

**CITY OF HARLINGEN, TEXAS
WATERWORKS SYSTEM**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**For the Fiscal Years Ended
September 30, 2020 and 2019**

Prepared by:

**Finance Department
Ronald De La Garza, Finance Director**

**CITY OF HARLINGEN WATERWORKS SYSTEM
ANNUAL FINANCIAL REPORT
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March 19, 2021

Utility Board of Trustees,
Members of the City Commission
Citizens of the City of Harlingen, Texas

Management is pleased to submit the annual financial report of the City of Harlingen, Texas Waterworks System (the “System”) for the fiscal year ended September 30, 2020.

This report is published to provide the citizens, City Commission, Utility Board of Trustees, the System staff, bondholders, and other interested parties detailed information concerning the financial condition of the System. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

To the best of our knowledge and belief the data is accurate in all material aspects, and is organized in a manner designed to fairly present the financial position and results of operations of the System as measured by its financial activity. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the System’s financial affairs have been included.

The City Charter requires an annual audit of the financial records and transactions of the System by an independent auditor.

This report is comprised of three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, a listing of the principal System officials, and an organizational chart of the System. The Financial Section contains the Independent Auditors’ Report on the basic financial statements, Management’s Discussion and Analysis (“MD&A”), the basic financial statements, with related notes and supplemental schedules. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction therewith. The System’s MD&A can be found immediately following the Independent Auditors’ Report. The Statistical Section provides financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The Financial Section described above is prepared in accordance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (“GASB”) and other professional associations, as applicable.

The City of Harlingen (the “City”) is located in Cameron County in the center of the Rio Grande Valley, at the southern tip of Texas. The City covers approximately 32 square miles, and has an estimated population of 68,328. The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1910, and first adopted its Home Rule Charter in 1927. The City operates under a Commission/Manager form of government. The System provides water treatment and distribution services, and wastewater collection, treatment and disposal services for the citizens of the City and, to areas beyond its corporate boundaries pursuant to a Certificate of Convenience and Necessity, issued by the Texas Commission on Environmental Quality.

The System is owned by the City, but by Charter Amendment, is operated under a Utility Board of Trustees (the "Board"). The Board is responsible for the management and operation of the System. The City Commission appoints the members of the Board; approves the retail rates and wholesale contracts of the System; approves the System's annual budget; and authorizes the issuance of debt.

The System's accounting records are maintained on an accrual basis. In developing and maintaining the System's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management. All internal accounting control evaluations occur within the above framework. We believe that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The preparation of this report would not have been accomplished without the efforts and dedicated services of the staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted in the preparation of this report. Credit also must be given to the Utility Board of Trustees for their interest and support in planning and conducting the financial affairs of the System in a responsible and professional manner.

Respectfully submitted,

Timothy E. Skoglund, P.E.
General Manager

Ronald De La Garza
Finance Director

CITY OF HARLINGEN WATERWORKS SYSTEM

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

UTILITY BOARD OF TRUSTEES

Officers

Michael Garza, Chairman	May 2020
Kevin Campbell, Vice-Chairman	May 2021

Members

Joshua Fields	May 2019*
Curtis Bonner	May 2022
Michael Murphy	May 2023
Christopher Bartnesky	May 2023
Enrique Del Angel	May 2024

Ex-Officio Members

Chris Boswell, Mayor
Dan Serna, City Manager

General Manager

Timothy E. Skoglund, P.E.

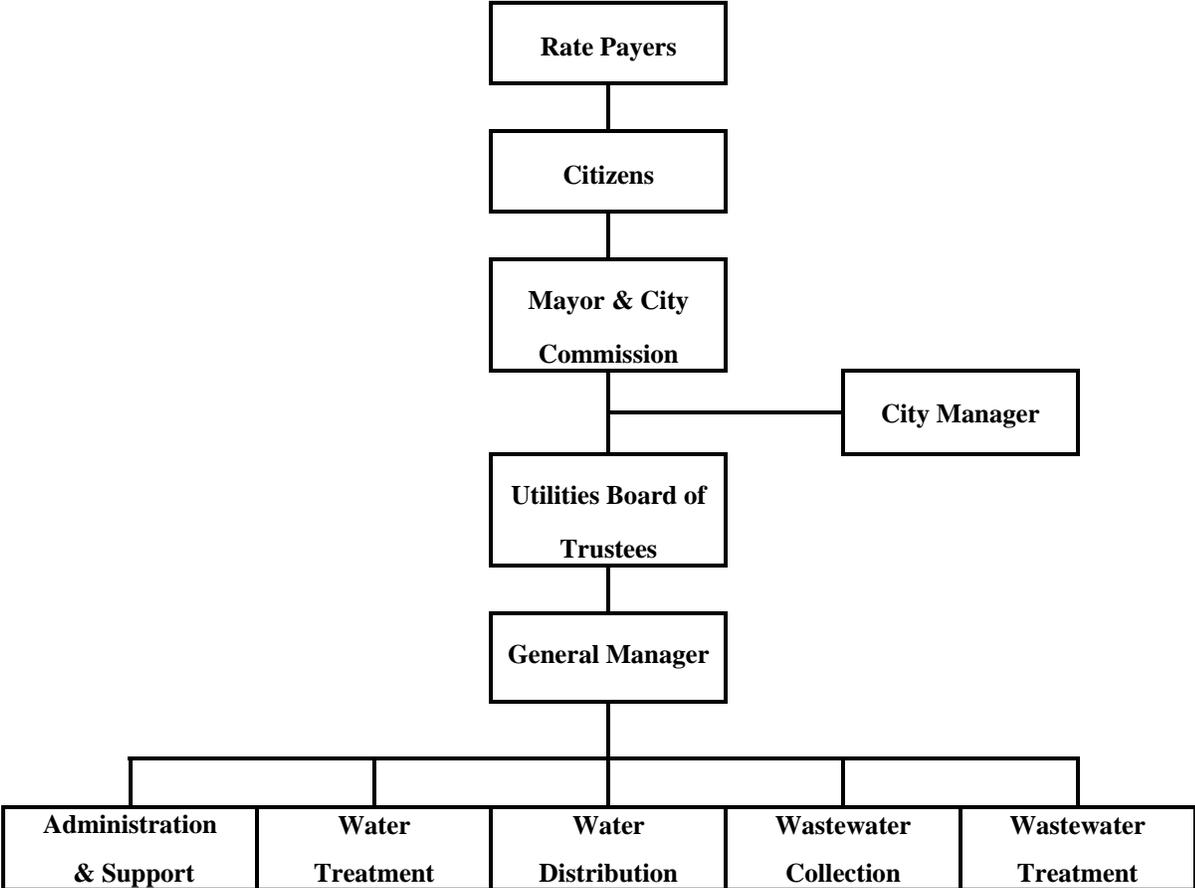
**Served through December 2019*

CITY OF HARLINGEN WATERWORKS SYSTEM

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

ORGANIZATIONAL CHART



INDEPENDENT AUDITORS' REPORT

To the City of Harlingen
Waterworks System Board of Trustees

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Harlingen Waterworks System, a component unit of the City of Harlingen, Texas, as of and for the year ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the City of Harlingen Waterworks System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Harlingen Waterworks System as of September 30, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 13-21 and 63-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harlingen Waterworks System's basic financial statements. The introductory section, other supplementary information section and statistical section, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2021, on our consideration of the City of Harlingen Waterworks System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Harlingen Waterworks System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Harlingen Waterworks System's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
March 19, 2021

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CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

FINANCIAL ANALYSIS

The assets and deferred outflows of the System exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$78,979,006, an increase of \$4,127,089 from the previous year's balance.

The largest portion of the System's net position, \$55,082,001 (69.7%) reflects its investment in capital assets (land, water rights, buildings, machinery, equipment, and water and wastewater system improvements) less any related debt used to acquire those assets that is still outstanding. The System uses these capital assets to provide services to its customers. Consequently, the assets are not available for future spending. Although the System's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. An additional portion of the System's net position \$5,005,937 (6.3%), represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$18,891,068 (24.0%) may be used to meet the System's ongoing obligations to customers and creditors.

For the fiscal year ended September 30, 2020, the System's total net position increased by \$4,127,089. The factors in this increase include an increase in the investment in capital assets, net of related debt of \$3,422,065, an increase in restricted net position of \$824,576; and a decrease in unrestricted net position of \$119,552.

The System added \$5,332,559 in capital assets and accepted ownership of \$769,552 in infrastructure contributed by developers in fiscal year 2020. These additions were offset by asset retirements in the amount of \$376,643, and depreciation for the fiscal year the amount of \$4,055,167. The net of all transactions resulted in the carrying value of the System's capital assets to increase by \$1,946,146. The System's investment in capital assets is reported net of related outstanding debt. Therefore, the retirement of debt affect the valuations. The net carrying value of outstanding debt was reduced by \$1,470,550.

The System's restricted net position increased \$824,576 in fiscal year 2020. Funds restricted for the payment of principal and interest on debt decreased by \$173,409. The net increase in impact fee, front-footage fee, and tie-in-charge revenues restricted for expansion and maintenance of infrastructure totaled \$776,255. In accordance with GASB Statement No. 68, the System includes its net pension related deferred outflows, deferred inflows, and net pension asset or liability in the calculation of the System's net position. From 2019 to 2020, the decrease in restricted net position related to the System's pension obligation is \$221,730.

The System's unrestricted net position decrease of \$119,552 is primarily due to the System's investment in capital infrastructure in fiscal year 2020. The planning and design phase of several capital projects was near completion as fiscal year 2019 drew to a close, and construction of those projects began in fiscal year 2020.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

FINANCIAL HIGHLIGHTS

A summary of the System's net position is presented below together with relevant comments and information:

SUMMARY OF NET POSITION
as of September 30,

<u>Assets</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 32,182,688	\$ 30,955,282	\$ 27,243,789
Current restricted assets	8,060,292	7,282,034	6,856,566
Noncurrent assets:			
Net pension asset	1,114,105	-	1,148,146
Capital assets	74,234,694	72,288,548	73,628,521
Total assets	<u>115,591,779</u>	<u>110,525,864</u>	<u>108,877,022</u>
 <u>Deferred Outflows of Resources</u>			
Deferred amount on debt refunding	177,188	171,819	215,886
Deferred pension related outflows	1,557,802	2,421,729	1,078,873
Deferred OPEB related outflows	1,068,396	668,024	764,111
Total deferred outflows of resources	<u>2,803,386</u>	<u>3,261,572</u>	<u>2,058,870</u>
 <u>Liabilities</u>			
Current liabilities	3,867,891	2,645,257	3,164,096
Current liabilities payable from restricted assets	615,792	650,096	659,159
Long term debt	17,868,719	19,214,674	20,800,431
Net retiree health care plan liability	9,835,549	10,184,478	10,560,920
Net retiree death benefit plan liability	609,404	504,660	524,495
Net pension liability	-	989,834	-
Customer deposits	2,644,888	2,450,577	2,251,402
Other noncurrent liabilities	319,212	752,830	225,364
Total liabilities	<u>35,761,455</u>	<u>37,392,406</u>	<u>38,185,867</u>
 <u>Deferred Inflows of Resources</u>			
Deferred pension inflows	2,450,177	1,071,339	1,285,678
Deferred OPEB inflows	1,204,527	471,774	-
Total deferred outflows of resources	<u>3,654,704</u>	<u>1,543,113</u>	<u>1,285,678</u>
 <u>Net Position</u>			
Net investment in capital assets	55,082,001	51,659,936	51,927,406
Restricted	5,005,937	4,181,361	4,887,346
Unrestricted	18,891,068	19,010,620	14,649,595
Total net position	<u>\$ 78,979,006</u>	<u>\$ 74,851,917</u>	<u>\$ 71,464,347</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

FINANCIAL ANALYSIS

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The System's unrestricted net position decrease of \$119,552 is primarily due to the System's investment in capital infrastructure in fiscal year 2020. The planning and design phase of several capital projects was near completion as fiscal year 2019 drew to a close, and construction of those projects began in fiscal year 2020. Also, in anticipation of developing a water and wastewater conveyance master plan, the System chose to limit capital infrastructure spending until the master plan is completed. Excess unrestricted funds accumulated in fiscal year 2020 and prior years will inevitably be utilized to fund capital improvements.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

Revenues

In comparison to the fiscal year 2019, total operating revenues increased by \$659,364 (3.2%) in fiscal year 2020.

Fiscal year 2020 retail water sales revenue of \$6,118,021 reflects an increase of \$442,248 (7.8%) from fiscal year 2019 levels. The increase in sales/water consumption can be attributed to an overall increase in active connections of (1.8%) coupled with the restrictions of public activity following the outbreak of the COVID-19 pandemic for both residential and commercial accounts. Total rainfall of 31.0 inches for the year was more than the 25.2 inches historically received. However, eighty percent of the year's total rainfall was received in the months of May 2020, June 2020, July 2020, and September 2020. Significant rainfall events negatively affected sales in the following months. Similarly, rainfall of 31.0 inches in fiscal year 2019 resulted in a decrease in retail water revenue in the amount of \$536,282 (8.6%) when compared to fiscal year 2018 retail water revenue of \$6,212,055. Wholesale water sales to local water providers increased by \$27,505 (4.3%) to \$667,370 in comparison to fiscal year 2019 wholesale charges of \$639,865. Wholesale water sales revenue in fiscal year 2018 totaled \$634,903. Total water operating revenues increased by \$334,611 (3.36%) to \$10,297,415 and decreased \$542,496 (5.16%) to \$9,962,804 in fiscal years 2020 and 2019, respectively, while water operating revenue in fiscal year 2018 totaled \$10,505,300.

Wastewater "base" customer charges increased by \$20,034 (1.01%) and \$43,659 (2.26%) to \$1,994,075 and \$1,974,041 in fiscal years 2020 and 2019, respectively. From November 2014 through February 2018, the wastewater base customer charge was increased by \$0.10 per month, resulting in annual revenue increases. The base customer rate stabilized in March 2018; therefore, fiscal year 2019 was the first full year at the new base rate. Wastewater "service" revenue increased by \$371,581 (4.66%) to \$7,946,769 in fiscal 2020 and decreased \$371,581 (4.66%) to \$7,610,476 in fiscal year 2019. The System uses winter-averaging to establish residential customer wastewater billing volumes. Theoretically, winter months are non-irrigation periods; consequently, water consumed by residential customers in winter months is returned to the wastewater system for treatment. Residential customer wastewater billing volume is capped at the average of a customer's winter water usage. In both fiscal years 2019 and 2018, winter residential customer consumption averages were less than those in the immediately preceding fiscal year, resulting in reduced wastewater volume charges to residential customers. Fiscal year 2018 total wastewater service revenue was \$7,982,057. Fiscal year 2020 wastewater operating revenue totaled \$10,810,137, an increase of \$324,753 (3.10%) in comparison to fiscal year 2019 operating revenue of \$10,485,384. Total wastewater operating revenue for fiscal year 2018 was \$10,766,428.

