

**CITY OF HARLINGEN, TEXAS
WATERWORKS SYSTEM**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**For the Fiscal Years Ended
September 30, 2023 and 2022**

Prepared by:

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS**

	<u>Page Number</u>
INTRODUCTORY SECTION	
Transmittal Letter	3-4
Principal Officials	5
Organizational Chart	6
FINANCIAL SECTION	
Independent Auditor's Report-	7-14
Management's Discussion and Analysis	15-24
Basic Financial Statements	
Statements of Net Position	25-26
Statements of Revenues, Expenses and Changes in Net Position	27
Statements of Cash Flows	28-29
Notes to the Financial Statements	30-66
Required Supplementary Information	
Texas Municipal Retirement System:	
Schedule of Changes in Net Pension (Asset) Liability and Related Ratios	67
Schedule of Contributions Last Ten Fiscal Years	68
Notes to Schedule of Contributions	69
Schedule of Changes in the System's Supplemental Death Benefit Fund	
OPEB Liability and Related Ratios	70
Schedule of Changes in the Retiree Health Plan Total	
OPEB Liability and Related Ratios	71
Schedule of Funding Progress Last Three Fiscal Years	72
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenses and Changes in Net Position	
Comparison of Actual to Budget	73-74
Schedule of Revenues, Expenses and Changes in Net Position – Water, Wastewater and Total System	75-76
STATISTICAL SECTION	
Schedule of Revenue Bond Coverage	77
Number of Connections	78
Monthly Water Rates	79
Monthly Wastewater Rates	80
Top Ten Water Customers	81
Top Ten Sewer Customers	82
Historical Water Pumpage Volume – Raw Water	83
Historical Water Pumpage Volume – High Service	84
Historical Wastewater Treatment Volume	85
COMPLIANCE SECTION	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	86-88

(This page intentionally left blank.)



March 24, 2024

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, 2023.

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 composed 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 71,678. 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 Certificates 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
General Manager



Ronald De La Garza
Finance and Revenue Director

**CITY OF HARLINGEN WATERWORKS SYSTEM
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2023
UTILITY BOARD OF TRUSTEES**

Officers

Christopher Bartnesky, Chairman	May 2023
Enrique Del Angel, Vice-Chairman	May 2024

Members

Michael Murphy	May 2023
Maru de la Paz	May 2025
Michael Garza	May 2026

Ex-Officio Members

Norma Sepulveda, Mayor
Gabriel Gonzalez, City Manager

General Manager

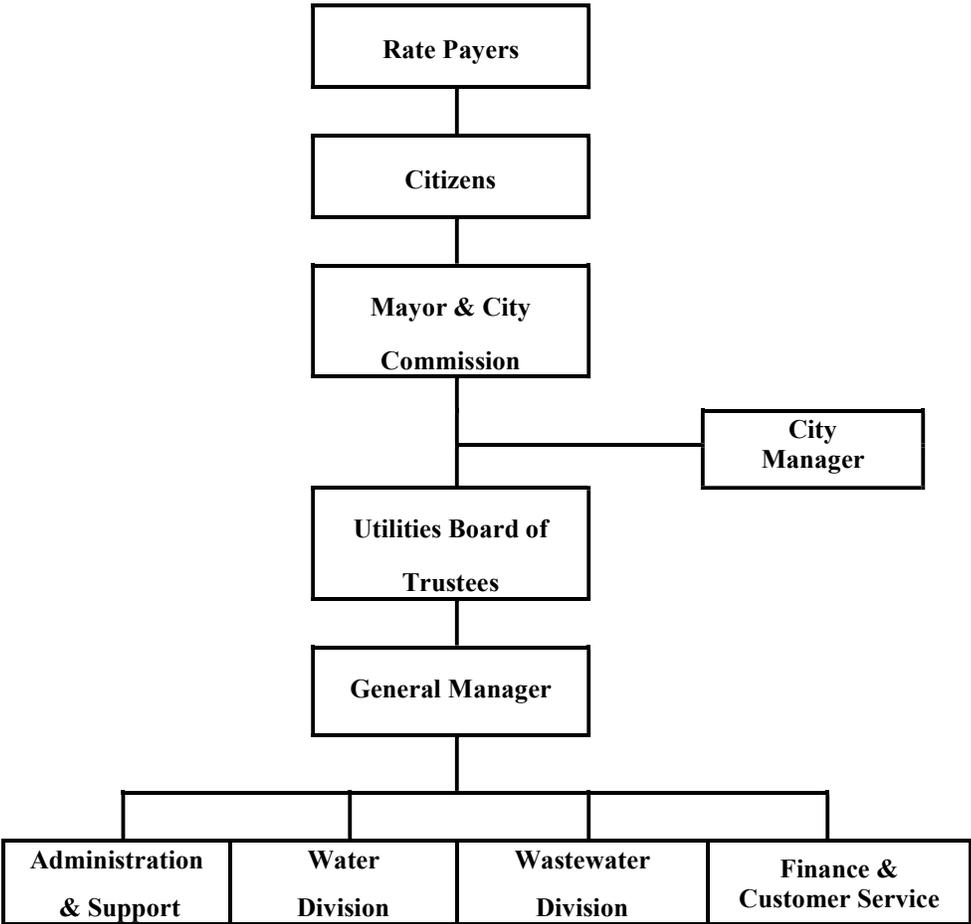
Timothy E. Skoglund, P.E.

CITY OF HARLINGEN WATERWORKS SYSTEM

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2023

ORGANIZATIONAL CHART



INDEPENDENT AUDITOR'S REPORT

To the City of Harlingen
Waterworks System Board of Trustees

Report on the Audit of the Financial Statements

Opinions

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, 2023 and 2022, 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.

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, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Harlingen Waterworks System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

(This page intentionally left blank.)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

(This page intentionally left blank.)

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 15-24 and 67-72 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

(This page intentionally left blank.)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, 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 25, 2024

(This page intentionally left blank.)

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

As management of the City of Harlingen Waterworks System (the "System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial performance of the System for the fiscal year ended September 30, 2023. We encourage readers to consider the information presented here in conjunction with the System's audited financial statements, which begin on page 25.

OVERVIEW OF THE FINANCIAL STATEMENTS

The System is a component unit of the City of Harlingen, Texas. These statements are included in the comprehensive annual financial report of the City. As a proprietary type component unit of the City, the System operates in a manner similar to a private business enterprise. The intent of the governing body of the City of Harlingen is for the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, to be financed or recovered primarily through user charges. This report consists of the basic financial statements of the System: (a) the Statement of Net Position; (b) the Statement of Revenues, Expenses, and Changes in Net Position; (c) the Statement of Cash Flows; and (d) the Notes to the Financial Statements. These statements provide a broad overview of the results of the System's operations.

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

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the System's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports cash flows in three separate categories (operating, capital and related financing, and investing).

The basic financial statements can be found on pages 25-29 of this report.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the aforementioned statements. The notes to the financial statements can be found on pages 30-66 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*, concerning the System's progress in funding its obligation to provide pension benefits and other post-employment benefits to employees who retire from the System, which can be found on page 67-72 of this report. Other supplementary information presented on pages 73-76 provides detailed revenues and expenses for the System's two operational departments, water and wastewater; for the current and previous fiscal years and a budgetary comparison schedule.

The Statistical Section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader, is presented on pages 77-85.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

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>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 34,611,842	\$ 32,865,410	\$ 31,560,134
Current restricted assets	11,258,233	9,608,204	8,059,576
Noncurrent assets:			
Net pension asset	-	157,533	1,331,806
Capital assets	85,313,970	81,033,128	78,155,201
Total assets	<u>131,184,045</u>	<u>123,664,275</u>	<u>119,106,717</u>
 <u>Deferred Outflows of Resources</u>			
Deferred amount on debt refunding	99,307	122,957	148,753
Deferred pension related outflows	3,739,692	1,042,185	1,107,501
Deferred OPEB related outflows	443,806	838,090	1,462,021
Total deferred outflows of resources	<u>4,282,805</u>	<u>2,003,232</u>	<u>2,718,275</u>
 <u>Liabilities</u>			
Current liabilities	4,008,100	3,207,693	3,308,939
Current liabilities payable from restricted assets	569,229	584,042	598,479
Long term debt	14,587,933	15,709,757	16,801,745
Net retiree health care plan liability	7,335,464	9,526,949	10,990,608
Net retiree death benefit plan liability	554,780	761,947	712,234
Net pension liability	3,468,446	-	-
Customer deposits	3,224,527	3,055,167	2,905,862
Other noncurrent liabilities	363,893	313,684	289,145
Total liabilities	<u>34,112,372</u>	<u>33,159,239</u>	<u>35,607,012</u>
 <u>Deferred Inflows of Resources</u>			
Deferred pension inflows	1,510,939	2,278,118	1,819,801
Deferred OPEB inflows	2,157,596	1,111,183	670,314
Total deferred inflows of resources	<u>3,668,535</u>	<u>3,389,301</u>	<u>2,490,115</u>
 <u>Net Position</u>			
Net investment in capital assets	69,511,731	64,354,340	60,435,235
Restricted	6,177,979	4,883,684	5,172,706
Unrestricted	21,996,233	19,880,943	18,119,924
Total net position	<u>\$ 97,685,943</u>	<u>\$ 89,118,967</u>	<u>\$ 83,727,865</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

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 \$97,685,943, an increase of \$8,566,976 from the previous year's balance.

The largest portion of the System's net position, \$69,511,731 (71.2%) 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 \$6,177,979 (6.3%), represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$21,996,233 (22.5%) may be used to meet the System's ongoing obligations to customers and creditors.

For the fiscal year ended September 30, 2023, the System's total net position increased by \$8,566,976. The factors in this increase include an increase in the investment in capital assets, net of related debt of \$5,157,391, an increase in restricted net position of \$1,294,295; and a increase in unrestricted net position of \$2,115,290.

The System added \$6,533,425 in capital assets and accepted ownership of \$1,569,692 in infrastructure contributed by developers in fiscal year 2023. These additions were offset by depreciation for the fiscal year the amount of \$3,822,275. The net of all transactions resulted in the carrying value of the System's capital assets to increase by \$4,280,842. The System's investment in capital assets is reported net of related outstanding debt. Therefore, the retirement of debt affects the valuations. The net carrying value of outstanding debt was reduced by \$1,091,988.

The System's restricted net position increased \$1,294,295 in fiscal year 2023. Funds restricted for the payment of principal and interest on debt increased by \$33,560. The net increase in impact fee, front-footage fee, and tie-in-charge revenues restricted for expansion and maintenance of infrastructure totaled \$1,407,185. 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 2022 to 2023, the decrease in restricted net position related to the System's pension obligation is \$161,293.

