

**FIREMEN'S RELIEF AND RETIREMENT FUND
A FIDUCIARY FUND OF THE
CITY OF HARLINGEN, TEXAS**

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT

September 30, 2021 and 2020

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas**

Table of Contents

INTRODUCTORY SECTION

Firemen’s Pension Board of Trustees	1
-------------------------------------	---

REPORT

Independent Auditors’ Report	3
------------------------------	---

FINANCIAL STATEMENTS

Management’s Discussion and Analysis	9
--------------------------------------	---

Basic Financial Statements:

Statements of Fiduciary Net Position	15
--------------------------------------	----

Statements of Changes in Fiduciary Net Position	16
---	----

Notes to Financial Statements	17
-------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)	29
---	----

Schedule of Employer Contributions (Unaudited)	30
--	----

Schedule of Investment Returns (Unaudited)	31
--	----

ADDITIONAL SUPPLEMENTARY INFORMATION

Schedule of Investment Services, Professional Services and Administrative Expenses	33
--	----

COMPLIANCE SECTION

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	35
---	----

Introductory Section

(This page intentionally left blank)

Report

(This page intentionally left blank)



Firemen's Relief and Retirement Fund City of Harlingen, Texas Management's Discussion and Analysis

The following is management's discussion and analysis of the financial performance of the Harlingen Firemen's Relief and Retirement Fund (the Plan) for the fiscal years ended September 30, 2021 and 2020. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements and required supplementary information.

OVERVIEW OF THE FINANCIAL HIGHLIGHTS

The fiduciary net position held in trust for pension benefits increased by \$6,039,896 or 17.39 percent in the current fiscal year compared to an increase of \$1,022,767 or 3.03 percent in the prior fiscal year. Net investment income increased by \$4,291,927 from the \$2,287,194 reported in the prior year. The increase in net investment income resulted from more favorable market conditions during 2021. The increase in the fair market value of investments was offset by a slight decrease in interest and dividend income in the amount of \$575,729 compared to 2020. Benefits paid increased by \$108,106 or 4.49% compared to an increase of \$187,003 or 8.43% in the prior year compared to fiscal year 2019.

OVERVIEW OF FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the plan's basic financial statements, together with the related notes to the financial statements, required supplemental information, and the supporting schedules, all of which are described below:

Statement of Fiduciary Net Position – This statement reports the Plan's assets, liabilities and resultant fiduciary net position held in trust for pension benefits. This statement should be read with the understanding that they disclose the Plan's financial position as of September 30, 2021 and 2020.

Statement of Changes in Fiduciary Net Position– This statement reports the results of operations during the year, categorically disclosing the additions to and deductions from the Plan's fiduciary net position held in trust for pension benefits. The net increase (decrease) in Plan assets on this statement support the change in fiduciary net position held in trust for pension benefits on the Statement of Fiduciary Net Position.

Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements. A description of the information provided in the notes is as follows:

- ◆ Note 1 (Plan Description) provides a general description of the Harlingen Firemen's Relief and Retirement Fund. Information is included regarding plan membership and description of retirement benefits provided.
- ◆ Note 2 (Summary of Significant Accounting Policies and Plan Asset Matters) provides information about the accounting methods used in determining the amounts reported on the financial statements. Information about the methods used for valuation of the Plan's investments, federal income taxes and estimates is also included.
- ◆ Note 3 (Investments) provides the authorization of investments and the risk of such investments maintained in the Plan.

**Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Management's Discussion and Analysis**

- ◆ Note 4 (Contributions Required and Contributions Made) provides information disclosing the methods and assumptions in determining required contributions.

Other notes to the financial statements provide information on the net pension liability, contingencies, DROP provisions, other risks and uncertainties, and subsequent events involving the plan.

Required Supplementary Information:

Required Supplementary Information follows the Notes to the Basic Financial Statements and includes the Schedule of changes in net pension liability and related ratios (unaudited), schedule of employer contributions (unaudited), schedule of investment returns (unaudited), and additional notes to required schedules (unaudited) are included within this section to provide historical and additional information considered useful in reading the basic financial statements. This Management's Discussion and Analysis is also required supplementary information.