As a result of the COVID-19 pandemic, market interest rates dropped significantly and investment earnings decreased by \$188,250 (25.82%) to \$540,881 in fiscal 2020 and increased \$283,410 (63.6%) to \$729,131 in fiscal year 2019 over interest earnings of \$445,721 in fiscal year 2018. The fiscal year 2020 average invested balance of approximately \$37,000,000 was invested at a rate of return of 1.33%; the average invested balance in fiscal year 2019 of approximately \$33,500,000 was invested at a rate of return of 2.18%; and the 2018 average invested balance of \$30,692,000 was invested at a rate of return of 1.45%.

Impact fee revenue of \$1,064,009, and \$572,843 reflect an increase of \$491,166 (85.74%) and a decrease of \$78,964 (12.1%) in fiscal years 2020 and 2019, respectively, when compared to fiscal year 2018 impact fee revenue of \$768,230. The average annual impact fee revenue for the previous four-year period (2019-2016) has been \$606,814. Fiscal year 2020 revenue is \$457,195 (75.34%) more than the previous four-year average, reflecting an increase in normal annual system growth.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

Capital contributions of water and wastewater service lines for the 2020 fiscal year totaled \$769,552, an increase of \$250,735 (48.33%) over fiscal year 2019 contributed capital of \$518,817. Fiscal 2019 contributed capital reflected an increase of \$46,927 (9.97%) over fiscal year 2018 capital contributions of \$470,890.

Expenses

Fiscal year 2019 operating expenses of \$19,294,558 represent an increase of \$543,463 (2.9%) over 2019 operating expenses of \$18,751,095, which increased by \$404,950 (2.21%) in relation to 2018 operating expenses of \$18,346,145.

Personnel services expenses totaled \$8,694,651 in fiscal year 2020, a decrease of \$184,745 (2.08%) over fiscal year 2019 expenses of \$8,879,396, which reflected an increase of \$496,686 (5.9%) over fiscal year 2018 personnel services expenses of \$8,382,710. The fiscal year 2020 decrease is due to a reduction in staff from personnel retiring and an increase in available positions. The personnel services increase in 2019 was due to a combined 4% merit and COLA wage increase.

Contractual services expenses totaling \$3,186,374 reflect an increase of \$411,134 (14.81%) in fiscal year 2020, in comparison to fiscal year 2019 expenses. The primary factor in the increase in expenses was the increase in the demand for water, which resulted in an increase in the cost of raw water diversion. Professional services for the System's water and wastewater master planning also contributed significantly to the increase in contractual services. Fiscal year 2019 contractual services expenses totaling \$2,775,240 reflected a \$134,431 (4.62%) decrease in comparison to fiscal year 2018 expenses.

Total supply and maintenance expenses for fiscal year 2020 total \$3,211,052, an increase of \$334,418 (11.63%) in comparison to fiscal year 2019 supply and maintenance expenses of \$2,876,634, a decrease of \$24,977 (0.86%) over fiscal year 2018 expense of \$2,901,611. Factors contributing to the increase in supply costs were the increase in demand for water treatment chemicals, and inventory items for the maintenance and repair of system services and equipment.

Fiscal year 2020 "Other" expenses totaled \$147,315, a decrease of \$34,773 (19.1%) over fiscal year 2019 expenses of \$182,088. The primary factor in the fiscal year 2020 decrease was reduced spending on employee training and associated travel due to ongoing COVID-19 restrictions. Virtual trainings and webinars led to decreases in travel and related costs.

Depreciation expense of \$4,055,167 in fiscal year 2020, \$4,037,737 in fiscal year 2019, and \$4,001,507 in fiscal year 2018 reflects increases of \$17,430 (0.43%) and \$36,230 (0.91%) in fiscal years 2020 and 2019 respectively. Improvements to Wastewater Treatment Plant #2 began being depreciated in 2018, and 2019.

In fiscal year 2020, net interest and amortization expense decreased by \$23,181 (3.16%) to \$709,604. The issuance of Waterworks and Sewer System Revenue Refunding Bonds Series 2019 and annual principal retirement is responsible for the reduction in interest and amortization expense. In fiscal year 2019, interest and amortization expense decreased by \$47,729 (6.1%) to \$732,785. As construction of Wastewater Treatment Plant #2 neared completion, a decrease in the amount of interest capitalized during construction resulted in this expense increase. Net interest and amortization expense in fiscal 2018 totaled \$780,514.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

CHANGES IN NET POSITION

	2020	2019	2018
Operating revenues	\$ 21,107,552	\$ 20,448,188	\$ 21,271,728
Operating expenses	19,294,559	18,751,095	18,346,145
Operating income	<u>1,812,993</u>	<u>1,697,093</u>	<u>2,925,583</u>
Non-operating revenues:			
Impact fees	1,064,009	572,843	651,807
Investment earnings	540,881	729,131	445,721
Other	649,258	602,471	733,040
Total non-operating revenues	<u>2,254,148</u>	<u>1,904,445</u>	<u>1,830,568</u>
Non-operating expenses:			
Interest expense and amortization	<u>709,604</u>	<u>732,785</u>	<u>780,514</u>
Change in net position before contributions	3,357,537	2,868,753	3,975,637
Capital contributions	<u>769,552</u>	<u>518,817</u>	<u>470,890</u>
Change in net position	<u>\$ 4,127,089</u>	<u>\$ 3,387,570</u>	<u>\$ 4,446,527</u>

CAPITAL ASSETS

The value of the System's capital assets (net of accumulated depreciation) increased by \$1,946,146 to \$74,234,649 in fiscal year 2020; and decreased by \$1,339,973 to \$72,288,548 in fiscal year 2019. This investment in capital assets includes land, water rights, buildings, machinery and equipment, and system improvements.

Fiscal year 2020 asset acquisitions totaled \$6,105,111, including \$769,552 in contributed assets. Asset retirements totaled \$376,643. The net accumulated depreciation on capital assets increased \$3,782,321. Total depreciation expense for the year 2020 of \$4,055,167 was offset by \$272,844 of accumulated depreciation on assets retired throughout the year.

Fiscal year 2019 asset acquisitions totaled \$2,750,419, including \$518,817 in contributed assets. Asset retirements totaled \$1,515,286. The net accumulated depreciation on capital assets increased \$2,575,106. Total depreciation expense for the year 2019 of \$4,037,737 was offset by \$1,462,631 of accumulated depreciation on assets retired throughout the year.

Significant capital asset events during the current fiscal year included the following:

- Completed the road rehabilitation and extensions at the MFR Water Treatment plant – Total cost: \$199,190

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

- Completed rehabilitation of 69 wastewater manholes – Total cost: \$242,533
- Replaced 4,049 water meters – \$353,907
- Replaced Lift Station 64; rehabilitated Lift Station 4; and rehabilitated Lift Station 27 – Total cost: \$386,039
- Purchased two (2) forklifts at a cost of \$86,449
- Purchased a Combo Jet/Vacuum truck at a cost of \$396,700
- Purchased four (4) service trucks at a cost of \$119,491
- Purchased Information Technology equipment in the amount of \$91,090

Additional information on the City of Harlingen Waterworks System's capital assets can be found in note 5 on page 38 of this report.

SCHEDULE OF CAPITAL ASSETS
as of September 30

	2020	2019	2018
Water rights	\$ 6,466,307	\$ 6,131,830	\$ 6,131,830
Land	1,210,953	1,210,953	1,210,953
Construction in progress	3,058,897	482,118	2,010,777
Water infrastructure	89,187,684	88,155,775	85,864,026
Wastewater infrastructure	90,223,893	89,036,498	88,109,675
Other buildings and equipment	4,185,325	4,058,839	4,638,597
Vehicles	4,128,873	3,657,452	3,532,474
Total capital assets	198,461,932	192,733,465	191,498,332
Less accumulated depreciation	(124,227,238)	(120,444,917)	(117,869,811)
Capital assets net of depreciation	<u>\$ 74,234,694</u>	<u>\$ 72,288,548</u>	<u>\$ 73,628,521</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the System had total bonded debt outstanding of \$18,750,000 with unamortized premiums and discounts of \$579,881 for net total debt of \$19,329,881. The debt is secured by a pledge of the revenues of the water and wastewater systems. The System retired \$1,930,000 in outstanding bonds in fiscal year 2020.

To achieve overall debt service savings, on November 1, 2019, the System issued \$4,825,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2019 as serial bonds maturing November 1, 2021 through November 1, 2035. Proceeds from the sale of the Bonds will be used for the purpose of refunding all of the then outstanding Waterworks and Sewer System Revenue Bond, Series 2010A, in the principal amount of \$5,190,000. The net present value of the savings as the result of the transaction is \$596,427.44. The percentage savings of the refunding bonds is 11.491858%.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management’s Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

On August 27, 2015 in conjunction with the issuance of the Series 2015A and Series 2015B bonds, the System’s outstanding bonds were rated Aa2 by Moody’s Investors Service, with a negative outlook; and AA- by Standard & Poor’s with a stable outlook.

On July 17, 2017, Moody’s Investors Service affirmed the Aa2 rating of the System’s outstanding bonds, and revised the outlook to stable.

On November 25, 2019 S & P Global Ratings assigned a rating of “AA-“, with a stable outlook, to the Revenue Refunding Bonds Series 2019.

Additional information on the System’s long term debt can be found in notes 8 and 9 on pages 40-43 of this report.

as of September 30,			
Revenue Bonds	2020	2019	2018
Current portion	\$ 1,461,162	\$ 1,585,757	\$ 1,548,508
Long-term portion	17,868,719	19,214,674	20,800,431

The System does not plan to issue additional debt within the next twelve months.

FISCAL YEAR 2021 BUDGET AND RATES

The fiscal year 2020 operating revenue budget was developed using the average water consumption over the most recent five-year period, with total operating revenue budgeted at \$20,713,200. The 2021 water service revenue budget was developed at the 2020 level. The 2021 wastewater service revenue budget was decreased to reflect the impact of lower winter averages which carry over into fiscal year 2020. The water base fee revenue was increased by 1% for system growth. Wastewater base fee revenue was increased by 1% for system growth. Total operating revenue for 2021 was budgeted at \$20,539,948.

An increase of \$538,051 in operating expenses was approved in the fiscal year 2021 budget. A 2% merit pay allocation and the addition of 1 position resulted in a net increase in the personnel services budget of \$283,440. The budget for contractual services was decreased by \$37,658 reflecting reductions in professional services for the upcoming fiscal year. The budget for the supplies and maintenance category of expenses reflects an increase of \$291,630 as additional funding was budgeted for water and wastewater systems maintenance. The budget for the “other” category of expenses was increased by \$639 reflecting an increase for public relations and events.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2020 and 2019

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Harlingen Waterworks System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 134 East Van Buren, Harlingen, Texas, 78550.

BASIC FINANCIAL STATEMENTS

CITY OF HARLINGEN WATERWORKS SYSTEM
Statement of Net Position
As of September 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,375,254	\$ 8,672,465
Investments	17,356,544	19,587,116
Accounts receivable, net of allowance for uncollectible	2,037,171	2,115,626
Interest receivable	12,619	11,361
Inventories	401,100	555,714
Prepaid items	-	13,000
Restricted assets		
Cash and cash equivalents	4,302,777	3,151,682
Investments	<u>3,757,515</u>	<u>4,130,352</u>
Total current assets	<u>40,242,980</u>	<u>38,237,316</u>
Noncurrent Assets		
Net pension asset	1,114,105	-
Capital assets:		
Capital assets, not being depreciated:		
Land	1,210,953	1,210,953
Construction in progress	3,058,897	482,118
Water rights	6,466,307	6,131,830
Other capital assets, net of accumulated depreciation	<u>63,498,537</u>	<u>64,463,647</u>
Total capital assets	<u>74,234,694</u>	<u>72,288,548</u>
Total noncurrent assets	<u>75,348,799</u>	<u>72,288,548</u>
Total assets	<u>115,591,779</u>	<u>110,525,864</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	177,188	171,819
Deferred pension outflows	1,557,802	2,421,729
Deferred OPEB outflows	<u>1,068,396</u>	<u>668,024</u>
Total deferred outflows of resources	<u>2,803,386</u>	<u>3,261,572</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARLINGEN WATERWORKS SYSTEM
Statement of Net Position
As of September 30,

	2020	2019
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,202,496	\$ 595,520
Due to primary government	164,876	58,984
Other liabilities	539,357	404,996
Compensated absences - current	500,000	600,000
Revenue bonds - current	1,461,162	1,585,757
Payable from restricted assets:		
Accrued interest	265,792	290,096
Customer deposits - current	350,000	360,000
Total current liabilities	4,483,683	3,895,353
Noncurrent Liabilities		
Revenue bonds payable (net of unamortized premiums and discounts)	17,868,719	19,214,674
Compensated absences	319,212	152,830
Net retiree health care plan liability	9,835,549	10,184,478
Net retiree death benefit plan liability	609,404	504,660
Net pension liability	-	989,834
Payable from restricted assets:		
Customer deposits	2,644,888	2,450,577
Total noncurrent liabilities	31,277,772	33,497,053
Total liabilities	35,761,455	37,392,406
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	2,450,177	1,071,339
Deferred OPEB inflows	1,204,527	471,774
Total deferred inflows of resources	3,654,704	1,543,113
NET POSITION		
Net investment in capital assets	55,082,001	51,659,936
Restricted	5,005,937	4,181,361
Unrestricted	18,891,068	19,010,620
Total net position	\$ 78,979,006	\$ 74,851,917

The notes to the financial statements are an integral part of this statement.