The System's unrestricted net position increase of \$2,115,290 is primarily due to the System's continued operations in fiscal year 2023. During the current year, the System's investments experienced significant investment earnings primarily due to the better market performance when compared to fiscal year 2022. In addition, the System received additional intergovernmental revenues in the amount of \$2,487,316, an increase of \$545,863 from fiscal year 2022.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

Revenues

In comparison to the fiscal year 2022, total operating revenues increased by \$847,372 (3.92%) in fiscal year 2023.

Fiscal year 2023 net water service revenue of \$6,530,104 reflects a increase of \$424,310 (6.95%) from fiscal year 2022 levels. The increase in sales/water consumption can be attributed to an increase in average temperatures and decreased rainfall activity. With active connections increasing (1.4%), total rainfall of 21.2 inches for the year was less than the 25.2 inches historically received. However, 58% of the year's total rainfall was received in the months of March through May of 2023. Significant rainfall events negatively affect sales in the following months. Similarly, less than average rainfall during the winter months leads to an increase in winter averaging values that increase revenues for the following 12 months. Wholesale water sales to local water providers increased by \$103,574 (13.7%) to \$858,059 in comparison to fiscal year 2022 wholesale charges of \$754,485. Wholesale water sales revenue in fiscal year 2021 totaled \$711,447. Total water operating revenues continued to increase annually by \$554,645 (5.22%) to \$11,182,463 as compared to \$18,798 (0.18%) to \$10,627,818 in fiscal year 2022. Water operating revenue in fiscal year 2021 totaled \$10,609,020.

Wastewater "base" customer charges increased by \$22,117 (1.08%) and \$26,888 (1.33%) totaling \$2,071,055 and \$2,048,939 for fiscal years 2023 and 2022, respectfully. Wastewater "base" customer charges for fiscal year 2021 were \$2,022,051. 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 \$267,377 (3.32%) to \$8,328,869 in fiscal 2023 and decreased \$90,639 (1.11%) to \$8,061,492 in fiscal year 2022. 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. Fiscal year 2023 wastewater operating revenue totaled \$11,290,624, an increase of \$292,726 (2.66%) in comparison to fiscal year 2022 operating revenue of \$10,997,898. Total wastewater operating revenue for fiscal year 2021 was \$11,155,735.

As a result of continued inflationary pressures, market interest rates rose significantly, and investment earnings increased by \$1,349,902 (675.76%) to \$1,549,664 in fiscal 2023 and increased \$25,223 (14.45%) to \$199,763 in fiscal year 2022 over interest earnings of \$174,540 in fiscal year 2021. The fiscal year 2023 average invested balance of approximately \$38,000,000 was invested at a rate of return of 4.44%; the average invested balance in fiscal year 2022 of approximately \$37,000,000 was invested at a rate of return of 0.72%; and the 2021 average invested balance of \$36,000,000 was invested at a rate of return of 0.36%.

Impact fee revenue of \$1,025,058, and \$1,193,766 reflect a decrease of \$168,708 (14.13%) and an increase of \$284,054 (31.22%) in fiscal years 2023 and 2022, respectively, when compared to fiscal year 2021 impact fee revenue of \$909,712. The average annual impact fee revenue for the previous four-year period (2022-2019) has been \$935,083. Fiscal year 2023 revenue is \$89,975 (9.6%) more than the previous four-year average, reflecting an increase in annual system growth.

Capital contributions of water and wastewater service lines for the 2023 fiscal year totaled \$1,569,692, a decrease of \$201,957 (11.4%) over fiscal year 2022 contributed capital of \$1,771,649. Fiscal 2022 contributed capital reflected an increase of \$887,996 (100.49%) over fiscal year 2021 capital contributions of \$883,653.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

Expenses

Fiscal year 2023 operating expenses of \$20,911,568 represent a decrease of \$844,969 (3.88%) over 2022 operating expenses of \$21,756,537, which increased by \$1,816,037 (9.11%) in relation to 2021 operating expenses of \$19,940,500.

Personnel services expenses totaled \$9,185,418 in fiscal year 2023, a decrease of \$1,403,179 (13.25%) over fiscal year 2022 expenses of \$10,588,597, which reflected an increase of \$1,298,875 (13.98%) over fiscal year 2021 personnel services expenses of \$9,289,723. The fiscal year 2023 decrease is due to rising vacancies and the reduction of costs associated with upper-level management positions hired in the current year. The fiscal year 2022 increase was due to rising inflation and the need to provide quality pay structures for specialized positions.

Contractual services expenses totaling \$3,108,456 reflect a decrease of \$95,850 (2.99%) in fiscal year 2023, in comparison to fiscal year 2022 expenses of \$3,204,306. The primary factor in the decrease in expenses was the amount of ongoing professional services for the System's master planning projects and other consulting services in progress. Fiscal year 2022 contractual services expenses totaling \$3,204,306 reflected a \$86,324 (2.77%) increase in comparison to fiscal year 2021 expenses.

Total supply and maintenance expenses for fiscal year 2023 total \$4,591,038, an increase of \$747,939 (19.46%) in comparison to fiscal year 2022 supply and maintenance expenses of \$3,843,099, an increase of \$432,689 (2.24%) over fiscal year 2021 expense of \$3,410,410. Factors contributing to the increase in supply costs were overall market increases in response to continued rising inflation, and replacement of operating equipment.

Fiscal year 2023 "Other" expenses totaled \$204,381, an increase of \$69,012 (50.98%) over fiscal year 2022 expenses of \$135,369. The primary factor in the fiscal year 2023 increase was the commencement of in person training opportunities requiring travel and related costs throughout the organization.

Depreciation expenses of \$3,822,275 in fiscal year 2023, \$3,985,166 in fiscal year 2022, and \$3,975,072 in fiscal year 2021 reflects a decrease of \$162,891 (4.09%) and an increase of \$10,094 (0.25%) in fiscal years 2022 and 2021 respectively. Improvements to Wastewater Treatment Plant #2 began being depreciated in 2018, and 2019.

In fiscal year 2023, net interest and amortization expense decreased by \$32,636 (6.28%) to \$486,724. 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 2022, interest and amortization expense increased by \$127,219 (32.44%) to \$519,360. 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 2021 totaled \$392,141.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

CHANGES IN NET POSITION

	2023	2022	2021
Operating revenues	\$ 22,473,088	\$ 21,625,716	\$ 21,764,755
Operating expenses	20,911,568	21,756,537	19,940,500
Operating income	<u>1,561,520</u>	<u>(130,821)</u>	<u>1,824,255</u>
Non-operating revenues:			
Impact fees	1,025,058	1,193,766	909,712
Investment earnings	1,549,664	199,763	174,540
Other	860,450	934,652	1,348,840
Intergovernmental	2,487,316	1,941,453	
Total non-operating revenues	<u>5,922,488</u>	<u>4,269,634</u>	<u>2,433,092</u>
Non-operating expenses:			
Interest expense and amortization	<u>486,724</u>	<u>519,360</u>	<u>392,141</u>
Change in net position before contributions	6,997,284	3,619,453	3,865,206
Capital contributions	<u>1,569,692</u>	<u>1,771,649</u>	<u>883,653</u>
Change in net position	<u>\$ 8,566,976</u>	<u>\$ 5,391,102</u>	<u>\$ 4,748,859</u>

CAPITAL ASSETS

The value of the System's capital assets (net of accumulated depreciation) increased by \$4,280,842 to \$85,313,970 in fiscal year 2023; and increased by \$2,877,927 to \$81,033,128 in fiscal year 2022. This investment in capital assets includes land, water rights, buildings, machinery and equipment, and system improvements.

Fiscal year 2023 asset acquisitions totaled \$6,533,425, including \$1,569,692 in contributed assets. No asset retirements were recorded for the fiscal year. The net accumulated depreciation on capital assets increased \$3,822,275 from fiscal year 2022. Total depreciation expense for the year 2023 was \$3,822,275.

Fiscal year 2022 asset acquisitions totaled \$5,091,445, including \$1,771,649 in contributed assets. Asset retirements totaled \$237,107. The net accumulated depreciation on capital assets increased \$3,748,059. Total depreciation expense for the year 2022 of \$3,985,166 was offset by \$237,107 of accumulated depreciation on assets retired throughout the year.

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

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

- Acquisition of 394 Acre ft. of Municipal water rights in the amount of \$817,800
- Completed a large meter and vault replacement – Total cost: \$152,268
- Purchase of Wastewater Dump Truck for total cost of - \$117, 344
- Updated aging fleet of 10 Service vehicles at a cost of \$440,203
- Purchase a Skid steer loader at a cost of \$65,777
- Completed rehabilitation of 52 wastewater manholes – Total cost: \$501,917
- Replaced 1,259 water meters – \$113,888
- Rehabilitated Lift Station 25 and replaced well, pumps and pipework – Total cost: \$413,465
- Purchased Information Technology operations equipment in the amount of \$133,358
- Purchase of 3 wastewater pipeline cameras in the amount of \$86,277

Additional information on the City of Harlingen Waterworks System's capital assets can be found in note 5 on page 41 of this report.

SCHEDULE OF CAPITAL ASSETS

as of September 30

	2023	2022	2021
Water rights	\$ 7,284,107	\$ 6,466,307	\$ 6,466,307
Land	1,266,211	1,210,953	1,210,953
Construction in progress	6,463,188	3,390,603	4,831,879
Water infrastructure	100,621,121	99,381,289	93,336,392
Wastewater infrastructure	94,415,877	92,137,042	90,549,098
Other buildings and equipment	4,786,438	4,737,083	4,614,341
Vehicles	5,633,640	5,044,186	4,732,507
Total capital assets	220,470,582	212,367,463	205,741,477
Less accumulated depreciation	(135,156,612)	(131,334,335)	(127,586,276)
Capital assets net of depreciation	\$ 85,313,970	\$ 81,033,128	\$ 78,155,201

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

DEBT ADMINISTRATION

At the end of the current fiscal year, the System had total bonded debt outstanding of \$15,345,000 with unamortized premiums and discounts of \$364,757 for net total debt of \$15,709,757, a decrease of \$1,091,988 from fiscal year 2022. The debt is secured by a pledge of the revenues of the water and wastewater systems. The System retired \$1,025,000 in outstanding bonds in fiscal year 2023.

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 were 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 was \$596,427. The percentage savings of the refunding bonds is 11.491858%.