The NPL is the difference between the Total Pension Liability (TPL) and the market value of assets. Information about whether the Plan's net positions are increasing or decreasing over time relative to the Total Pension Liability is provided in the Schedule of Changes in Net Pension Liability and Related Ratios (unaudited) on page 29.

PLAN FINANCIAL ANALYSIS

The Plan provides retirement benefits to essentially all eligible firefighter employees. These benefits are funded through member contributions, employer contributions and earnings on investments. Total fiduciary net position held in trust for pension benefits as of September 30, 2021 amounted to \$40,775,588 which is an increase of \$6,039,896 or 17.39 percent from the \$34,735,692 held as of September 30, 2020. The total fiduciary net position held in trust for pension benefits as of September 30, 2019 totaled \$33,712,925.

Additions to Fiduciary Net Position

Additions to fiduciary net position held in trust for pension benefits include contributions from employees (plan members) and the City, as well as investment income. There was an increase of \$55,165 in employee and employer contributions in FY 2021 compared to FY 2020. There was an increase of \$225,979 in employee and employer contributions in FY 2020 compared to FY 2019. In April 2020, the City increased its plan contribution from 15% to 17% of member payroll.

Net investment income increased by \$4,291,927 in FY 2021 resulting in net investment income of \$6,579,121 compared with an increase of \$690,323 for FY 2020, resulting in net investment income of \$2,287,194, as a result of fair market value adjustments recorded during the year. The increase in net investment income resulted from more favorable market conditions during 2021. The increases in the fair market value of investments were offset by a decrease in interest and dividend income in the amount of \$575,729 compared to 2020.

**Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Management's Discussion and Analysis**

The Firemen's Relief and Retirement Fund's condensed Statement of Fiduciary Net Position is presented below:

Condensed Statement of Fiduciary Net Position

<i>September 30,</i>	2021	2020	Increase (Decrease) 2021/2020	2019	Increase (Decrease) 2020/2019
Current assets	\$ 55,621	\$ 33,754	\$ 21,867	\$ 20,362	\$ 13,392
Investments	40,731,417	34,737,309	5,994,108	33,703,845	1,033,464
Total assets	40,787,038	34,771,063	6,015,975	33,724,207	1,046,856
Current liabilities	11,450	35,371	(23,921)	11,282	24,089
Total fiduciary net position held in trust for pension benefits	\$ 40,775,588	\$ 34,735,692	\$ 6,039,896	\$ 33,712,925	\$ 1,022,767

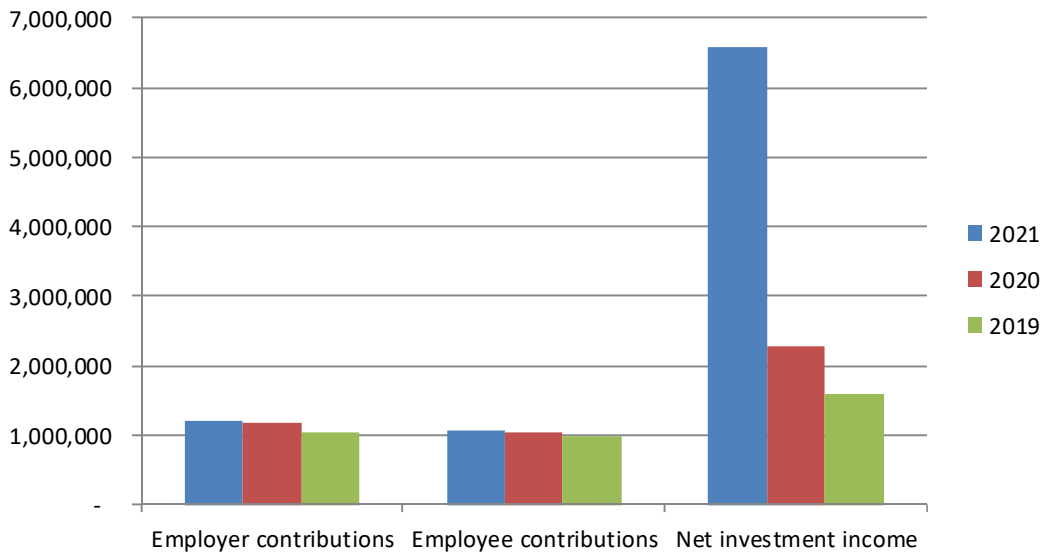
The Firemen's Relief and Retirement Fund's condensed Statement of Changes in Fiduciary Net Position is presented below:

Condensed Statement of Changes in Fiduciary Net Position

<i>September 30,</i>	2021	2020	Increase (Decrease) 2021/2020	2019	Increase (Decrease) 2020/2019
Employer contributions	\$ 1,214,765	\$ 1,185,530	\$ 29,235	\$ 1,032,488	\$ 153,042
Plan member contributions	1,071,852	1,045,922	25,930	972,985	72,937
Net investment income	6,579,121	2,287,194	4,291,927	1,596,871	690,323
Total additions to fiduciary net position	8,865,738	4,518,646	4,347,092	3,602,344	916,302
Benefit payments	2,514,303	2,406,197	108,106	2,219,194	187,003
Refunds and contributions	222,380	1,033,866	(811,486)	505,303	528,563
Professional services	69,241	49,578	19,663	49,335	243
Administrative expenses	19,918	6,238	13,680	19,411	(13,173)
Total deductions to fiduciary net position	2,825,842	3,495,879	(670,037)	2,793,243	702,636
Change in fiduciary net position	6,039,896	1,022,767	5,017,129	809,101	213,666
Fiduciary net position held in trust for pension benefits:					
Beginning of year	34,735,692	33,712,925	1,022,767	32,903,824	809,101
End of year	\$ 40,775,588	\$ 34,735,692	\$ 6,039,896	\$ 33,712,925	\$ 1,022,767

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Management’s Discussion and Analysis**

Additions to Fiduciary Net Position



Additions to Fiduciary Net Position	2021	2020	Percentage Change	2019	Percentage Change
Employer contributions	\$ 1,214,765	\$ 1,185,530	2.47%	\$ 1,032,488	14.82%
Employee contributions	1,071,852	1,045,922	2.48%	972,985	7.50%
Net investment income	6,579,121	2,287,194	187.65%	1,596,871	43.23%
Total additions	\$ 8,865,738	\$ 4,518,646		\$ 3,602,344	

Contributions to the fund are based on negotiations between the members and the City rather than an actuarially determined rate. The funding policy of the Harlingen Firemen’s Relief and Retirement Fund requires contributions from both the City and the firefighters. The City’s contributions rate is currently 17% of member payroll with each active member contributing 15% of member payroll.