CITY OF HARLINGEN WATERWORKS SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended of September 30,

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Customer fees and charges	\$ 21,107,552	\$ 20,448,188
Operating Expenses		
Personnel services	8,694,651	8,879,396
Contractual services	3,186,374	2,775,240
Supplies and maintenance	3,211,052	2,876,634
Other	147,315	182,088
Depreciation	<u>4,055,167</u>	<u>4,037,737</u>
Total operating expenses	19,294,559	18,751,095
Operating Income	1,812,993	1,697,093
Non-Operating Revenues		
Impact fees	1,064,009	572,843
Investment earnings	540,881	729,131
Other	<u>649,258</u>	<u>602,471</u>
Total non-operating revenues	2,254,148	1,904,445
Non-Operating Expenses		
Interest and amortization expense	<u>709,604</u>	<u>732,785</u>
Change in Net Position before Contributions	3,357,537	2,868,753
Capital Contributions	<u>769,552</u>	<u>518,817</u>
Change in Net Position	4,127,089	3,387,570
Net Position - Beginning Year	<u>74,851,917</u>	<u>71,464,347</u>
Net Position - End of Year	<u>\$ 78,979,006</u>	<u>\$ 74,851,917</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARLINGEN WATERWORKS SYSTEM
Statement of Cash Flows
For the Fiscal Year Ended September 30,

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 22,895,022	\$ 21,368,667
Payments to suppliers	(5,775,555)	(5,886,784)
Payments to or on behalf of employees	<u>(8,385,683)</u>	<u>(8,129,037)</u>
Net cash provided by operating activities	<u>8,733,784</u>	<u>7,352,846</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(5,915,512)	(2,211,270)
Proceeds from refunding debt issuance	5,347,227	-
Proceeds from sale of asset	-	63,854
Proceeds from impact fees	1,064,009	572,843
Payments made to refunded bond escrow agent	(5,227,845)	-
Principal paid on revenue bonds	(1,565,000)	(1,525,000)
Interest and fees paid on revenue bonds	<u>(725,810)</u>	<u>(722,857)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,022,931)</u>	<u>(3,822,430)</u>
Cash Flow From Investing Activities		
Purchase of investments	(25,908,679)	(28,534,601)
Maturity of investments	28,512,087	24,477,504
Investment earnings	<u>539,623</u>	<u>744,895</u>
Net cash used by investing activities	<u>3,143,031</u>	<u>(3,312,202)</u>
Increase (decrease) in cash and cash equivalents	4,853,884	218,214
Cash and cash equivalents - beginning of year	<u>11,824,147</u>	<u>11,605,933</u>
Cash and cash equivalents - end of year	<u>\$ 16,678,031</u>	<u>\$ 11,824,147</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARLINGEN WATERWORKS SYSTEM
Statement of Cash Flows, Continued
For the Fiscal Years Ended September 30,

	<u>2020</u>	<u>2019</u>	
Reconciliation of operating income to net cash			
provided by operating activities			
Operating income	\$ 1,812,993	\$ 1,697,093	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	4,055,167	4,037,737	
Non-operating revenue	1,418,810	474,763	
Changes in assets and liabilities:			
(Increase) decrease in receivables, net	78,456	309,553	
(Increase) decrease in inventory	154,614	(184,967)	
(Increase) decrease in prepaid expenses	11,145	(2,000)	
(Increase) decrease in net pension assets	(1,114,105)	1,148,146	
(Increase) decrease in pension related deferred outflows	863,926	(1,342,856)	
(Increase) decrease in OPEB related deferred outflows	(400,372)	96,087	
Increase (decrease) in accounts payable	606,976	170,386	
Increase (decrease) in due to primary government	105,893	(73,012)	
Increase (decrease) in other liabilities	(336,913)	(15,717)	
Increase (decrease) in liability for compensated absences	66,382	(22,534)	
Increase (decrease) in net pension liability	(989,834)	989,834	
Increase (decrease) in OPEB liability	104,744	(396,277)	
Increase (decrease) in pension related deferred inflows	1,378,838	(214,339)	
Increase in OPEB related deferred inflows	732,753	471,774	
Increase in customer deposits	<u>184,311</u>	<u>209,175</u>	
Net cash provided by operating activities	<u>\$ 8,733,784</u>	<u>\$ 7,352,846</u>	
			Increase
	<u>2020</u>	<u>2019</u>	(Decrease)
Reconciliation of total cash and cash equivalents:			
Unrestricted cash and cash equivalents	\$ 12,375,254	\$ 8,672,465	\$ 3,702,789
Restricted cash and cash equivalents	<u>4,302,777</u>	<u>3,151,682</u>	<u>1,151,095</u>
Total cash and cash equivalents	<u>\$ 16,678,031</u>	<u>\$ 11,824,147</u>	<u>4,853,884</u>
Supplemental disclosure of noncash financing activities:			
Water lines, sewer mains and related infrastructure contributed to the System by developers.	<u>\$ 769,552</u>	<u>\$ 518,517</u>	

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Harlingen Waterworks System (the System) is a component unit of the City of Harlingen, Texas (the City). The System provides water and sewer services to the residents of the City. Activities of the System include administration, operations and maintenance of the water treatment and distribution system and the sewer collection and treatment system, billing and collection activities. The System also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure integrity of the funds.

As provided by the Charter of the City of Harlingen, the City Commission appoints the Utility Board of Trustees. The Board of Trustees functions as the decision and policy making body for all activities related to the System. The City Commission approves rates for user charges, annual budgets, and bond issuance authorizations.

The accompanying financial statements present the financial position, results of operations, and cash flows of the System, and are not intended to present the financial position, results of operations, or cash flows of the City of Harlingen. The financial statements of the System are included in the comprehensive annual financial report of the City of Harlingen as a proprietary type (enterprise) fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The System's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities (whether current or non-current) and all deferred outflows and inflows of resources are included in the Statement of Net Position. The operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. The accounting objectives are determination of net income, financial position and cash flow.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses include the cost of personal and contractual services, supplies and depreciation on capital assets. Revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The accounting and reporting policies of the System relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB).

Cash and Investments

The System's cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, and investments with original maturity dates of three months or less from the date of acquisition.

Investments in government pools and certificates of deposit are recorded at amortized cost. All other investments are recorded at fair value based upon current market conditions. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

Accounts receivable represent amounts due from customers for services and user charges, and are presented net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated as a percentage of operating revenue, using the two most recent fiscal years' data.

Outstanding balances between the System and the City of Harlingen are reported as "due to or due from" the primary government. The System performs customer billing and collection services for the City's garbage services. Customer payments collected on behalf of the City are remitted to the City monthly. Amounts collected from garbage customers within the month of September, as well as other reimbursable expenses incurred by the City on behalf of the System, are reflected as "due to the primary government" at fiscal year-end.

Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories are recorded as expenses when used rather than when purchased.

Prepaid Assets

Certain payments made to vendors for goods and services that will benefit future accounting periods are recorded as prepaid items in the financial statements.

Restricted Assets

Certain funds of the System are classified as restricted assets on the statement of net position, because their use is restricted for specific purposes defined and adopted by legislative action. Funds restricted include amounts accumulated for debt service payments over the next twelve months (Debt Service); the proceeds of revenue bond issuances that are restricted for the acquisition or construction of capital assets (Revenue Bond Proceeds); amounts set aside to fund asset replacements (Replacement Reserve); accumulated customer deposits; as well as accumulated capital facilities user impact fees (Impact Fees).

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the System's financial statements. All purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets, other than infrastructure assets, are defined by the System as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of three years. Infrastructure assets are reported on a network basis.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is determined by applying the System's weighted average interest rate to the average cumulative expenditures from inception to completion of the project.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using the straight line method over the following useful lives:

Asset	Years
Buildings and improvements	10-40
Collection lines and lift stations	12-40
Production and treatment facilities	20-40
Furniture and fixtures	5-10
Equipment	3-10
Vehicles	3-7

Compensated Absences

The System’s policy allows employees to accumulate earned but unused vacation and sick pay benefits. Upon termination, employees may be paid for accumulated vacation leave up to a maximum of 144 hours. It is the policy of the System to recognize an expense and a liability as the benefits accrue to employees. The accompanying financial statements reflect the vested or accumulated vacation leave accrued through the end of the fiscal year. In accordance with GASB No. 16 “Accounting for Compensated Absences”, the System uses the vesting method of calculating the estimated liability for sick leave. The liability recorded by the System includes the maximum allowable benefit for employees who currently are eligible to receive the termination sick pay benefit, as well as an estimate for those employees who are expected to become eligible in the future. At termination of employment, depending upon length of service, employees are eligible to receive 50% of unused sick leave, up to a maximum of 360 hours.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, System specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the System’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the System’s Total Pension Liability is obtained from TMRS through a report prepared for the System by TMRS’ consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statements No. 68, Accounting and Financial Reporting for Pensions; and No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date.

Other Postemployment Benefits (OPEB)

OPEB cost for retiree healthcare and retiree supplemental death benefit is required to be measured and disclosed using the accrual basis of accounting. For both OPEB plans, net liability, related deferred outflow and inflows of resources, and expense is calculated by the actuary, Gabriel Roeder Smith & Company in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System has the following items that qualify for reporting in this category.

- Deferred charges on refunding - A deferred charge on refunding results from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Contributions after measurement date - Pension contributions and OPEB benefit payments are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized over a closed five year period.
- Changes in actuarial assumptions used to determine liability – Applicable to pension and OPEB plans, this difference is deferred and amortized over the estimated average remaining lives of all members, determined as of the measurement date.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System has two items that qualify for reporting in this category. The difference in expected and actual experience for pension and OPEB and the difference in expected and actual investment performance are deferred and recognized over the estimated average remaining lives of all members, determined as of the measurement date.

Net Position

Net position represents the difference between 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 borrowing spent for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation adopted by the System and or the City, or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Budgetary Control

A formal budgetary process is employed by the System as a management control device.

The System's fiscal year is the twelve-month period beginning October 1. Department managers submit to the General Manager a budget of estimated expenses for the ensuing fiscal year. The General Manager subsequently submits a budget of estimated expenses and revenues to the Utility Board of Trustees. After approval by the Utility Board of Trustees, the budget is forwarded to the City Commission. The budget is legally enacted through passage of an ordinance.

The General Manager is authorized to transfer budgeted amounts between line items and departments. Any revisions that alter total expenses must be approved by the Utility Board of Trustees.

Budgeted amounts are as originally adopted, or as amended by the Utility Board of Trustees. Individual amendments were not material in relation to the original appropriations, which were adopted.

The Schedule of Revenues, Expenses and Changes in Net Position, Comparison of Actual to Budget, included as other supplementary information in this report, presents a comparison of budgetary data to actual results.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Comparative Data/Reclassifications

Comparative data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations of the fund. Certain amounts presented in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. DEPOSITS AND INVESTMENTS

System Policies and Legal Contractual Provisions Governing Deposits

State statutes govern the deposit and investment of all funds of the System. Texas Local Government Code, Chapter 105. "Depositories for Municipal Funds" dictates the selection of and requirements for financial institutions to serve as depositories for public funds. Texas Government Code, Chapter 2257, "Collateral for Public Funds" governs security for a deposit of public funds.

The System's deposits, including certificates of deposit, at September 30, 2020 and during the year were fully insured by FDIC insurance under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, were collateralized by securities pledged to the System and held by the System's agent bank in the System's name, or were secured by irrevocable standby letters of credit.

At September 30, 2020, the carrying amount of the System's deposits was as follows:

	2020	
	BBVA Compass	Southside Bank
	Demand Deposit	Money Market
Book Value	\$ 10,248,252	\$ 2,379,692
Bank Balance	10,378,885	2,379,691
FDIC Coverage	250,000	250,000
Collateral	12,000,000	9,886,325

At September 30, 2019, the carrying amount of the System's deposits was as follows:

	2019	
	BBVA Compass	Southside Bank
	Demand Deposit	Money Market
Book Value	\$ 6,020,685	\$ 2,262,227
Bank Balance	6,185,413	2,262,227
FDIC Coverage	500,000	250,000
Collateral	10,000,000	5,868,885

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

2. DEPOSITS AND INVESTMENTS (Continued)

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

- a. Primary Depository: BBVA Compass Bank
- b. The highest combined balances of cash on deposit amounted to \$11,045,335 and occurred in the month of September, 2020.
- c. The amount of FDIC coverage as of the date of the highest combined balance on deposit was \$250,000.
- d. An Irrevocable Standby Letter Of Credit in the amount of \$12,000,000 was in force to secure the System's deposits as of the date of the highest combined balance.

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure funds on deposit at the end of each business day. The pledged securities must have a market value of not less than the amount of the deposits, be in the name of the governmental entity and be held by the entity or its agent. 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. Under section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act full deposit insurance coverage is provided for non-interest bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount. At September 30, 2020, all System deposits were insured or adequately collateralized.

Foreign Currency Risk for Deposits – Transactions of the System are limited to those backed by domestic currency. The System is not directly exposed to foreign currency risk.

System Policies and Legal Contractual Provisions Governing Investments

The System's investment program is governed by the Public Funds Investment Act (Texas Government Code Chapter 2256), and by the System's investment policy which amplifies the State statutes and prescribes how the System will operate its investment program in accordance with applicable laws and regulations. The Public Funds Investment Act (the "PFIA") contains specific provisions governing investment practices, management responsibilities, the establishment of appropriate policies, and reporting requirements. The investment policy addresses the following areas: suitability; preservation and safety of principal; liquidity; marketability; diversification; allowable investments; acceptable risk levels; expected rates of return; maximum allowable stated maturity; maximum average dollar-weighted maturity allowed; investment staff quality, capabilities and responsibilities; and bid solicitation preferences.

The System's investment policy authorizes the System to invest in the following:

1. Obligations of the United States of America, its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Other obligations, the principal of and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or United States of America or their respective agencies and instrumentalities;
4. Obligations of states, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent;

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

2. DEPOSITS AND INVESTMENTS (Continued)

5. Certificates of Deposit and other evidences of deposit at a financial institution that (a) has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (b) secured by obligations described in 1 through 4 above, that have a market value of not less than the principal amount of the certificates, or (c) secured in any other manner and amount provided by law for deposits of the System, or (d) executed through a depository institution that has its main office or a branch office in Texas and meets the requirements of the Act;
6. Local government investment pools of political subdivisions in the State of Texas, which invest in instruments and follow practices allowed by current law; maintain as an investment objective a \$1.00 net asset value; provide offering circulars containing information required by the Act; provide investment transaction confirmations; provide a monthly report containing information required by the Act; have an advisory board as specified by the Act; are continuously rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and have a weighted average maturity no greater than ninety (90) days. Participation in an investment pool must be authorized by Resolution of the Utility Board of Trustees;
7. No-load money market mutual funds organized and in compliance with current law; that maintain as an investment objective a \$1.00 net asset value for each share; are registered with and regulated by the Securities and Exchange Commission; have a dollar weighted average maturity of no more than 90 days; are continuously rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and have provided to the System a prospectus and other information required by the Securities Exchange Act of 1937 or the Investment Company Act of 1940;
8. Repurchase agreements with a defined termination date, fully collateralized by securities described in 1 above, held in the name of the System by an independent third party custodian contracted by the System, placed through primary government securities dealers or financial institutions doing business in Texas; who have executed a Master Repurchase Agreement that has been approved by the Utility Board of Trustees of the System.

The PFIA also requires the System to have independent auditors perform test procedures related to investment practices. The System's management believes the System has complied with the requirements of the PFIA and the System's investment policies.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

2. DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2020, the fair value of the System's portfolio was as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Weighted Average Life (Days)</u>	<u>Credit Risk</u>
<u>Certificates of Deposit:</u>				
Bank of the Ozarks	3,005,779	11.95%	16	-
East West Bank	11,530,467	45.82%	64	-
Southside Bank	6,577,813	26.14%	13	-
<u>Public Fund Pools:</u>				
TexSTAR	1,623,980	6.45%	1	AAAm
TexPool	2,426,109	9.64%	1	AAAm
Total	<u>\$ 25,164,148</u>	<u>100.00%</u>		

At September 30, 2019, the fair value of the System's portfolio was as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Weighted Average Life (Days)</u>	<u>Credit Risk</u>
<u>Certificates of Deposit:</u>				
BBVA Compass	\$ 1,512,996	5.55%	14	-
Legacy Bank	3,038,286	11.15%	14	-
Southside Bank	3,538,899	12.98%	23	-
East West Bank	15,627,287	57.33%	117	-
<u>Public Fund Pools:</u>				
TexSTAR	2,316,706	8.50%	1	AAAm
TexPool	1,224,529	4.49%	1	AAAm
Total	<u>\$ 27,258,703</u>	<u>100.00%</u>		

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2020, the System has the fair value measurements for certificates of deposit totaling \$21,114,059 valued using cost-based measures. The system's investments in government pools at September 30, 2020 totaling \$4,050,089 are recorded at amortized cost.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

2. DEPOSITS AND INVESTMENTS (Continued)

Public funds investment pools in Texas (“Pools”) are established under the authority of the Inter-local Cooperation Act Chapter 79 of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act (the “PFIA”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the PFIA designed to promote liquidity and safety of principal, the PFIA requires Pools to: 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; maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

Additional policies and contractual provisions governing deposits and investments for the System are specified below:

Credit Risk – In accordance with State law and the System’s investment policy, investments in investment pools must be rated no lower than AAA or AAA-m or have an equivalent rating, obligations of states, agencies, counties, and cities must be rated at least A or its equivalent. As of September 30, 2020, the System’s investments in TexPool and TexSTAR were rated AAAM by Standard and Poor’s.