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 43-46 of this report.

as of September 30,

Revenue Bonds	2023	2022	2021
Current portion	\$ 1,121,824	\$ 1,091,988	\$ 1,066,974
Long-term portion	14,587,933	15,709,757	16,801,745

The System plans to issue additional debt within the next twelve months. The Texas Water Development Board (TWDB) has provided the System funding opportunities to assist in completing system master plan projects within the next five years.

CITY OF HARLINGEN WATERWORKS SYSTEM
Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2023 and 2022

FISCAL YEAR 2024 BUDGET AND RATES

The fiscal year 2023 operating revenue budget was developed using a rolling 1% escalation for growth, with total operating revenue budgeted at \$21,011,578. The 2024 water service revenue budget was developed at a 1% increase from the 2023 level. The 2024 wastewater service revenue budget reflected a 1% increase to account for the impact of lower winter averages which carry over into fiscal year 2024. 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 2024 was budgeted at \$21,221,692.

An increase of \$1,755,840 in operating expenses was approved in the fiscal year 2024 budget. A 2% merit pay allocation and 2% cost of living allocation resulted in an increase in the personnel services budget of \$803,425. The budget for contractual services was increased by \$772,262 reflecting increases in professional services for the upcoming fiscal year. The budget for the supplies and maintenance category of expenses reflects an increase of \$187,309 as additional funding was budgeted for water and wastewater chemicals, fleet fuel, operating software, and postage. The budget for the "other" category of expenses was increased by \$7,306 reflecting an increase for employee incentives, travel and public outreach events.

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, 121 East Harrison, Harlingen, Texas, 78550.

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

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

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,309,054	\$ 9,460,089
Investments	21,348,326	18,724,649
Accounts receivable, net of allowance for uncollectible	2,410,415	2,077,227
Intergovernmental receivable	1,748,046	1,941,453
Interest receivable	62,555	2,542
Inventories	733,446	659,449
Restricted assets		
Cash and cash equivalents	5,238,404	4,746,541
Investments	<u>6,019,829</u>	<u>4,861,664</u>
Total current assets	<u>45,870,075</u>	<u>42,473,614</u>
Noncurrent Assets		
Net pension asset	-	157,533
Capital assets:		
Capital assets, not being depreciated:		
Land	1,266,211	1,210,953
Construction in progress	6,463,188	3,390,603
Water rights	7,284,107	6,466,307
Other capital assets, net of accumulated depreciation	<u>70,300,464</u>	<u>69,965,265</u>
Total capital assets	<u>85,313,970</u>	<u>81,033,128</u>
Total noncurrent assets	<u>85,313,970</u>	<u>81,190,661</u>
Total assets	<u>131,184,045</u>	<u>123,664,275</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	99,307	122,957
Deferred pension outflows	3,739,692	1,042,185
Deferred OPEB outflows	<u>443,806</u>	<u>838,090</u>
Total deferred outflows of resources	<u>4,282,805</u>	<u>2,003,232</u>

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

Continued

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

	2023	2022
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,422,700	\$ 772,431
Due to primary government	84,290	164,768
Other liabilities	879,286	678,506
Compensated absences - current	500,000	500,000
Revenue bonds - current	1,121,824	1,091,988
Payable from restricted assets:		
Accrued interest	219,229	234,042
Customer deposits - current	350,000	350,000
Total current liabilities	4,577,329	3,791,735
Noncurrent Liabilities		
Revenue bonds payable (net of unamortized premiums and discounts)	14,587,933	15,709,757
Compensated absences	363,893	313,684
Net retiree health care plan liability	7,335,464	9,526,949
Net retiree death benefit plan liability	554,780	761,947
Payable from restricted assets:		
Customer deposits	3,224,527	3,055,167
Net pension liability	3,468,446	-
Total noncurrent liabilities	29,535,043	29,367,504
Total liabilities	34,112,372	33,159,239
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	1,510,939	2,278,118
Deferred OPEB inflows	2,157,596	1,111,183
Total deferred inflows of resources	3,668,535	3,389,301
NET POSITION		
Net investment in capital assets	69,511,731	64,354,340
Restricted	6,177,979	4,883,684
Unrestricted	21,996,233	19,880,943
Total net position	\$ 97,685,943	\$ 89,118,967

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>2023</u>	<u>2022</u>
Operating Revenues		
Customer fees and charges	\$ 22,473,088	\$ 21,625,716
Operating Expenses		
Personnel services	9,185,418	10,588,597
Contractual services	3,108,456	3,204,306
Supplies and maintenance	4,591,038	3,843,099
Other	204,381	135,369
Depreciation	<u>3,822,275</u>	<u>3,985,166</u>
Total operating expenses	20,911,568	21,756,537
Operating Income	1,561,520	(130,821)
Non-Operating Revenues		
Impact fees	1,025,058	1,193,766
Investment earnings	1,549,664	199,763
Other	860,450	934,652
Intergovernmental	<u>2,487,316</u>	<u>1,941,453</u>
Total non-operating revenues	5,922,488	4,269,634
Non-Operating Expenses		
Interest and amortization expense	<u>486,724</u>	<u>519,360</u>
Change in Net Position before Contributions	6,997,284	3,619,453
Capital Contributions	<u>1,569,692</u>	<u>1,771,649</u>
Change in Net Position	8,566,976	5,391,102
Net Position - Beginning Year	<u>89,118,967</u>	<u>83,727,865</u>
Net Position - End of Year	<u>\$ 97,685,943</u>	<u>\$ 89,118,967</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>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 27,339,647	\$ 24,655,087
Payments to suppliers	(7,304,722)	(7,481,867)
Payments to or on behalf of employees	<u>(9,863,241)</u>	<u>(9,160,750)</u>
Net cash provided by operating activities	<u>10,171,684</u>	<u>8,012,470</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,993,848)	(6,945,283)
Proceeds from impact fees	1,025,058	1,193,766
Principal paid on revenue bonds	(1,025,000)	(995,000)
Interest and fees paid on revenue bonds	<u>(544,876)</u>	<u>(579,975)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,538,666)</u>	<u>(7,326,492)</u>
Cash Flow From Investing Activities		
Purchase of investments	(32,830,009)	(22,602,341)
Maturity of investments	29,048,168	19,047,575
Investment earnings	<u>1,489,651</u>	<u>199,165</u>
Net cash used by investing activities	<u>(2,292,190)</u>	<u>(3,355,601)</u>
Increase (decrease) in cash and cash equivalents	(659,172)	(2,669,623)
Cash and cash equivalents - beginning of year	<u>14,206,630</u>	<u>16,876,253</u>
Cash and cash equivalents - end of year	<u>\$ 13,547,458</u>	<u>\$ 14,206,630</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>2023</u>	<u>2022</u>	
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,561,520	\$ (130,821)	
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	3,822,275	3,985,166	
Non-operating revenue	4,917,458	4,647,754	
Changes in assets and liabilities:			
(Increase) decrease in receivables, net	(139,781)	(1,764,670)	
(Increase) decrease in inventory	(73,997)	(203,494)	
(Increase) decrease in net pension assets	157,533	1,174,273	
(Increase) decrease in pension related deferred outflows	(2,697,507)	65,317	
(Increase) decrease in OPEB related deferred outflows	394,284	623,930	
Increase (decrease) in accounts payable	650,269	(167,470)	
Increase (decrease) in due to primary government	(80,478)	47,565	
Increase (decrease) in other liabilities	(2,099,974)	(1,387,825)	
Increase (decrease) in liability for compensated absences	50,209	24,540	
Increase (decrease) in net pension liability	3,468,446	-	
Increase (decrease) in OPEB liability	(207,167)	49,713	
Increase (decrease) in pension related deferred inflows	(767,179)	458,317	
Increase in OPEB related deferred inflows	1,046,413	440,869	
Increase in customer deposits	169,360	149,306	
Net cash provided by operating activities	<u>\$ 10,171,684</u>	<u>\$ 8,012,470</u>	
Reconciliation of total cash and cash equivalents:			
Unrestricted cash and cash equivalents	\$ 8,309,054	\$ 9,460,089	\$ (1,151,035)
Restricted cash and cash equivalents	<u>5,238,404</u>	<u>4,746,541</u>	<u>491,863</u>
Total cash and cash equivalents	<u>\$ 13,547,458</u>	<u>\$ 14,206,630</u>	<u>\$ (659,172)</u>
Supplemental disclosure of noncash financing activities:			
Water lines, sewer mains and related infrastructure contributed to the System by developers.	<u>\$ 1,569,692</u>	<u>\$ 1,771,649</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, 2023 and 2022

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 twelve months or less from the date of acquisition.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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*.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 pension experience 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.

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, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 25, 2024, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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, 2023 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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

2. DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2023, the carrying amount of the System's deposits was as follows:

	2023				
	Plains Capital	Southside Bank	Plains Capital	Texpool	TexStar
	Demand Deposit	Money Market	IntraFi	LGIP	LGIP
Book Value	\$ 100,000	\$ 1,245,573	8,339,244	\$ 2,568,783	\$ 1,293,858
Bank Balance	100,000	1,245,573	8,339,244	2,568,783	1,293,858
FDIC Coverage	250,000	250,000	-	-	-
Collateral	-	1,554,579	9,326,089	-	-

At September 30, 2022, the carrying amount of the System's deposits was as follows:

	2022				
	Plains Capital	Southside Bank	Plains Capital	Texpool	TexStar
	Demand Deposit	Money Market	IntraFi	LGIP	LGIP
Book Value	\$ 100,000	\$ 1,190,134	\$ 8,013,915	\$ 3,450,978	\$ 1,451,603
Bank Balance	100,000	1,190,134	8,414,305	3,450,978	\$ 1,451,603
FDIC Coverage	250,000	250,000	-	-	-
Collateral	5,209,090	1,594,312	8,414,305	-	-

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

- a. Primary Depository: PlainsCapital Bank
- b. The highest combined balances of cash on deposit amounted to \$12,646,036 and occurred in the month of October, 2023.
- c. The amount of FDIC coverage as of the date of the highest combined balance on deposit was \$250,000 per individual investment secured through the IntraFi Network Deposit account.

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, 2023, 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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

2. DEPOSITS AND INVESTMENTS (Continued)

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;
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;

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

2. DEPOSITS AND INVESTMENTS (Continued)

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 section one 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.

