

**CITY OF HARLINGEN, TEXAS
WATERWORKS SYSTEM**

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

**For the Fiscal Years Ended
September 30, 2024 and 2023**

Prepared by:

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

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

134 E Van Buren • PO Box 1950 • Harlingen, TX 78551 • (956) 430-6100 • www.hwws.com

March 20, 2025

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, 2024.

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.

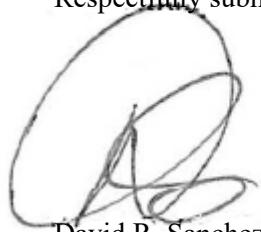
The City of Harlingen (the "City") is located in Cameron County in the center of the Rio Grande Valley, at the southern tip of Texas. The City covers approximately 40 square miles, and has an estimated population of 71,510. The City is a political subdivision and municipal corporation of the State, duly 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,



David R. Sanchez
Interim General Manager



Ronald De Le Garza
Finance and Revenue Director

CITY OF HARLINGEN WATERWORKS SYSTEM

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2024

UTILITY BOARD OF TRUSTEES

<u>Officers</u>	<u>Term Ending</u>
Christopher Bartnesky, Chairman	May 2025
Michael Garza, Vice-Chairman	May 2026

Members

Michael Murphy	May 2027
Maru de la Paz	May 2027
Steve Brewer	May 2027

Ex-Officio Members

Norma Sepulveda, Mayor
Gabriel Gonzalez, City Manager

Interim General Manager

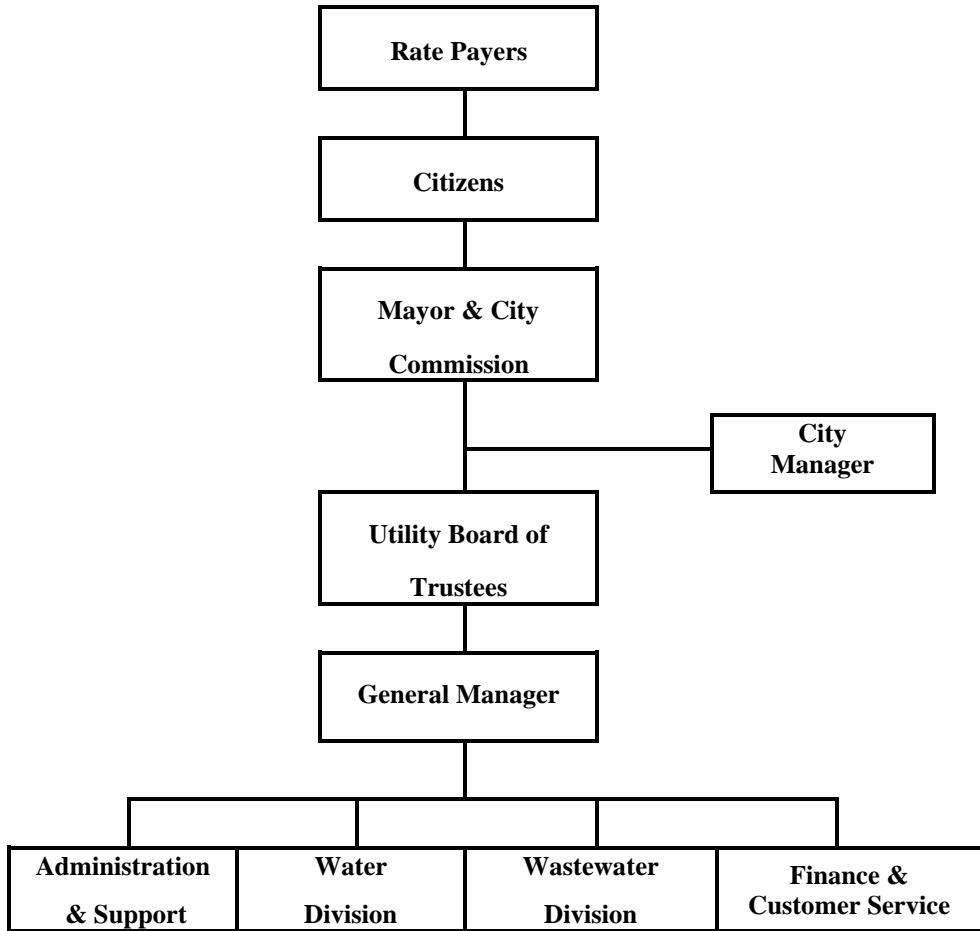
David R. Sanchez

CITY OF HARLINGEN WATERWORKS SYSTEM

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2024

ORGANIZATIONAL CHART



INDEPENDENT AUDITOR'S REPORT

To the City of Harlingen
 Waterworks System Utility Board of Trustees

Opinions

We have audited the accompanying financial statements of the City of Harlingen Waterworks System (the System), a component unit of the City of Harlingen, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the 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 System as of September 30, 2024, 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 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.

Emphasis-of-Matters

Prior Period Financial Statements

The financial statements of the System as of September 30, 2023 were audited by other auditors whose report dated March 25, 2024 expressed an unmodified opinion on those statements.

As more fully described in Note 18, the System restated its financial statements for the year ended September 30, 2023 during the current year to correct errors.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2024, the System adopted new accounting guidance, GASB Statement No. 100, *Accounting for Changes and Error Corrections*. Our opinion is not modified with respect to this matter

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, required pension and OPEB information and budgetary comparison information 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 System's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position for Water, Wastewater and Total System is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses and Changes in Net Position for Water, Wastewater and Total System 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2025, on our consideration of the 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 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 System's internal control over financial reporting and compliance.

Burton McCumber & Longoria, CCP

McAllen, Texas
March 20, 2025

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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, 2024. We encourage readers to consider the information presented here in conjunction with the System’s audited financial statements, which begin on page 22.

OVERVIEW OF THE FINANCIAL STATEMENTS

The System is a component unit of the City of Harlingen, Texas. These statements are included in the annual comprehensive 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 22-26 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 29-68 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 and a budgetary comparison schedule, which can be found on page 70-80 of this report. Other supplementary information presented on pages 83-84 provides detailed revenues and expenses for the System’s two operational departments, water and wastewater; for the current and previous fiscal years..

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 87-97.

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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>	2024	2023	2022
Current assets	\$ 33,291,881	\$ 34,611,842	\$ 32,865,410
Current restricted assets	23,973,257	11,258,233	9,608,204
Noncurrent assets:			
Capital assets	90,334,365	84,845,819	81,033,128
Total assets	<u>147,599,503</u>	<u>130,715,894</u>	<u>123,506,742</u>
 <u>Deferred Outflows of Resources</u>			
Deferred amount on debt refunding	77,896	99,307	122,957
Deferred pension related outflows	1,283,653	2,290,226	1,042,185
Deferred OPEB related outflows	765,759	443,806	838,090
Total deferred outflows of resources	<u>2,127,308</u>	<u>2,833,339</u>	<u>2,003,232</u>
 <u>Liabilities</u>			
Current liabilities	4,424,965	4,008,100	3,207,693
Current liabilities payable from restricted assets	583,418	569,229	584,042
Long-term debt	23,492,933	14,587,933	15,709,757
Net retiree health care plan liability	7,754,335	7,335,464	9,526,949
Net retiree death benefit plan liability	590,569	554,780	761,947
Net pension liability	1,535,151	3,468,446	-
Customer deposits	3,382,012	3,224,527	3,055,167
Other noncurrent liabilities	260,319	363,893	313,684
Total liabilities	<u>42,023,702</u>	<u>34,112,372</u>	<u>33,159,239</u>
 <u>Deferred Inflows of Resources</u>			
Deferred pension inflows	509,177	61,473	2,278,118
Deferred OPEB inflows	1,004,449	2,157,596	1,111,183
Total deferred inflows of resources	<u>1,513,626</u>	<u>2,219,069</u>	<u>3,389,301</u>
 <u>Net Position</u>			
Net investment in capital assets	75,996,916	70,165,404	64,196,807
Restricted	10,749,528	7,417,671	4,883,684
Unrestricted	19,443,039	19,634,717	19,880,943
Total net position	<u>\$ 106,189,483</u>	<u>\$ 97,217,792</u>	<u>\$ 88,961,434</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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 \$106,189,483, an increase of \$8,971,691 from the previous year's balance.

The largest portion of the System's net position, \$75,996,916 (71.6%) 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 \$10,749,528 (10.1%), represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$19,443,039 (18.3%) may be used to meet the System's ongoing obligations to customers and creditors.

For the fiscal year ended September 30, 2024, the System's total net position increased by \$8,971,691. The factors in this increase include an increase in the investment in capital assets, net of related debt of \$5,831,512, an increase in restricted net position of \$3,331,857; and an decrease in unrestricted net position of \$191,678.

The System added \$7,664,530 in capital assets and accepted ownership of \$1,842,309 in infrastructure contributed by developers in fiscal year 2024. These additions were offset by depreciation for the fiscal year the amount of \$4,018,115. The net of all transactions resulted in the carrying value of the System's capital assets to increase by \$5,488,546. 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 increased by \$8,878,176.

The System's restricted net position increased by \$3,331,857 in fiscal year 2024. Funds restricted for the payment of principal and interest on debt increased by \$3,590. The net increase in impact fee, front-footage fee, and tie-in-charge revenues restricted for expansion and maintenance of infrastructure totaled \$3,328,267.

The System's unrestricted net position decreased by \$191,678 primarily due to the System's continued investment in capital infrastructure in fiscal year 2024. Capital improvement projects continued throughout the year initiating water and wastewater conveyance master plan objectives. Excess unrestricted funds accumulated in fiscal year 2024 and prior years will inevitably be utilized to fund capital improvements within the coming fiscal year.

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

Revenues

In comparison to the fiscal year 2023, total operating revenues increased by \$496,142 (2.21%) in fiscal year 2024.

In June of 2023 the System engaged a team of consultants to conduct a water and wastewater rate study and long-term financial plan. The objective was to determine a comprehensive rate plan to recover sufficient funds to meet operating expenses, capital outlays, debt service and coverage requirements while minimizing the impact on the customers. The results were approved through the City of Harlingen commission and implemented mid-year for both water and wastewater. The result was a 25% increase on base meter charges and the development of a block rate structure for water consumption. The rates reduced the impact for consumers using less than 3,000 gallons and increase for consumers over 5,000 gallons and above. Wastewater base rates also increased by 25% with consumption charges remaining at volume rate for an increase of 11%.

Fiscal year 2024 net water service revenue of \$6,533,402 reflects an increase of \$3,298 (0.05%) from fiscal year 2023 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 33.13 inches for the year was more than the 25.2 inches historically received. However, 46% of the year's total rainfall was received in the months of July through September of 2024. 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 decreased by \$26,607 (3.10%) to \$831,452 in comparison to fiscal year 2023 wholesale charges of \$858,059. Wholesale water sales revenue in fiscal year 2022 totaled \$754,485. Total water operating revenues continued to increase annually by \$211,239 (1.89%) to \$11,393,701 as compared to \$554,644 (5.22%) to \$11,182,462 in fiscal year 2023. Water operating revenue in fiscal year 2022 totaled \$10,627,818.

Wastewater "base" customer charges increased by \$152,961 (7.39%) and \$22,117 (1.08%) totaling \$2,224,017 and \$2,071,056 for fiscal years 2024 and 2023, respectfully. Wastewater "base" customer charges for fiscal year 2022 were \$2,048,939. Wastewater "service" revenue increased by \$216,713 (2.60%) to \$8,545,582 in fiscal 2024 and increased \$267,377 (3.32%) to \$8,328,869 in fiscal year 2023. 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 2024 wastewater operating revenue totaled \$11,575,529, an increase of \$284,903 (2.52%) in comparison to fiscal year 2023 operating revenue of \$11,290,626. Total wastewater operating revenue for fiscal year 2022 was \$10,997,898.

Investment earnings increased by \$689,110 (44.47%) to \$2,238,774 in fiscal 2024 and increased \$1,349,902 (675.76%) to \$1,549,664 in fiscal year 2023 over interest earnings of \$199,762 in fiscal year 2022. The fiscal year 2024 average invested balance of approximately \$41,000,000 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 4.44%; and the 2023 average invested balance of \$37,000,000 was invested at a rate of return of 0.72%.

Impact fee revenue of \$1,175,240, and \$1,025,058 reflect an increase of \$150,182 (14.65%) and a decrease of \$168,708 (14.13%) in fiscal years 2024 and 2023, respectively, when compared to fiscal year 2022 impact fee revenue of \$1,193,766. The average annual impact fee revenue for the previous four-year period (2023-2020) has been \$1,048,136. Fiscal year 2024 revenue is \$127,104 (12.13%) more than the previous four-year average, reflecting an increase in annual system growth.

Capital contributions of water and wastewater service lines for the 2024 fiscal year totaled \$1,842,310, an increase of \$272,618 (17.37%) over fiscal year 2023 contributed capital of \$1,569,692. Fiscal 2023 contributed capital reflected a decrease of \$201,957 (11.39%) over fiscal year 2022 capital contributions of \$1,771,649.