Custodial Risk for Investments – Is the risk that, in the event of the failure of the counter party, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investment pools are not managed by the System and the System does not possess securities that exist in either physical or book entry form.

Concentration of Credit Risk – The underlying securities of the investment pools is diversified in terms of investment instruments and maturity scheduling to reduce the risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer.

Interest Rate Risk – The System’s objective is to obtain a reasonable rate of return throughout budgetary and economic cycles, taking into account the investment risk limitations and the cash flow characteristics of the portfolio. Investment maturities are structured to provide cash flow based on anticipated operating needs. At no time, are debt service fund investment maturities allowed to exceed the anticipated cash flow requirements. Market conditions influence the decision to fully extend maturities to the next “unfunded” payment date or to invest in shorter term instruments. Customer deposit funds require the liquidity adequate to cover the return of customer security deposits. Short term-investment pools and money market mutual funds may be utilized as a competitive yield alternative to fixed maturity investments.

Foreign Currency Risk for Investments – By virtue of the System’s investment policy and the PFIA, the System is not directly exposed to foreign currency risk. The System is not authorized to maintain deposits or investments denominated in a foreign currency.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

2. DEPOSITS AND INVESTMENTS (Continued)

Cash and cash equivalents at September 30, consist of the following:

Cash and Cash Equivalents

<u>Institution</u>	<u>2020</u>	<u>2019</u>
Southside Bank	\$ 2,379,691	\$ 2,262,227
BBVA Compass	10,248,251	6,020,685
TexPool	2,426,109	1,224,529
TexSTAR	1,623,980	2,316,706
Total Cash and Cash Equivalents	<u>\$ 16,678,031</u>	<u>\$ 11,824,147</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30 consist of the following:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Water Accounts	\$ 400,823	\$ 452,310
Wastewater Accounts	511,955	488,215
Customer invoices and charges	214,675	213,488
Other	<u>34,218</u>	<u>25,613</u>
Total invoiced accounts receivable	<u>1,161,671</u>	<u>1,179,626</u>
Unbilled customer charges:		
Water	517,000	544,000
Wastewater	<u>589,000</u>	<u>607,000</u>
Total unbilled customer charges	<u>1,106,000</u>	<u>1,151,000</u>
Total accounts receivable	2,267,671	2,330,626
Less allowance for uncollectible accounts	<u>(230,500)</u>	<u>(215,000)</u>
Total accounts receivable (net)	<u>\$ 2,037,171</u>	<u>\$ 2,115,626</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

4. RESTRICTED ASSETS

Restricted assets as of September 30 consist of the following:

<u>Cash and Cash Equivalents</u>	<u>2020</u>	<u>2019</u>
Customer deposits	\$ 464,893	\$ 281,258
Impact fees - replacement reserve	2,290,761	1,125,639
Front footage and tie in fees - replacement reserve	5,616	5,565
Debt service fund	1,541,507	1,739,220
<u>Investments</u>		
Customer deposits	2,545,401	2,529,319
Impact fees - replacement reserve	585,221	986,825
Front footage and tie in fees - replacement reserve	<u>626,893</u>	<u>614,208</u>
Total restricted assets	<u>\$ 8,060,292</u>	<u>\$ 7,282,034</u>

The ordinances authorizing the issuance of the Waterworks and Sewer System Revenue Bonds require the establishment of an interest and sinking fund. The interest and sinking fund is used to pay the principal of and interest on the bonds, as such come due. Deposits are made into the interest and sinking fund in equal monthly installments sufficient to pay the next interest payment due and the next maturing principal of the bonds. Those same ordinances restrict the use of revenue bond proceeds for the purpose of improving, enlarging, or equipping the water and wastewater systems.

Capital facilities user impact fees and front footage and tie-in fees were established as restricted assets by ordinance of the City of Harlingen. Customer security deposits are held for the benefit of the System's customers to satisfy utility account balances upon termination of service.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

5. CAPITAL ASSETS

Interest incurred during the construction phase of capital assets and included as part of the capitalized value of the assets constructed in the fiscal years ended September 30, 2020 and 2019, respectively was \$34,047 and \$29,968.

Capital asset activity for the System for the year ended September 30, 2020 was as follows:

<u>Description</u>	<u>Balance 9/30/2019</u>	<u>Reclass & Additions</u>	<u>Reclass & Disposals</u>	<u>Balance 9/30/2020</u>
Capital assets not being depreciated				
Water rights	\$ 6,131,830	\$ 334,477		\$ 6,466,307
Land & land rights	1,210,953			1,210,953
Construction in progress	<u>482,118</u>	<u>2,880,234</u>	<u>(303,455)</u>	<u>3,058,897</u>
Total capital assets not being depreciated	<u>7,824,901</u>	<u>3,214,711</u>	<u>(303,455)</u>	<u>10,736,157</u>
Other capital assets				
Vehicles	3,657,452	516,191	(44,770)	4,128,873
Water production plant	30,091,554	199,190	(13,299)	30,277,445
Water transmission facilities and equipment	58,064,221	1,017,388	(171,370)	58,910,239
Wastewater treatment plant	34,445,891	31,458	(5,325)	34,472,024
Wastewater collection lines, lift stations and equipment	54,590,607	1,268,644	(107,381)	55,751,870
Laboratory building and equipment	344,240	5,138		349,378
Pretreatment buildings and equipment	68,929			68,929
Office buildings and equipment	<u>3,645,670</u>	<u>155,846</u>	<u>(34,498)</u>	<u>3,767,018</u>
Total capital assets being depreciated	<u>184,908,564</u>	<u>3,193,855</u>	<u>(376,643)</u>	<u>187,725,776</u>
Less accumulated depreciation				
Vehicles	(2,437,631)	(286,243)	44,770	(2,679,104)
Water production plant	(21,782,985)	(722,215)	13,299	(22,491,901)
Water transmission facilities and equipment	(36,618,698)	(913,206)	67,574	(37,464,330)
Wastewater treatment plant stations and equipment	(23,184,130)	(1,105,708)	5,324	(24,284,514)
Laboratory building and equipment	(33,387,888)	(882,078)	107,381	(34,162,585)
Laboratory building and equipment	(208,699)	(15,439)		(224,138)
Pretreatment buildings and equipment	(65,424)	(383)		(65,807)
Office buildings and equipment	<u>(2,759,463)</u>	<u>(129,895)</u>	<u>34,498</u>	<u>(2,854,860)</u>
Total accumulated depreciation	<u>(120,444,917)</u>	<u>(4,055,167)</u>	<u>272,846</u>	<u>(124,227,239)</u>
Capital assets, net of accumulated depreciation	<u>\$ 72,288,548</u>	<u>\$ 2,353,399</u>	<u>\$ (407,252)</u>	<u>\$ 74,234,694</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

5. CAPITAL ASSETS (Continued)

Capital asset activity for the System for the year ended September 30, 2019 was as follows:

<u>Description</u>	<u>Balance 9/30/2018</u>	<u>Reclass & Additions</u>	<u>Reclass & Disposals</u>	<u>Balance 9/30/2019</u>
Capital assets not being depreciated				
Water rights	\$ 6,131,830	\$ -	\$ -	\$ 6,131,830
Land & land rights	1,210,953	-	-	1,210,953
Construction in progress	<u>2,010,777</u>	<u>472,732</u>	<u>(2,001,391)</u>	<u>482,118</u>
Total capital assets not being depreciated	<u>9,353,560</u>	<u>472,732</u>	<u>(2,001,391)</u>	<u>7,824,901</u>
Other capital assets				
Vehicles	3,532,474	184,774	(59,796)	3,657,452
Water production plant	30,135,745	132,920	(177,111)	30,091,554
Water transmission facilities and equipment	55,728,281	2,825,602	(489,662)	58,064,221
Wastewater treatment plant	34,455,161	16,556	(25,826)	34,445,891
Wastewater collection lines, lift stations and equipment	53,654,514	968,862	(32,769)	54,590,607
Laboratory building and equipment	415,964	26,111	(97,835)	344,240
Pretreatment buildings and equipment	69,003	3,827	(3,901)	68,929
Office buildings and equipment	<u>4,153,630</u>	<u>120,426</u>	<u>(628,386)</u>	<u>3,645,670</u>
Total capital assets being depreciated	<u>182,144,772</u>	<u>4,279,078</u>	<u>(1,515,286)</u>	<u>184,908,564</u>
Less accumulated depreciation				
Vehicles	(2,320,264)	(177,163)	59,796	(2,437,631)
Water production plant	(21,235,646)	(720,468)	173,129	(21,782,985)
Water transmission facilities and equipment	(36,208,438)	(861,522)	451,262	(36,618,698)
Wastewater treatment plant	(22,053,556)	(1,156,400)	25,826	(23,184,130)
Wastewater collection lines, lift stations and equipment	-	-	-	-
Laboratory building and equipment	(32,432,332)	(988,325)	32,769	(33,387,888)
Pretreatment buildings and equipment	(277,180)	(19,081)	87,562	(208,699)
Office buildings and equipment	(68,414)	(911)	3,901	(65,424)
Office buildings and equipment	<u>(3,273,982)</u>	<u>(113,867)</u>	<u>628,386</u>	<u>(2,759,463)</u>
Total accumulated depreciation	<u>(117,869,811)</u>	<u>(4,037,737)</u>	<u>1,462,631</u>	<u>(120,444,917)</u>
Capital assets, net of accumulated depreciation	<u>\$ 73,628,521</u>	<u>\$ 714,073</u>	<u>\$ (2,054,046)</u>	<u>\$ 72,288,548</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

6. DUE TO PRIMARY GOVERNMENT

At September 30, 2020 and 2019 the System was liable to the City of Harlingen for amounts collected by the System from customers utilizing City garbage collection services; and amounts the City billed to the System for insurance premiums, and for other services provided by the City on behalf of the System in the amounts of \$164,876 and \$58,894 respectively.

7. PAYABLE FROM RESTRICTED ASSETS

Payable from restricted assets as of September 30 consists of the following:

	<u>2020</u>	<u>2019</u>
Current:		
Accrued interest	\$ 265,792	\$ 290,096
Customer deposits	350,000	360,000
Noncurrent:		
Customer deposits	<u>2,644,888</u>	<u>2,450,577</u>
Total	<u>\$ 3,260,680</u>	<u>\$ 3,100,673</u>

8. LONG-TERM DEBT

Revenue Bonds are used to finance the acquisition and construction of major capital improvements for the water and sewer system and related facilities. The revenue bonds are special obligations of the System solely secured by a first lien on and pledge of the net revenues of the combined waterworks and sewer system. Net revenues are defined in the respective covenants and are more fully explained therein as the gross revenues of the System less the expenses of operation and maintenance of the System. Depreciation and payments into and out of the required interest and sinking and the reserve funds are not considered expenses of operation and maintenance. Remaining revenues may then be used for any lawful purpose.

In October 2010, the System issued the Waterworks and Sewer System Revenue Bonds, Series 2010A in the principal amount of \$6,500,000 to provide funding for the System's ongoing capital improvement program and to cover the cost of issuance. Simultaneously, in order to achieve a debt service savings due to favorable interest rates. The Waterworks and Sewer System Revenue Refunding Bonds, Series 2010B were issued, in the principal amount of \$4,205,000. The proceeds from the sale of the Series 2010B Bonds were used for purpose of paying costs of issuance and refunding all of the then outstanding Waterworks and Sewer System Revenue Bonds, Series 2000 in the amount of \$1,220,000 and Series 2003 in the amount of \$4,410,000. The Series 2010A Bonds were refunded with the issuance of the Series 2019 Bonds.

The Series 2010B Bond proceeds, along with other available funds of the System, were deposited with an escrow agent and irrevocably pledged to the payment of principal and interest on the refunded Bonds until the respective call dates. As a result, the refunded obligations are considered defeased, and the liability for those bonds has been removed from the System's financial statements. As of September 30, 2017, all Series 2000 and Series 2003 Bonds have been retired.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

8. LONG-TERM DEBT (Continued)

In September 2015, the System issued the Waterworks and Sewer System Revenue Bonds, Series 2015A in the principal amount of \$12,000,000 to provide funding for the System's ongoing capital improvement program and to cover the cost of issuance. Simultaneously, in order to achieve a debt service savings due to favorable interest rates, the Waterworks and Sewer System Revenue Refunding Bonds, Series 2015B were issued, in the principal amount of \$6,475,000. The proceeds from the sale of the Series 2015B Bonds were used for the purpose of refunding all of the then outstanding Waterworks and Sewer System Revenue Refunding Bonds, Series 2005 in the amount of \$2,620,000; and the Waterworks and Sewer System Revenue Bonds, Series 2005A in the amount of \$4,435,000 and to pay the costs of issuance.

The Series 2015B Bond proceeds, along with other available funds of the System, were deposited with an escrow agent for payment of principal and interest on the refunded debt until the respective call dates of November 1, 2015 through November 1, 2019. As a result, the refunded obligations are considered defeased, and the liability for those bonds has been removed from the System's financial statements. As of September 30, 2020, Series 2005A Bonds have been redeemed.

In November 2019, the System issued the Waterworks and Sewer System Revenue Refunding Bonds, Series 2019 in the principal amount of \$4,825,000 in order to achieve a debt service savings due to favorable interest rates. The proceeds from the sale of the Series 2019 Bonds were used for the purpose of refunding all of the then outstanding Waterworks and Sewer System Revenue Refunding Bonds, Series 2010A in the amount of \$5,190,000 and to pay the costs of issuance. The refunding resulted in a net present value savings of \$596,527 which represents the economic gain.

The bonds carry interest rates as set out below with the interest payment dates of May 1st and November 1st; and principal payments due annually on November 1st. The bond ordinances authorizing these issues require establishing an interest and sinking fund; and, if certain financial ratios are not met, a reserve fund. A Credit Facility may be used as a substitute for or to replace cash or investments in the reserve fund. In addition, a provision in the ordinances requires that rates for service be adjusted if certain financial ratios are not met. Management of the System believes it is in compliance with all significant financial requirements of the bond ordinances as of September 30, 2020.