At September 30, 2023, 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 OZK	2,009,381	7.34%	24	-
BOK Financial	2,538,996	9.28%	18	-
East West Bank	12,613,865	46.09%	93	-
Third Coast Bank	3,550,477	12.97%	36	-
Veritex Bank	4,656,017	17.01%	17	-
US Treasury	1,999,419	7.31%	4	-
Total	<u>\$ 27,368,155</u>	<u>100.00%</u>		

At September 30, 2022, 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>				
East West Bank	18,566,161	78.72%	113	-
Texas Capital Bank	3,008,418	12.76%	2	-
US Treasury	2,011,734	8.53%	21	-
Total	<u>\$ 23,586,313</u>	<u>100.00%</u>		

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

2. DEPOSITS AND INVESTMENTS (Continued)

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, 2023, the System has the fair value measurements for certificates of deposit and US Treasury instruments totaling \$27,369,230 valued using cost-based measures. The system's investments in government pools at September 30, 2022 totaling \$3,862,641 are recorded at amortized cost.

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, 2023, 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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

2. DEPOSITS AND INVESTMENTS (Continued)

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30 consist of the following:

<u>Description</u>	<u>2023</u>	<u>2022</u>
Water Accounts	\$ 359,037	\$ 351,348
Wastewater Accounts	410,391	413,945
Customer invoices and charges	288,641	231,509
Other	97,901	110,967
Intergovernmental	<u>1,748,046</u>	<u>1,941,453</u>
Total invoiced accounts receivable	<u>2,904,016</u>	<u>3,049,222</u>
Unbilled customer charges:		
Water	812,000	575,000
Wastewater	<u>825,000</u>	<u>657,000</u>
Total unbilled customer charges	<u>1,637,000</u>	<u>1,232,000</u>
Total accounts receivable	4,541,016	4,281,222
Less allowance for uncollectible accounts	<u>(320,000)</u>	<u>(260,000)</u>
Total accounts receivable (net)	<u>\$ 4,221,016</u>	<u>\$ 4,021,222</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

4. RESTRICTED ASSETS

Restricted assets as of September 30 consist of the following:

<u>Cash and Cash Equivalents</u>	<u>2023</u>	<u>2022</u>
Customer deposits	\$ 571,652	\$ 450,445
Impact fees - replacement reserve	2,993,039	2,864,465
Front footage and tie in fees - replacement reserve	460,389	251,867
Debt service fund	1,213,324	1,179,764
<u>Investments</u>		
Customer deposits	3,049,680	2,961,604
Impact fees - replacement reserve	2,403,013	1,353,100
Front footage and tie in fees - replacement reserve	567,136	546,960
Total restricted assets	<u>\$ 11,258,233</u>	<u>\$ 9,608,205</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, 2023 and 2022

5. CAPITAL ASSETS

Capital asset activity for the System for the year ended September 30, 2023 was as follows:

<u>Description</u>	Balance 9/30/2022	Reclass & Additions	Reclass & Disposals	Balance 9/30/2023
Capital assets not being depreciated				
Water rights	\$ 6,466,307	\$ -	\$ 817,800	\$ 7,284,107
Land & land rights	1,210,953	-	55,258	1,266,211
Construction in progress	<u>3,390,603</u>	<u>6,422,466</u>	<u>(3,349,881)</u>	<u>6,463,188</u>
Total capital assets not being depreciated	<u>11,067,863</u>	<u>6,422,466</u>	<u>(2,476,823)</u>	<u>15,013,506</u>
Other capital assets				
Vehicles	5,044,188	51,904	537,548	5,633,640
Water production plant	31,124,262	33,810	142,799	31,300,871
Water transmission facilities and equipment	68,257,027	647,452	415,771	69,320,250
Wastewater treatment plant	33,984,402	7,500	186,722	34,178,624
Wastewater collection lines, lift stations and equipment	58,152,640	927,967	1,156,646	60,237,253
Laboratory building and equipment	437,053	-	-	437,053
Pretreatment buildings and equipment	49,047	-	-	49,047
Office buildings and equipment	<u>4,250,983</u>	<u>12,018</u>	<u>37,337</u>	<u>4,300,338</u>
Total capital assets being depreciated	<u>201,299,602</u>	<u>1,680,651</u>	<u>2,476,823</u>	<u>205,457,076</u>
Less accumulated depreciation				
Vehicles	(3,070,555)	(305,278)	-	(3,375,833)
Water production plant	(23,820,563)	(628,221)	-	(24,448,784)
Water transmission facilities and equipment	(39,476,542)	(1,187,847)	-	(40,664,389)
Wastewater treatment plant	(25,400,431)	(708,025)	-	(26,108,456)
Wastewater collection lines, lift stations and equipment	(36,162,359)	(816,160)	-	(36,978,519)
Laboratory building and equipment	(263,915)	(23,593)	-	(287,508)
Pretreatment buildings and equipment	(43,373)	(788)	-	(44,161)
Office buildings and equipment	<u>(3,096,599)</u>	<u>(152,363)</u>	<u>-</u>	<u>(3,248,962)</u>
Total accumulated depreciation	<u>(131,334,337)</u>	<u>(3,822,275)</u>	<u>-</u>	<u>(135,156,612)</u>
Capital assets, net of accumulated depreciation	<u>\$ 81,033,128</u>	<u>\$ 4,280,842</u>	<u>\$ -</u>	<u>\$ 85,313,970</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

5. CAPITAL ASSETS (Continued)

Capital asset activity for the System for the year ended September 30, 2022 was as follows:

<u>Description</u>	Balance 9/30/2021	Reclass & Additions	Reclass & Disposals	Balance 9/30/2022
Capital assets not being depreciated				
Water rights	\$ 6,466,307	\$ -	\$ -	\$ 6,466,307
Land & land rights	1,210,953	-	-	1,210,953
Construction in progress	<u>4,831,879</u>	<u>2,300,447</u>	<u>(3,741,723)</u>	<u>3,390,603</u>
Total capital assets not being depreciated	<u>12,509,139</u>	<u>2,300,447</u>	<u>(3,741,723)</u>	<u>11,067,863</u>
Other capital assets				
Vehicles	4,732,509	367,428	(55,749)	5,044,188
Water production plant	30,503,658	623,925	(3,321)	31,124,262
Water transmission facilities and equipment	62,832,734	5,440,538	(16,245)	68,257,027
Wastewater treatment plant	33,975,307	131,388	(122,293)	33,984,402
Wastewater collection lines, lift stations and equipment	56,573,791	1,618,348	(39,499)	58,152,640
Laboratory building and equipment	423,174	13,879	-	437,053
Pretreatment buildings and equipment	49,047	-	-	49,047
Office buildings and equipment	<u>4,142,120</u>	<u>108,863</u>	<u>-</u>	<u>4,250,983</u>
Total capital assets being depreciated	<u>193,232,340</u>	<u>8,304,369</u>	<u>(237,107)</u>	<u>201,299,602</u>
Less accumulated depreciation				
Vehicles	(2,849,018)	(277,286)	55,749	(3,070,555)
Water production plant	(23,170,214)	(653,670)	3,321	(23,820,563)
Water transmission facilities and equipment	(38,428,157)	(1,064,630)	16,245	(39,476,542)
Wastewater treatment plant	(24,713,327)	(809,397)	122,293	(25,400,431)
Wastewater collection lines, lift stations and equipment	(35,198,702)	(1,003,156)	39,499	(36,162,359)
Laboratory building and equipment	(241,217)	(22,698)	-	(263,915)
Pretreatment buildings and equipment	(42,584)	(789)	-	(43,373)
Office buildings and equipment	<u>(2,943,058)</u>	<u>(153,541)</u>	<u>-</u>	<u>(3,096,599)</u>
Total accumulated depreciation	<u>(127,586,277)</u>	<u>(3,985,167)</u>	<u>237,107</u>	<u>(131,334,337)</u>
Capital assets, net of accumulated depreciation	<u>\$ 78,155,202</u>	<u>\$ 6,619,649</u>	<u>\$ (3,741,723)</u>	<u>\$ 81,033,128</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

6. DUE TO PRIMARY GOVERNMENT

At September 30, 2023 and 2022 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 \$84,290 and \$164,768 respectively.

7. PAYABLE FROM RESTRICTED ASSETS

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

	<u>2023</u>	<u>2022</u>
Current:		
Accrued interest	\$ 219,229	\$ 234,072
Customer deposits	350,000	350,000
Noncurrent:		
Customer deposits	3,224,527	3,055,167
Net pension liability	<u>3,468,446</u>	<u>-</u>
Total	<u>\$ 7,262,202</u>	<u>\$ 3,639,239</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 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 retired, 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, 2023 and 2022

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 retired, and the liability for those bonds has been removed from the System’s financial statements. As of September 30, 2019, Series 2005A Bonds in the principal amounts of \$270,000 maturing November 1, 2019 have not 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 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, 2023.

As of September 30, 2023, 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 Refunding, Series 2015A	\$ 12,000,000	2.00 - 3.75%	9/1/2015	11/01/2036	8,595,000
Waterworks and Sewer System Revenue, Series 2015B	\$ 6,475,000	2.00 - 3.25%	9/01/2015	11/01/2031	2,405,000
Waterworks and Sewer System Revenue Refunding, Series 2019	\$ 4,825,000	2.50 - 5.00%	9/01/2019	11/01/2036	4,345,000
					<u>\$ 15,345,000</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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>
2024	1,060,000	507,750	1,567,750
2025	1,095,000	470,325	1,565,325
2026	1,140,000	431,400	1,571,400
2027	1,180,000	390,900	1,570,900
2028	1,220,000	348,950	1,568,950
2029-2033	6,130,000	1,074,769	7,204,769
2034-2036	<u>3,520,000</u>	<u>179,113</u>	<u>3,699,113</u>
Total	<u>\$ 15,345,000</u>	<u>\$ 3,403,207</u>	<u>\$ 18,748,207</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

9. CHANGES IN LONG TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2023, was as follows:

	Balance <u>October 1</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>September 30</u>	Due within <u>one year</u>
Bonds payable	\$ 16,370,000	\$ -	\$ (1,025,000)	\$ 15,345,000	\$ 1,060,000
Deferred amounts for discounts and premiums	<u>431,745</u>	<u>-</u>	<u>(66,988)</u>	<u>364,757</u>	<u>61,824</u>
Total bonds payable	16,801,745		(1,091,988)	15,709,757	1,121,824
Compensated absences	813,684	105,765	(55,556)	863,893	500,000
Retiree health care liability	9,526,949	409,349	(2,600,834)	7,335,464	-
Retiree death benefit liability	761,947	42,730	(249,897)	554,780	-
Net pension liability (asset)	(157,533)	4,853,806	(1,227,827)	3,468,446	-
Customer deposits	<u>3,405,167</u>	<u>577,689</u>	<u>(408,329)</u>	<u>3,574,527</u>	<u>350,000</u>
Total	<u>\$ 31,151,959</u>	<u>\$ 5,989,339</u>	<u>\$ (5,634,431)</u>	<u>\$ 31,506,867</u>	<u>\$ 1,971,824</u>