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

Expenses

Fiscal year 2024 operating expenses of \$22,515,480 represent a increase of \$1,603,913 (7.67%) over 2023 operating expenses of \$20,911,567, which decreased by \$844,970 (3.88%) in relation to 2022 operating expenses of \$21,756,537.

Personnel services expenses totaled \$9,279,540 in fiscal year 2024, an increase of \$94,122 (1.02%) over fiscal year 2023 expenses of \$9,185,418, which reflected a decrease of \$1,403,179 (13.25%) over fiscal year 2022 personnel services expenses of \$10,588,597. The fiscal year 2024 increase is due to rising personnel costs and the increased cost associated with additional construction positions hired in the current year. The fiscal year 2023 decrease was due to rising vacancies and the reduction of costs associated with upper-level management positions hired in the current year

Contractual services expenses totaling \$4,426,313 reflect an increase of \$1,317,857 (42.40%) in fiscal year 2024, in comparison to fiscal year 2023 expenses of \$3,108,456. The primary factor in the increase in expenses was the amount of ongoing professional services for the System's master planning projects and other consulting services in progress. Fiscal year 2023 contractual services expenses totaling \$3,108,456 reflected a \$95,850 (2.99%) decrease in comparison to fiscal year 2022 expenses.

Total supply and maintenance expenses for fiscal year 2024 total \$4,638,825, an increase of \$47,787 (1.04%) in comparison to fiscal year 2023 supply and maintenance expenses of \$4,591,038, an increase of \$747,939 (19.46%) over fiscal year 2022 expense of \$3,843,099. 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 2024 "Other" expenses totaled \$152,688, a decrease of \$51,693 (25.29%) over fiscal year 2023 expenses of \$204,381. The primary factor in the fiscal year 2024 decrease was attributed to the reduction of costs associated with travel, in person training activities and public events.

Depreciation expenses of \$4,018,115 in fiscal year 2024, \$3,822,275 in fiscal year 2023, and \$3,985,166 in fiscal year 2022 reflects an increase of \$195,840 (5.12%) and an decrease of \$162,891 (4.09%) in fiscal years 2023 and 2022 respectively.

In fiscal year 2024, net interest and amortization expense increased by \$271,852 (55.85%) to \$758,576. The issuance of Texas Water Development Board Revenue Bonds Series 2024 and annual principal retirement is responsible for the increase in interest and amortization expense. In fiscal year 2023, interest and amortization expense decreased by \$32,636 (6.28%) to \$486,724. Net interest and amortization expense in fiscal 2022 totaled \$519,360.

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

CHANGES IN NET POSITION

	2024	2023	2022
Operating revenues	\$ 22,969,230	\$ 22,473,088	\$ 21,625,716
Operating expenses	<u>22,515,481</u>	<u>20,911,568</u>	<u>21,756,536</u>
Operating income	<u>453,749</u>	<u>1,561,520</u>	<u>(130,820)</u>
 Non-operating revenues:			
Impact fees	1,175,240	1,025,058	1,193,766
Investment earnings	2,238,774	1,549,664	199,763
Other	1,404,367	860,450	934,651
Gain on sale of capital assets	159,859	-	-
Intergovernmental	<u>2,455,968</u>	<u>2,487,316</u>	<u>1,941,453</u>
Total non-operating revenues	<u>7,434,208</u>	<u>5,922,488</u>	<u>4,269,633</u>
 Non-operating expenses:			
Interest expense and amortization	<u>758,576</u>	<u>486,724</u>	<u>519,360</u>
Change in net position before contributions	7,129,381	6,997,284	3,619,453
Capital contributions	<u>1,842,310</u>	<u>1,569,692</u>	<u>1,771,649</u>
Change in net position	<u>\$ 8,971,691</u>	<u>\$ 8,566,976</u>	<u>\$ 5,391,102</u>

CAPITAL ASSETS

The value of the System's capital assets (net of accumulated depreciation) increased by \$5,488,546 to \$90,334,365 in fiscal year 2024; and increased by \$3,812,691 to \$84,845,819 in fiscal year 2023. This investment in capital assets includes land, water rights, buildings, machinery and equipment, and system improvements.

Fiscal year 2024 asset acquisitions totaled \$9,507,401, including \$1,842,309 in contributed assets. In fiscal year 2024, there were \$291,255 in asset retirements recorded. The net accumulated depreciation on capital assets increased \$3,726,860 from fiscal year 2023. Total depreciation expense for the year 2024 was \$4,018,115.

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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

- Completed a large meter and vault replacements – Total cost: \$182,286
- Purchase of Wastewater 2 Dump Trucks – Total cost: \$217,231
- Purchase of a forklift – Total cost: \$79,068
- Updated aging fleet of 10 Service vehicles – Total cost: \$503,371
- Purchased 2 Wastewater Backhoe – Total cost: \$288,643
- Completed rehabilitation of 57 wastewater manholes – Total cost: \$644,294
- Replaced 1,756 water meters – \$124,986
- Updated information technology server equipment – Total cost: \$304,219
- Purchase of wastewater boom truck – Total cost: \$330,753

Additional information on the City of Harlingen Waterworks System's capital assets can be found in note 5 on page 40 of this report.

**SCHEDULE OF CAPITAL ASSETS
AS of September 30,**

	2024	2023	2022
Water rights	\$ 7,284,107	\$ 7,284,107	\$ 6,466,307
Land	1,266,211	1,266,211	1,210,953
Construction in progress	10,607,862	6,463,188	3,390,603
Water infrastructure	102,091,423	100,621,121	99,381,289
Wastewater infrastructure	96,843,414	94,415,877	92,137,042
Other buildings and equipment	5,133,869	4,786,438	4,737,083
Vehicles	6,459,102	5,633,640	5,044,186
Total capital assets	229,685,988	220,470,582	212,367,463
Less accumulated depreciation	(139,351,623)	(135,624,763)	(131,334,335)
Capital assets net of depreciation	<u>\$ 90,334,365</u>	<u>\$ 84,845,819</u>	<u>\$ 81,033,128</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

DEBT ADMINISTRATION

At the end of the current fiscal year, the System had total bonded debt outstanding of \$24,285,000 with unamortized premiums and discounts of \$302,933 for net total debt of \$24,587,933, an increase of \$8,878,176 from fiscal year 2023. The debt is secured by a pledge of the revenues of the water and wastewater systems. The System retired \$1,060,000 in outstanding bonds in fiscal year 2024.

On September 1, 2024, the System issued Texas Water Development Board CWSRF revenue bonds for \$10,000,000 with the proceeds used for planning, acquisition and design of sewer infrastructure to improve overall system performance in line with priority master plan projects.

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.

**SCHEDULE OF LONG-TERM DEBT
AS of September 30,**

Revenue Bonds	2024	2023	2022
Current portion	\$ 1,095,000	\$ 1,121,824	\$ 1,091,988
Long-term portion	23,492,933	14,587,933	15,709,757

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, 2024 AND 2023**

FISCAL YEAR 2025 BUDGET AND RATES

The fiscal year 2024 operating revenue budget was developed using a rolling 1% escalation for growth, with total operating revenue budgeted at \$21,221,692. The 2025 water service revenue budget was developed at a 20% increase from the 2024 level with the implementation of a rate increase within the fiscal year. The 2025 wastewater service revenue budget reflected a 20% increase to account for the impact of increased rates established fiscal year 2024. The water base fee revenue was increased by 20% for system growth. Wastewater base fee revenue was increased by 20% for system growth. Total operating revenue for 2025 was budgeted at \$25,601,274.

An increase of \$1,770,302 in operating expenses was approved in the fiscal year 2025 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 \$772,151 reflecting increases in professional services for the upcoming fiscal year. The budget for the supplies and maintenance category of expenses reflects an increase of \$206,236 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 decreased by \$43,486 reflecting a decrease for employee incentives, travel and public outreach events.

REQUEST 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.

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BASIC FINANCIAL STATEMENTS

**CITY OF HARLINGEN WATERWORKS SYSTEM
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30,**

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,854,665	\$ 8,309,054
Investments	20,881,856	21,348,326
Accounts receivable, net of allowance for uncollectible	3,068,352	2,410,415
Due from primary government	1,455,916	1,748,046
Interest receivable	1,079	62,555
Inventories	1,030,013	733,446
Restricted assets		
Cash and cash equivalents	14,159,013	5,238,404
Investments	9,814,244	6,019,829
Total current assets	<u>57,265,138</u>	<u>45,870,075</u>
Noncurrent Assets		
Capital assets:		
Capital assets, not being depreciated:		
Land	1,266,211	1,266,211
Construction in progress	10,607,862	6,463,188
Water rights	7,284,107	7,284,107
Other capital assets, net		
of accumulated depreciation	71,176,185	69,832,313
Total capital assets	<u>90,334,365</u>	<u>84,845,819</u>
Total noncurrent assets	<u>90,334,365</u>	<u>84,845,819</u>
Total assets	<u>147,599,503</u>	<u>130,715,894</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	77,896	99,307
Deferred pension outflows	1,283,653	2,290,226
Deferred OPEB outflows	765,759	443,806
Total deferred outflows of resources	<u>2,127,308</u>	<u>2,833,339</u>

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
STATEMENTS OF NET POSITION - CONTINUED
AS OF SEPTEMBER 30,**

	2024	2023
LIABILITIES		
Current Liabilities		
Accounts payable	1,040,331	1,422,700
Due to primary government	796,429	84,290
Other liabilities	993,205	879,286
Compensated absences - current	500,000	500,000
Revenue bonds - current	1,095,000	1,121,824
Payable from restricted assets:		
Accrued interest	233,418	219,229
Customer deposits - current	350,000	350,000
Total current liabilities	<u>5,008,383</u>	<u>4,577,329</u>
Noncurrent Liabilities		
Revenue bonds payable (net of unamortized premiums and discounts)	23,492,933	14,587,933
Compensated absences	260,319	363,893
Net retiree health care plan liability	7,754,335	7,335,464
Net retiree death benefit plan liability	590,569	554,780
Net pension liability	1,535,151	3,468,446
Payable from restricted assets:		
Customer deposits	3,382,012	3,224,527
Total noncurrent liabilities	<u>37,015,319</u>	<u>29,535,043</u>
Total liabilities	<u>42,023,702</u>	<u>34,112,372</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	509,177	61,473
Deferred OPEB inflows	1,004,449	2,157,596
Total deferred inflows of resources	<u>1,513,626</u>	<u>2,219,069</u>
NET POSITION		
Net investment in capital assets	75,996,916	70,165,404
Restricted	10,749,528	7,417,671
Unrestricted	19,443,039	19,634,717
Total net position	<u>\$ 106,189,483</u>	<u>\$ 97,217,792</u>

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30,**

	2024	2023
Operating Revenues		
Customer fees and charges	\$ 22,969,230	\$ 22,473,088
Operating Expenses		
Personnel services	9,279,540	9,185,418
Contractual services	4,426,313	3,108,456
Supplies and maintenance	4,638,825	4,591,038
Other	152,688	204,381
Depreciation	<u>4,018,115</u>	<u>3,822,275</u>
Total operating expenses	22,515,481	20,911,568
Operating Income	453,749	1,561,520
Non-Operating Revenues		
Impact fees	1,175,240	1,025,058
Investment earnings	2,238,774	1,549,664
Other	1,404,367	860,450
Gain on sale of capital assets	159,859	-
Intergovernmental	<u>2,455,968</u>	<u>2,487,316</u>
Total non-operating revenues	7,434,208	5,922,488
Non-Operating Expenses		
Interest and amortization expense	<u>758,576</u>	<u>486,724</u>
Change in Net Position before Contributions	7,129,381	6,997,284
Capital contributions	<u>1,842,310</u>	<u>1,569,692</u>
Change in Net Position	8,971,691	8,566,976
Net Position - Beginning Year, as previously reported	97,217,792	89,118,967
Error Correction	-	(468,151)
Net Position - Beginning Year, as restated	<u>97,217,792</u>	<u>88,650,816</u>
Net Position - End of Year	<u><u>\$ 106,189,483</u></u>	<u><u>\$ 97,217,792</u></u>

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30,**

	2024	2023
Cash Flows From Operating Activities		
Receipts from customers	\$ 22,468,779	\$ 22,309,310
Payments to suppliers	(9,237,615)	(7,041,946)
Payments to or on behalf of employees	<u>(10,715,662)</u>	<u>(10,097,222)</u>
Net cash provided by operating activities	<u>2,515,502</u>	<u>5,170,142</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,665,092)	(6,533,424)
Proceeds from debt issuance	10,000,000	-
Proceeds from sale of assets	159,876	-
Proceeds from impact fees	1,175,240	1,025,058
Proceeds from tap, inspection, backflow fees and other	1,404,366	860,449
Capital grants	2,748,098	2,680,674
Principal paid on revenue bonds	(1,060,000)	(1,025,000)
Interest and fees paid on revenue bonds	<u>(784,075)</u>	<u>(544,881)</u>
Net cash provided (used) by capital and related financing activities	<u>5,978,413</u>	<u>(3,537,124)</u>
Cash Flow From Investing Activities		
Purchase of investments	(35,695,904)	(32,830,011)
Maturity of investments	32,367,959	29,048,168
Investment earnings	<u>2,300,250</u>	<u>1,489,653</u>
Net cash used by investing activities	<u>(1,027,695)</u>	<u>(2,292,190)</u>
Increase (decrease) in cash and cash equivalents	7,466,220	(659,172)
Cash and cash equivalents - beginning of year	13,547,458	14,206,630
Cash and cash equivalents - end of year	<u>\$ 21,013,678</u>	<u>\$ 13,547,458</u>