As of September 30, 2020, revenue bonds outstanding are as follows:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Principal Outstanding</u>
Waterworks and Sewer System Revenue, Series 2010B	\$ 4,205,000	2.00 - 3.00%	9/15/2010	11/01/2020	\$ 125,000
Waterworks and Sewer System Revenue Refunding, Series 2015A	\$ 12,000,000	2.00 - 3.75%	9/1/2015	11/01/2035	10,140,000
Waterworks and Sewer System Revenue, Series 2015B	\$ 6,475,000	2.00 - 3.25%	9/01/2015	11/01/2035	3,660,000
Waterworks and Sewer System Revenue Refunding, Series 2019	\$ 4,825,000	2.50 - 5.00%	9/01/2019	11/01/2035	4,825,000
					<u>\$ 18,750,000</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

8. LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,385,000	\$ 617,125	2,002,125
2022	995,000	579,025	1,574,025
2023	1,025,000	543,925	1,568,925
2024	1,060,000	507,750	1,567,750
2025	1,095,000	470,325	1,565,325
2026-2029	4,820,000	1,735,288	6,555,288
2030-2034	5,980,000	669,113	6,649,113
2035-2036	2,390,000	20,731	2,410,731
Total	<u>\$ 18,750,000</u>	<u>\$ 5,143,282</u>	<u>\$ 23,893,282</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

9. CHANGES IN LONG TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2020, was as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Bonds payable	\$ 20,680,000	\$ 4,825,000	\$ (6,755,000)	\$ 18,750,000	\$ 1,385,000
Deferred amounts for discounts and premiums	120,431	522,227	(62,777)	579,881	76,162
Total bonds payable	20,800,431	5,347,227	(6,817,777)	19,329,881	1,461,162
Compensated absences	752,830	159,057	(92,675)	819,212	500,000
Retiree health care liability	10,184,478	1,301,357	(1,650,286)	9,835,549	-
Retiree death benefit liability	504,660	121,811	(17,067)	609,404	-
Net pension liability (asset)	989,834	2,131,039	(4,234,978)	(1,114,105)	-
Customer deposits	2,810,577	518,371	(334,060)	2,994,888	350,000
Total	<u>\$ 36,042,810</u>	<u>\$ 9,578,862</u>	<u>\$ (13,146,843)</u>	<u>\$ 32,474,829</u>	<u>\$ 2,311,162</u>

Long-term liability activity for the year ended September 30, 2019, was as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Bonds payable	\$ 22,205,000	\$ -	\$ (1,525,000)	\$ 20,680,000	\$ 1,565,000
Deferred amounts for discounts and premiums	143,939	-	(23,508)	120,431	20,757
Total bonds payable	22,348,939	-	(1,548,508)	20,800,431	1,585,757
Compensated absences	775,364	612,000	(634,534)	752,830	600,000
Retiree health care liability	10,560,920	561,728	(938,170)	10,184,478	-
Retiree death benefit liability	524,495	34,735	(54,570)	504,660	-
Net pension liability (asset)	(1,148,146)	4,323,495	(2,185,515)	989,834	-
Customer deposits	2,601,402	573,813	(364,638)	2,810,577	360,000
Total	<u>\$ 35,662,974</u>	<u>\$ 6,105,771</u>	<u>\$ (5,725,935)</u>	<u>\$ 36,042,810</u>	<u>\$ 2,545,757</u>

10. COMMITMENTS AND CONTINGENT LIABILITIES

The System is currently under contract with five wholesale customers (users) to provide treated water. These agreements provide for the treatment of an aggregate minimum of at least 250,000,000 gallons annually. The contracts have various expiration dates ranging from year 2016 to 2054. The System has contracted to provide wastewater treatment services to two wholesale customers. The combined annual flow is estimated to be 250,000,000 gallons.

As of September 30, 2020, the System had open purchase orders for operating supplies, equipment, and capital improvements in the amount of \$3,875,395. The projects include water treatment, transmission and distribution system maintenance and improvements, and wastewater treatment and collection system maintenance, and improvements. These commitments will be funded with unrestricted funds.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

10. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Amounts received from grant agencies are subject to audit and adjustment by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Various claims are pending against the System. In the opinion of System management, after consultation with legal counsel, the potential loss on all claims will not materially affect the System's financial position, results of operations, or cash flows.

11. RISK MANAGEMENT

The System is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of, damage to and destruction of real and personal property; errors and omissions; catastrophes, medical and dental claims by employees; employee illnesses and injuries and pollution claims for which the Waterworks carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years. The Waterworks is a member of an intergovernmental risk pool. The risk pool is an inter-local non-assessable agency with present unreserved resources in excess of \$409,173,000 (as of September 30, 2020, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A and A++ rated companies in amounts ranging from \$10,000,000 to \$100,000,000 depending on the type of insurance coverage. The Waterworks must promptly pay contributions to the risk pool as outlined by the coverage contracts, comply with underwriting standards and implement loss control recommendations deemed necessary by a risk pool representative due to an eminent high risk of loss situation. City and System management are not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

12. MAJOR CUSTOMERS

For the years ended September 30, 2020 and 2019, no single customer provided more than 10% of water revenues or wastewater revenues. For the year ended 2020, the top ten wastewater customers provided approximately \$1,542,404 or 14.27% of wastewater sales revenues. The top ten water customers generated approximately \$1,294,548 or 12.57% of the water sales revenues.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

13. NET POSITION

Net position is composed of three categories: Invested in capital assets net of related debt, restricted net position, and unrestricted net position. The following schedule provides detail of the categories of net position as of September 30:

	<u>2020</u>	<u>2019</u>
Net investment in capital assets		
Net capital assets	\$ 74,234,694	\$ 72,288,548
Revenue bonds payable	(19,329,881)	(20,800,431)
Deferred amount on refunding	177,188	171,819
Net investment in capital assets	<u>55,082,001</u>	<u>51,659,936</u>
Net position restricted for:		
Debt service:		
Cash, cash equivalents and investments	1,541,507	1,739,220
Accrued interest payable	(265,792)	(290,096)
System expansion (impact fees):		
Cash, cash equivalents and investments	2,875,983	2,112,464
System expansion (front footage & tie-in fees)		
Cash, cash equivalents and investments	632,509	619,773
Customer deposits:		
Cash, cash equivalents and investments	2,994,888	2,810,577
Payable to utility customers	(2,994,888)	(2,810,577)
Employee pensions:		
Net Pension Asset	1,114,105	-
Deferred pension outflows	1,557,802	-
Deferred pension inflows	(2,450,177)	-
Restricted net position	5,005,937	4,181,361
Unrestricted net position	<u>18,891,068</u>	<u>19,010,620</u>
Total net position	<u>\$ 78,979,006</u>	<u>\$ 74,851,917</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS

DEFINED BENEFIT PENSION PLAN

Plan Description

The System participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All employees of the System hired prior to October 1, 2018 are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Harlingen Waterworks System, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the System-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the System were as follows:

Employee deposit rate	7%
Matching ration (System to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility	20 yrs at any age; 5 yrs at age 60 and above
Updated service credit	0%
Annuity increase (to retirees)	0% of CPI
Supplemental death benefit	Active Employees & Retirees

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

Employees covered by benefit terms

At the December 31 valuation and measurement date, the following employees were covered by the benefit terms:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	128	123
Inactive employees entitled to but not yet receiving benefits	49	47
Active employees	112	135
Total	289	305

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings and, the participant matching percentages are 100%, 150%, or 200%, both as adopted by the governing body of the participant. Under the state law governing TMRS, the contribution rate for each participant is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the Harlingen Waterworks System were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the System were 1.75%, 1.90% and 1.87% in calendar years 2017, 2018, and 2019 respectively. The System's contributions to TMRS for the fiscal years ended September 30, 2018, 2019, and 2020 were \$113,427, \$113,384 and \$102,400 respectively, and were equal to the required contributions.

Net Pension Liability

The System's Net Pension Liability (NPL) was measured as of December 31, 2019. The Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	0.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The System should insert the plan provisions that they have adopted. For example, the System may include retirement eligibility, employee and employer deposit rates, vesting requirements, and other provisions such as cost-of-living adjustments or updated service credit. Plan provisions, by the System, are included in the last section of TMRS's Comprehensive Annual Financial Report (CAFR). The System may also want to refer to TMRS' Plan Description footnote, in the TMRS CAFR, to obtain additional language regarding the pension plan. The rates are projected on a fully generated basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

	Target <u>Allocation</u>	Long-Term Expected Real Rate <u>Of Return (Arithmetic)</u>
Domestic Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	<u>10.0%</u>	7.75%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75%, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
Net pension liability (asset)	\$ 1,611,289	\$ (1,114,105)	\$ (3,411,030)

Changes in the Net Pension (Asset) Liability for the fiscal year ended September 30, 2020:

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2018	\$ 23,780,519	\$ 22,790,685	\$ 989,834
Changes for the year:			
Service cost	531,250		531,250
Interest	1,562,159		1,562,159
Difference between expected and actual experience	(194,371)	-	(194,371)
Change in Assumptions	17,123	-	17,123
Contributions - employer	-	110,137	(110,137)
Contributions - employee	-	412,278	(412,278)
Net investment income	-	3,518,192	(3,518,192)
Benefits payments, including refunds of employee contributions	(1,806,083)	(1,806,083)	-
Administrative expense	-	(19,909)	19,909
Other changes	-	(598)	598
Net changes	110,078	2,214,017	(2,103,939)
Balance at 12/31/2019	\$ 23,890,597	\$ 25,004,702	\$ (1,114,105)

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

Changes in the Net Pension (Asset) Liability for the fiscal year ended September 30, 2019:

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2017	\$ 23,325,229	\$ 24,473,375	\$ (1,148,146)
Changes for the year:			
Service cost	551,635		551,635
Interest	1,543,058		1,543,058
Difference between expected and actual experience	(157,540)	-	(157,540)
Contributions - employer	-	116,586	(116,586)
Contributions - employee	-	429,527	(429,527)
Net investment income	-	(732,031)	732,031
Benefits payments, including refunds of employee contributions	(1,481,863)	(1,481,863)	-
Administrative expense	-	(14,168)	14,168
Other changes	-	(741)	741
Net changes	455,290	(1,682,690)	2,137,980
Balance at 12/31/2018	<u>\$ 23,780,519</u>	<u>\$ 22,790,685</u>	<u>\$ 989,834</u>

Pension Expense

Pension expense is included in Personnel Services expenses in the Statement of Revenues, Expenses and Changes in Net Position. For the fiscal years ended September 30, 2020 and 2019, the System recognized pension expense as indicated below:

	<u>2020</u>	<u>2019</u>
Total service cost	\$ 531,250	\$ 551,635
Interest on the total pension liability	1,562,159	1,543,058
Employee contributions (reduction of expense)	(412,278)	(429,527)
Projected earnings on plan investments (reduction of expense)	(1,538,371)	(1,651,953)
Administrative expense	19,909	14,168
Other charges in fiduciary net position	598	741
Recognition of current year outflow (inflow) of resources-liabilities	(41,510)	(36,896)
Recognition of current year outflow (inflow) of resources-assets	(395,964)	476,797
Amortization of prior year outflow (inflow) of resources-liabilities	44,268	174,860
Amortization of prior year outflow (inflow) of resources-assets	471,165	51,285
Total pension expense (income)	<u>\$ 241,226</u>	<u>\$ 694,168</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

Deferred Outflows and Deferred Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period. For the year ended September 30, 2020, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over the periods indicated below.

	Recognition Period or Amortization Years	Deferred (Inflow) Outflow of Resources as of 12/31/2019	Recognized in Current Pension Expense FY 2020	Deferred (Inflow) Outflow of Resources in Future Expense
<u>Due to Liabilities:</u>				
Difference in expected and actual pension experience	4.27	\$ (194,371)	\$ (45,520)	\$ (148,851)
Change in assumptions		17,123	4,010	13,113
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension investments	5.00	(1,979,820)	(395,964)	(1,583,856)
Total (excluding contributions made subsequent to measurement date)		(2,157,068)	<u>\$ (437,474)</u>	<u>\$ (1,719,594)</u>
Pension contribution after the measurement date		78,312		
Total current year deferrals		<u>\$ (2,078,756)</u>		

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$78,312 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e. recognized in the System's financial statements as of September 30, 2021).

For the year ended September 30, 2019, the System reported deferred outflows of resources related to pension from the following sources that are being amortized over the periods indicated below.

	Recognition Period or Amortization Years	Prior Period Deferred (Inflow) Outflow of Resources	Recognized in Current Pension Expense FY 2020	Prior Period Deferred (Inflow) Outflow in Future Expense
<u>Due to Assets:</u>				
Difference in expected and actual pension experience	1.00 to 4.00	\$ 1,267,835	\$ 471,165	\$ 796,670
<u>Due to Liabilities</u>				
Difference in projected and actual earnings on pension investments	1.00 to 3.27	(46,386)	1,376	(47,762)
Change in assumptions		42,892	42,892	-
Total (excluding contributions made subsequent to measurement date)		1,264,341	<u>\$ 515,433</u>	<u>\$ 748,908</u>
Pension contribution after the measurement date		86,049		
Total prior period deferrals		<u>\$ 1,350,390</u>		

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

14. PENSION PLANS (Continued)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$86,049 were recognized as a reduction of the net pension asset or liability for the measurement year ended December 31, 2019 (i.e. recognized in the System's financial statements as of September 30, 2020).

The effect of current period deferrals of \$(1,719,594) and prior period deferrals of \$748,908 is a net impact of \$(970,686), amortized into future pension expense as follows:

Measurement Year Ended <u>December 31</u>		
2020	\$	(289,570)
2021		(303,306)
2022		29,362
2023		<u>(407,172)</u>
Total	\$	<u><u>(970,686)</u></u>

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tnrs.com.

Retirement Savings Plan – Defined Contribution Plan

Effective October 1, 2018, the System approved the establishment of a 401(a) defined contribution retirement plan, which covers substantially all full time employees hired or rehired after September 30, 2018. Under the plan, employees generally may elect to exclude up to 15% of their compensation from amounts subject to federal income tax as a salary deferral contribution.

The System is required by resolution to make matching contributions to the plan as follows:

Employee Length of <u>Employment</u>	System's <u>Required Contribution</u>
1 - 5 years	5%
6 - 10 years	6%
11 + years	7%

Employees are 100% vested immediately. The System's total contribution to the plan during fiscal year 2020 was \$50,090. As of September 30, 2020 there were 41 employees participating in the plan.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS

SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description

The Texas Municipal Retirement System (TMRS) administers a single-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member entities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The System elected, by resolution, to provide group-term life insurance coverage to both current and retired employees. The System may terminate coverage under and discontinue participation in the SDBF by adopting a resolution to do so before November 1 of any year to be effective the following January 1.

Benefits Provided

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the pension trust fund.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (SDBF, continued)

Employees covered by benefit terms

At the December 31, valuation and measurement dates, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefits	99	95
Inactive employees entitled to but not yet receiving benefits	9	6
Active employees	<u>112</u>	<u>135</u>
Total	<u>220</u>	<u>236</u>

Funding Policy

Contributions are made monthly based on the covered payroll of employee members of the plan participants. The contractually required contribution rate is determined annually for each participant. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the participant. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net position available for benefits.