Long-term liability activity for the year ended September 30, 2022, was as follows:

	Balance <u>October 1</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>September 30</u>	Due within <u>one year</u>
Bonds payable	\$ 17,365,000	\$ -	\$ (995,000)	\$ 16,370,000	\$ 1,025,000
Deferred amounts for discounts and premiums	<u>503,719</u>	<u>-</u>	<u>(71,974)</u>	<u>431,745</u>	<u>66,988</u>
Total bonds payable	17,868,719	-	(1,066,974)	16,801,745	1,091,988
Compensated absences	789,145	627,205	(602,666)	813,684	500,000
Retiree health care liability	10,990,608	429,937	(1,893,596)	9,526,949	-
Retiree death benefit liability	712,234	73,279	(23,566)	761,947	-
Net pension liability (asset)	(1,331,806)	3,661,229	(2,486,956)	(157,533)	-
Customer deposits	<u>3,255,862</u>	<u>566,307</u>	<u>(417,002)</u>	<u>3,405,167</u>	<u>350,000</u>
Total	<u>\$ 32,284,762</u>	<u>\$ 5,357,957</u>	<u>\$ (6,490,760)</u>	<u>\$ 31,151,959</u>	<u>\$ 1,941,988</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, 2023, the System had open purchase orders for operating supplies, equipment, and capital improvements in the amount of \$1,422,700. 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, 2023 and 2022

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 \$212,184,000 (as of September 30, 2023, 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, 2023 and 2022, no single customer provided more than 10% of water revenues or wastewater revenues. For the year ended 2023, the top ten wastewater customers provided approximately \$1,299,038 or 11.5% of wastewater sales revenues. The top ten water customers generated approximately \$1,413,942 or 12.6% of the water sales revenues.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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>2023</u>	<u>2022</u>
Net investment in capital assets		
Net capital assets	\$ 85,313,970	\$ 81,033,128
Revenue bonds payable	(15,709,757)	(16,801,745)
Deferred amount on refunding	99,307	122,957
Less Construction Retainage	<u>(191,789)</u>	<u>-</u>
Net investment in capital assets	<u>69,511,731</u>	<u>64,354,340</u>
Net position restricted for:		
Debt service:		
Cash, cash equivalents and investments	1,213,324	1,179,764
Accrued interest payable	(219,229)	(234,072)
System expansion (impact fees):		
Cash, cash equivalents and investments	5,396,052	4,217,565
System expansion (front footage & tie-in fees)		
Cash, cash equivalents and investments	1,027,525	798,827
Customer deposits:		
Cash, cash equivalents and investments	3,621,332	3,412,048
Payable to utility customers	(3,621,332)	(3,412,048)
Employee pensions:		
Net Pension Asset	-	157,533
Deferred pension outflows	3,739,692	1,042,185
Net Pension Liability	(3,468,446)	-
Deferred pension inflows	<u>(1,510,939)</u>	<u>(2,278,118)</u>
Restricted net position	6,177,979	4,883,684
Unrestricted net position	<u>21,996,233</u>	<u>19,880,943</u>
Total net position	<u>\$ 97,685,943</u>	<u>\$ 89,118,967</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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.tmr.com.

Effective September 1, 2021, TMRS will provide defined benefit pension plans to all employees as adopted by the governing body.

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)	2 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	50%
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, 2023 and 2022

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:

	<u>2022</u>	<u>2021</u>
Inactive employees or beneficiaries currently receiving benefits	143	135
Inactive employees entitled to but not yet receiving benefits	53	41
Active employees	140	141
Total	336	317

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 1.92%, 1.70% and 9.35% in calendar years 2020, 2021, and 2022 respectively. The System's contributions to TMRS for the fiscal years ended September 30, 2021, 2022, and 2023 were \$99,144, \$503,978, and \$688,564 respectively, and were equal to the required contributions.

Net Pension Liability

The System's Net Pension Liability (NPL) was measured as of December 31, 2022. 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.50% to 11% including inflation
Investment Rate of Return	6.75%
Notes	No benefit changes during the year.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

14. PENSION PLANS (Continued)

Salary increases were based on a service-related table. For calculating the actuarial liability and the retirement contribution rates, mortality rates for active members, service retirees, beneficiaries, for both healthy and disabled annuitants were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male and female rates multiplied by 107.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

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 healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 2021 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate Of Return (Arithmetic)</u>
Global Equity	35.0%	5.40%
Core Fixed Income	6.0%	0.37%
Non-Core Fixed Income	20.0%	4.51%
Other Public & Private Markets	12.0%	6.00%
Real Estate	12.0%	8.28%
Hedge Funds	5.0%	4.54%
Private Equity	<u>10.0%</u>	18.29%
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, 2023 and 2022

14. PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability 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 one percentage point lower (5.75%) or one 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)	\$ 6,767,802	\$ 3,468,446	\$ 674,504

Changes in the Net Pension (Asset) Liability for the fiscal year ended September 30, 2023:

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2021	\$ 28,188,858	\$ 28,346,391	\$ (157,533)
Changes for the year:			
Service cost	894,300	-	894,300
Interest	1,878,033	-	1,878,033
Change in Benefit Terms	-	-	-
Difference between expected and actual experience	(64,131)	-	(64,131)
Change in Assumptions			
Contributions - employer	-	653,258	(653,258)
Contributions - employee	-	489,070	(489,070)
Net investment income	-	(2,063,567)	2,063,567
Benefits payments, including refunds of employee contributions	(1,626,606)	(1,626,606)	-
Administrative expense	-	(17,905)	17,905
Other changes	-	21,367	(21,367)
Net changes	1,081,596	(2,544,383)	3,625,979
Balance at 12/31/2022	\$ 29,270,454	\$ 25,802,008	\$ 3,468,446

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

14. PENSION PLANS (Continued)

Changes in the Net Pension (Asset) Liability for the fiscal year ended September 30, 2022:

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2020	\$ 24,527,629	\$ 25,859,435	\$ (1,331,806)
Changes for the year:			
Service cost	782,523	-	782,523
Interest	1,798,090	-	1,798,090
Change in Benefit Terms	2,424,138	-	-
Difference between expected and actual experience	65,784	-	65,784
Change in Assumptions			
Contributions - employer	-	117,319	(117,319)
Contributions - employee	-	430,566	(430,566)
Net investment income	-	3,363,869	(3,363,869)
Benefits payments, including refunds of employee contributions	(1,409,306)	(1,409,306)	-
Administrative expense	-	(15,598)	15,598
Other changes	-	106	(106)
Net changes	<u>3,661,229</u>	<u>2,486,956</u>	<u>1,174,273</u>
Balance at 12/31/2021	<u>\$ 28,188,858</u>	<u>\$ 28,346,391</u>	<u>\$ (157,533)</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, 2023 and 2022, the System recognized pension expense as indicated below:

	<u>2023</u>	<u>2022</u>
Total service cost	\$ 894,300	\$ 782,523
Interest on the total pension liability	1,878,033	1,798,090
Changes in Current Period Benefits including Substantively Automatic Status	-	2,424,138
Employee contributions (reduction of expense)	(489,070)	(430,566)
Projected earnings on plan investments (reduction of expense)	(1,913,381)	(1,745,512)
Administrative expense	17,905	15,598
Other charges in fiduciary net position	(21,367)	(107)
Recognition of current year outflow (inflow) of resources-liabilities	(14,949)	17,925
Recognition of current year outflow (inflow) of resources-assets	795,390	(323,672)
Amortization of prior year outflow (inflow) of resources-liabilities	(12,010)	(45,860)
Amortization of prior year outflow (inflow) of resources-assets	(284,085)	(277,156)
Total pension expense (income)	<u>\$ 850,766</u>	<u>\$ 2,215,401</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

14. PENSION PLANS (Continued)

	<u>2022</u>	<u>2021</u>
Total service cost	\$ 782,523	\$ 492,173
Interest on the total pension liability	1,798,090	1,578,043
Changes in Current Period Benefits including Substantively Automatic Status	2,424,138	
Employee contributions (reduction of expense)	(430,566)	(384,510)
Projected earnings on plan investments (reduction of expense)	(1,745,512)	(1,687,817)
Administrative expense	15,598	12,282
Other charges in fiduciary net position	(107)	479
Recognition of current year outflow (inflow) of resources-liabilities	17,925	21,535
Recognition of current year outflow (inflow) of resources-assets	(323,672)	(41,245)
Amortization of prior year outflow (inflow) of resources-liabilities	(45,860)	(53,427)
Amortization of prior year outflow (inflow) of resources-assets	(277,156)	(236,143)
Total pension expense (income)	<u>\$ 2,215,401</u>	<u>\$ (298,630)</u>

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, 2023, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over the periods indicated below.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 48,669	\$ 61,473
Changes in actuarial assumptions	1,083	-
Differences between projected and actual investment earnings (net of current year amortization)	3,181,558	1,449,466
Contributions subsequent to the measurement date	508,382	-
Total	<u>\$ 3,739,692</u>	<u>\$ 1,510,939</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$508,382 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2023 (i.e. recognized in the System's financial statements as of September 30, 2024).

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

14. PENSION PLANS (Continued)

For the year ended September 30, 2022, the System reported deferred outflows of resources related to pension from the following sources that are being amortized over the periods indicated below.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 88,129	\$ 67,771
Changes in actuarial assumptions	5,093	-
Differences between projected and actual investment earnings (net of current year amortization)	476,797	2,210,347
Contributions subsequent to the measurement date	472,166	-
Total	\$ 1,042,185	\$ 2,278,118

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$472,166 were recognized as a reduction of the net pension asset or liability for the measurement year ended December 31, 2022 (i.e. recognized in the System's financial statements as of September 30, 2023).

The effect of current period deferrals of \$3,132,376 and prior deferrals of \$(1,412,005) is a net impact of \$1,720,371 amortized into future pension expense as follows:

Measurement Year Ended <u>December 31</u>	
2023	\$ 45,012
2024	427,534
2025	456,772
2026	791,053
2027	-
Thereafter	-
Total	<u>\$ 1,720,371</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.tmr.com.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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.

Employees covered by benefit terms

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

	<u>2022</u>	<u>2021</u>
Inactive employees or beneficiaries currently receiving benefits	113	104
Inactive employees entitled to but not yet receiving benefits	9	8
Active employees	<u>140</u>	<u>141</u>
Total	<u>262</u>	<u>253</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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

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 2023, 2022, and 2021 were \$17,881, \$12,425, and \$5,367 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.