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30,**

	2024	2023
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 453,749	\$ 1,561,520
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,018,115	3,822,275
Changes in assets and liabilities:		
(Increase) decrease in receivables, net	(657,937)	(333,138)
(Increase) decrease in inventory	(296,567)	(73,996)
(Increase) decrease in net pension assets	-	157,533
(Increase) decrease in pension related deferred outflows	1,006,573	(1,248,041)
(Increase) decrease in OPEB related deferred outflows	(321,953)	394,284
Increase (decrease) in accounts payable	(382,369)	650,268
Increase (decrease) in due to primary government	712,139	(80,479)
Increase (decrease) in other liabilities	113,919	200,780
Increase (decrease) in liability for compensated absences	(103,574)	50,209
Increase (decrease) in net pension liability	(1,933,295)	3,468,446
Increase (decrease) in OPEB liability	454,660	(2,398,652)
Increase (decrease) in pension related deferred inflows	447,704	(2,216,645)
Increase in OPEB related deferred inflows	(1,153,147)	1,046,413
Increase in customer deposits	157,485	169,365
Net cash provided by operating activities	<u><u>\$ 2,515,502</u></u>	<u><u>\$ 5,170,142</u></u>

	2024	2023
Reconciliation of total cash and cash equivalents:		
Unrestricted cash and cash equivalents	\$ 6,854,665	\$ 8,309,054
Restricted cash and cash equivalents	14,159,013	5,238,404
Total cash and cash equivalents	<u><u>\$ 21,013,678</u></u>	<u><u>\$ 13,547,458</u></u>

	2024	2023
Supplemental disclosure of noncash financing activities:		
Water lines, sewer mains and related infrastructure contributed to the System by developers	<u><u>\$ 1,842,309</u></u>	<u><u>\$ 1,569,692</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

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**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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 annual comprehensive 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 the 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).

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$3,500 and an estimated useful life in excess of three years. Infrastructure assets are reported on a network basis.

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, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS'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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 OPEB liability, related deferred outflow and inflows of resources, and expense is calculated by the actuary, Gabriel Roeder Smith & Company in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Deferred Outflows/Inflows of Resources

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Control (Continued)

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 required supplementary information in this report, presents a comparison of budgetary data to actual results.

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.

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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. DEPOSITS AND INVESTMENTS (Continued)

System Policies and Legal Contractual Provisions Governing Deposits (Continued)

The System's deposits, including certificates of deposit, at September 30, 2024 and 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.

At September 30, 2024, the carrying amount of the System's deposits was as follows:

	2024					
	Plains Capital Demand Deposit	Southside Bank Money Market	Plains Capital IntraFi	Texpool LGIP	TexStar LGIP	BOK Financial Short-term Cash Fund
Book Value	\$ 100,000	\$ 2,834,364	\$ 4,846,808	\$ 2,709,152	\$ 1,316,021	\$ 9,203,932
Bank Balance	100,000	2,834,364	5,105,667	2,709,152	1,316,021	9,203,932
FDIC Coverage	250,000	250,000	-	-	-	-
Collateral	-	2,862,836	5,605,667	-	-	9,203,932

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

	2023					
	Plains Capital Demand Deposit	Southside Bank Money Market	Plains Capital IntraFi	Texpool LGIP	TexStar LGIP	BOK Financial Short-term Cash Fund
Book Value	\$ 100,000	\$ 1,245,573	\$ 8,302,681	\$ 2,568,783	\$ 1,293,858	\$ -
Bank Balance	100,000	1,245,573	8,302,681	2,568,783	1,293,858	-
FDIC Coverage	250,000	250,000	-	-	-	-
Collateral	-	1,554,579	9,326,089	-	-	-

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 \$9,575,360 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, 2024, all System deposits were insured or adequately collateralized.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. DEPOSITS AND INVESTMENTS (Continued)

System Policies and Legal Contractual Provisions Governing Deposits (Continued)

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

System Policies and Legal Contractual Provisions Governing Investments

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

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

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. DEPOSITS AND INVESTMENTS (Continued)

System Policies and Legal Contractual Provisions Governing Investments (Continued)

6. Local government investment pools of political subdivisions in the State of Texas, which invest in instruments and follow practices allowed by current law; maintain as an investment objective a \$1.00 net asset value; provide offering circulars containing information required by the Act; provide investment transaction confirmations; provide a monthly report containing information required by the Act; have an advisory board as specified by the Act; are continuously rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and have a weighted average maturity no greater than ninety (90) days. Participation in an investment pool must be authorized by Resolution of the Utility Board of Trustees;
7. No-load money market mutual funds organized and in compliance with current law; that maintain as an investment objective a \$1.00 net asset value for each share; are registered with and regulated by the Securities and Exchange Commission; have a dollar weighted average maturity of no more than 90 days; are continuously rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and have provided to the System a prospectus and other information required by the Securities Exchange Act of 1937 or the Investment Company Act of 1940;
8. Repurchase agreements with a defined termination date, fully collateralized by securities described in 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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2024, 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	2,500,000	8.14%	18	-
BOK Financial	2,025,243	6.60%	18	-
East West Bank	24,151,465	78.68%	109	-
American National Bank	2,019,392	6.58%	20	-
Total	\$ 30,696,100	100.00%		

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	\$ 27,368,155	100.00%		

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, 2024 and 2023, the System had the fair value measurements for certificates of deposit and US Treasury instruments totaling \$30,696,100 and \$27,369,230, respectively, valued using cost-based measures. The system's investments in government pools at September 30, 2024 and 2023 totaling \$4,025,173 and \$3,862,641, respectively, are recorded at amortized cost.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. DEPOSITS AND INVESTMENTS (Continued)

Public funds investment pools in Texas (“Pools”) are established under the authority of the Inter-local Cooperation Act Chapter 79 of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act (the “PFIA”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the PFIA designed to promote liquidity and safety of principal, the PFIA requires Pools to: have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; maintain a continuous rating of no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service; and maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

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

Credit Risk – In accordance with State law and the System’s investment policy, investments in investment pools must be rated no lower than AAA or AAA-m or have an equivalent rating, obligations of states, agencies, counties, and cities must be rated at least A or its equivalent. As of September 30, 2024, the System’s investments in TexPool and TexSTAR were rated AAAm by Standard and Poor’s.

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

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

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

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

2. ACCOUNTS RECEIVABLES

Accounts receivable consist of the following as of September 30:

Description	2024	2023
Water accounts	673,027	359,037
Wastewater accounts	625,436	410,391
Customer invoices and charges	292,741	288,641
Other	45,768	35,346
Total invoiced accounts receivable	1,636,972	1,093,415
Unbilled customer charges:		
Water	914,000	812,000
Wastewater	895,000	825,000
Total unbilled customer charges	1,809,000	1,637,000
Total accounts receivable	3,445,972	2,730,415
Less allowance for uncollectible accounts	(377,620)	(320,000)
Total accounts receivable (net)	\$ 3,068,352	\$ 2,410,415

3. RESTRICTED ASSETS

Restricted assets consist of the following as of September 30:

Cash and Cash Equivalents	2024	2023
Customer deposits	\$ 686,562	\$ 571,652
Impact fees - replacement reserve	2,390,909	2,993,039
Front footage and tie in fees -		
replacement reserve	646,507	460,389
Debt service fund	1,231,103	1,213,324
2024 TWDB bond funds (capital projects)	<u>9,203,932</u>	-
Total restricted cash and		
equivalents	<u>14,159,013</u>	<u>5,238,404</u>
Investments		
Customer deposits	3,099,816	3,049,680
Impact fees - replacement reserve	6,117,077	2,403,013
Front footage and tie in fees -		
replacement reserve	597,351	567,136
Total restricted investments	<u>9,814,244</u>	<u>6,019,829</u>
Total restricted assets	<u>\$ 23,973,257</u>	<u>\$ 11,258,233</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

4. RESTRICTED ASSETS (Continued)

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. The use of revenue bond proceeds is restricted by those same ordinances 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.

5. CAPITAL ASSETS

Capital asset activity for the System for the year ended September 30, 2024 was as follows:

Description	Balance 9/30/2023	Reclass & Additions	Reclass & Disposals	Balance 9/30/2024
Capital assets not being depreciated				
Water rights	\$ 7,284,107	\$ -	\$ -	\$ 7,284,107
Land & land rights	1,266,211	-	-	1,266,211
Construction in progress	6,463,188	4,144,674	-	10,607,862
Total capital assets not being depreciated	<u>15,013,506</u>	<u>4,144,674</u>	<u>-</u>	<u>19,158,180</u>
Other capital assets				
Vehicles	5,633,640	1,089,752	(264,290)	6,459,102
Water production plant	31,300,871	106,460	-	31,407,331
Water transmission facilities and equipment	69,320,250	1,370,142	(6,300)	70,684,092
Wastewater treatment plant	34,178,624	529,002	-	34,707,626
Wastewater collection lines, lift				
stations and equipment	60,237,253	1,919,378	(20,843)	62,135,788
Laboratory building and equipment	437,053	-	-	437,053
Pretreatment buildings and equipment	49,047	-	-	49,047
Office buildings and equipment	4,300,338	347,431	-	4,647,769
Total capital assets being depreciated	<u>205,457,076</u>	<u>5,362,165</u>	<u>(291,433)</u>	<u>210,527,808</u>
Less accumulated depreciation				
Vehicles	(3,375,833)	(364,018)	264,112	(3,475,739)
Water production plant	(24,513,733)	(634,957)	-	(25,148,690)
Water transmission facilities and equipment	(41,067,591)	(1,216,718)	6,300	(42,278,009)
Wastewater treatment plant	(26,108,456)	(710,391)	-	(26,818,847)
Wastewater collection lines, lift				
stations and equipment	(36,978,519)	(869,739)	20,843	(37,827,415)
Laboratory building and equipment	(287,508)	(19,687)	-	(307,195)
Pretreatment buildings and equipment	(44,161)	(791)	-	(44,952)
Office buildings and equipment	(3,248,962)	(201,814)	-	(3,450,776)
Total accumulated depreciation	<u>(135,624,763)</u>	<u>(4,018,115)</u>	<u>291,255</u>	<u>(139,351,623)</u>
Capital assets, net of				
accumulated depreciation	<u>\$ 84,845,819</u>	<u>\$ 5,488,724</u>	<u>\$ (178)</u>	<u>\$ 90,334,365</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

5. CAPITAL ASSETS (Continued)

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

Description	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	3,390,603	6,422,466	(3,349,881)	6,463,188
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	4,250,983	12,018	37,337	4,300,338
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	(23,885,512)	(628,221)	-	(24,513,733)
Water transmission facilities and equipment	(39,879,744)	(1,187,847)	-	(41,067,591)
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	(3,096,599)	(152,363)	-	(3,248,962)
Total accumulated depreciation	<u>(131,802,488)</u>	<u>(3,822,275)</u>	<u>-</u>	<u>(135,624,763)</u>
Capital assets, net of accumulated depreciation	<u>\$ 80,564,977</u>	<u>\$ 4,280,842</u>	<u>\$ -</u>	<u>\$ 84,845,819</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

6. DUE TO PRIMARY GOVERNMENT

At September 30, 2024 and 2023, 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 \$796,429 and \$84,290, respectively.

7. PAYABLE FROM RESTRICTED ASSETS

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

	<u>2024</u>	<u>2023</u>
Current:		
Accrued interest	\$ 233,418	\$ 219,229
Customer deposits	350,000	350,000
Noncurrent:		
Customer deposits	3,382,012	3,224,527
Total	<u>\$ 3,965,430</u>	<u>\$ 3,793,756</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 YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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.

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.

In August 2024, the System issued the Waterworks and Sewer System Revenue Bonds, Series 2024A (CWSRF) in the principal amount of \$10,000,000 for the planning, development, and design of projects awarded low interest funding by the Texas Water Development Board.