The System contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year of term life insurance. The System's contributions to the TMRS SDBF for the fiscal years ended 2020, 2019, and 2018 were \$5,367, \$5,896, and \$5,471 respectively, which equaled the required contribution each year.

The required rate and retiree-only portion are reflected in the table below, as a percentage of annual covered payroll.

	Total SDBF Contribution	Retiree portion of SDBF Contribution	Actual Contribution Made	Percentage of ARC
<u>Year</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Contributed</u>
2020	0.26%	0.10%	0.10%	100.0%
2019	0.26%	0.10%	0.10%	100.0%
2018	0.26%	0.09%	0.09%	100.0%

Funded Status and Funding Progress

The total Death Benefit OPEB Liability (TOL) shown in this report is based on an actuarial valuation performed as of December 31, 2019, the measurement date. The SDBF covers both inactive and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75; no assets are accumulated for OPEB. As such, the SDBF is considered to be an unfunded plan under GASB 75, with benefit payments treated as being equal to the employer's annual contributions for retirees. Under the reporting parameters, the System's death benefit plan is 0.0% funded.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (SDBF, continued)

Actuarial Methods and Assumptions

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. The actuarial assumptions include a 2.75% discount rate; a 2.5% inflation assumption; and salary increases of 3.5% to 11.5% including inflation. The valuation included the gender-distinct 2019 Municipal Retirees of Texas mortality tables. For disabled retirees, the valuation was the same as healthy retirees with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the 3.5% and 3% floors. The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2019.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the System, calculated using the discount rate of 2.75% as well as what the System’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower (1.75%) or one percentage-point higher (3.75%).

<u>1% Decrease</u>	<u>Current Discount Rate Assumption</u>	<u>1% Increase</u>
<u>1.75%</u>	<u>2.75%</u>	<u>3.75%</u>
\$ 722,617	\$ 609,404	\$ 519,339

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (SDBF, continued)

Changes in the Supplemental Death Benefit Fund Liability for the fiscal years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Service Cost	\$ 13,546	\$ 17,181
Interest on liability	18,865	17,554
Differences between expected and actual experience	(11,177)	(16,478)
Changes of assumptions or other inputs	89,400	(32,570)
Benefit payments	<u>(5,890)</u>	<u>(5,522)</u>
Net change in total SDBF liability	\$ 104,744	\$ (19,835)
Total SDBF liability as of beginning of year	\$ 504,660	\$ 524,495
Net prior period adjustment for GASB 75	<u>-</u>	<u>-</u>
Total SDBF liability as of end of year	<u>\$ 609,404</u>	<u>\$ 504,660</u>
Covered employee payroll	\$ 5,889,693	\$ 6,136,098
Total SDBF liability as a percentage of covered-employee payroll	10.35%	8.22%
Percentage of SDBF liability funded	0.00%	0.00%

SDBF Cost and Deferred Outflows and Deferred Inflows of Resources

For the fiscal years ended September 30, 2020 and 2019, the System recognized expenses for the supplemental death benefit plan as follows:

	<u>2020</u>	<u>2019</u>
Service Cost	\$ 13,546	\$ 17,181
Interest on total SDBF liability	18,865	17,554
Recognition of deferred outflows/inflows or resources:		
Differences between expected and actual experience ¹	(5,037)	(3,012)
Changes in assumptions or other inputs - current year ²	16,196	(5,954)
Changes in assumptions or other inputs - prior year ²	<u>929</u>	<u>6,883</u>
Total SDBF expense	<u>\$ 44,499</u>	<u>\$ 32,652</u>

1. In the year of implementation, the beginning of year liability is rolled back from the measurement date; there will be no experience loss/gain.
2. Generally, this will be the annual change in the municipal bond index rate.

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period. For the year ended September 30, 2020, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 5.52 year period.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (SDBF, continued)

	Recognition Period or Amortization Years	Deferred (Inflow) of Resources as of 12/31/2019	Recognized in Current SDBF Expense FY 2020	Deferred Inflow of Resources in Future Expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience	5.52	\$ (11,177)	\$ (2,025)	\$ (9,152)
Changes in actuarial assumptions used to determine liability	5.52	<u>89,400</u>	<u>16,196</u>	<u>73,204</u>
Total (excluding contributions made subsequent to measurement date)		\$ 78,223	<u>\$ 14,171</u>	<u>\$ 64,052</u>
Contribution made after the measurement date		<u>4,079</u>		
Total current year deferrals		<u>\$ 82,302</u>		

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$4,079 will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2020 (i.e. recognized in the System's financial statements as of September 30, 2021).

For the year ended September 30, 2019, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 4.47 year period.

	Recognition Period or Amortization Years	Deferred Outflow of Resources as of 12/31/2018	Recognized in Current SDBF Expense FY 2020	Prior Period Deferred Outflow of Resources in Future Expense
<u>Due to Assets:</u>				
Changes in actuarial assumptions used to determine SDBF liability	3.47	\$ (16,196)	<u>\$ (2,083)</u>	<u>\$ (14,113)</u>
Contribution made after the measurement date		<u>4,602</u>		
Total prior year deferrals		<u>\$ (11,594)</u>		

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$4,602 have been recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2019 (i.e. recognized in the System's financial statements as of September 30, 2020).

The effect of current period deferrals of \$64,052 and prior period deferrals of \$(14,113) is a net impact of \$49,939, amortized into future OPEB expense as follows:

<u>December 31</u>	
2020	\$ 12,088
2021	12,088
2022	8,442
2023	9,953
2024	<u>7,368</u>
Total	<u>\$ 49,939</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS

RETIREE HEALTH CARE PLAN

Plan Description

In addition to the pension benefits described in Note 14 and the supplemental death benefits described in Note 15, the System makes available health care and prescription-drug benefits to all employees who retire from the System and who are receiving benefits from the System sponsored retirement program, Texas Municipal Retirement System (“TMRS”). The System administers the single-employer Retiree Health Care Plan. All current full-time employees of the System hired prior to February 2010 are eligible for retirement and health-care and prescription-drug coverage at age 60 with five years of service or at any age with 20 years of service. Those approved for disability retirement through TMRS are also eligible for retiree health-care and prescription-drug coverage. The System provided group health care coverage is discontinued at the end of the month prior to the retiree’s 65th birth month. Retirees are required to enroll in Medicare once eligible. A Medicare Supplement, Plan F is provided thereafter, until death. Retirees eligible for Medicare coverage are not provided prescription-drug coverage.

Employees who are eligible for retirement, but instead choose to terminate employment, are not eligible for System sponsored health care and prescription drug coverage at a later date. The System does not provide subsidized retiree vision or dental care coverage. Nor does the System provide subsidized retiree life insurance coverage. Life insurance coverage carried at the time of retirement is portable. The System does not provide a death-in-service benefit to a surviving spouse; however, through TMRS, there is a \$7,500 death benefit. Retirees who elect to opt-out of the System sponsored health care plan do not receive any cash payment in lieu of electing the System sponsored health care plan. Benefit provisions are established by management.

No dependent coverage is available through the System but spouses and dependents are eligible for COBRA coverage for 18 months (or up to 36 months under certain circumstances) following members retirement date. Spouse and dependent(s) are responsible for payment of the full premium amount.

Employees covered by benefit terms

At the December 31 valuation and measurement dates, the following employees were covered by the Retiree Health Care Plan:

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving benefits	76	73
Inactive plan members entitled to but not yet receiving benefits	0	5
Active Plan Members	<u>46</u>	<u>52</u>
Total	<u>122</u>	<u>130</u>

Funding Policy, Funded Status and Funding Progress

The System provided health-care and prescription drug coverage premiums are paid 100% by the System. Medicare Supplement premiums are paid by retirees and reimbursed by the System. The System’s contributions to the plan for the fiscal year 2020 were \$256,000, 64.64% of annual OPEB cost of \$395,995; and \$360,469, 60.66% of the annual OPEB cost of \$594,268 in fiscal year 2019.

The Total OPEB Liability (TOL) shown in this report is based on an actuarial valuation performed as of September 30, 2019. Updated procedures were used to roll forward the total OPEB liability to the measurement dates of December 31, 2020.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (RETIREE HEALTH CARE PLAN, continued)

The System’s annual retiree health care plan cost is based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The System has not established a trust to fund the Retiree Health Care Plan liability and intends to continue the pay-as-you-go funding method. Under the reporting parameters, the System’s retiree health care plan is 0.0% funded.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs at the point.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For the September 30, 2020 actuarial valuation, the Individual Entry-Age cost method was used. The actuarial assumptions include a 3.31% investment rate of return (compounded annually net after investment expenses); and an initial annual healthcare cost trend rate of 7.00% for pre-65 retirees (6.00% for post-65), declining to an ultimate rate of 4.15% after 15 years. Both rates include a 2.5% inflation assumption. The valuation included the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

The following table shows the components of the changes in the System’s total OPEB Liability, the amount actually contributed to the plan, and changes in the System’s total OPEB liability:

	<u>2019</u>	<u>2018</u>
Service Cost	\$ 153,680	\$ 214,576
Interest on liability	373,998	347,152
Difference between expected and actual experience	(1,289,241)	(5,805)
Changes of assumptions	773,679	(571,896)
Benefit payments	<u>(361,045)</u>	<u>(360,469)</u>
Net change in total liability	\$ (348,929)	\$ (376,442)
Beginning Retiree Health Care Plan liability	10,184,478	10,560,920
Net prior period adjustment for GASB 75	<u>-</u>	<u>-</u>
Ending Retiree Health Care Plan liability	<u>\$ 9,835,549</u>	<u>\$ 10,184,478</u>
Covered employee payroll	\$ 2,442,456	\$ 2,773,191
Total Retiree Health Care Plan liability as a percentage of covered-employee payroll	402.69%	367.25%
Percentage of Retiree Health Care Plan liability funded	0.00%	0.00%

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (RETIREE HEALTH CARE PLAN, continued)

Sensitivity of the total OPEB liability to changes in the discount rate assumption

The following presents the total OPEB liability of the System, calculated using the discount rate of 2.75% as well as what the System’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower (1.75%) or one percentage-point higher (3.75%).

1% Decrease 1.75%	Current Discount Rate Assumption 2.75%	1% Increase 3.75%
\$ 11,329,472	\$ 9,835,549	\$ 8,619,613

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate assumption

The following presents the total OPEB liability of the System calculated using the assumed trend rates, as well as what the plan’s total OPEB liability would be if it were calculated using the a trend rate that is one percentage-point lower or one percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 8,503,447	\$ 9,835,549	\$ 11,499,045

Retiree Health Care Plan Cost

The following presents the costs incurred by the Retiree Health Care Plan in fiscal years 2020 and 2019:

	Fiscal Year 2020	Fiscal Year 2019
Retiree Health Care Plan expense:		
Service cost	\$ 153,680	\$ 214,576
Interest on total liability	373,998	347,152
Recognition of current year inflow due to liabilities	(164,223)	(146,009)
Amortization of prior year outflow due to liabilities	32,540	178,549
Total Retiree Health Care Plan expense	\$ 395,995	\$ 594,268

Recognition of Deferred Outflows and Deferred Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as to the beginning of the measurement period. The average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows (and inflows) of resources established in the current measurement period is 3.1394 years. At September 30, 2019, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 3.1394 year period.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (RETIREE HEALTH CARE PLAN, continued)

Retiree Health Care Plan outflows and inflows of resources arising from reporting period ended December 31, 2019:

	Recognition Period or Amortization Years	Deferred (Inflow)/Outflow of Resources as of 12/31/2019	Recognized in Current Expense FY 2020	Deferred Inflow of Resources in Future Expense
<u>Due to Liabilities:</u>				
Differences in expected and actual experience	3.1394	\$ (1,289,241)	\$ (410,665)	\$ (878,576)
Changes in actuarial assumptions used to determine health care liability	3.1394	<u>773,679</u>	<u>246,442</u>	<u>527,237</u>
Total (excluding contributions made subsequent to measurement date)		\$ (515,562)	<u>\$ (164,223)</u>	<u>\$ (351,339)</u>
Contribution made after the measurement date		<u>276,073</u>		
Total current deferrals		<u>\$ (239,489)</u>		

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$276,073 be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2020 (i.e. recognized in the System's financial statements as of September 30, 2021). Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Retiree Health Care Plan outflows and inflows of resources arising from reporting period ended December 31, 2018:

	Recognition Period or Amortization Years	Deferred Outflow of Resources	Recognized in Current Expense FY 2020	Prior Period Deferred Outflow of Resources in Future Expense
<u>Due to Assets:</u>				
Differences in expected and actual experience	2.9566	\$ (4,338)	\$ (1,467)	\$ (2,871)
Changes in actuarial assumptions used to determine health care liability	2.9566	(78,005)	<u>34,007</u>	<u>(112,012)</u>
Total (excluding contributions made subsequent to measurement date)			<u>\$ 32,540</u>	<u>\$ (114,883)</u>
Contribution made after the measurement date		<u>290,187</u>		
Total prior year deferrals		<u>\$ 207,844</u>		

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$290,187 have been recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2019 (i.e. recognized in the System's financial statements as of September 30, 2020).

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2020 and 2019

15. OTHER POST EMPLOYMENT BENEFITS – (RETIREE HEALTH CARE PLAN, continued)

The effect of current period deferrals of \$(351,339) and prior period deferrals of \$(114,883) is a net impact of \$(466,222), amortized into future OPEB expense as follows:

Measurement Year Ended <u>December 31</u>	
2021	\$ (139,432)
2022	(303,897)
2023	(22,893)
Total	<u>\$ (466,222)</u>

16. DEFERRED COMPENSATION PLAN

The System offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The plan, as amended, is available to all System employees, and permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A 1996 federal law requires all assets and income of Internal Revenue Code 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. Assets of the System’s plan are administered by private corporations under contract with the City. Consequently, the plan’s assets and liabilities are not reported in the System’s financial statements.

17. FUTURE FINANCIAL REPORTING REQUIREMENTS

The System has reviewed GASB pronouncements which become effective in future years and notes the following statements are applicable to the System:

Statement No. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the System in fiscal year 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* – This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will become effective for the System in fiscal year 2022.

18. UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Organization. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information

Texas Municipal Retirement System
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Last Five Fiscal Years
(Unaudited)

	Measurement Year Ended <u>12/31/2015</u>	Measurement Year Ended <u>12/31/2016</u>	Measurement Year Ended <u>12/31/2017</u>	Measurement Year Ended <u>12/31/2018</u>	Measurement Year Ended <u>12/31/2019</u>
Total pension liability:					
Service Cost	\$ 487,964	\$ 539,599	\$ 538,832	\$ 551,635	\$ 531,250
Interest (on total pension liability)	1,420,126	1,453,483	1,497,198	1,543,058	1,562,159
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	130,618	42,791	88,270	(157,540)	(194,371)
Changes of assumptions	579,040	-	-	-	17,123
Benefit payments, including refunds of employee contributions	<u>(1,441,031)</u>	<u>(1,354,964)</u>	<u>(1,420,743)</u>	<u>(1,481,863)</u>	<u>(1,806,083)</u>
Net change in total pension liability	1,176,717	680,909	703,557	455,290	110,078
Total pension liability - beginning	<u>20,764,046</u>	<u>21,940,763</u>	<u>22,621,672</u>	<u>23,325,229</u>	<u>23,780,519</u>
Total pension liability - ending	<u><u>21,940,763</u></u>	<u><u>22,621,672</u></u>	<u><u>23,325,229</u></u>	<u><u>23,780,519</u></u>	<u><u>23,890,597</u></u>
Plan fiduciary net position:					
Contributions - employer	61,279	35,295	104,889	116,586	110,137
Contributions - employee	397,180	418,757	419,558	429,527	412,278
Net investment income	33,518	1,469,085	3,088,807	(732,031)	3,518,192
Benefit payments, including refunds of employee contributions	<u>(1,441,031)</u>	<u>(1,354,964)</u>	<u>(1,420,743)</u>	<u>(1,481,863)</u>	<u>(1,806,083)</u>
Administrative expense	(20,418)	(16,598)	(16,016)	(14,168)	(19,909)
Other	<u>(1,008)</u>	<u>(894)</u>	<u>(811)</u>	<u>(741)</u>	<u>(598)</u>
Net change in plan fiduciary net position	(970,480)	550,681	2,175,684	(1,682,690)	2,214,017
Plan fiduciary net position - beginning	<u>22,717,490</u>	<u>21,747,010</u>	<u>22,297,691</u>	<u>24,473,375</u>	<u>22,790,685</u>
Plan fiduciary net position - ending	<u>21,747,010</u>	<u>22,297,691</u>	<u>24,473,375</u>	<u>22,790,685</u>	<u>25,004,702</u>
Net pension liability (asset)	<u><u>\$ 193,753</u></u>	<u><u>\$ 323,981</u></u>	<u><u>\$ (1,148,146)</u></u>	<u><u>\$ 989,834</u></u>	<u><u>\$ (1,114,105)</u></u>
Plan fiduciary net position as a					
percentage of total pension liability (asset)	99.12%	98.57%	104.92%	95.84%	104.66%
Covered employee payroll	\$ 5,674,004	\$ 5,982,248	\$ 5,993,680	\$ 6,136,098	\$ 5,889,693
Net pension liability (asset) as a					
percentage of covered employee payroll	3.41%	5.42%	-19.16%	16.13%	-18.92%

Note: This schedule is intended to present information for ten years. Previous years' information is not available.

**CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information**

**Texas Municipal Retirement System
Schedule of Contributions
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Actuarially determined contribution	Contribution in relation to the actuarially determined contribution	Contribution excess (deficiency) (2)-(1)	Covered employee payroll	Actuarially determined contributions as a percentage of covered employee payroll (1)/(4)	Contributions as a percent of coverage employee payroll (2)/(4)
2011	346,863	346,863	-	4,805,717	7.22%	7.22%
2012	198,737	198,737	-	4,916,937	4.04%	4.04%
2013	127,903	127,903	-	5,021,386	2.55%	2.55%
2014	117,027	117,027	-	5,261,273	2.22%	2.22%
2015	74,455	74,455	-	5,584,459	1.33%	1.33%
2016	43,964	43,964	-	6,144,250	0.72%	0.72%
2017	89,045	89,045	-	6,024,295	1.48%	1.48%
2018	113,427	113,427	-	6,078,926	1.87%	1.87%
2019	113,384	113,384	-	6,040,222	1.88%	1.88%
2020	102,400	102,400	-	5,889,693	1.74%	1.74%

**Texas Municipal Retirement System
Notes to Schedule of Contributions:**

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective in January, thirteen months later.

Methods and Assumptions Used to Determine Contribution Rate for 2019:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates specific to the System's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMI Pre-retirement: PUB(10) mortality tables, with the Public Safety table for males and the General Employee table used for females. The rate projected on a fully generational basis with scale UMP.

Other Information:

Note: The System discontinued participation in TMRS for employees hired or rehired on or after October 1, 2018.

**CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information**

**Schedule of Changes in the Supplemental Death Benefits Fund OPEB Liability and Related Ratios
(Unaudited)**

	Measurement Year Ended 12/31/2018	Measurement Year Ended 12/31/2019
Total Supplemental Death Benefits Fund OPEB liability:		
Service Cost	\$ 17,181	\$ 13,546
Interest (on total liability)	17,554	18,865
Difference between expected and actual experience	(16,478)	(11,177)
Changes of assumptions	(32,570)	89,400
Benefit payments	(5,522)	(5,890)
Net change in total Supplement Death Benefits Fund OPEB liability	(19,835)	104,744
Total Supplemental Health Care Fund liability - beginning	524,495	504,660
Total Supplemental Health Care Fund OPEB liability - ending	\$ 504,660	\$ 609,404
 Covered employee payroll	 \$ 6,136,098	 \$ 5,889,693
Net Supplemental Death Benefit OPEB liability as a percentage of covered employee payroll	 8.22%	 10.35%

Notes to Schedule

Change of Assumptions reflects the effects of changes in the discount rate each period. The following discount rates were used in each period.

2017	3.31%
2018	3.71%
2019	2.75%

Note: This schedule is intended to present information for ten years.
Previous years' information is not available.

**CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information**

**Schedule of Changes in the Retiree Health Plan Total OPEB Liability and Related Ratios
(Unaudited)**

	Measurement Year Ended 12/31/2018	Measurement Year Ended 12/31/2019
Total Retiree Health Plan Total OPEB liability:		
Service Cost	\$ 214,576	\$ 153,680
Interest (on total liability)	347,152	373,998
Difference between expected and actual experience	(5,805)	(1,289,241)
Changes of assumptions	(571,896)	773,679
Benefit payments	(360,469)	(361,045)
Net change in total Retiree Health Plan OPEB liability	(376,442)	(348,929)
Total Retiree Health Care Plan liability - beginning	10,560,920	10,184,478
Total Retiree Health Care Plan OPEB liability - ending	\$ 10,184,478	\$ 9,835,549
Covered employee payroll	\$ 2,773,191	\$ 2,442,456
Net Retiree Health Care Plan OPEB liability as a percentage of covered employee payroll	367.25%	402.69%

Notes to Schedule

Change of Assumptions reflects the effects of changes in the discount rate each period. The following discount rates were used in each period.

2017	3.81%
2018	3.31%
2019	3.71%

Note: This schedule is intended to present information for ten years.
Previous years' information is not available.

**CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information**

**Supplemental Death Benefits Fund
Schedule of Funding Progress
Last Three Fiscal Years
(Unaudited)**

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability*	Funded Ratio (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll
2018	-	524,495	0.0%	524,495	5,993,680	8.75%
2019	-	504,660	0.0%	504,660	6,136,098	8.22%
2020	-	609,404	0.0%	609,404	5,889,693	10.35%

*Based upon an actuarial valuation performed as of December, 31 2018. Total OPEB liability was "rolled back" to December 31, 2016 for the purpose of developing a beginning of year Total OPEB Liability.

**OTHER SUPPLEMENTARY
INFORMATION**

CITY OF HARLINGEN WATERWORKS SYSTEM

Schedule of Revenues, Expenses and Changes in Net Position

Comparison of Actual to Budget

For Fiscal Year Ended September 30, 2020

	Water		Percentage Variance	Wastewater		Percentage Variance
	Actual	Budget		Actual	Budget	
Operating Revenue						
Base charge	\$ 3,011,432	\$ 3,004,000	0.25%	\$ 1,994,075	\$ 1,984,000	0.51%
Service revenues	6,118,021	6,000,000	1.97%	7,946,769	7,215,000	10.14%
Sales to Combes	116,843	109,000	7.20%	211,014	185,000	14.06%
Sales to Primera	240,007	222,000	8.11%	147,177	138,000	6.65%
Sales to Palm Valley	221,965	215,000	3.24%	-	-	-
Sales to East Rio Hondo	86,143	80,000	7.68%	-	-	-
Sales to Military Highway	2,412	1,200	101.00%	-	-	-
Fuel adjustment	260,193	254,800	2.12%	238,340	219,000	8.83%
Customer penalties	64,994	138,500	-53.07%	74,035	152,000	-51.29%
Disconnect fees	106,177	205,200	-48.26%	-	-	-
Industrial surcharge fees	-	-	-	183,447	126,000	45.59%
Pretreatment testing fees	-	-	-	15,280	13,500	13.19%
Other revenues	69,228	75,600	-8.43%	-	-	-
Total operating revenues	<u>10,297,415</u>	<u>10,305,300</u>	-0.08%	<u>10,810,137</u>	<u>10,032,500</u>	7.75%
Operating expenses						
Personnel services	4,401,511	4,744,980	7.24%	4,293,140	4,498,235	4.56%
Contracted services	2,264,363	2,490,900	9.09%	922,010	1,387,620	33.55%
Supplies and maintenance	1,837,658	1,982,470	7.30%	1,373,394	1,509,730	9.03%
Other expenses	90,503	113,581	20.32%	56,813	117,150	51.50%
Depreciation expense	1,759,457	1,728,500	-1.79%	2,295,710	2,246,500	-2.19%
Total operating expenses	<u>10,353,492</u>	<u>11,060,431</u>	6.39%	<u>8,941,067</u>	<u>9,759,235</u>	8.38%
Operating income (loss)	<u>(56,077)</u>	<u>(755,131)</u>	92.57%	<u>1,869,070</u>	<u>273,265</u>	583.98%
Non-operating revenues						
Impact fees	473,557	244,000	94.08%	590,452	293,000	101.52%
Investment earnings	268,308	225,500	18.98%	272,572	225,500	20.87%
Other revenues:						
Tap fees	85,810	63,300	35.56%	20,745	17,000	22.03%
Inspection fees	11,631	6,100	90.67%	13,586	8,100	67.73%
Backflow prevention	28,590	29,600	-3.41%	-	-	-
Tie in charges	32,065	20,000	60.33%	69,406	16,000	333.79%
Rental income	44,670	47,900	-6.74%	44,670	47,900	-6.74%
Lease of water rights	19,500	-	100.00%	-	-	0.00%
Garbage billing fees	37,500	37,500	-	37,500	37,500	-
Work done for others	10,915	12,000	-9.04%	3,173	12,500	-74.62%
Gain on disposition of assets	31,635	10,000	216.35%	(14,146)	5,000	-382.92%
Other revenue	12,797	26,800	-52.25%	159,212	120,000	32.68%
Total non-operating revenue	<u>1,056,978</u>	<u>722,700</u>	46.25%	<u>1,197,170</u>	<u>782,500</u>	52.99%
Non-operating expenses						
Interest and amortization expense	354,301	354,426	0.04%	355,303	355,375	0.02%
Change in net position before contributions	646,600	(386,857)	267.14%	2,710,937	700,390	287.06%
Capital contributions	460,392	-	100.00%	309,160	-	100.00%
Change in net position	<u>\$ 1,106,992</u>	<u>\$ (386,857)</u>	386.15%	<u>\$ 3,020,097</u>	<u>\$ 700,390</u>	331.20%

CITY OF HARLINGEN WATERWORKS SYSTEM
Schedule of Revenues, Expenses and Changes in Net Position
Comparison of Actual to Budget
For the Fiscal Year Ended September 30, 2020

	Total		Percentage Variance
	Actual	Budget	
Operating Revenue			
Base charge	\$ 5,005,507	\$ 4,988,000	0.35%
Service revenues	14,064,790	13,215,000	6.43%
Sales to Combes	327,856	294,000	11.52%
Sales to Primera	387,184	360,000	7.55%
Sales to Palm Valley	221,965	215,000	3.24%
Sales to East Rio Hondo	86,143	80,000	7.68%
Sales to Military Highway	2,412	1,200	101.00%
Fuel adjustment	498,534	473,800	5.22%
Customer penalties	139,029	290,500	-52.14%
Disconnect fees	106,177	205,200	-48.26%
Industrial surcharge fees	183,447	126,000	45.59%
Pretreatment testing fees	15,280	13,500	13.19%
Other revenues	69,228	75,600	-8.43%
Total operating revenues	<u>21,107,552</u>	<u>20,337,800</u>	3.78%
Operating expenses			
Personnel services	8,694,651	9,243,215	5.93%
Contracted services	3,186,374	3,878,520	17.85%
Supplies and maintenance	3,211,052	3,492,200	8.05%
Other expenses	147,315	230,731	36.15%
Depreciation expense	4,055,167	3,975,000	-2.02%
Total operating expenses	<u>19,294,559</u>	<u>20,819,666</u>	7.33%
Operating income	1,812,993	(481,866)	-476.24%
Non-operating revenues			
Impact fees	1,064,009	537,000	98.14%
Investment earnings	540,881	451,000	19.93%
Other revenues:			
Tap fees	106,555	80,300	32.70%
Inspection fees	25,216	14,200	77.58%
Backflow prevention	28,590	29,600	-3.41%
Tie in charges	101,471	36,000	181.86%
Rental income	89,340	95,800	-6.74%
Lease of water rights	19,500	-	100.00%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	14,088	24,500	-42.50%
Gain on disposition of assets	17,490	15,000	16.60%
Other revenue	172,008	146,800	17.17%
Total non-operating revenue	<u>2,254,148</u>	<u>1,505,200</u>	49.76%
Non-operating expenses			
Interest and amortization expense	<u>709,604</u>	<u>709,801</u>	0.03%
Change in net position before contributions	3,357,537	313,533	970.87%
Capital contributions	<u>769,552</u>	-	100.00%
Change in net position	<u>\$ 4,127,089</u>	<u>\$ 313,533</u>	1216.32%

CITY OF HARLINGEN WATERWORKS SYSTEM

Schedule of Revenues, Expenses and Changes in Net Position Water, Wastewater and Total System For Fiscal Year Ended September 30