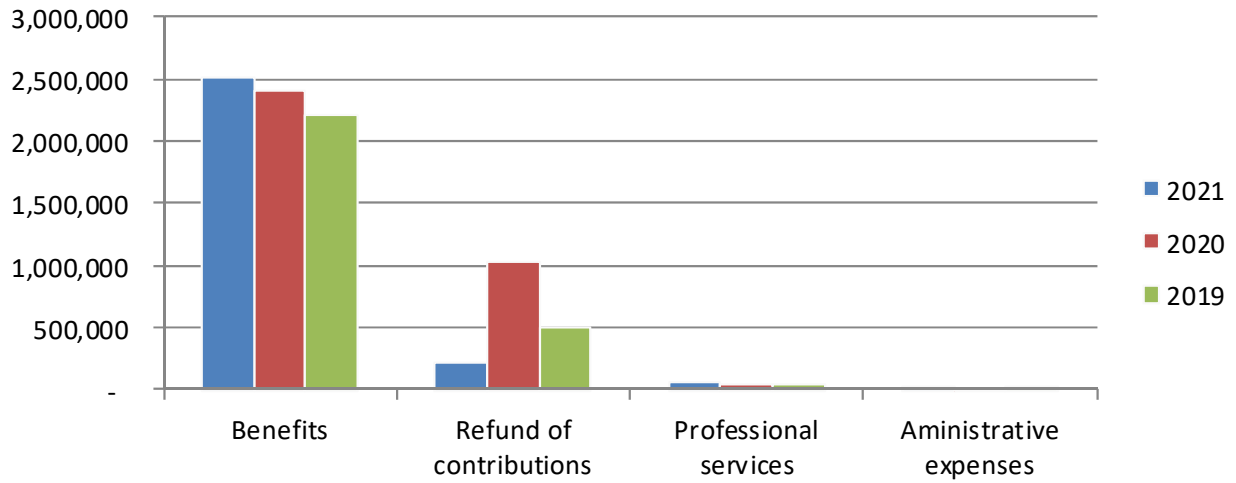
Deductions from Fiduciary Net Position

Deductions from fiduciary net position held in trust for pension benefits are comprised primarily of retirement benefits to fund retirees, survivors, and beneficiaries, administrative expenses, and refunds of contributions. For 2021, the benefits payments amounted to \$2,514,303, which represents an increase of \$108,106 from the \$2,406,197 paid out in 2020. For 2020, the benefits payments amounted to \$2,406,197, which represents an increase of \$187,003 from the \$2,219,194 paid out in 2019.

Administrative expenses increased by \$13,680 from \$6,238 in 2020 to \$19,918 in 2021 or an increase of 219.30% percent. Refunds of member contributions decreased from \$1,033,866 in 2020 to \$222,380 in 2021. For 2021, professional services increased by \$19,663 from \$49,578 in 2020 to \$69,241 in 2021.

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Management’s Discussion and Analysis**

Deductions from Fiduciary Net Position



Deductions from Fiduciary Net Position	2021	2020	Percentage	
			Change	2019
Benefits	\$ 2,514,303	\$ 2,406,197	4.49%	\$ 2,219,194
Refund of contributions	222,380	1,033,866	-78.49%	505,303
Professional services	69,241	49,578	39.66%	49,335
Administrative expenses	19,918	6,238	219.30%	19,411
Total deductions	\$ 2,825,842	\$ 3,495,879		\$ 2,793,243

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Management’s Discussion and Analysis**

Investments

Total common trust funds as reflected on the Westwood, Clarion and ARA Core Properties Trust statements amounted to \$40,731,417 at September 30, 2021 as compared to \$34,737,309 at September 30, 2020, which represents an increase of \$5,994,108 or 17.26 percent. Total common trust funds amounted to \$34,737,309 at September 30, 2020 as compared to \$33,703,845 at September 30, 2019, which represents an increase of \$1,033,464 or 3.07 percent for 2020. These increases can be attributed to the changes in estimated fair market values of the investments.

The Plan currently has a balance of 65.3 percent in mutual fund equities, 19.9 percent in mutual fund fixed income, 5.3 percent in mutual fund specialty, and 9.5 percent in REITs. When comparing investments from year to year, it is important to be aware that several factors may affect the change in investments, particularly the changes between investment categories and types. One factor is that of investment rebalancing, which is initiated when certain predetermined target allocation percentages are reached. The investment portfolio is not stagnant, but is traded in part each business day. It is best to refer to the total investment figures to conclude how investments performed overall.

Investments (at fair value)

<i>September 30,</i>	2021	2020	2019
Federal government obligations	\$ 59	\$ 46	\$ 3
Mutual funds			
Mutual funds - equities	26,618,145	21,888,568	21,344,132
Mutual funds - fixed income	8,096,307	9,213,717	7,047,751
Mutual funds - specialty	2,141,432	1,876,915	5,311,959
Total mutual funds	36,855,884	32,979,200	33,703,842
REIT	3,875,474	1,758,063	-
Total investments	\$40,731,417	\$34,737,309	\$33,703,845

CONTACTING THE PLAN’S FINANCIAL MANAGEMENT

This financial report is designed to inform the citizens, taxpayers, customers, investors and creditors with a general overview of the Plan’s finances and to show accountability for the money it receives. If you have any questions about the report or need additional information, contact the Finance Director’s Office at the City of Harlingen, 118 East Tyler, Harlingen, Texas 78550.