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, 2024.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

8. LONG-TERM DEBT (Continued)

As of September 30, 2024, revenue bonds outstanding are as follows:

Bond Issue	Original Amount	Interest Rates	Issue Date	Maturity Date	Principal Outstanding
Waterworks and Sewer System					
Revenue, Series 2015A	\$ 12,000,000	2.00 - 3.75%	9/29/2015	11/01/2035	\$ 8,050,000
Waterworks and Sewer System					
Revenue Refunding, Series 2015B	\$ 6,475,000	2.00 - 3.25%	9/29/2015	11/01/2030	2,140,000
Waterworks and Sewer System					
Revenue Refunding, Series 2019	\$ 4,825,000	2.50 - 5.00%	12/19/2019	11/01/2035	4,095,000
Waterworks and Sewer System					
Revenue Bonds, Series 2024A (CWSRF)	\$ 10,000,000	1.75 - 2.68%	8/14/2024	11/1/2054	<u>\$ 10,000,000</u> <u>\$ 24,285,000</u>

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

Year ending September 30,	Principal	Interest	Total
2025	\$ 1,095,000	\$ 633,016	\$ 1,728,016
2026	1,385,000	657,028	2,042,028
2027	1,430,000	611,962	2,041,962
2028	1,475,000	565,455	2,040,455
2029	1,540,000	517,097	2,057,097
2030-2034	7,340,000	1,856,752	9,196,752
2035-2039	3,880,000	940,836	4,820,836
2040-2044	1,660,000	687,958	2,347,958
2045-2049	1,875,000	469,547	2,344,547
2050-2054	2,140,000	207,791	2,347,791
2055-2059	465,000	6,231	471,231
Total	<u>\$ 24,285,000</u>	<u>\$ 7,153,673</u>	<u>\$ 31,438,673</u>

CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

9. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2024, was as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Bonds payable	\$ 15,345,000	\$ 10,000,000	\$ (1,060,000)	\$ 24,285,000	\$ 1,095,000
Deferred amounts for discounts and premiums	364,757	-	(61,824)	302,933	56,447
Total bonds payable	15,709,757	10,000,000	(1,121,824)	24,587,933	1,151,447
Compensated absences	863,893	72,562	(176,136)	760,319	500,000
Retiree health care liability	7,335,464	1,097,582	(678,711)	7,754,335	-
Retiree death benefit liability	554,780	62,701	(26,912)	590,569	-
Net pension liability (asset)	3,468,446	66,136	(1,999,431)	1,535,151	-
Customer deposits	3,574,527	1,201,505	(1,044,020)	3,732,012	350,000
Total	\$ 31,506,867	\$ 12,500,486	\$ (5,047,034)	\$ 38,960,319	\$ 2,001,447

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

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Bonds payable	\$ 16,370,000	\$ -	\$ (1,025,000)	\$ 15,345,000	\$ 1,060,000
Deferred amounts for discounts and premiums	431,745	-	(66,998)	364,747	61,824
Total bonds payable	16,801,745	-	(1,091,998)	15,709,747	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	3,405,167	577,689	(408,329)	3,574,527	350,000
Total	\$ 31,151,959	\$ 5,989,339	\$ (5,634,441)	\$ 31,506,857	\$ 1,971,824

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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, 2024, the System had open purchase orders for operating supplies, equipment, and capital improvements in the amount of \$1,040,332. 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.

As of September 30, 2024, the System's major construction projects and estimated costs to complete were as follows:

	Construction in Progress 9/30/2024	Estimated Cost Remaining
Yard Improvements	\$ 139,661	\$ 49,721
Van Buren Structural Repairs	101,146	95,498
Van Buren Office Remodel	53,099	-
Van Buren Lobby Renovation	2,385	11,784
Raw Water Intake Rehab	478,075	315,697
WWTP Headworks Improvements	145,642	1,939,011
Priority Sewer Renewal	4,923,041	1,972,107
Lift Station 5 Rehab	312,053	33,173
Little Creek Interceptor Sewer Replacement	678,590	2,376,356
Lift Station 59 Rehab	47,803	116,766
	<hr/> <u>\$ 6,881,495</u>	<hr/> <u>\$ 6,910,113</u>

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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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, 2024 and 2023, no single customer provided more than 10% of water revenues or wastewater revenues. For the year ended 2024, the top ten wastewater customers provided approximately \$1,418,697 or 12.26% of wastewater sales revenues. The top ten water customers generated approximately \$1,447,972 or 12.71% of the water sales revenues.

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:

	(Restated)	
	2024	2023
Net investment in capital assets		
Net capital assets, net	\$ 90,334,365	\$ 84,845,819
Revenue bonds payable	(23,492,933)	(14,587,933)
Add: unspent bond proceeds	9,203,932	-
Deferred amount on refunding	77,896	99,307
Less: construction retainage	(126,344)	(191,789)
Net investment in capital assets	<u>75,996,916</u>	<u>70,165,404</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

13. NET POSITION (Continued)

	2024	(Restated) 2023
Net position restricted for:		
Debt service:		
Cash, cash equivalents and investments	1,231,103	1,213,324
Accrued interest payable	(233,419)	(219,230)
System expansion (impact fees):		
Cash, cash equivalents and investments	8,507,986	5,396,052
System expansion (front footage & tie-in fees)		
Cash, cash equivalents and investments	1,243,858	1,027,525
Capital improvements (bond proceeds):		
Cash, cash equivalents and investments	9,203,932	-
Revenue bonds payable (unspent)	(9,203,932)	-
Customer deposits:		
Cash, cash equivalents and investments	3,786,378	3,621,332
Payable to utility customers	<u>(3,786,378)</u>	<u>(3,621,332)</u>
Restricted net position	10,749,528	7,417,671
Unrestricted net position	<u>19,443,039</u>	<u>19,634,717</u>
Total net position	<u><u>\$ 106,189,483</u></u>	<u><u>\$ 97,217,792</u></u>

14. PENSION PLANS

A. Plan Description

The System participates as one of 934 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (ACFR) that can be obtained at www.tmrs.com.

All eligible employees of the System are required to participate in TMRS.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

B. Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

Employee deposit rate	7%
Matching ratio (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

Employees covered by benefit terms

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

	2023	2022
Inactive employees or beneficiaries currently receiving benefits	147	143
Inactive employees entitled to but not yet receiving benefits	78	53
Active employees	<u>146</u>	<u>140</u>
Total	<u>371</u>	<u>336</u>

C. Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member's total compensation, and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The System's contribution rate is based on the liabilities created from the benefit plan options selected by the System and any changes in benefits or actual experience over time.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

C. Contributions (Continued)

Employees for the System were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the System were 9.40% and 9.59% in calendar years 2023 and 2024 respectively. The city's contributions to TMRS for the year ended September 30, 2023, and 2024, were \$688,564, and \$756,168 respectively, and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2023, and 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, 2023 actuarial valuation was determined using the following actuarial assumptions:

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	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes	There were no benefit changes during the year.
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Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

D. Net Pension Liability (Continued)

Actuarial assumptions (Continued):

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income 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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2024 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate Of Return (Arithmetic)
Global Equity	35.0%	6.70%
Core Fixed Income	6.0%	4.70%
Non-Core Fixed Income	20.0%	8.00%
Other Public & Private Markets	12.0%	8.80%
Real Estate	12.0%	7.60%
Hedge Funds	5.0%	6.40%
Private Equity	10.0%	11.60%
Total	100.00%	

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 Member 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 Members. 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 YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

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

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

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
	5.75%	6.75%	7.75%
Net pension liability (asset)	\$ 4,812,343	\$ 1,535,151	\$ (1,245,101)

Changes in the Net Pension (Asset) Liability for the fiscal year ended September 30, 2024

	Increase/(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2022	\$ 29,270,454	\$ 25,802,008	\$ 3,468,446
Changes for the year:			
Service cost	944,172	-	944,172
Interest	1,933,918	-	1,933,918
Difference between expected and actual experience	(428,770)	-	(428,770)
Change in Assumptions	(199,383)	-	(199,383)
Contributions - employer	-	702,709	(702,709)
Contributions - employee	-	523,294	(523,294)
Net investment income	-	2,976,359	(2,976,359)
Benefits payments, including refunds of employee contributions	(2,183,801)	(2,183,801)	-
Administrative expense	-	(18,998)	18,998
Other changes	-	(133)	133
Net changes	<u>66,136</u>	<u>1,999,430</u>	<u>(1,933,294)</u>
Balance at 12/31/2023	<u>\$ 29,336,590</u>	<u>\$ 27,801,438</u>	<u>\$ 1,535,152</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

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
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	<u>1,081,596</u>	<u>(2,544,383)</u>	<u>3,625,979</u>
Balance at 12/31/2022	<u>\$ 29,270,454</u>	<u>\$ 25,802,008</u>	<u>\$ 3,468,446</u>

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions**

Pension Expense

For the fiscal years ended September 30, 2024, and 2023, the System recognized pension expense as indicated below:

	2024	2023
Total service cost	\$ 944,172	\$ 894,300
Interest on the total pension liability	1,933,918	1,878,033
Changes in current period benefits including substantively automatic status	-	-
Employee contributions (reduction of expense)	(523,294)	(489,070)
Projected earnings on plan investments (reduction of expense)	(1,741,636)	(1,913,381)
Administrative expense	18,998	17,905
Other charges in fiduciary net position	133	(21,367)
Recognition of current year outflow (inflow) of resources-liabilities	(153,209)	(14,949)
Recognition of current year outflow (inflow) of resources-assets	(246,945)	795,390
Amortization of prior year outflow (inflow) of resources-liabilities	10,503	(12,010)
Amortization of prior year outflow (inflow) of resources-assets	34,509	(284,085)
Total pension expense (income)	<u>\$ 277,149</u>	<u>\$ 850,766</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2024, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 12,009	\$ 358,424
Changes in actuarial assumptions	-	150,753
Difference in projected and actual investment earnings	709,804	-
Contributions subsequent to the measurement date	561,840	-
	<hr/> <u>\$ 1,283,653</u>	<hr/> <u>\$ 509,177</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$561,840 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2024 (i.e. recognized in the System's financial statements as of September 30, 2025).

For the year ended September 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 48,669	\$ 61,473
Changes in actuarial assumptions	1,083	-
Difference in projected and actual investment earnings	1,732,092	-
Contributions subsequent to the measurement date	508,382	-
	<hr/> <u>\$ 2,290,226</u>	<hr/> <u>\$ 61,473</u>

Deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date of \$508,382 were recognized as a reduction of the net pension liability for the measurement year ended 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 YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

14. PENSION PLANS (Continued)

F. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

The amounts reported as deferred outflows and inflows of resources related to pensions, other than those arising from contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Measurement		
Year Ended		
<u>December 31</u>		
2024	\$	27,380
2025	\$	56,618
2026	\$	390,899
2027	\$	(262,261)
2028	\$	-
Thereafter	\$	-
Total	<u>\$</u>	<u>212,636</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.tmrs.com.

15. OTHER POST EMPLOYMENT BENEFITS

A. 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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS

B. SUPPLEMENTAL DEATH BENEFITS FUND

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>2023</u>	<u>2022</u>
Inactive employees or beneficiaries currently receiving benefits	115	113
Inactive employees entitled to but not yet receiving benefits	10	9
Active employees	<u>146</u>	<u>140</u>
Total	<u>271</u>	<u>262</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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

A. SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

Funding Policy (Continued)

The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net position available for benefits.

The System contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year of term life insurance. The System's contributions to the TMRS SDBF for the fiscal years ended 2024, 2023, and 2022 were \$30,291, \$26,022, and \$17,881 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
2024	0.60%	0.42%	0.42%	100.0%
2023	0.57%	0.36%	0.36%	100.0%
2022	0.41%	0.31%	0.31%	100.0%
2021	0.50%	0.39%	0.31%	100.0%
2020	0.26%	0.10%	0.31%	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, 2023, 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, 2023 valuation were based on the results of an actuarial experience study as of December 31, 2022. The actuarial assumptions include a 3.77% discount rate; a 2.5% inflation assumption; and salary increases of 3.60% to 11.85% 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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

A. SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

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 3.77% 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 (2.77%) or one percentage-point higher (4.77%).

1% Decrease	Current Discount Rate	1% Increase
2.77%	3.77%	4.77%
\$ 685,241	\$ 590,569	\$ 514,334

Changes in the Supplemental Death Benefit Fund Liability for the fiscal year ending September 30, 2024, and 2023 as follows:

	2024	2023
Service Cost	\$ 14,204	\$ 28,646
Interest on liability	22,211	14,084
Differences between expected and actual experience	978	(1,940)
Changes of assumptions or other inputs	25,308	(226,298)
Benefit payments	(26,912)	(21,659)
Net change in total SDBF liability	<u>35,789</u>	<u>(207,167)</u>
 Total SDBF liability as of beginning of year	 554,780	 761,947
Net change in total SDBF liability	35,789	(207,167)
Total SDBF liability as of end of year	<u>\$ 590,569</u>	<u>\$ 554,780</u>
 Covered employee payroll	 \$ 7,475,631	 \$ 6,986,717
Total SDBF liability as a percentage		
of covered-employee payroll	7.90%	7.94%
Percentage of SDBF liability funded	0.00%	0.00%

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

A. SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

SDBF Cost and Deferred Outflows and Deferred Inflows of Resources

For the fiscal years ended September 30, 2024 and 2023, the System recognized expenses for the supplemental death benefit plan as follows:

	2024	2023
Service cost	\$ 14,204	\$ 28,646
Interest on total SDBF liability	22,211	14,084
Recognition of deferred outflows/inflows or resources:		
Differences between expected and actual experience	(2,218)	(3,998)
Changes in assumptions or other inputs - prior year	(3,018)	(7,747)
Total SDBF expense	<u>\$ 31,179</u>	<u>\$ 30,985</u>

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, 2024, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 5.26-year period.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 6,979	\$ 4,409
Changes in actuarial assumptions	54,582	142,172
Contribution made after the measurement date	22,849	-
	<u>\$ 84,410</u>	<u>\$ 146,581</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$22,849 will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2024 (i.e., recognized in the System's financial statements as of September 30, 2025).