Plan Year	Total SDBF Contribution Rate	Retiree portion of SDBF Contribution Rate	Actual Contribution Made Rate	Percentage of ARC Contributed
2023	0.57%	0.36%	0.36%	100.0%
2022	0.41%	0.31%	0.31%	100.0%
2021	0.50%	0.39%	0.39%	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, 2022, the measurement date. The SDBF covers both active 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.

Actuarial Methods and Assumptions

The actuarial assumptions used in the December 31, 2022 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 4.05% 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, 2022.

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 4.05% 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 (3.05%) or one percentage-point higher (5.05%).

<u>1% Decrease</u>	<u>Current Discount Rate Assumption</u>	<u>1% Increase</u>
<u>3.05%</u>	<u>4.05%</u>	<u>5.05%</u>
\$ 643,511	\$ 554,780	\$ 483,265

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

Changes in the Supplemental Death Benefit Fund Liability for the fiscal years ended September 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Service Cost	\$ 28,646	\$ 22,358
Interest on liability	14,084	14,233
Differences between expected and actual experience	(1,940)	16,330
Changes of assumptions or other inputs	(226,298)	20,358
Benefit payments	<u>(21,659)</u>	<u>(23,566)</u>
Net change in total SDBF liability	(207,167)	49,713
Total SDBF liability as of beginning of year	761,947	712,234
Net prior period adjustment for GASB 75	<u>-</u>	<u>-</u>
Total SDBF liability as of end of year	<u>\$ 554,780</u>	<u>\$ 761,947</u>
Covered employee payroll	\$ 6,986,717	\$ 6,042,647
Total SDBF liability as a percentage of covered-employee payroll	7.94%	12.61%
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, 2023 and 2022, the System recognized expenses for the supplemental death benefit plan as follows:

	<u>2023</u>	<u>2022</u>
Service Cost	\$ 28,646	\$ 22,358
Interest on total SDBF liability	14,084	14,233
Recognition of deferred outflows/inflows or resources:		
Differences between expected and actual experience ¹	(3,998)	(3,637)
Changes in assumptions or other inputs - current year ²	-	4,215
Changes in assumptions or other inputs - prior year ²	<u>(7,747)</u>	<u>33,747</u>
Total SDBF expense	<u>\$ 30,985</u>	<u>\$ 70,916</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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

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, 2022, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 5.38-year period.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,568	\$ 10,194
Changes in actuarial assumptions	71,119	187,035
Contributions subsequent to the measurement date	19,500	-
Total	\$ 100,187	\$ 197,229

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$19,500 will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2023 (i.e., recognized in the System’s financial statements as of September 30, 2024).

For the year ended September 30, 2022, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 4.83-year period.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 22,651
Changes in actuarial assumptions	134,947	14,708
Contributions subsequent to the measurement date	11,010	-
Total	\$ 145,957	\$ 37,359

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$11,010 have been recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2022 (i.e., recognized in the System’s financial statements as of September 30, 2023).

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

The effect of current period deferrals of \$(185,814) and prior deferrals of \$69,272 is a net impact of \$116,542, amortized into future OPEB expense as follows:

Measurement Year Ended <u>December 31</u>		
2023	\$	(10,234)
2024		(12,819)
2025		(34,947)
2026		(42,424)
2027		(16,118)
Thereafter		-
Total	\$	<u>(116,542)</u>

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.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

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>2023</u>	<u>2022</u>
Inactive plan members or beneficiaries currently receiving benefits	71	71
Inactive plan members entitled to but not yet receiving benefits	0	0
Active Plan Members	<u>41</u>	<u>41</u>
Total	<u>112</u>	<u>112</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 2023 were \$318,909, 56.04% of annual OPEB cost of (\$569,102); and \$503,978, 721.12% of annual OPEB cost of (\$69,888) in fiscal year 2022.

The Total OPEB Liability (TOL) shown in this report is based on an actuarial valuation performed as of December 31, 2022, and a measurement date of December 31, 2022.

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 December 31, 2022 actuarial valuation, the Individual Entry-Age cost method was used. The actuarial assumptions include a 4.05% 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 (5.85% 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 with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

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>2023</u>	<u>2022</u>
Service Cost	\$ 235,382	\$ 211,504
Interest on liability	173,967	218,433
Difference between expected and actual experience	14,347	(1,125,907)
Changes of assumptions	(2,235,354)	(418,273)
Benefit payments	<u>(379,827)</u>	<u>(349,416)</u>
Net change in total liability	(2,191,485)	(1,463,659)
Beginning Retiree Health Care Plan liability	9,526,949	10,990,608
Net prior period adjustment for GASB 75	<u>-</u>	<u>-</u>
Ending Retiree Health Care Plan liability	<u>\$ 7,335,464</u>	<u>\$ 9,526,949</u>
Covered employee payroll	\$ 2,106,386	\$ 2,739,339
Total Retiree Health Care Plan liability as a percentage of covered-employee payroll	348.25%	347.78%
Percentage of Retiree Health Care Plan liability funded	0.00%	0.00%
<u>Sensitivity of the total OPEB liability to changes in the discount rate assumption</u>		

The following presents the total OPEB liability of the System, calculated using the discount rate of 4.05% 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 3.05% or one percentage-point higher 5.05%.

1% Decrease <u>3.05%</u>	Current Discount Rate Assumption <u>4.05%</u>	1% Increase <u>5.05%</u>
\$ 8,232,808	\$ 7,335,464	\$ 6,584,727

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:

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 6,434,900	\$ 7,335,464	\$ 8,431,204

Retiree Health Care Plan Cost

The following presents the costs incurred by the Retiree Health Care Plan in fiscal years 2023 and 2022:

	Fiscal Year <u>2023</u>	Fiscal Year <u>2022</u>
Retiree Health Care Plan expense:		
Service cost	\$ 235,382	\$ 211,504
Interest on total liability	173,967	218,433
Recognition of current year inflow due to liabilities	(759,630)	(528,141)
Amortization of prior year outflow due to liabilities	<u>(218,821)</u>	<u>28,316</u>
Total Retiree Health Care Plan expense	<u>\$ (569,102)</u>	<u>\$ (69,888)</u>

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. On September 30, 2021, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 2.9238 year period.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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, 2022:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,440	\$ 357,393
Changes in actuarial assumptions	47,964	1,602,974
Contributions subsequent to the measurement date	286,245	-
Total	\$ 343,649	\$ 1,960,367

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$286,245 be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2022 (i.e. recognized in the System's financial statements as of September 30, 2023). 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, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 811,581
Changes in actuarial assumptions	426,389	275,215
Contributions subsequent to the measurement date	274,208	-
Total	\$ 700,597	\$ 1,086,796

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$274,208 have been recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2021 (i.e. recognized in the System's financial statements as of September 30, 2022).

The effect of current period deferrals of \$(1,461,377) and prior deferrals of \$(441,586) is a net impact of \$(1,902,963) amortized into future retiree health care OPEB expense as follows:

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

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

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

Measurement Year Ended <u>December 31</u>	
2024	\$ (1,201,216)
2025	(701,747)
2026	-
2027	-
Total	<u><u>\$ (1,902,963)</u></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. CURRENT AND FUTURE FINANCIAL REPORTING REQUIREMENTS

In fiscal year 2023, the System implemented the following pronouncements:

GASB Statement No. 96, *Subscriptions-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This statement had no impact on the System’s financials for the year ended September 30, 2023.

GASB Statement No. 99, *Omnibus 2022*, The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (a) practice issues that have been identified during implementation and application of certain GASB Statements and (b) accounting and financial reporting for financial guarantees. This statement had no impact on the System’s financials for the year ended September 30, 2023.

CITY OF HARLINGEN WATERWORKS SYSTEM
Notes to the Financial Statements, Continued
For the Fiscal Years Ended September 30, 2023 and 2022

17. CURRENT AND FUTURE FINANCIAL REPORTING REQUIREMENTS (Continued)

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

GASB Statement No. 100, *Accounting Changes and Error Corrections*. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimate be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

The System is evaluating the requirements of the above statements and the impact on reporting.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information

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

	Measurement Year Ended <u>12/31/2018</u>	Measurement Year Ended <u>12/31/2019</u>	Measurement Year Ended <u>12/31/2020</u>	Measurement Year Ended <u>12/31/2021</u>	Measurement Year Ended <u>12/31/2022</u>
Total pension liability:					
Service Cost	\$ 551,635	\$ 531,250	\$ 492,173	\$ 782,523	\$ 894,300
Interest (on total pension liability)	1,543,058	1,562,159	1,578,043	1,798,090	1,878,033
Changes of benefit terms	-	-	-	2,424,138	-
Difference between expected and actual experience	(157,540)	(194,371)	83,340	65,784	(64,131)
Changes of assumptions	-	17,123	-	-	-
Benefit payments, including refunds of employee contributions	<u>(1,481,863)</u>	<u>(1,806,083)</u>	<u>(1,516,524)</u>	<u>(1,409,306)</u>	<u>(1,626,606)</u>
Net change in total pension liability	455,290	110,078	637,032	3,661,229	1,081,596
Total pension liability - beginning	<u>23,325,229</u>	<u>23,780,519</u>	<u>23,890,597</u>	<u>24,527,629</u>	<u>28,188,858</u>
Total pension liability - ending	<u>23,780,519</u>	<u>23,890,597</u>	<u>24,527,629</u>	<u>28,188,858</u>	<u>29,270,454</u>
Plan fiduciary net position:					
Contributions - employer	116,586	110,137	105,466	117,319	653,258
Contributions - employee	429,527	412,278	384,510	430,566	489,070
Net investment income	(732,031)	3,518,192	1,894,042	3,363,869	(2,063,567)
Benefit payments, including refunds of employee contributions	(1,481,863)	(1,806,083)	(1,516,524)	(1,409,306)	(1,626,606)
Administrative expense	(14,168)	(19,909)	(12,282)	(15,598)	(17,905)
Other	<u>(741)</u>	<u>(598)</u>	<u>(479)</u>	<u>106</u>	<u>21,367</u>
Net change in plan fiduciary net position	(1,682,690)	2,214,017	854,733	2,486,956	(2,544,383)
Plan fiduciary net position - beginning	<u>24,473,375</u>	<u>22,790,685</u>	<u>25,004,702</u>	<u>25,859,435</u>	<u>28,346,391</u>
Plan fiduciary net position - ending	<u>22,790,685</u>	<u>25,004,702</u>	<u>25,859,435</u>	<u>28,346,391</u>	<u>25,802,008</u>
Net pension liability (asset)	<u>\$ 989,834</u>	<u>\$(1,114,105)</u>	<u>\$(1,331,806)</u>	<u>\$ (157,533)</u>	<u>\$ 3,468,446</u>
Plan fiduciary net position as a					
percentage of total pension liability	95.84%	104.66%	105.43%	100.56%	88.15%
Covered employee payroll	\$ 6,136,098	\$ 5,889,693	\$ 5,492,999	\$ 6,042,647	\$ 6,986,717
Net pension liability (asset) as a					
percentage of covered employee payroll	16.13%	-18.92%	-24.25%	-2.61%	49.64%