Financial Statements

**Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Statements of Fiduciary Net Position**

<i>September 30,</i>	2021	2020
Assets		
Cash and cash equivalents	\$ 49,755	\$ -
Accounts receivable	-	33,446
Investments, at fair value:		
Mutual funds - equities	26,618,145	21,888,568
Mutual funds - fixed income	8,096,307	9,213,717
Mutual funds - specialty	2,141,432	1,876,915
REIT	3,875,474	1,758,063
Federal government obligations	59	46
Prepayments	5,866	308
Total assets	40,787,038	34,771,063
Liabilities		
Accounts payable	11,450	35,371
Total liabilities	11,450	35,371
Fiduciary net position held in trust for pension benefits	\$ 40,775,588	\$ 34,735,692

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

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Statements of Changes in Fiduciary Net Position

<i>For the fiscal year ended September 30,</i>	2021	2020
Additions		
Contributions		
Employer	\$ 1,214,765	\$ 1,185,530
Plan member	1,071,852	1,045,922
Total contributions	2,286,617	2,231,452
Investment income		
Net appreciation (depreciation) in fair value of investments	4,947,487	123,651
Interest and dividends	1,798,520	2,374,249
Total investment income	6,746,007	2,497,900
Less investment expense	(166,886)	(210,706)
Net investment income	6,579,121	2,287,194
Total additions (reductions)	8,865,738	4,518,646
Deductions		
Benefits	2,514,303	2,406,197
Refunds of contributions	222,380	1,033,866
Professional services	69,241	49,578
Administrative expense	19,918	6,238
Total deductions	2,825,842	3,495,879
Net change in plan fiduciary net position	6,039,896	1,022,767
Fiduciary net position held in trust for pension benefits		
Beginning of year	34,735,692	33,712,925
End of year	\$ 40,775,588	\$ 34,735,692

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

Notes to Financial Statements

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 1: PLAN DESCRIPTION

The Board of Trustees of the Firemen's Relief and Retirement Fund for the City of Harlingen, Texas is the administrator of a single-employer defined benefit pension plan. The Firemen's Relief and Retirement Fund is considered part of the City of Harlingen's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a pension trust fund.

Firefighters employed by the City of Harlingen fire department are covered by the Firemen's Relief and Retirement Fund. September 30, 2021 is the most recent actuarial information available. The table below summarizes the membership of the plan at September 30, 2021 and 2020.

	Sept. 30, 2021	Sept. 30, 2020
1. Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and employees who have elected the DROP benefit (4 in September 30, 2021 and 5 in September 30, 2019).	109	106
2. Current		
a. Term Vested	3	4
b. Inactive in Payment	82	85
3. Total	194	195

The Firemen's Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits vest after twenty years of credited service. Employees may retire at age 50 with twenty years of service.

(a) For firefighters who were employed by the City on or before April 1, 2020, a firefighter who qualifies for a service retirement benefit will receive a monthly retirement income equal to the sum of:

- i. a standard benefit equal to 65.5% of her "Highest 60 Month Average Salary"
- ii. an additional service benefit in an amount equal to (I) \$65.00 per month for each year of Longevity Service completed on or before April 30, 2020, plus (II) \$50.00 per month for each year of Longevity Service completed after April 30, 2020.

as used in the Plan, the term "Longevity Service" means each whole year of service in excess of 20 years of service, but not to exceed 30 years of service, provided that any years of service over 30 years of service completed as of April 30, 2020, will be considered Longevity Service for purposes of this definition. A partial year of service will be given partial credit based on the number of months completed in excess of whole years.

(b) For firefighters who commenced employment after April 1, 2020, a firefighter who qualifies for a service retirement benefit will receive a monthly retirement income equal to (i) 2.5% multiplied by (ii) the firefighter's "Highest 60 Month Average Salary" multiplied by (iii) the firefighter's total years of service; provided, however, such benefit amount will not exceed 70% of the firefighter's "Highest 60 Month Average Salary." A partial year of service will be given partial credit based on the number of months completed in excess of whole years.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 1: PLAN DESCRIPTION (Continued)

The City of Harlingen Firemen's Relief and Retirement Plan was organized under the Texas Local Fire Fighters Retirement Act (TLFFRA). TLFFRA allows for paid and part-paid fire departments and volunteer fire departments in participating cities to administer their own local retirement systems. The Act provides a general framework for the establishment of TLFFRA systems, including some investment restrictions, but leaves administration, plan design, contributions, and specific investments to each system's local board. Systems operating under TLFFRA are entirely locally funded.