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

A. SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

SDBF Cost and Deferred Outflows and Deferred Inflows of Resources (Continued)

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 a 5.38-year period.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 9,568	\$ 10,194
Changes in actuarial assumptions	71,119	187,035
Contribution made after the measurement date	<u>19,500</u>	-
	<u><u>\$ 100,187</u></u>	<u><u>\$ 197,229</u></u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$19,500 have been 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).

Measurement Year Ended December 31	\$	
2024	(7,821)	
2025	(29,949)	
2026	(37,426)	
2027	(11,120)	
2028	1,296	
Thereafter	-	
Total	<u><u>\$ (85,020)</u></u>	

B. RETIREE HEALTH CARE PLAN

Plan Description

In addition to the pension benefits described in Note 14 and the supplemental death benefits described in Note 15A, 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.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

B. RETIREE HEALTH CARE PLAN

Plan Description (Continued)

All current full-time employees of the System hired prior to February 2010 are eligible for retirement and health-care and prescription-drug coverage at age 60 with five years of service or at any age with 20 years of service. Those approved for disability retirement through TMRS are also eligible for retiree health-care and prescription-drug coverage. The System provided group health care coverage is discontinued at the end of the month prior to the retiree's 65th birth month. Retirees are required to enroll in Medicare once eligible. A Medicare Supplement, Plan F is provided thereafter, until death. Retirees eligible for Medicare coverage are not provided prescription-drug coverage.

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

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

Employees Covered by Benefit Items

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

	<u>2024</u>	<u>2023</u>
Inactive plan members or beneficiaries currently receiving benefits	73	71
Inactive plan members entitled to but not yet receiving benefits	0	0
Active Plan Members	<u>31</u>	<u>41</u>
Total	<u>104</u>	<u>112</u>

Funding Policy, Funded Status and Funding Progress

The System provided healthcare 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 2024 were \$281,219, (45.31%) of annual OPEB cost of (\$617,429); and \$318,909, (56.03%) of annual OPEB cost of (\$569,102) in fiscal year 2023.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

B. RETIREE HEALTH CARE PLAN (Continued)

Funding Policy, Funded Status and Funding Progress (Continued)

The Total OPEB Liability (TOL) shown in this report is based on an actuarial valuation performed as of December 31, 2023, and a measurement date of December 31, 2023.

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, 2023 actuarial valuation, the Individual Entry-Age cost method was used. The actuarial assumptions include a 3.77% investment rate of return (compounded annually net after investment expenses); and an initial annual healthcare cost trend rate of 7.20% for pre-65 retirees (5.10% for post-65), declining to an ultimate rate of 4.25% after 15 years (4.25% after 9 years for post-65). Both rates include a 2.50% inflation assumption. The valuation included the gender-distinct 2019 Municipal Retirees of Texas mortality Tables with Blue Collar Adjustment with male rates multiplied by 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis using ultimate mortality improvement rates in the MP-2021 table to account for future mortality improvements.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

B. RETIREE HEALTH CARE PLAN (Continued)

Actuarial Methods and Assumptions (Continued)

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

	2024	2023
Service cost	\$ 109,129	\$ 235,382
Interest on liability	290,866	173,967
Difference between expected and actual experience	(262,422)	14,347
Changes of assumptions	697,587	(2,235,354)
Benefit payments	(416,289)	(379,827)
Net change in total liability	418,871	(2,191,485)
Beginning Retiree Health Care Plan liability	7,335,464	9,526,949
Ending Retiree Health Care Plan liability	<u>7,754,335</u>	<u>7,335,464</u>
 Covered employee payroll	 \$ 1,927,471	 \$ 2,106,386
Total Retiree Health Care Plan liability as a percentage of covered-employee payroll	402.31%	348.25%
Percentage of Retiree Health Care Plan liability funded	0.00%	0.00%

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate Assumption

The following presents the total OPEB liability of the System, calculated using the discount rate of 3.77% 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 2.77% or one percentage-point higher 4.77%.

	Current Discount		
	1% Decrease 2.77%	Rate Assumption 3.77%	1% Increase 4.77%
	\$ 8,694,143	\$ 7,754,335	\$ 6,965,808

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 a trend rate that is one percentage point lower or one percentage-point higher:

	Current Healthcare Cost Trend		
	1% Decrease 6,874,760	Rate Assumption 7,754,335	1% Increase 8,817,015
	\$ 6,874,760	\$ 7,754,335	\$ 8,817,015

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

B. RETIREE HEALTH CARE PLAN (Continued)

Retiree Health Care Plan Cost

The following presents the costs incurred by the Retiree Health Care Plan in fiscal years 2024 and 2023:

Retiree Health Care Plan expense:	Fiscal Year	
	2024	2023
Service cost	\$ 109,129	\$ 235,382
Interest on total liability	290,866	173,967
Recognition of current year inflow due to liabilities	183,792	(759,630)
Amortization of prior year outflow due to liabilities	(1,201,216)	(218,821)
Total Retiree Health Care Plan expense	<u>\$ (617,429)</u>	<u>\$ (569,102)</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 though 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 2.3677 years. On September 30, 2024, the System reported deferred outflows of resources related to OPEB from the following sources that are being amortized over a 2.3677 year period.

Retiree Health Care Plan outflows and inflows of resources arising from reporting period ended December 31, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,533	\$ 151,588
Changes in actuarial assumptions	402,961	706,280
Contributions made after the measurement date	273,855	-
	<u>\$ 681,349</u>	<u>\$ 857,868</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

15. OTHER POST EMPLOYMENT BENEFITS (Continued)

B. RETIREE HEALTH CARE PLAN (Continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources (Continued)

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$273,855 will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2024 (i.e. recognized in the System's financial statements as of September 30, 2025). 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, 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 made after the measurement date	286,245	-
	<u>\$ 343,649</u>	<u>\$ 1,960,367</u>

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$286,245 have been recognized as a reduction of the total OPEB liability for the measurement year ending December 31, 2023 (i.e. recognized in the System's financial statements as of September 30, 2024). 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	\$ (517,955)
2025	67,581
2026	-
2027	-
2028	-
Thereafter	-
<u>Total</u>	<u>\$ (450,374)</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

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 2024, the System implemented the following pronouncements:

GASB Statement No. 100, "*Accounting for Changes and Error Corrections*"- an Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

The GASB has issued the following statements which will become effective in future periods:

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. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

GASB Statement No 102, "*Certain Risk Disclosures*"- The objective of this statement is to provide users of government financial statements with essential information about risk related to a government's vulnerabilities due to certain concentrations or constraints, whether by an external party or formal authoritative action by the government. A government is to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

17. CURRENT AND FUTURE FINANCIAL REPORTING REQUIREMENTS

GASB Statement No. 103, *"Financial Reporting Model Improvements"*- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues related to Management's Discussion and Analysis, unusual or infrequent items, Net Position of proprietary funds, Major Component Unit Information, and Budgetary Comparison Information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024

GASB Statement 104, *"Disclosure of Certain Capital Assets"*- The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets separately in the capital assets note disclosures required by Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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

18. ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES

Correction of errors resulted in adjustments to and restatements of beginning net position as previously reported for the fiscal year ended September 30, 2023. The adjustments and restatements were attributed to capital assets that had been in service beyond their estimated useful lives for which no depreciation expense or accumulated depreciation was previously recognized. Additionally, the allocation of net position among the three net position classifications was incorrectly calculated and allocated. The effect on net position at September 30, 2023 is as follows:

	(As previously Reported) 9/30/2023	Correction of Errors		
		To Correct Depreciation of Capital Assets	To Correct Classificaiton of Net Position	(As Restated) 9/30/2023
Net investment in capital assets	\$ 69,511,731	\$ (468,151)	\$ 1,121,824	\$ 70,165,404
Restricted	6,177,979	-	1,239,692	7,417,671
Unrestricted	21,996,233	-	(2,361,516)	19,634,717
	<u>\$ 97,685,943</u>	<u>\$ (468,151)</u>	<u>\$ -</u>	<u>\$ 97,217,792</u>

A correction of an error was made to balances previously reported on the statement of cash flows for the fiscal year ended September 30, 2023. A summary of such corrections is as follows:

	(As previously Reported) 2023	Correction of Error		(As Restated) 2023
		Error		
Net cash provided by operating activities	\$ 10,171,684	\$ (5,001,542)		\$ 5,170,142
Net cash provided (used) by capital and related financing activities	(8,538,666)		5,001,542	(3,537,124)
Net cash used by investing activities	(2,292,190)		-	(2,292,190)
Net decrease in cash and cash equivalents	<u>\$ (659,172)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (659,172)</u>

**CITY OF HARLINGEN WATERWORKS SYSTEM
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023**

19. SUBSEQUENT EVENTS

The System has evaluated all subsequent events and transactions that occurred after September 30, 2024 through March 20, 2025, the date these financial statements were available to be issued. No material events have occurred.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARLINGEN WATERWORKS SYSTEM
TEXAS MUNICIPAL RETIRMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN MEASUREMENT YEARS
(UNAUDITED)**

	Measurement Year Ended 12/31/2023	Measurement Year Ended 12/31/2022	Measurement Year Ended 12/31/2021	Measurement Year Ended 12/31/2020
Total pension liability:				
Service cost	\$ 944,172	\$ 894,300	\$ 782,523	\$ 492,173
Interest (on total pension liability)	1,933,918	1,878,033	1,798,090	1,578,043
Changes of benefit terms	-	-	2,424,138	-
Difference between expected and actual experience	(428,770)	(64,131)	65,784	83,340
Changes of assumptions	(199,383)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(2,183,801)</u>	<u>(1,626,606)</u>	<u>(1,409,306)</u>	<u>(1,516,524)</u>
Net change in total pension liability	66,136	1,081,596	3,661,229	637,032
Total pension liability - beginning	<u>29,270,454</u>	<u>28,188,858</u>	<u>24,527,629</u>	<u>23,890,597</u>
Total pension liability - ending	<u>29,336,590</u>	<u>29,270,454</u>	<u>28,188,858</u>	<u>24,527,629</u>
Plan fiduciary net position:				
Contributions - employer	702,709	653,258	117,319	105,466
Contributions - employee	523,294	489,070	430,566	384,510
Net investment income	2,976,359	(2,063,567)	3,363,869	1,894,042
Benefit payments, including refunds of employee contributions	<u>(2,183,801)</u>	<u>(1,626,606)</u>	<u>(1,409,306)</u>	<u>(1,516,524)</u>
Administrative expense	(18,998)	(17,905)	(15,598)	(12,282)
Other	<u>(133)</u>	<u>21,367</u>	<u>106</u>	<u>(479)</u>
Net change in plan fiduciary net position	1,999,430	(2,544,383)	2,486,956	854,733
Plan fiduciary net position - beginning	<u>25,802,008</u>	<u>28,346,391</u>	<u>25,859,435</u>	<u>25,004,702</u>
Plan fiduciary net position - ending	<u>27,801,438</u>	<u>25,802,008</u>	<u>28,346,391</u>	<u>25,859,435</u>
Net pension liability (asset)	<u>\$ 1,535,152</u>	<u>\$ 3,468,446</u>	<u>\$ (157,533)</u>	<u>\$ (1,331,806)</u>
Plan fiduciary net position as a percentage of total pension liability	94.77%	88.15%	100.56%	105.43%
Covered employee payroll	\$ 7,475,630	\$ 6,986,717	\$ 6,042,647	\$ 5,492,999
Net pension liability (asset) as a percentage of covered employee payroll	20.54%	49.64%	-2.61%	-24.25%