	Water		Percentage Variance	Wastewater		Percentage Variance
	2020	2019		2020	2019	
Operating Revenue						
Base charge	\$ 3,011,432	\$ 2,976,697	1.17%	\$ 1,994,075	\$ 1,974,041	1.01%
Service revenues	6,118,021	5,675,773	7.79%	7,946,769	7,610,476	4.42%
Sales to Combes	116,843	105,079	11.20%	211,014	209,912	0.52%
Sales to Primera	240,007	219,030	9.58%	147,177	143,923	2.26%
Sales to Palm Valley	221,965	216,784	2.39%	-	-	-
Sales to East Rio Hondo	86,143	97,772	-11.89%	-	-	-
Sales to Military Highway	2,412	1,200	101.00%	-	-	-
Fuel adjustment	260,193	241,894	7.56%	238,340	228,643	4.24%
Customer penalties	64,994	136,219	-52.29%	74,035	156,082	-52.57%
Disconnect fees	106,177	216,332	-50.92%	-	-	-
Industrial surcharge fees	-	-	-	183,447	149,177	22.97%
Pretreatment testing fees	-	-	-	15,280	13,130	16.37%
Other revenues	69,228	76,024	-8.94%	-	-	0.00%
Total operating revenues	<u>10,297,415</u>	<u>9,962,804</u>	3.36%	<u>10,810,137</u>	<u>10,485,384</u>	3.10%
Operating expenses						
Personnel services	4,401,511	4,737,654	-7.10%	4,293,140	4,141,742	3.66%
Contracted services	2,264,363	1,934,123	17.07%	922,010	841,117	9.62%
Supplies and maintenance	1,837,658	1,673,522	9.81%	1,373,394	1,203,112	14.15%
Other expenses	90,503	95,700	-5.43%	56,813	86,388	-34.24%
Depreciation expense	1,759,457	1,711,848	2.78%	2,295,710	2,325,889	-1.30%
Total operating expenses	<u>10,353,492</u>	<u>10,152,847</u>	1.98%	<u>8,941,067</u>	<u>8,598,248</u>	3.99%
Operating income (loss)	<u>(56,077)</u>	<u>(190,043)</u>	-70.49%	<u>1,869,070</u>	<u>1,887,136</u>	-0.96%
Non-operating revenues						
Impact fees	473,557	255,519	85.33%	590,452	317,324	86.07%
Investment earnings	268,308	364,044	-26.30%	272,572	365,087	-25.34%
Other revenues:						
Tap fees	85,810	57,366	49.58%	20,745	23,708	-12.50%
Inspection fees	11,631	6,301	84.59%	13,586	10,481	29.63%
Backflow prevention	28,590	26,450	8.09%	-	-	0.00%
Tie in charges	32,065	40,308	-20.45%	69,406	13,619	409.63%
Rental income	44,670	50,703	-11.90%	44,670	50,703	-11.90%
Lease of water rights	19,500	13,125	48.57%	-	-	0.00%
Garbage billing fees	37,500	37,500	0.00%	37,500	37,500	0.00%
Work done for others	10,915	8,727	25.07%	3,173	18,473	-82.82%
Gain on disposition of assets	31,635	35,101	-9.87%	(14,146)	28,753	-149.20%
Other revenue	12,797	22,066	-42.01%	159,212	121,587	30.94%
Total non-operating revenue	<u>1,056,978</u>	<u>917,210</u>	15.24%	<u>1,197,170</u>	<u>987,235</u>	21.26%
Non-operating expenses						
Interest and amortization expense	<u>354,301</u>	<u>365,564</u>	-3.08%	<u>355,303</u>	<u>367,221</u>	-3.25%
Change in net position before contributions	646,600	361,603	78.81%	2,710,937	2,507,150	8.13%
Capital contributions	<u>460,392</u>	<u>311,428</u>	47.83%	<u>309,160</u>	<u>207,389</u>	49.07%
Change in net position	<u>\$ 1,106,992</u>	<u>\$ 673,031</u>	64.48%	<u>\$ 3,020,097</u>	<u>\$ 2,714,539</u>	11.26%

CITY OF HARLINGEN WATERWORKS SYSTEM
Schedule of Revenues, Expenses and Changes in Net Position
Water, Wastewater and Total System
For Fiscal Year Ended September 30,

	Total		Percentage Variance
	2020	2019	
Operating Revenue			
Base charge	\$ 5,005,507	\$ 4,950,738	1.11%
Service revenues	14,064,790	13,286,249	5.86%
Sales to Combes	327,856	314,991	4.08%
Sales to Primera	387,184	362,953	6.68%
Sales to Palm Valley	221,965	216,784	2.39%
Sales to East Rio Hondo	86,143	97,772	-11.89%
Sales to Military Highway	2,412	1,200	101.00%
Fuel adjustment	498,534	470,537	5.95%
Customer penalties	139,029	292,301	-52.44%
Disconnect fees	106,177	216,332	-50.92%
Industrial surcharge fees	183,447	149,177	22.97%
Pretreatment testing fees	15,280	13,130	16.37%
Other revenues	69,228	76,024	-8.94%
Total operating revenues	<u>21,107,552</u>	<u>20,448,188</u>	3.22%
Operating expenses			
Personnel services	8,694,651	8,879,396	-2.08%
Contracted services	3,186,374	2,775,240	14.81%
Supplies and maintenance	3,211,052	2,876,634	11.63%
Other expenses	147,315	182,088	-19.10%
Depreciation expense	4,055,167	4,037,737	0.43%
Total operating expenses	<u>19,294,559</u>	<u>18,751,095</u>	2.90%
Operating income (loss)	<u>1,812,993</u>	<u>1,697,093</u>	6.83%
Non-operating revenues			
Impact fees	1,064,009	572,843	85.74%
Investment earnings	540,881	729,131	-25.82%
Other revenues:			
Tap fees	106,555	81,074	31.43%
Inspection fees	25,216	16,782	50.26%
Backflow prevention	28,590	26,450	8.09%
Tie in charges	101,471	53,927	88.16%
Rental income	89,340	101,406	-11.90%
Lease of water rights	19,500	13,125	48.57%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	14,088	27,200	-48.21%
Gain on disposition of assets	17,490	63,854	72.61%
Other revenue	172,008	143,653	19.74%
Total non-operating revenue	<u>2,254,148</u>	<u>1,904,445</u>	18.36%
Non-operating expenses			
Interest and amortization expense	709,604	732,785	-3.16%
Change in net position before contributions	<u>3,357,537</u>	<u>2,868,753</u>	17.04%
Capital contributions	769,552	518,817	48.33%
Change in net position	<u>\$ 4,127,089</u>	<u>\$ 3,387,570</u>	21.83%

CITY OF HARLINGEN WATERWORKS SYSTEM

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STATISTICAL SECTION

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF REVENUE BOND COVERAGE
Last Ten Fiscal Years**

Fiscal Year	(1)	(2)	Net Revenue Available for Debt Service	(3)			Coverage Ratio
	Gross Revenue	Operating Expenses		Annual Debt Service Requirement			
				Principal	Interest	Total	
2011	\$ 20,185,415	\$ 12,785,464	\$ 7,399,951	\$ 1,850,000	\$ 738,190	\$ 2,588,190	2.85
2012	20,802,973	13,098,103	7,704,870	1,910,000	688,990	2,598,990	2.96
2013	20,337,489	13,504,156	6,833,333	1,980,000	629,890	2,609,890	2.61
2014	19,132,562	13,804,689	5,327,873	900,000	582,309	1,482,309	3.59
2015	18,770,642	13,801,280	4,969,362	320,000	576,203	896,203	5.54
2016	20,585,693	14,688,435	5,897,258	1,455,000	787,781	2,242,781	2.62
2017	22,961,246	14,478,699	8,482,547	1,480,000	757,606	2,237,606	3.79
2018	23,102,296	14,344,638	8,757,658	1,525,000	719,106	2,244,106	3.90
2019	22,352,633	14,713,358	7,639,275	1,565,000	672,756	2,237,756	3.41
2020	23,361,700	15,239,392	8,122,308	1,385,000	617,125	2,002,125	4.05

(1) Gross revenues of the System

(2) Expenses of operation and maintenance of the System, including salaries, labor, materials, repairs and extensions necessary to render efficient service. Depreciation and payments into and out of the interest and sinking fund and the reserve fund are excluded.

(3) The debt service due within one year of the fiscal year end.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NUMBER OF CONNECTIONS
Last Ten Fiscal Years**

WATER SYSTEM			
Fiscal	Active	Inactive	Total
Year	Connections	Connections	Connections
2011	24,144	3,611	27,755
2012	24,445	3,523	27,968
2013	24,592	2,766	27,358
2014	24,842	2,754	27,596
2015	25,087	2,728	27,815
2016	25,248	2,835	28,083
2017	25,624	2,789	28,413
2018	25,895	2,729	28,624
2019	26,152	2,606	28,758
2020	26,628	2,720	29,348

WASTEWATER SYSTEM			
Fiscal	Active	Inactive	Total
Year	Connections	Connections	Connections
2011	19,457	3,083	22,540
2012	19,633	3,012	22,645
2013	19,762	2,976	22,738
2014	19,687	2,900	22,587
2015	19,892	1,582	21,474
2016	20,013	1,622	21,635
2017	20,164	928	21,092
2018	20,369	925	21,294
2019	20,574	889	21,463
2020	20,956	888	21,844

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WATER RATES (EFFECTIVE OCTOBER 1, 2020)**

Base Rate: Residential and Commercial

<u>Meter Size</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
3/4"	\$ 7.93	\$ 12.49
1"	10.07	15.09
1 1/2"	14.56	21.86
2"	33.02	49.55
3"	49.17	73.77
4"	112.87	169.32
6"	231.80	346.97
8"	426.15	639.24

Commodity Charge

(per each 1,000 gallons of water usage)

All meters	\$ 1.65	\$ 2.48
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Fuel Cost Adjustment

(per each 1,000 gallons of water usage)

All meters	\$ 0.06	\$ 0.06
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Monthly Fire Suppression Charge

<u>Meter Size</u>	
4"	\$ 5.00
6"	7.00
8"	9.00
10"	11.00
12"	13.00

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WASTEWATER RATES (EFFETIVE October 1, 2020)**

Base Rate: Residential and Commercial

Meter Size	Inside City Limits	Outside City Limits
3/4"	\$ 6.18	\$ 20.50
1"	9.44	20.50
1 1/2"	21.41	21.41
2"	25.77	25.77
3"	52.97	52.97
4"	134.60	134.60
6"	276.08	276.08
8"	439.33	439.33

Commodity Charge

All meters	\$ 3.66	\$ 3.66
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Fuel Cost Adjustment

All meters	\$ 0.11	\$ 0.11
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Per each 1,000 gallons of water usage - single-family residential customers are limited to the average of water usage in the months of December, January, and February of each year.

**CITY OF HARLINGEN WATERWORKS SYSTEM
TOP TEN WATER CUSTOMERS**

<u>Customer</u>	<u>Type of Industry</u>	<u>Water Revenues</u>	<u>% of Total</u>	<u>Water Usage (in thousands)</u>	<u>% of Total</u>
Harlingen C.I.S.D.	Education	\$ 255,884	2.48%	130,157	3.27%
City of Primera	Municipality	240,007	2.33%	145,455	3.65%
City of Palm Valley	Municipality	221,965	2.16%	134,524	3.38%
Valley Baptist Medical Center	Health Care	137,378	1.33%	76,547	1.92%
City of Combes	Municipality	125,776	1.22%	94,459	2.37%
East Rio Hondo Water Supply	Water Supplier	86,143	0.84%	51,777	1.30%
Paradise Park	Mobile Home Park/Housing	77,988	0.76%	45,623	1.15%
Texas State Techincal College	Education	51,792	0.50%	23,714	0.60%
Harlingen Medical Center	Health Care	50,573	0.49%	28,783	0.72%
Texas Industrial Service	Laundry/Uniform Service	47,042	0.46%	27,616	0.69%
		<u>\$ 1,294,548</u>	<u>12.57%</u>	<u>758,655</u>	<u>19.05%</u>
	Total Revenues/Gallons	\$ 10,297,415		3,984,500	

**CITY OF HARLINGEN WATERWORKS SYSTEM
TOP TEN SEWER CUSTOMERS**

Customer	Type of Industry	Sewer Revenues	% of Total
City of Combes	Municipality	\$ 229,744	2.13%
Valley Baptist Medical Center	Health Care	226,131	2.09%
Harlingen C.I.S.D.	Education	208,586	1.93%
Paradise Park	Mobile Home Park/Housing	170,212	1.57%
City of Primera	Municipality	157,509	1.46%
Texas Industrial Service	Laundry/Uniform Service	101,303	0.94%
Valco Chemical Co.	Industrial	89,856	0.83%
Harlingen Medical Center	Health Care	86,463	0.80%
Reddy Ice Corporation	Ice Manufacturing/Distribution	62,688	0.58%
Sundance Apartments	Housing	58,024	0.54%
		\$ 1,390,516	12.86%
	Total Wastewater Revenue	\$ 10,810,137	

**CITY OF HARLINEN WATERWORKS SYSTEM
HISTORICAL WATER PUMPAGE VOLUME - RAW WATER**

Fiscal Year Ended 9/30	Daily Average (millions)	Peak Day (millions)	Peak Month (millions)	Total Annual Usage (millions)	Paid To Irrigation District
2011	13.6	20.5	530.7	4,961.4	839,973
2012	14.1	23.6	543.7	5,156.6	956,142
2013	13.9	20.5	484.4	5,079.7	1,052,773
2014	12.9	21.1	561.6	4,709.0	991,612
2015	12.0	22.0	520.1	4,376.5	1,010,833
2016	13.2	22.2	561.4	4,838.9	1,154,384
2017	14.1	20.6	517.0	5,143.0	1,214,127
2018	13.6	23.1	529.0	4,968.0	1,165,861
2019	12.2	20.3	556.9	4,449.5	1,062,225
2020	13.6	23.1	539.0	4,984.0	1,225,443

**CITY OF HARLINGEN WATERWORKS SYSTEM
HISTORICAL WATER PUMPAGE VOLUME - HIGH SERVICE**

Fiscal Year Ended 9/30	Daily Average (millions)	Peak Day (millions)	Peak Month (millions)	Total Annual Usage (millions)	Water Revenue
2011	13.0	17.1	503.1	4,733.9	9,026,782
2012	13.3	23.6	503.5	4,878.5	9,274,968
2013	13.1	19.7	453.7	4,786.9	8,873,457
2014	12.0	20.4	541.7	4,393.4	8,288,521
2015	11.6	20.7	397.8	4,230.5	8,255,106
2016	12.9	22.5	549.2	4,724.5	9,338,805
2017	13.9	19.9	408.4	5,058.5	10,615,354
2018	13.3	21.2	423.6	4,865.1	10,505,300
2019	12.2	20.3	556.9	4,449.5	9,962,804
2020	13.6	23.1	377.3	4,858.0	10,297,415

**CITY OF HARLIEN WATERWORKS SYSTEM
HISTORICAL WASTEWATER TREATMENT VOLUME**

Fiscal Year Ended 9/30	Daily Average (millions)	Monthly Average (millions)	Total Annual Usage (millions)	Sewer Revenue
2011	6.2	189.7	2,276.4	10,109,783
2012	5.8	175.6	2,107.0	10,332,777
2013	5.7	171.8	2,061.4	10,009,046
2014	5.8	174.9	2,099.0	9,431,250
2015	6.1	186.7	2,240.1	9,329,251
2016	6.2	189.0	2,268.3	10,084,472
2017	6.5	196.5	2,357.6	10,862,103
2018	6.4	195.6	2,347.1	10,766,428
2019	6.2	189.5	2,274.5	10,485,384
2020	6.4	195.8	2,349.0	10,810,137

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COMPLIANCE SECTION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City of Harlingen
Waterworks System Board of Trustees

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Harlingen Waterworks System, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Harlingen Waterworks System's basic financial statements, and have issued our report thereon dated March 19, 2021.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
March 19, 2021