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) Actuarially determined contribution	(2) Contribution in relation to the actuarially determined contribution	(3) Contribution excess (deficiency) (2)-(1)	(4) Covered employee payroll	(5) Actuarially determined contributions as a percentage of covered employee payroll (1)/(4)	(6) Contributions as a percent of coverage employee payroll (2)/(4)
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%
2021	99,144	99,144	-	5,492,999	1.80%	1.80%
2022	503,978	503,978	-	6,042,647	8.34%	8.34%
2023	688,564	688,564	-	6,986,717	9.86%	9.86%

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

**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 2022:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% 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 UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Note: No benefit changes during the year

CITY OF HARLINGEN WATERWORKS SYSTEM
Required Supplementary Information

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	Measurement Year Ended 12/31/2020	Measurement Year Ended 12/31/2021	Measurement Year Ended 12/31/2022
Total Supplemental Death Benefits Fund OPEB liability:					
Service Cost	\$ 17,181	\$ 13,546	\$ 17,028	\$ 22,358	\$ 28,646
Interest (on total liability)	17,554	18,865	16,917	14,233	14,084
Difference between expected and actual experience	(16,478)	(11,177)	(10,063)	16,330	(1,940)
Changes of assumptions	(32,570)	89,400	84,441	20,358	(226,298)
Benefit payments	(5,522)	(5,890)	(5,493)	(23,566)	(21,659)
Net change in total Supplement Death Benefits Fund OPEB liability	(19,835)	104,744	102,830	49,713	(207,167)
Total Supplemental Health Care Fund liability - beginning	524,495	504,660	609,404	712,234	761,947
Total Supplemental Health Care Fund OPEB liability - ending	\$ 504,660	\$ 609,404	\$ 712,234	\$ 761,947	\$ 554,780
Covered employee payroll	\$ 6,136,098	\$ 5,889,693	\$ 5,492,999	\$ 6,042,647	\$ 6,986,717
Net Supplemental Death Benefit OPEB liability as a percentage of covered employee payroll	8.22%	10.35%	12.97%	12.61%	7.94%

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.

2020	2.00%
2021	1.84%
2022	4.05%

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**

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

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

	Measurement Year Ended 12/31/2021	Measurement Year Ended 12/31/2022
Total Retiree Health Care OPEB liability:		
Service Cost	\$ 211,504	\$ 235,382
Interest (on total OPEB liability)	218,433	173,967
Changes of benefit terms	-	-
Difference between expected and actual experience	(1,125,907)	14,347
Changes of assumptions	(418,273)	(2,235,354)
Benefit payments	(349,416)	(379,827)
Net change in total Health Care OPEB liability	(1,463,659)	(2,191,485)
Total Health Care OPEB liability - beginning	10,990,608	9,526,949
Total Health Care OPEB liability - ending	\$ 9,526,949	\$ 7,335,464
Covered employee payroll	\$ 2,699,342	\$ 2,106,386
Net Health Care OPEB liability as a percentage of covered employee payroll	352.94%	348.25%
Percentage of Retiree Health Care Plan liability funded	0.00%	0.00%

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.

2020	2.00%
2021	1.84%
2022	4.05%

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		Unfunded
				Actuarial Accrued Liability	Annual Covered Payroll	As a Percentage of Covered Payroll
2021	-	712,234	0.0%	712,234	5,492,999	12.97%
2022	-	761,947	0.0%	761,947	6,042,647	12.61%
2023	-	554,780	0.0%	554,780	6,986,717	7.94%

*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 Charges in Net Position Comparison of Actual to Budget For Fiscal Year Ended September 30, 2023

	Water		Percentage Variance	Wastewater		Percentage Variance
	Actual	Budget		Actual	Budget	
Operating Revenue						
Base charge	\$ 3,140,252	\$ 3,094,983	1.46%	\$ 2,071,055	\$ 2,044,117	1.32%
Service revenues	6,530,104	6,181,806	5.63%	8,328,869	7,433,622	12.04%
Sales to Combes	137,060	112,303	22.04%	206,698	190,606	8.44%
Sales to Primera	254,873	228,810	11.39%	122,205	142,182	-14.05%
Sales to Palm Valley	291,596	221,515	31.64%	-	-	-
Sales to East Rio Hondo	68,347	82,424	-17.08%	-	-	-
Sales to Military Highway	106,183	60,000	76.97%	-	-	-
Fuel adjustment	275,518	262,520	4.95%	245,186	225,636	8.66%
Customer penalties	126,240	142,697	-11.53%	148,341	156,606	-5.28%
Disconnect fees	175,955	211,418	-16.77%	-	-	-
Industrial surcharge fees	-	-	-	156,289	128,533	21.59%
Pretreatment testing fees	-	-	-	11,982	13,909	-13.85%
Other revenues	76,335	77,891	-2.00%	-	-	-
Total operating revenues	<u>11,182,463</u>	<u>10,676,367</u>	4.74%	<u>11,290,625</u>	<u>10,335,211</u>	9.24%
Operating expenses						
Personnel services	4,122,807	5,892,050	30.03%	5,062,611	5,088,371	0.51%
Contracted services	2,225,187	2,551,640	12.79%	883,269	1,248,420	29.25%
Supplies and maintenance	2,913,059	2,984,992	2.41%	1,677,979	2,114,100	20.63%
Other expenses	134,470	116,800	-15.13%	69,911	117,650	40.58%
Depreciation expense	2,004,124	1,682,394	-19.12%	1,818,151	2,023,390	10.14%
Total operating expenses	<u>11,399,647</u>	<u>13,227,876</u>	13.82%	<u>9,511,921</u>	<u>10,591,931</u>	10.20%
Operating income (loss)	<u>(217,184)</u>	<u>(2,551,509)</u>	91.49%	<u>1,778,704</u>	<u>(256,720)</u>	-792.86%
Non-operating revenues						
Impact fees	452,176	251,390	79.87%	572,882	328,778	74.25%
Investment earnings	783,738	50,000	1467.48%	765,926	50,000	1431.85%
Other revenues:						
Tap fees	91,057	60,000	51.76%	34,957	20,000	74.79%
Inspection fees	17,634	10,000	76.34%	23,005	20,000	15.03%
Backflow prevention	39,130	29,896	30.89%	-	-	-
Tie in charges	32,726	20,000	63.63%	133,929	30,000	346.43%
Rental income	43,670	44,620	-2.13%	43,670	44,619	-2.13%
Lease of water rights	12,000	-	100.00%	-	-	100.00%
Garbage billing fees	37,500	37,500	-	37,500	37,500	-
Work done for others	11,991	12,745	-5.92%	18,448	12,000	53.73%
Gain on disposition of assets	-	10,000	-100.00%	-	5,000	-100.00%
Intergovernmental revenue	12,350	-	100.00%	2,474,966	-	100.00%
Other revenue	60,316	26,500	127.61%	222,917	122,000	82.72%
Total non-operating revenue	<u>1,594,288</u>	<u>552,651</u>	188.48%	<u>4,328,200</u>	<u>669,897</u>	546.10%
Non-operating expenses						
Interest and amortization expense	<u>243,362</u>	<u>243,863</u>	0.21%	<u>243,362</u>	<u>243,862</u>	0.21%
Change in net position before contributions	1,133,742	(2,242,721)	150.55%	5,863,542	169,315	3363.10%
Capital contributions	<u>647,451</u>	<u>-</u>	100.00%	<u>922,241</u>	<u>-</u>	100.00%
Change in net position	<u>\$ 1,781,193</u>	<u>\$ (2,242,721)</u>	179.42%	<u>\$ 6,785,783</u>	<u>\$ 169,315</u>	3907.79%

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, 2023

	Total		Percentage Variance
	Actual	Budget	
Operating Revenue			
Base charge	\$ 5,211,308	\$ 5,139,100	1.41%
Service revenues	14,858,972	13,615,428	9.13%
Sales to Combes	343,758	302,909	13.49%
Sales to Primera	377,078	370,992	1.64%
Sales to Palm Valley	291,596	221,515	31.64%
Sales to East Rio Hondo	68,347	82,424	-17.08%
Sales to Military Highway	106,183	60,000	76.97%
Fuel adjustment	520,705	488,156	6.67%
Customer penalties	274,581	299,303	-8.26%
Disconnect fees	175,954	211,418	-16.77%
Industrial surcharge fees	156,289	128,533	21.59%
Pretreatment testing fees	11,982	13,909	-13.85%
Other revenues	76,335	77,891	-2.00%
Total operating revenues	22,473,088	21,011,578	6.96%
Operating expenses			
Personnel services	9,185,418	10,980,421	16.35%
Contracted services	3,108,456	3,800,060	18.20%
Supplies and maintenance	4,591,038	5,099,092	9.96%
Other expenses	204,381	234,450	12.83%
Depreciation expense	3,822,275	3,705,784	-3.14%
Total operating expenses	20,911,568	23,819,807	12.21%
Operating income	1,561,520	(2,808,229)	-155.61%
Non-operating revenues			
Impact fees	1,025,058	580,168	76.68%
Investment earnings	1,549,664	100,000	1449.66%
Other revenues:			
Tap fees	126,014	80,000	57.52%
Inspection fees	40,639	30,000	35.46%
Backflow prevention	39,130	29,896	30.89%
Tie in charges	166,655	50,000	233.31%
Rental income	87,341	89,239	-2.13%
Lease of water rights	12,000	-	0.00%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	30,439	24,745	23.01%
Gain on disposition of assets	-	15,000	-100.00%
Other revenue	283,232	148,500	90.73%
Intergovernmental revenue	2,487,316	-	100.00%
Total non-operating revenue	5,922,488	1,222,548	384.44%
Non-operating expenses			
Interest and amortization expense	486,724	487,725	0.21%
Change in net position before contributions			
Contributions	6,997,284	(2,073,406)	-437.48%
Capital contributions	1,569,692	-	100.00%
	-		
Change in net position	\$ 8,566,976	\$ (2,073,406)	-513.18%