Measurement Year Ended 12/31/2019	Measurement Year Ended 12/31/2018	Measurement Year Ended 12/31/2017	Measurement Year Ended 12/31/2016	Measurement Year Ended 12/31/2015	Measurement Year Ended 12/31/2014
\$ 531,250	\$ 551,635	\$ 538,832	\$ 539,599	\$ 487,964	\$ 457,206
1,562,159	1,543,058	1,497,198	1,453,483	1,420,126	1,395,895
-	-	-	-	-	-
(194,371)	(157,540)	88,270	42,791	130,618	(168,074)
17,123	-	-	-	579,040	-
<u>(1,806,083)</u>	<u>(1,481,863)</u>	<u>(1,420,743)</u>	<u>(1,354,964)</u>	<u>(1,441,031)</u>	<u>(1,267,274)</u>
110,078	455,290	703,557	680,909	1,176,717	417,753
<u>23,780,519</u>	<u>23,325,229</u>	<u>22,621,672</u>	<u>21,940,763</u>	<u>20,764,246</u>	<u>20,346,493</u>
<u>23,890,597</u>	<u>23,780,519</u>	<u>23,325,229</u>	<u>22,621,672</u>	<u>21,940,963</u>	<u>20,764,246</u>
 110,137	 116,586	 104,889	 35,295	 61,279	 114,431
412,278	429,527	419,558	418,757	397,180	381,436
3,518,192	(732,031)	3,088,807	1,469,085	33,518	1,271,634
 (1,806,083)	 (1,481,863)	 (1,420,743)	 (1,354,964)	 (1,441,031)	 (1,267,474)
(19,909)	(14,168)	(16,016)	(16,598)	(20,418)	(13,278)
<u>(598)</u>	<u>(741)</u>	<u>(811)</u>	<u>(894)</u>	<u>(1,008)</u>	<u>(1,092)</u>
2,214,017	(1,682,690)	2,175,684	550,681	(970,480)	485,657
<u>22,790,685</u>	<u>24,473,375</u>	<u>22,297,691</u>	<u>21,747,010</u>	<u>22,717,490</u>	<u>22,231,833</u>
<u>25,004,702</u>	<u>22,790,685</u>	<u>24,473,375</u>	<u>22,297,691</u>	<u>21,747,010</u>	<u>22,717,490</u>
<u>\$ (1,114,105)</u>	<u>\$ 989,834</u>	<u>\$ (1,148,146)</u>	<u>\$ 323,981</u>	<u>\$ 193,953</u>	<u>\$ (1,953,244)</u>
 104.66%	 95.84%	 104.92%	 98.57%	 99.12%	 109.41%
\$ 5,889,693	\$ 6,136,098	\$ 5,449,089	\$ 5,982,248	\$ 5,674,004	\$ 5,449,089
 -18.92%	 16.13%	 -21.07%	 5.42%	 3.42%	 -35.85%

**CITY OF HARLINGEN WATERWORKS SYSTEM
TEXAS MUNICIPAL RETIRMENT SYSTEM
NOTES TO SCHEDULE OF CONTRIBUTIONS
(UNAUDITED)**

Fiscal Year	(1)		(2)		(5) Actuarially determined contributions as a percentage of covered employee payroll	(6) Contributions as a percent of coverage employee payroll		
	Actuarially determined contribution		Contribution in relation to the actuarially determined contribution					
	(1)	(2)-(1)	(3) Contribution excess (deficiency)	(4) Covered employee payroll				
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%		
2024	756,168	756,168	-	7,475,630	10.12%	10.12%		

**CITY OF HARLINGEN WATERWORKS SYSTEM
TEXAS MUNICIPAL RETIRMENT SYSTEM
NOTES TO SCHEDULE OF CONTRIBUTIONS
(UNAUDITED)**

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 2023:

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	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Other Information:	
Note:	There were no benefit changes during the year.

CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF CHANGES IN THE SUPPLEMENTAL DEATH BENEFITS FUND
OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)

	Measurement Year Ended 12/31/2023	Measurement Year Ended 12/31/2022	Measurement Year Ended 12/31/2021
Total Supplemental Death Benefits Fund OPEB liability:			
Service cost	\$ 14,204	\$ 28,646	\$ 22,358
Interest (on total liability)	22,211	14,084	14,233
Difference between expected and actual experience	978	(1,940)	16,330
Changes of assumptions	25,308	(226,298)	20,358
Benefit payments	(26,912)	(21,659)	(23,566)
Net change in total Supplement Death Benefits Fund OPEB liability	35,789	(207,167)	49,713
Total Supplemental Health Care Fund liability - beginning	554,780	761,947	712,234
Total Supplemental Health Care Fund OPEB liability - ending	<u>\$ 590,569</u>	<u>\$ 554,780</u>	<u>\$ 761,947</u>
Covered employee payroll	\$ 7,475,630	\$ 6,986,717	\$ 6,042,647
Net Supplemental Death Benefit OPEB liability as a percentage of covered employee payroll	7.90%	7.94%	12.61%

Notes to Schedule

Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Statement No. 75 requires 10 years of data to be presented. Only 6 years of data is being presented starting with the period in which GASB Statement No. 75 became effective.

Measurement Year Ended 12/31/2020	Measurement Year Ended 12/31/2019	Measurement Year Ended 12/31/2018
\$ 17,028	\$ 13,546	\$ 17,181
16,917	18,865	17,554
(10,063)	(11,177)	(16,478)
84,441	89,400	(32,570)
(5,493)	(5,890)	(5,522)
102,830	104,744	(19,835)
 \$ 609,404	 \$ 504,660	 \$ 524,495
 \$ 712,234	 \$ 609,404	 \$ 504,660
 \$ 5,492,999	 \$ 5,889,693	 \$ 6,136,098
 12.97%	 10.35%	 8.22%

CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF CHANGES IN THE RETIREE HEALTH CARE
OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)

	Measurement Year Ended 12/31/2023	Measurement Year Ended 12/31/2022	Measurement Year Ended 12/31/2021
Total Retiree Health Care OPEB liability:			
Service cost	\$ 109,129	\$ 235,382	\$ 211,504
Interest (on total OPEB liability)	290,866	173,967	218,433
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(262,422)	14,347	(1,125,907)
Changes of assumptions	697,587	(2,235,354)	(418,273)
Benefit payments	<u>(416,289)</u>	<u>(379,827)</u>	<u>(349,416)</u>
Net change in total Health Care OPEB liability	418,871	(2,191,485)	(1,463,659)
Total Health Care OPEB liability - beginning	<u>7,335,464</u>	<u>9,526,949</u>	<u>10,990,608</u>
Total Health Care OPEB liability - ending	<u><u>\$ 7,754,335</u></u>	<u><u>\$ 7,335,464</u></u>	<u><u>\$ 9,526,949</u></u>
 Covered employee payroll	 \$ 1,927,471	 \$ 2,106,386	 \$ 2,699,342
Net Health Care OPEB liability as a percentage of covered employee payroll	402.31%	348.25%	352.94%
Percentage of Retiree Health Care Plan liability funded	0.00%	0.00%	0.00%

Notes to Schedule

Note: GASB Statement No. 75 requires 10 years of data to be presented. Only 6 years of data is being presented starting with the period in which GASB Statement No. 75 became effective.

Measurement Year Ended 12/31/2020	Measurement Year Ended 12/31/2019	Measurement Year Ended 12/31/2018
\$ 175,152	\$ 153,680	\$ 214,576
268,330	373,998	347,152
-	-	-
(37,229)	(1,289,241)	(5,805)
1,080,180	773,679	(571,896)
(331,374)	(361,045)	(360,469)
1,155,059	(348,929)	(376,442)
9,835,549	10,184,478	10,560,920
<u>\$ 10,990,608</u>	<u>\$ 9,835,549</u>	<u>\$ 10,184,478</u>
\$ 2,599,119	\$ 2,442,456	\$ 2,773,191
422.86%	402.69%	367.25%
0.00%	0.00%	0.00%

**CITY OF HARLINGEN WATERWORKS SYSTEM
SUPPLEMENTAL DEATH BENEFITS FUND
SCHEDULE OF FUNDING PROGRESS
LAST THREE YEARS
(UNAUDITED)**

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio (1)/(2)	Unfunded		Annual Covered Payroll	Percentage of Covered Payroll	Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll
				Actuarial Accrued Liability	Actuarial Accrued Liability			
2022	-	761,947	0.0%	761,947	761,947	6,042,647	12.61%	
2023	-	554,780	0.0%	554,780	554,780	6,986,717	7.94%	
2024	-	590,569	0.0%	590,569	590,569	7,475,630	7.90%	

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, 2024

	Water		Percentage Variance	Wastewater		Percentage Variance
	Actual	Budget		Actual	Budget	
Operating Revenue						
Base charge	\$ 3,426,356	\$ 3,125,933	9.61%	\$ 2,224,017	\$ 2,064,558	7.72%
Service revenues	6,533,402	6,243,624	4.64%	8,545,582	7,507,958	13.82%
Sales to Combes	152,159	113,426	34.15%	198,916	192,512	3.33%
Sales to Primera	232,035	231,098	0.41%	128,705	143,604	-10.38%
Sales to Palm Valley	214,337	223,730	-4.20%	-	-	-
Sales to East Rio Hondo	92,610	83,248	11.25%	-	-	-
Sales to Military Highway	140,311	60,600	131.54%	-	-	-
Fuel adjustment	183,446	265,145	-30.81%	175,143	227,892	-23.15%
Customer penalties	156,962	144,124	8.91%	157,029	158,172	-0.72%
Disconnect fees	184,494	213,532	-13.60%	-	-	-
Industrial surcharge fees	-	-	-	133,453	129,818	2.80%
Pretreatment testing fees	-	-	-	12,684	14,048	-9.71%
Other revenues	77,589	78,670	-1.37%	-	-	-
Total operating revenues	<u>11,393,701</u>	<u>10,783,130</u>	5.66%	<u>11,575,529</u>	<u>10,438,562</u>	10.89%
Operating expenses						
Personnel services	3,876,625	6,092,670	36.37%	5,402,909	5,691,176	5.07%
Contracted services	3,219,140	3,225,952	0.21%	1,207,171	1,346,370	10.34%
Supplies and maintenance	2,753,782	3,000,164	8.21%	1,885,046	2,251,087	16.26%
Other expenses	76,433	146,856	47.95%	76,257	130,050	41.36%
Depreciation expense	<u>2,060,501</u>	<u>1,570,546</u>	-31.20%	<u>1,957,617</u>	<u>2,120,776</u>	7.69%
Total operating expenses	<u>11,986,481</u>	<u>14,036,188</u>	14.60%	<u>10,529,000</u>	<u>11,539,459</u>	8.76%
Operating income (loss)	<u>(592,780)</u>	<u>(3,253,058)</u>	81.78%	<u>1,046,529</u>	<u>(1,100,897)</u>	-195.06%
Non-operating revenues						
Impact fees	526,122	253,904	107.21%	649,118	332,066	95.48%
Investment earnings	1,092,183	625,000	74.75%	1,146,591	625,000	83.45%
Other revenues:						
Tap fees	114,462	60,800	88.26%	13,054	-	0.00%
Inspection fees	110,675	10,000	1006.75%	81,062	20,300	299.32%
Backflow prevention	42,684	30,195	41.36%	-	-	-
Tie in charges	21,029	20,000	5.15%	250,351	30,000	734.50%
Rental income	32,645	44,620	-26.84%	33,894	44,619	-24.04%
Lease of water rights	181,040	-	100.00%	-	-	100.00%
Garbage billing fees	37,500	37,500	-	37,500	37,500	-
Work done for others	65,634	12,992	405.19%	52,687	12,000	339.06%
Gain on disposition of assets	74,194	10,000	641.94%	85,665	5,000	1613.30%
Intergovernmental revenue	100,723	-	100.00%	2,355,245	-	100.00%
Other revenue	<u>55,456</u>	<u>26,500</u>	109.27%	<u>274,694</u>	<u>122,000</u>	125.16%
Total non-operating revenue	<u>2,454,347</u>	<u>1,131,511</u>	116.91%	<u>4,979,861</u>	<u>1,228,485</u>	305.37%
Non-operating expenses						
Interest and amortization expense	<u>379,289</u>	<u>563,664</u>	32.71%	<u>379,287</u>	<u>563,662</u>	32.71%
Change in net position before contributions						
Capital contributions	1,482,278	(2,685,211)	155.20%	5,647,103	(436,074)	-1394.99%
Capital contributions	926,928	-	100.00%	915,382	-	100.00%
Change in net position	<u>\$ 2,409,206</u>	<u>\$ (2,685,211)</u>	189.72%	<u>\$ 6,562,485</u>	<u>\$ (436,074)</u>	-1604.90%

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, 2024

	Total		Percentage Variance
	Actual	Budget	
Operating Revenue			
Base charge	\$ 5,650,373	\$ 5,190,491	8.86%
Service revenues	15,078,984	13,751,582	9.65%
Sales to Combes	351,075	305,938	14.75%
Sales to Primera	360,740	374,702	-3.73%
Sales to Palm Valley	214,337	223,730	-4.20%
Sales to East Rio Hondo	92,610	83,248	11.25%
Sales to Military Highway	140,311	60,600	131.54%
Fuel adjustment	358,589	493,037	-27.27%
Customer penalties	313,991	302,296	3.87%
Disconnect fees	184,494	213,532	-13.60%
Industrial surcharge fees	133,453	129,818	2.80%
Pretreatment testing fees	12,684	14,048	-9.71%
Other revenues	<u>77,589</u>	<u>78,670</u>	-1.37%
Total operating revenues	<u>22,969,230</u>	<u>21,221,692</u>	8.23%
Operating expenses			
Personnel services	9,279,534	11,783,846	21.25%
Contracted services	4,426,311	4,572,322	3.19%
Supplies and maintenance	4,638,828	5,251,251	11.66%
Other expenses	152,690	276,906	44.86%
Depreciation expense	<u>4,018,118</u>	<u>3,691,322</u>	-8.85%
Total operating expenses	<u>22,515,481</u>	<u>25,575,647</u>	11.97%
Operating income	453,749	(4,353,955)	-110.42%
Non-operating revenues			
Impact fees	1,175,240	585,970	100.56%
Investment earnings	2,238,774	1,250,000	79.10%
Other revenues:			
Tap fees	127,516	60,800	109.73%
Inspection fees	191,737	30,300	532.80%
Backflow prevention	42,684	30,195	41.36%
Tie in charges	271,380	50,000	442.76%
Rental income	66,539	89,239	-25.44%
Lease of water rights	181,040	-	0.00%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	118,321	24,992	373.44%
Gain on disposition of assets	159,859	15,000	0.00%
Other revenue	<u>2,455,968</u>	-	100.00%
Intergovernmental revenue	<u>330,150</u>	<u>148,500</u>	100.00%
Total non-operating revenue	<u>7,434,208</u>	<u>2,359,996</u>	215.01%
Non-operating expenses			
Interest and amortization expense	<u>758,576</u>	<u>1,127,326</u>	32.71%
Change in net position before contributions			
Capital contributions	7,129,381	(3,121,285)	-328.41%
Capital contributions	<u>1,842,310</u>	-	100.00%
Change in net position	<u>\$ 8,971,691</u>	<u>\$ (3,121,285)</u>	-387.44%

