370,310	351,517	333,066	322,810	300,121	285,805	268,128	269,954	243,324
Net investment income	(1,766,398)	5,346,841	2,249,129	3,036,685	(343,485)	2,337,869	1,081,468	(175,600)	879,836
Benefit payments/refunds of contributions	(928,618)	(886,528)	(825,627)	(772,053)	(690,293)	(624,733)	(571,180)	(489,662)	(386,507)
Administrative expenses	(16,585)	(16,117)	(17,728)	(16,587)	(14,854)	(12,362)	(11,746)	(10,433)	(10,621)
Other	58,011	12,854	8,701	11,333	9,403	3,549	89,628	30,334	(65,938)
Net change in fiduciary net position	(1,489,758)	5,561,818	2,461,254	3,273,925	(95,991)	2,602,568	1,430,860	203,066	1,181,503
Fiduciary net position at beginning of year	29,790,069	24,228,251	21,766,997	18,493,071	18,589,061	15,986,493	14,555,633	14,352,567	13,171,063
Fiduciary net position at end of year (b)	28,300,311	29,790,069	24,228,251	21,766,996	18,493,070	18,589,061	15,986,493	14,555,633	14,352,566
Net pension liability (asset) at end of year = (a)-(b)	\$ 345,078	\$ (3,146,285)	\$ 644,681	\$ (287,898)	\$ 1,364,169	\$ (156,995)	\$ 999,948	\$ 1,145,667	\$ (153,661)
Fiduciary net position as a percentage of total pension liability									
	98.80%	111.81%	97.41%	101.34%	93.13%	100.85%	94.11%	92.70%	101.08%
Pensionable covered payroll	\$ 5,290,146	\$ 5,021,675	\$ 4,758,086	\$ 4,611,578	\$ 4,287,447	\$ 4,082,932	\$ 3,830,406	\$ 3,856,487	\$ 3,476,062
Net pension (asset) liability as a percentage of covered payroll	6.52%	(66.13%)	13.55%	(6.24%)	31.82%	(3.85%)	26.11%	29.71%	(0.44%)

Note: GASB Statement No. 68 requires this schedule to be presented for a 10-year period. The Authority adopted GASB Statement No. 68 during 2015; therefore, only 2015-2023 are presented. The full trend information will be accumulated over the next year.

Lavaca-Navidad River Authority

**Schedule of the Authority's Pension Contributions
Year Ended September 30,**

Schedule of Employer Contributions						
Years Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll	
2013	\$ 336,164	\$ 498,266	\$ (162,102)	\$ 3,321,774	15.0%	
2014	352,820	521,409	(168,589)	3,476,062	15.0%	
2015	360,967	578,473	(217,506)	3,856,487	15.0%	
2016	352,014	574,562	(222,548)	3,830,406	15.0%	
2017	371,547	612,440	(240,893)	4,082,932	15.0%	
2018	380,297	643,117	(262,820)	4,287,447	15.0%	
2019	372,154	691,737	(319,583)	4,611,578	15.0%	
2020	380,647	713,713	(333,066)	4,758,086	15.0%	
2021	404,245	753,251	(349,006)	5,021,675	15.0%	
2022	578,742	793,522	(214,780)	5,290,146	15.0%	

Lavaca-Navidad River Authority

**Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios
Year Ended September 30, 2023**

	2023	2022	2021	2020	2019	2018
Total OPEB liability:						
Service cost	\$ 72,568	\$ 86,996	\$ 84,710	\$ 65,009	\$ 43,158	\$ 63,036
Interest	52,300	31,873	27,494	30,552	39,146	24,265
Changes of benefit terms	-	-	-	-	-	32,115
Economic/demographic gains or losses	-	-	182,270	-	(301,045)	321,966
Changes in assumptions	90,115	(164,549)	(87,868)	30,665	228,880	(115,831)
Benefit payments	(68,705)	(30,206)	(55,043)	(45,784)	(57,913)	(22,187)
Net change in total OPEB liability	146,278	(75,886)	151,563	80,442	(47,774)	303,364
Total OPEB liability at beginning of year	1,262,429	1,338,315	1,186,752	1,106,310	1,154,084	850,720
Total OPEB liability at end of year	<u>\$ 1,408,707</u>	<u>\$ 1,262,429</u>	<u>\$ 1,338,315</u>	<u>\$ 1,186,752</u>	<u>\$ 1,106,310</u>	<u>\$ 1,154,084</u>
Covered payroll*	<u>\$ 5,096,767</u>	<u>\$ 4,878,611</u>	<u>\$ 4,690,972</u>	<u>\$ 4,715,056</u>	<u>\$ 4,168,133</u>	<u>\$ 4,030,763</u>
Total OPEB liability as a percentage of covered payroll	27.64%	25.88%	28.53%	25.17%	26.54%	28.63%

*Covered payroll reflects the payroll for the measurement period (i.e., fiscal 2017).

Changes in actuarial assumptions since prior valuation:

Discount Rate: From 4.02% to 4.09%. The discount rate is based on the Bond Buyer's 20-year General Obligation Index immediately prior to or coincident with the measurement date. This assumption change resulted in a gain of approximately \$7,000.

Salary Scale: Updated to reflect the merit salary scale used in the December 31, 2021 TCDRS Valuation Report. This assumption change resulted in a gain of approximately \$41,000.

Retirement and Termination Rates: Updated to reflect retirement and termination rates used in the December 31, 2021 TCDRS Valuation Report. This assumption change resulted in a gain of approximately \$2,000.

Health Costs: Medical costs and inflation (trend) were updated to reflect recent experience and future expectations.

Note: GASB Statement No. 75 requires this schedule to be presented for a 10-year period. The Authority adopted GASB Statement No. 75 during 2018; therefore, only 2018-2023 are presented. The full trend information will be accumulated over the next four years.