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
	2023	2022		2023	2022	
Operating Revenue						
Base charge	\$ 3,140,252	\$ 3,100,734	1.27%	\$ 2,071,055	\$ 2,048,939	1.08%
Service revenues	6,530,104	6,105,794	6.95%	8,328,869	8,061,492	3.32%
Sales to Combes	137,060	110,809	23.69%	206,698	211,525	-2.28%
Sales to Primera	254,873	251,549	1.32%	122,205	147,321	-17.05%
Sales to Palm Valley	291,596	240,959	21.01%	-	-	-
Sales to East Rio Hondo	68,347	64,038	6.73%	-	-	-
Sales to Military Highway	106,183	87,130	21.87%	-	-	-
Fuel adjustment	275,518	261,312	5.44%	245,186	242,232	1.22%
Customer penalties	126,240	131,527	-4.02%	148,341	148,991	-0.44%
Disconnect fees	175,955	201,569	-12.71%	-	-	-
Industrial surcharge fees	-	-	-	156,289	127,653	22.43%
Pretreatment testing fees	-	-	-	11,982	9,745	22.96%
Other revenues	76,335	72,397	5.44%	-	-	-100.00%
Total operating revenues	<u>11,182,463</u>	<u>10,627,818</u>	5.22%	<u>11,290,625</u>	<u>10,997,898</u>	2.66%
Operating expenses						
Personnel services	4,122,807	5,174,225	-20.32%	5,062,611	5,414,372	-6.50%
Contracted services	2,225,187	2,283,444	-2.55%	883,269	920,862	-4.08%
Supplies and maintenance	2,913,059	2,318,604	25.64%	1,677,979	1,524,494	10.07%
Other expenses	134,470	54,208	148.06%	69,911	81,161	-13.86%
Depreciation expense	2,004,124	1,878,365	6.70%	1,818,151	2,106,801	-13.70%
Total operating expenses	<u>11,399,647</u>	<u>11,708,846</u>	-2.64%	<u>9,511,921</u>	<u>10,047,690</u>	-5.33%
Operating income (loss)	<u>(217,184)</u>	<u>(1,081,028)</u>	-79.91%	<u>1,778,704</u>	<u>950,208</u>	87.19%
Non-operating revenues						
Impact fees	452,176	514,003	-12.03%	572,882	679,763	-15.72%
Investment earnings	783,738	98,857	692.80%	765,926	100,905	659.06%
Other revenues:						
Tap fees	91,057	111,691	-18.47%	34,957	24,668	41.71%
Inspection fees	17,634	16,273	8.36%	23,005	19,889	15.67%
Backflow prevention	39,130	31,590	23.87%	-	-	0.00%
Tie in charges	32,726	23,268	40.65%	133,929	130,771	2.41%
Rental income	43,670	44,969	-2.89%	43,670	45,669	-4.38%
Lease of water rights	12,000	-	100.00%	-	-	0.00%
Garbage billing fees	37,500	37,500	0.00%	37,500	37,500	0.00%
Work done for others	11,991	5,624	113.21%	18,448	10,384	77.66%
Gain on disposition of assets	-	25,447	-100.00%	-	32,216	-100.00%
Other revenue	60,316	58,366	3.34%	2,474,966	278,827	787.63%
Intergovernmental revenue	12,350	255,263	100.00%	222,917	1,686,190	100.00%
Total non-operating revenue	<u>1,594,288</u>	<u>1,222,851</u>	30.37%	<u>4,328,200</u>	<u>3,046,782</u>	42.06%
Non-operating expenses						
Interest and amortization expense	243,362	259,680	-6.28%	243,362	259,680	-6.28%
Change in net position before contributions	1,133,742	(117,857)	-1061.96%	5,863,542	3,737,310	56.89%
Capital contributions	647,451	956,460	-32.31%	922,241	815,189	13.13%
Change in net position	<u>\$ 1,781,193</u>	<u>\$ 838,603</u>	112.40%	<u>\$ 6,785,783</u>	<u>\$ 4,552,499</u>	49.06%

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
	2023	2022	
Operating Revenue			
Base charge	\$ 5,211,308	\$ 5,149,673	1.20%
Service revenues	14,858,972	14,167,286	4.88%
Sales to Combes	343,758	322,334	6.65%
Sales to Primera	377,078	398,870	-5.46%
Sales to Palm Valley	291,596	240,959	21.01%
Sales to East Rio Hondo	68,347	64,038	6.73%
Sales to Military Highway	106,183	87,130	21.87%
Fuel adjustment	520,705	503,544	3.41%
Customer penalties	274,581	280,518	-2.12%
Disconnect fees	175,954	201,569	-12.71%
Industrial surcharge fees	156,289	127,653	22.43%
Pretreatment testing fees	11,982	9,745	22.96%
Other revenues	76,335	72,397	5.44%
Total operating revenues	<u>22,473,088</u>	<u>21,625,716</u>	3.92%
Operating expenses			
Personnel services	9,185,418	10,588,597	-13.25%
Contracted services	3,108,456	3,204,306	-2.99%
Supplies and maintenance	4,591,038	3,843,099	19.46%
Other expenses	204,381	135,369	50.98%
Depreciation expense	3,822,275	3,985,166	-4.09%
Total operating expenses	<u>20,911,568</u>	<u>21,756,537</u>	-3.88%
Operating income (loss)	<u>1,561,520</u>	<u>(130,821)</u>	-1293.63%
Non-operating revenues			
Impact fees	1,025,058	1,193,766	-14.13%
Investment earnings	1,549,664	199,763	675.75%
Other revenues:			
Tap fees	126,014	136,359	-7.59%
Inspection fees	40,639	36,162	12.38%
Backflow prevention	39,130	31,590	23.87%
Tie in charges	166,655	154,038	8.19%
Rental income	87,341	90,639	-3.64%
Lease of water rights	12,000	-	100.00%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	30,439	16,008	90.15%
Gain on disposition of assets	-	57,663	-100.00%
Other revenue	283,232	337,193	-16.00%
Intergovernmental revenue	2,487,316	1,941,453	28.12%
Total non-operating revenue	<u>5,922,488</u>	<u>4,269,634</u>	38.71%
Non-operating expenses			
Interest and amortization expense	<u>486,724</u>	<u>519,360</u>	-6.28%
Change in net position before contributions	<u>6,997,284</u>	<u>3,619,453</u>	93.32%
Capital contributions	<u>1,569,692</u>	<u>1,771,649</u>	-11.40%
Change in net position	<u>\$ 8,566,976</u>	<u>\$ 5,391,102</u>	58.91%

STATISTICAL SECTION

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

Fiscal Year	Gross Revenue	(1)	Operating Expenses	(2)	Net Revenue Available for Debt Service	Annual Debt Service Requirement			(3)	Coverage Ratio
						Principal	Interest	Total		
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
2021	24,197,847		15,965,428		8,232,419	995,000	579,025	1,574,025		5.23
2022	25,895,349		17,755,010		8,140,339	1,025,000	543,925	1,568,925		5.18
2023	28,395,576		17,089,294		11,306,282	1,092,084	492,417	1,584,501		7.13

(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 Year	Active Connections	Inactive Connections	Total Connections
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
2021	27,028	2,711	29,739
2022	27,383	2,760	30,143
2023	27,780	2,746	30,526

WASTEWATER SYSTEM			
Fiscal Year	Active Connections	Inactive Connections	Total Connections
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
2021	21,239	879	22,118
2022	21,508	872	22,380
2023	21,835	862	22,697

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WATER RATES (EFFECTIVE OCTOBER 1, 2022)**

Base Rate: Residential and Commercial

Meter Size	Inside City Limits	Outside City Limits
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
------------	---------	---------

Fuel Cost Adjustment

(per each 1,000 gallons of water usage)

All meters	\$ 0.06	\$ 0.06
------------	---------	---------

Monthly Fire Suppression Charge

Meter Size	
4"	\$ 5.00
6"	7.00
8"	9.00
10"	11.00
12"	13.00

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WASTEWATER RATES (EFFECTIVE October 1, 2022)**

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
------------	---------	---------

Fuel Cost Adjustment

All meters	\$ 0.11	\$ 0.11
------------	---------	---------

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>
City of Palm Valley	Municipality	\$ 291,596	2.61%	176,725	4.40%
City of Primera	Municipality	254,873	2.28%	154,465	3.84%
Harlingen C.I.S.D.	Education	247,436	2.21%	123,439	3.07%
City of Combes	Municipality	137,060	1.23%	111,208	2.77%
Valley Baptist Medical Center	Health Care	134,143	1.20%	74,602	1.86%
Military Water Supply	Water Supplier	106,183	0.95%	63,626	1.58%
East Rio Hondo Water Supply	Water Supplier	68,347	0.61%	40,710	1.01%
Texas State Technical College	Education	67,274	0.60%	32,925	0.82%
Texas Industrial Service	Laundry/Uniform Service	55,382	0.50%	32,671	0.81%
Harlingen Medical Center	Health Care	51,648	0.46%	29,682	0.74%
		<u>\$ 1,413,942</u>	<u>12.65%</u>	<u>840,053</u>	<u>20.90%</u>
	Total Revenues/Gallons	\$ 11,182,463		4,020,900	

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

Customer	Type of Industry	Sewer Revenues	% of Total
Valley Baptist Medical Center	Health Care	\$ 251,603	2.23%
City of Combes	Municipality	222,926	1.97%
Harlingen C.I.S.D.	Education	196,773	1.74%
City of Primera	Municipality	132,537	1.17%
Texas Industrial Service	Laundry/Uniform Service	119,760	1.06%
PC Highland Gardens	Housing	92,912	0.82%
Harlingen Medical Center	Health Care	85,621	0.76%
Valley Baptist Missions Ed Center	Education	71,147	0.63%
Sundance Apartments	Housing	65,162	0.58%
Paradise Park	Mobile Home Park/Housing	60,597	0.54%
		\$ 1,299,038	11.51%
	Total Wastewater Revenue	\$ 11,290,624	

**CITY OF HARLINGEN 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
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
2021	14.5	20.6	483.0	5,278.0	1,348,598
2022	13.8	28.3	610.0	5,030.0	1,320,427
2023	14.1	23.8	576.0	5,167.0	1,333,739

**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
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
2021	14.5	20.6	389.0	5,278.0	10,593,020
2022	13.8	28.3	438.1	5,030.0	10,627,818
2023	14.1	23.8	576.0	5,167.0	11,182,463

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

Fiscal Year Ended 9/30	Daily Average (millions)	Monthly Average (millions)	Total Annual Usage (millions)	Sewer Revenue
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
2021	6.6	201.3	2,415.6	11,142,735
2022	6.5	198.4	2,380.3	10,997,898
2023	6.5	198.8	2,385.3	11,290,624

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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, a component unit of the City of Harlingen, Texas, as of and for the year ended September 30, 2023, 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 25, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

(This page intentionally left blank.)

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 25, 2024