OTHER SUPPLEMENTARY INFORMATION

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CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER, WASTEWATER AND TOTAL SYSTEM
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

	Water		Percentage Variance	Wastewater		Percentage Variance
	2024	2023		2024	2023	
Operating Revenue						
Base charge	\$ 3,426,356	\$ 3,140,252	9.11%	\$ 2,224,017	\$ 2,071,056	7.39%
Service revenues	6,533,402	6,530,104	0.05%	8,545,582	8,328,869	2.60%
Sales to Combes	152,159	137,060	11.02%	198,916	206,698	-3.76%
Sales to Primera	232,035	254,873	-8.96%	128,705	122,205	5.32%
Sales to Palm Valley	214,337	291,596	-26.50%	-	-	-
Sales to East Rio Hondo	92,610	68,347	35.50%	-	-	-
Sales to Military Highway	140,311	106,183	32.14%	-	-	-
Fuel adjustment	183,446	275,518	-33.42%	175,143	245,186	-28.57%
Customer penalties	156,962	126,240	24.34%	157,029	148,341	5.86%
Disconnect fees	184,494	175,955	4.85%	-	-	-
Industrial surcharge fees	-	-	-	133,453	156,289	-14.61%
Pretreatment testing fees	-	-	-	12,684	11,982	5.86%
Other revenues	77,589	76,334	1.64%	-	-	-100.00%
Total operating revenues	<u>11,393,701</u>	<u>11,182,462</u>	1.89%	<u>11,575,529</u>	<u>11,290,626</u>	2.52%
Operating expenses						
Personnel services	3,876,625	4,122,803	-5.97%	5,402,909	5,062,609	6.72%
Contracted services	3,219,140	2,225,187	44.67%	1,207,171	883,267	36.67%
Supplies and maintenance	2,753,782	2,913,061	-5.47%	1,885,046	1,677,980	12.34%
Other expenses	76,433	134,474	-43.16%	76,257	69,908	9.08%
Depreciation expense	2,060,501	2,004,126	2.81%	1,957,617	1,818,152	7.67%
Total operating expenses	<u>11,986,481</u>	<u>11,399,651</u>	5.15%	<u>10,529,000</u>	<u>9,511,916</u>	10.69%
Operating income (loss)	<u>(592,780)</u>	<u>(217,189)</u>	172.93%	<u>1,046,529</u>	<u>1,778,710</u>	-41.16%
Non-operating revenues						
Impact fees	526,122	452,176	16.35%	649,118	572,882	13.31%
Investment earnings	1,092,183	783,738	39.36%	1,146,591	765,926	49.70%
Other revenues:						
Tap fees	114,462	91,057	25.70%	13,054	34,957	-62.66%
Inspection fees	110,675	17,634	527.62%	81,062	23,005	252.37%
Backflow prevention	42,684	39,130	9.08%	-	-	0.00%
Tie in charges	21,029	32,726	-35.74%	250,351	133,929	86.93%
Rental income	32,645	43,670	-25.25%	33,894	43,670	-22.39%
Lease of water rights	181,040	12,000	1408.67%	-	-	0.00%
Garbage billing fees	37,500	37,500	0.00%	37,500	37,500	0.00%
Work done for others	65,634	11,991	447.36%	52,687	18,448	185.60%
Gain on disposition of assets	74,194	-	100.00%	85,665	-	100.00%
Other revenue	100,723	12,350	715.57%	2,355,245	2,474,966	-4.84%
Intergovernmental revenue	55,456	60,316	100.00%	274,694	222,917	100.00%
Total non-operating revenue	<u>2,454,347</u>	<u>1,594,288</u>	53.95%	<u>4,979,861</u>	<u>4,328,200</u>	15.06%
Non-operating expenses						
Interest and amortization expense	<u>379,289</u>	<u>243,362</u>	55.85%	<u>379,287</u>	<u>243,362</u>	55.85%
Change in net position before contributions						
Capital contributions	1,482,278	1,133,737	30.74%	5,647,103	5,863,548	-3.69%
Capital contributions	926,928	647,451	43.17%	915,382	922,241	-0.74%
Change in net position	<u>\$ 2,409,206</u>	<u>\$ 1,781,188</u>	35.26%	<u>\$ 6,562,485</u>	<u>\$ 6,785,789</u>	-3.29%

CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER, WASTEWATER AND TOTAL SYSTEM
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

	Total		Percentage Variance
	2024	2023	
Operating Revenue			
Base charge	\$ 5,650,373	\$ 5,211,308	8.43%
Service revenues	15,078,984	14,858,973	1.48%
Sales to Combes	351,075	343,758	2.13%
Sales to Primera	360,740	377,078	-4.33%
Sales to Palm Valley	214,337	291,596	-26.50%
Sales to East Rio Hondo	92,610	68,347	35.50%
Sales to Military Highway	140,311	106,183	32.14%
Fuel adjustment	358,589	520,704	-31.13%
Customer penalties	313,991	274,581	14.35%
Disconnect fees	184,494	175,955	4.85%
Industrial surcharge fees	133,453	156,289	-14.61%
Pretreatment testing fees	12,684	11,982	5.86%
Other revenues	77,589	76,334	1.64%
Total operating revenues	<u>22,969,230</u>	<u>22,473,088</u>	2.21%
Operating expenses			
Personnel services	9,279,534	9,185,412	1.02%
Contracted services	4,426,311	3,108,454	42.40%
Supplies and maintenance	4,638,828	4,591,041	1.04%
Other expenses	152,690	204,382	-25.29%
Depreciation expense	4,018,118	3,822,278	5.12%
Total operating expenses	<u>22,515,481</u>	<u>20,911,567</u>	7.67%
Operating income (loss)	<u>453,749</u>	<u>1,561,521</u>	-70.94%
Non-operating revenues			
Impact fees	1,175,240	1,025,058	14.65%
Investment earnings	2,238,774	1,549,664	44.47%
Other revenues:			
Tap fees	127,516	126,014	1.19%
Inspection fees	191,737	40,639	371.81%
Backflow prevention	42,684	39,130	9.08%
Tie in charges	271,380	166,655	62.84%
Rental income	66,539	87,340	-23.82%
Lease of water rights	181,040	12,000	100.00%
Garbage billing fees	75,000	75,000	0.00%
Work done for others	118,321	30,439	288.72%
Gain on disposition of assets	159,859	-	100.00%
Other revenue	2,455,968	2,487,316	-1.26%
Intergovernmental revenue	330,150	283,233	16.56%
Total non-operating revenue	<u>7,434,208</u>	<u>5,922,488</u>	25.53%
Non-operating expenses			
Interest and amortization expense	<u>758,576</u>	<u>486,724</u>	55.85%
Change in net position before contributions			
Capital contributions	7,129,381	6,997,285	1.89%
	<u>1,842,310</u>	<u>1,569,692</u>	17.37%
Change in net position	<u>\$ 8,971,691</u>	<u>\$ 8,566,977</u>	4.72%

STATISTICAL SECTION

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**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		
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
2024	30,403,438		18,497,363		11,906,075	1,060,000	507,750	1,567,750		7.59

(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**

Fiscal Year	WATER SYSTEM		
	Active Connections	Inactive Connections	Total Connections
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
2024	28,291	2,932	31,223

Fiscal Year	WASTEWATER SYSTEM		
	Active Connections	Inactive Connections	Total Connections
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
2024	22,322	854	23,176

CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WATER RATES
(EFFECTIVE OCTOBER 1, 2023)

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
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Fuel Cost Adjustment

(per each 1,000 gallons of water usage)

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

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WATER RATES (CONTINUED)
(EFFECTIVE MAY 1, 2024)**

Base Rate: Residential and Commercial

Meter Size	Inside		Outside	
	City Limits		City Limits	
3/4"	\$	9.91	\$	14.87
1"		13.16		19.74
1 1/2"		19.85		29.77
2"		43.35		65.02
3"		65.92		98.88
4"		192.55		288.83
6"		378.39		567.59
8"		746.45		1,119.68

Lifeline Discount** \$ (2.50)

Commodity Charge

(per each 1,000 gallons of water usage)

-	3,000	\$	1.30	\$	1.95
3,001	10,000	\$	1.80	\$	2.70
10,001	20,000	\$	2.55	\$	3.83
20,001	Above	\$	3.05	\$	4.58

Commercial Volume Rate Per 1,000 Gal

Volume Charge \$ 1.83

Fuel Cost Adjustment

(per each 1,000 gallons of water usage)

All meters \$ - \$ -

Monthly Fire Suppression Charge

Meter Size

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

**For customers determined to be eligible by Housing Authority criteria.

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WASTEWATER RATES
(EFFECTIVE OCTOBER 1, 2023)**

Base Rate: Residential and Commercial

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

Commodity Charge

All meters	\$ 3.66	\$ 3.66
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Fuel Cost Adjustment

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

**CITY OF HARLINGEN WATERWORKS SYSTEM
MONTHLY WASTEWATER RATES (CONTINUED)
(EFFECTIVE MAY 1, 2024)**

Base Rate: Residential and Commercial

Meter Size	Inside		Outside	
	City Limits		City Limits	
3/4"	\$	7.73	\$	20.50
1"		11.80		20.50
1 1/2"		26.76		40.14
2"		32.21		48.32
3"		66.21		99.32
4"		168.25		252.38
6"		345.10		517.65
8"		549.16		823.74
Lifeline Discount**	\$	(2.50)		

Commodity Charge

All meters	\$	4.06	\$	6.09
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Fuel Cost Adjustment

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

**For customers determined to be eligible by Housing Authority criteria.

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

Customer	Type of Industry	Water Revenues	% of Total	Water Usage (in thousands)	% of Total
Harlingen C.I.S.D.	Education	\$ 270,114	2.37%	129,295	3.42%
City of Primera	Municipality	232,035	2.04%	139,573	3.69%
City of Palm Valley	Municipality	214,337	1.88%	125,428	3.32%
Valley Baptist Medical Center	Health Care	172,498	1.51%	92,864	2.46%
City of Combes	Municipality	152,159	1.34%	90,014	2.38%
Military Water Supply	Water Supplier	140,311	1.23%	83,053	2.20%
East Rio Hondo Water Supply	Water Supplier	92,610	0.81%	46,730	1.24%
Texas State Technical College	Education	75,981	0.67%	36,590	0.97%
Harlingen Medical Center	Health Care	51,286	0.45%	28,145	0.75%
Texas Industrial Service	Laundry/Uniform Service	46,641	0.41%	26,753	0.71%
		\$ 1,447,972	12.71%	798,445	21.14%
Total Revenues/Gallons		\$ 11,393,703		3,777,500	

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

Customer	Type of Industry	Sewer Revenues	% of Total
Valley Baptist Medical Center	Health Care	\$ 333,280	2.88%
Harlingen C.I.S.D.	Education	243,628	2.10%
City of Combes	Municipality	205,149	1.77%
City of Primera	Municipality	138,176	1.19%
Texas Industrial Service	Laundry/Uniform Service	105,850	0.91%
PC Highland Gardens	Housing	94,148	0.81%
Harlingen Medical Center	Health Care	83,457	0.72%
Oak Terrace Apartments	Housing	75,797	0.65%
Reddy Ice Corporation	Ice Manufacturing/Distribution	72,930	0.63%
Valley Baptist Missions Ed Center	Education	66,282	0.57%
		\$ 1,418,697	12.26%
Total Wastewater Revenue		\$ 11,575,528	

**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
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
2024	13.2	19.0	484.0	4,820.0	1,288,970

**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
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
2024	13.2	19.0	484.0	4,820.0	11,393,703

**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
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
2024	6.4	195.6	2,346.8	11,575,528

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COMPLIANCE SECTION

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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 Utility 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 City of Harlingen Waterworks System (the System), a component unit of the City of Harlingen, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise System's basic financial statements and have issued our report thereon dated March 20, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings as item 2024-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2024-002, 2024-003, 2024-004, 2024-005 and 2024-006 to be significant deficiencies.

We noted certain other matters that we reported to management of the System in a separate letter dated March 20, 2025.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying schedule of findings. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Burton McLemore & Longoria, LLP

McAllen, Texas
March 20, 2025

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-001	Policies, Procedures and Staff Cross Training
Criteria and Condition:	<p>The System should establish and maintain formal policies and procedures to guide financial practices, including clear documentation in a financial procedures manual. Additionally, employees should be cross trained to ensure effective and efficient continuity of operations in case of staff turnover, illness, or absences. During the audit process, we noted the following:</p> <ol style="list-style-type: none"> 1. In obtaining an understanding of the System and its operations, we requested copies of all the financial policies in place. Copies of the investment, capital assets, human resources and customer service policies were provided. Policies for key areas such as debt management, procurement, etc., were not available for our review. The capital assets policy did not outline anticipated useful lives for capital asset types (equipment, building, etc.) as are outlined in the notes to the financial statements. Additionally, the document needs to be updated incorporate new accounting pronouncements, GASB Statement No. 89, <i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>, GASB Statement No. 87, <i>Leases</i>, and GASB Statement No. 96, <i>Subscription Based IT Arrangements</i>. 2. We requested official procedures manuals related to financial and accounting practices and were provided with summaries of procedures for billing/revenue, journal entries, debt service, investments, payroll and purchasing. The “Customer Service Policy” was effective 2016, which appears to be in draft form. The document for purchasing entitled “General Purchasing Policies and Procedures” had an effective date of October 2007 and was not updated for certain changes such as increasing the direct purchase voucher maximum from \$500 to \$1,000 and for no longer maintaining a list of individuals designated by department directors authorized to purchase as those approvals are now processed electronically. Additionally, in a sample of 40 transactions, we noted 1 instance in which a purchase order was not created for a contract involving future payments, as required by policy, and 1 instance in which a payment request form (not mentioned in the System’s procedural documentation) was not approved. 3. The audit process was delayed as certain information requested could not be readily provided as the staff responsible for that information were unavailable due to leave or separation from employment after the fiscal year end.
Cause and Effect:	<p>The System does not have a comprehensive documented set of formal policies and procedures. The absence of formalized financial policies and a procedures manual can lead to inconsistencies in financial practices, increasing the risk of errors, inefficiencies, and potential non-compliance. Not cross training staff may leave the System vulnerable to disruption in financial operations if key personnel are unavailable.</p>
Repeat Finding from Prior Year(s):	N/A
Recommendation:	<p>We recommend the System establish and maintain formal written policies and procedures. We also recommend staff be cross trained to minimize disruption if key personnel are unavailable.</p>
Views of Responsible Officials:	See management’s corrective action plan.

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-002	Bank Reconciliations
Criteria and Condition:	<p>A key control over the bank reconciliation process includes the review and approval of bank reconciliations by someone other than the preparer. The bank reconciliation process should provide an audit trail by including a signature and date by both the preparer and reviewer. We noted bank reconciliations are not signed and dated by the preparer and are signed but not dated by the reviewer. As a result, we were unable to verify whether bank reconciliations were completed timely.</p> <p>Additionally, we noted a bank reconciliation for one of the System's bank accounts for the month ended September 30, 2024 included outstanding checks totaling \$28,565 that had not been issued until October 2024. The inclusion of checks from a subsequent period provides for improper cutoff of cash. Effective internal controls over the bank reconciliation process should have identified this error.</p>
Cause and Effect:	<p>The lack of signatures and dates from the preparer and dates from the reviewer does not provide adequate audit trail to properly document the controls performed during the bank reconciliation process. The inclusion of checks issued after the bank reconciliation date results in an improper cutoff of cash. An adjustment was needed during the audit to correct this error.</p>
Repeat Finding from Prior Year(s):	N/A
Recommendation:	<p>We recommend the preparer and reviewer sign and date bank reconciliations to document the preparation and review and approval process. We also recommend all cash disbursements be recorded on the general ledger as of the date the transaction occur to ensure proper cutoff of cash.</p>
Views of Responsible Officials:	See management's corrective action plan.

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-003	Timesheets
Criteria and Condition:	A key control in the payroll process is the review and approval of timesheets to ensure payroll payments are processed accurately based on the number of hours worked. In a sample of 40 payroll transactions, timesheets could not be provided for 29. As a result, we were unable to obtain sufficient audit evidence to conclude that this key internal control was followed consistently throughout the fiscal year under audit.
Cause and Effect:	The System changed payroll service providers during the fiscal year. As a result, the System no longer has access to the electronic timesheets that had been maintained by the previous payroll service provider. For purposes of recordkeeping, the System accepted the time as reflected in payroll reports that were archived during the transition in payroll service providers. While reports exist that show the time paid to employees, no source documents are available to support the hours worked as reflected on those reports.
Repeat Finding from Prior Year(s):	N/A
Recommendation:	We recommend the System establish a retention policy, taking into account federal and/or state payroll record retention requirements, and adhere to that policy.
Views of Responsible Officials:	See management's corrective action plan.

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-004	Cutoff of Expenses
Criteria and Condition:	Generally accepted accounting principles require that expenses be recognized in the period in which they are incurred. The proper cutoff of expenses ensures that transactions are recognized in the correct accounting period. As a result of audit procedures performed verifying proper cutoff, we identified project costs that had not been recognized in the proper period. As a result, construction in progress and accounts payable were understated by \$393,792 at September 30, 2024.
Cause and Effect:	Internal controls were not suitably designed to ensure proper cutoff at fiscal year-end. As a result, construction in progress and accounts payable were understated by \$393,792 at September 30, 2024. An adjustment was posted during the audit to correct this error.
Repeat Finding from Prior Year(s):	N/A
Recommendation:	We recommend processes and procedures be implemented to ensure proper cutoff at fiscal year-end. These processes and procedures should ensure that as invoices are received from vendors subsequent to fiscal year end, that invoices that relate to goods received or services performed in the previous fiscal year are identified and accrued.
Views of Responsible Officials:	See management's corrective action plan.

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-005	Vacation and Sick Accrual
Criteria and Condition:	<p>The compensated absences accrual for payroll and sick time should be consistent with the System's policy. The System's policy sets a maximum number of vacation and sick days that can be accrued based on employees' years of service.</p> <p>We noted the number of hours used to calculate the compensated absences liability for vacation was inconsistent with the policy for 45 of 150 employees eligible for vacation. As a result, the vacation liability was overstated by \$22,032.</p> <p>Additionally, the number of hours used to calculate the compensated absences liability for sick time was inconsistent with the policy for 60 of 150 employees eligible for sick time. As a result, the liability for compensated absences related to sick time was overstated by \$87,455.</p>
Cause and Effect:	<p>The compensated absences policy was not applied correctly when calculating the liability for compensated absences. The incorrect application of the compensated absences policy could result in the financial statements being misstated. The overstatements noted above were corrected during the audit.</p>
Repeat Finding from Prior Year(s):	N/A
Recommendation:	<p>We recommend internal controls be implemented to ensure the liability for compensated absences is calculated properly. Such controls may include a review to be performed by an individual other than the preparer. If such control is implemented, we recommend that occurrence of this process be documented by requiring signatures and dates on the schedules.</p>
Views of Responsible Officials:	See management's corrective action plan.

**CITY OF HARLINGEN WATERWORKS SYSTEM
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

Section II – Financial Statement Findings

Reference Number 2024-006	Capital Assets and Maintenance of Depreciation Schedule
Criteria and Condition:	<p>A properly maintained depreciation register is essential for ensuring accurate financial reporting of capital assets and to document how management's estimate of depreciation and accumulated depreciation was developed. We reviewed the System's depreciation register and noted the following observations that should be reviewed by management:</p> <ol style="list-style-type: none"> 1. The System's capital assets policy requires a periodic physical count of its capital assets, to be performed at least once every 2 years and reconciled to the assets reflected on the general ledger (and by proxy, the depreciation register). While the System does require department reviews of assets to be considered in its annual budgetary process, complete inventory, certified by department directors is not performed. 2. The System's capitalization threshold is \$3,500. We noted 379 capital assets included in the System's depreciation register that have a historical cost below the capitalization threshold. The net book value of these assets at September 30, 2024 totaled \$51,815. 3. The depreciation register included 16 capital assets that were disposed of within fiscal year 2024. While no historical costs were assigned to these assets, the register reflected prior accumulated depreciation resulting in a negative net book value. The negative net book value was cleared to reflect the disposal with negative depreciation expense totaling \$290,647. 4. The depreciation register included 3 depreciable assets with historical costs totaling \$468,151 that were placed in service in 1992, 1995 and 1996, but were never depreciated. A prior period adjustment was recorded in that amount to account for their effect on accumulated depreciation and net position. 5. The depreciation register included 4 assets having no assigned asset values, but for which accumulated depreciation was reflected; 3 of these assets indicated disposal dates of 2011, 2013 and 2019, one of which reflected negative prior accumulated depreciation, similar to #3 above. The net book value of these assets at September 30, 2024 totaled to negative \$113,899. 6. Similar to #5 above, the depreciation register included 3 assets reflecting negative accumulated depreciation, negative current year depreciation expense or negative net book value. The net book value of these assets at September 30, 2024 totaled \$4,751.
Cause and Effect:	The System did not adhere to its capital assets policy. The lack of comprehensive physical inventories of its capital assets and corresponding reviews of the System's depreciation register could result in misstatements of capital assets owned and controlled by the System and related depreciation.
Repeat Finding from Prior Year(s):	N/A
Recommendation:	To ensure the System's capital asset records remain complete and accurate, we recommend the System reinforce and adhere to procedures outlined within its capital assets policy. Additionally, we recommend periodic reviews of depreciation and/or accumulated depreciation be performed to identify or prevent irregularities.
Views of Responsible Officials:	See management's corrective action plan.



HARLINGEN WATERWORKS SYSTEM

134 E Van Buren • PO Box 1950 • Harlingen, TX 78551 • (956) 430-6100 • www.hwws.com

March 20, 2025

Corrective Action Plan
For the Year Ended September 30, 2024

Financial Statements Findings

2024-001 Policies, Procedures and Staff Cross Training

Recommendation – We recommend the System establish and maintain formal written policies and procedures. We also recommend staff be cross trained to minimize disruption if key personnel are unavailable.

Corrective Action Plan – The System will provide a comprehensive documented set of formal policies and procedures that will be updated and approved by the utility board of trustees for all financial and accounting practices.

Proposed completion date – Immediately

Contact person –

Finance Department – Ronald De La Garza

2024-002 Bank Reconciliation

Recommendation – We recommend that the preparer and reviewer sign and date bank reconciliations to document the preparation of and review the approval process. We also recommend that all cash disbursements be recorded on the general ledger as of the date the transaction occurs to ensure proper cutoff of cash.

Corrective Action Plan – The System will ensure all bank reconciliations are properly reviewed and signed by the preparer with the date completed and the Finance Director after completed by the staff accountant. All reconciliations will be done within 30 days of month end. Furthermore, all cash disbursements are to be recorded in the general ledger at the time they occur to ensure proper cutoff of cash.

Proposed completion date – Immediately

Contact person –

Finance Department – Ronald De La Garza

2024-003 Timesheets

Recommendation - We recommend the System establish a retention policy, taking into account federal and/or state payroll record retention requirements, and to adhere to that policy.

Corrective Action Plan – The System will ensure a record retention policy for timesheets is established and maintained for every payroll in accordance with Texas Library Archives Commission Schedule GR1050-56 for time and attendance reports for a retention period of 4 years.

Proposed completion date – Immediately

Contact person –

Finance Department – Ronald De La Garza

2024-004 Cutoff of Expenses

Recommendation - We recommend processes and procedures to be implemented to ensure proper cutoff of fiscal year-end. These processes and procedures should ensure that invoices are received from vendors subsequent to fiscal year end, that invoices that relate to goods received or services performed in the previous fiscal year are identified and accrued.

Corrective Action Plan – The System will ensure that the staff accountant is aware of the cutoff dates in relation to invoices received at fiscal year-end to properly accrue those expenses to the appropriate fiscal year. Those will be reviewed and approved by the Finance Director to ensure accuracy.

Proposed completion date – Immediately

Contact person –

Finance Department – Ronald De La Garza

2024-005 Vacation and Sick Accrual

Recommendation - We recommend internal controls be implemented to ensure liability for the compensated absences is calculated properly. Such controls may include a review to be performed by an individual other than the preparer. If such control is implemented, we recommend that the occurrence of this process be documented by requiring signatures and dates on the schedules.

Corrective Action Plan – The System will ensure staff other than the preparer of this accrual, provide the information to be reviewed by the Finance Director to compare with current policy for accuracy. Those documents will be signed by both the staff providing the information and the Finance Director upon final review.

Proposed completion date – Immediately

Contact person –

Finance Department – Ronald De La Garza

2024-006

Capital Assets and Maintenance of Depreciation Schedule

Recommendation - To ensure the System's capital asset records remain complete and accurate, we recommend the System reinforce and adhere to procedures outlined within its capital assets policy. Additionally, we recommend periodic reviews of depreciation and/or accumulated depreciation be performed to identify or prevent irregularities.

Corrective Action Plan – The System will ensure to adhere to the capital asset policy reviewing physical counts of all assets bi-annually and conducting periodic review of depreciation and accumulated depreciation to identify or prevent irregularities.

Proposed completion date – immediately

Contact person –

Finance Department – Ronald De La Garza