In 2013 the Office of the Fire Fighter's Pension Commissioner was abolished under the Senate Bill 220 by the Texas Sunset Commission. Accordingly, the duties and responsibilities assigned to the Commissioner were transferred to the Texas Pension Review Board (PRB).

The Texas Pension Review Board (PRB) is mandated to oversee all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state law. The PRB monitors the financial and actuarial soundness of 93 actuarially funded defined benefit public retirement systems in Texas, as well as their compliance with state law.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS

Organization

The Plan was created pursuant to the TLFFRA. The Plan provides pension, disability, death, and severance benefits to employees of the City's fire department eligible to receive benefits pursuant to a single-employer defined benefit pension plan.

Basis of Accounting

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America for local governmental units as prescribed by the GASB. The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash Equivalents

For purposes of the statements of fiduciary net position, short-term, highly liquid investments are considered cash equivalents.

Contributions

Active members are required to contribute to the plan a certain percentage of qualifying salary. Contributions to the fund are based on negotiations between the members and the City rather than an actuarially determined rate. The funding policy of the Harlingen Firemen's Retirement Fund requires contributions from both the City and the firefighters. The City's contribution rate is currently 17.00% of member payroll with each active member contributing 15.00% of member payroll. The City contribution will be made in October each year based on an estimate of firefighter payroll for the year.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS
(Continued)

Deferred Retirement Option Plan

After attainment of eligibility for service retirement, a firefighter may elect a DROP or Reverse DROP for a period of up to thirty-six months earlier but not earlier than the date the participant was first eligible for service retirement. The firefighter's contributions and retirement income benefits are accumulated during the DROP period in a separate account. The DROP account is paid out at the firefighter's election over a period of no longer than thirty-seven months after the date of termination. No interest is credited to the DROP account.

Valuation of Plan Investments

Investments are carried at fair value as defined in GASB Cod. Sec. 3100.115, *Fair Value Measurement - Valuation Techniques and Approaches* requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Consistent with GASB Cod. Sec. 3100.129, *Fair Value Measurement – Fair Value Hierarchy*, the Plan categorizes its fair value measurements within the fair value hierarchy. 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. A detail of the fair value hierarchy of investments held by the Plan is disclosed in Note 3 to the financial statements.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in fiduciary net position, along with gains and losses realized on sales of investments.

Purchases and sales of investments are recorded on a trade-date basis and, accordingly, the related receivables and payables for any unsettled trades are recorded. Interest income and dividends are recorded on the accrual basis.

Federal Income Tax

The Plan received a favorable letter of determination from the Internal Revenue Service stating that the Plan qualifies as a tax-exempt plan and trust. The Plan's management and Board believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require Plan's management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Plan management has analyzed the tax positions taken by the Plan, and has concluded that as of September 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the basic financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS
(Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Prior Year Reclassification

The financial statements for the fiscal year ended September 30, 2020, have been reclassified to conform with the presentation of the statements for the fiscal year ended September 30, 2021.

Administrative Expenses

The cost of administering the Plan is paid by the Plan from current earnings pursuant to an annual fiscal budget approved by the Board.

NOTE 3: INVESTMENTS

The Plan's investment policy provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Plan; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Plan given prevailing economic and capital market conditions. While the Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

The Pension Board has contracted with Westwood Trust (Custodian) to serve as custodian of the assets of the Plan. The Custodian has established and maintains a custodial account to hold, or directs its agents to hold, for the account of the Plan, certain assets that the Board deposits with the Custodian from time to time. The Custodian also serves as the record-keeper of non-custody assets (commingled/multi-investor funds managed by third-party managers, private equity and real estate). All rights, title and interest in and to the Plan's assets at all times vests with the Plan's Board.

In performing its contractual duties, the Custodian is to adhere to a fiduciary standard of care, skill, prudence and loyalty, as measured by the high commercial standards reasonably expected of prudent professional custodians of public pension funds who are held in the highest regard or who hold themselves out as such. Further, in performing these duties, the Custodian is to exercise the same care and diligence that a professional custodian engaged in the banking or trust company industry and having professional expertise in financial and securities processing transactions and custody would observe in these affairs.

Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 3: INVESTMENTS (Continued)

<i>September 30,</i>	2021	2020
Federal government obligations	\$ 59	\$ 46
Mutual funds		
Mutual funds - equities	26,618,145	21,888,568
Mutual funds - fixed income	8,096,307	9,213,717
Mutual funds - specialty	2,141,432	1,876,915
Total mutual funds	36,855,884	32,979,200
REIT	3,875,474	1,758,063
Total investments	\$40,731,417	\$34,737,309

Fair value investments are classified in the following hierarchy, Level 1 inputs are quoted prices in active markets for identical assets; Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ in relation to benchmark quoted prices. The following table depicts the fair value investment hierarchy for 2021:

	September 30, 2021	Inputs		
		(Level 1)	(Level 2)	(Level 3)
Mutual Funds				
Baird Aggregate Bond Fund-IS	\$ 5,217,748	\$ 5,217,748	\$ -	\$ -
Income Opportunity	2,141,432	-	2,141,432	-
American Europacific Growth	4,679,493	-	4,679,493	-
Largecap Value Equity	6,094,107	-	6,094,107	-
Blackrock Total Stock-K	6,625,028	6,625,028	-	-
Allcap Growth Equity	6,528,402	-	6,528,402	-
Smallcap Value Equity	1,217,138	-	1,217,138	-
RBC Funds Trust Emerging Markets	1,473,977	1,473,977	-	-
Legg Mason Gbl Ass Brandywine Opp	1,813,890	1,813,890	-	-
Pacific Funds Series Trust Pac Fitg Inc	1,064,669	1,064,669	-	-
Total mutual funds	36,855,884	16,195,312	20,660,572	-
REIT				
Clarion Lion Properties Fund	2,032,219	-	-	2,032,219
ARA Core Property Fund	1,843,255	-	-	1,843,255
Total REIT	3,875,474	-	-	3,875,474
Cash and cash equivalents				
Federal government obligations	59	59	-	-
Total investments	\$40,731,417	\$16,195,371	\$20,660,572	\$3,875,474

Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 3: INVESTMENTS (Continued)

The following table depicts the fair value investment hierarchy for 2020:

	September 30,	Inputs		
	2020	(Level 1)	(Level 2)	(Level 3)
Mutual Funds				
Baird Aggregate Bond Fund-IS	\$ 6,738,021	\$ 6,738,021	\$ -	\$ -
Income Opportunity	1,876,915	-	1,876,915	-
International Equity	3,640,966	-	3,640,966	-
Largecap Value Equity	4,472,703	-	4,472,703	-
Blackrock Total Stock-K	5,882,718	5,882,718	-	-
Allcap Growth Equity	5,768,466	-	5,768,466	-
Smallcap Value Equity	802,094	-	802,094	-
RBC Funds Trust Emerging Markets	1,321,621	1,321,621	-	-
Legg Mason Gbl Ass Brandywine Opp	1,474,368	1,474,368	-	-
Pacific Funds Series Trust Pac Fitg Inc	1,001,328	1,001,328	-	-
Total mutual funds	32,979,200	16,418,056	16,561,144	-
REIT				
Clarion Lion Properties Fund	1,758,063	-	-	1,758,063
Cash and cash equivalents				
Federal government obligations	46	46	-	-
Total investments	\$ 34,737,309	\$ 16,418,102	\$ 16,561,144	\$ 1,758,063

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty’s trust department or agent but not in the Plan’s name. At September 30, 2021 and 2020, none of the Plan’s security investments were subject to custodial credit risk.

Concentration of Credit Risk

The Firemen’s investment policy establishes a minimum and maximum percentage allocation for each classification of investments. Fixed income investments should be between 20% and 60% of the total portfolio, while equity investments should be between 40% and 80% of the total portfolio. Cash equivalents should be between zero and 10% of the total portfolio.

Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 3: INVESTMENTS (Continued)

Interest Rate Risk

The Plan invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest. Instruments may have an investment grade or noninvestment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Plan’s Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

At September 30, 2021 and 2020, the following table shows the Plan’s investments by type, with weighted average maturity in years and fair value:

	<u>2021</u>		<u>2020</u>	
	Weighted Average Maturity	Fair Value	Weighted Average Maturity	Fair Value
Baird Aggregate Bond Fund-IS	8.50	\$5,217,748	7.94	\$ 6,738,021
Legg Mason Gbl Ass Brandywine Opp	6.60	1,813,890	6.60	1,474,368
Pacific Funds Series Trust Pac Fitg Inc	4.53	1,064,669	4.53	1,001,328
Total fixed income securities		\$8,096,307		\$ 9,213,717

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract.

The Plan’s exposure to investment credit risk in fixed income securities (which includes government securities, corporate bonds and convertibles) as of September 30 are as follows:

<u>2021</u>			<u>2020</u>		
<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Holding</u>	<u>Quality Rating</u>	<u>Fair Value</u>	<u>Percentage of Holding</u>
A+	\$ 8,096,307	19.88%	A+	9,213,717	26.52%
	\$ 8,096,307			\$ 9,213,717	

Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 3: INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan has no foreign currency risk, as all investments are in U.S. dollars.

NOTE 4: CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

For the Plan in effect on September 30, 2021 and 2020, The City’s contribution rate is currently 17.00% of member payroll with each active member contributing 15.00% of member payroll. The City contribution will be made in October each year based on an estimate of firefighter payroll for the year.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Plan must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the firefighters and the City provide an adequate financing arrangement. Using the variation of the entry age normal actuarial cost method, the Plan's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the Plan's unfunded actuarial accrued liability, and the number of years needed to amortize the Plan's unfunded actuarial accrued liability is determined using a level percentage of payroll method. For the Plan in effect on September 30, 2021, the most recent actuarial valuation date, the normal cost is 18.5% compared to 18.6% in the September 30, 2019 actuarial valuation. The amortization period based on the September 30, 2021 actuarial valuation is 23 years compared to 38 years in the September 30, 2019 actuarial valuation. For the 2021 and 2020 fiscal year, total contributions of \$2,286,617 and \$2,231,452 were paid into the plan, respectively.

NOTE 5: NET PENSION LIABILITY OF EMPLOYER

The components of the net pension liability (as actuarially determined) of the Plan at September 30, 2021 and 2020 as follows:

	September 30, 2021	September 30, 2020
Total pension liability	\$ 58,091,019	\$ 54,727,493
Plan fiduciary net position	40,775,588	34,735,692
Plan's net pension liability	\$ 17,315,431	\$ 19,991,801
Plan fiduciary net position as a percentage of the total pension liability	70%	63%
Effective Discount Rate	7.75%	7.75%

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements**

NOTE 5: NET PENSION LIABILITY OF EMPLOYER

Actuarial assumptions: the total pension liability was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Payroll Growth	3.5%
Salary increase	5.0% per annum
Investment rate of return	7.75%, Net of pension plan investment expenses
Mortality	For pre-retirement mortality, the PubS-2010Employee tables projected generationally with Scale MP-2020. For post-retirement mortality projected generationally with Scale MP-2020.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (assumed 2.5%). Best estimates of arithmetic real rates of return for each major assets class included in the pension plan’s target asset allocations as of September 30, 2021, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	10.0%
International Equity	11.0%
Domestic Bonds	5.0%
International Bonds	6.0%
Real estate	7.0%
Cash	0.0%

Discount rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal 17% of payroll and that member contributions would equal 15% of compensation. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability.

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 7.75% as well as what the City’s net pension liability would be if it were to be calculated using the discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements**

NOTE 5: NET PENSION LIABILITY OF EMPLOYER (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability 2021	\$ 23,866,240	\$ 17,315,431	\$ 11,815,977

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability 2020	\$ 26,237,139	\$ 19,991,801	\$ 14,755,821

Change in Assumptions

During the current year, the mortality assumption was updated to the Pub-S tables with generational projection using Scale MP-2020. There were no other changes in actuarial assumptions from the prior year.

NOTE 6: CONTINGENCIES

From time to time the Plan may be involved in legal proceedings in the normal course of operations. No litigation involving the Plan existed at September 30, 2021 and 2020.

NOTE 7: DEFERRED RETIREMENT OPTION PROGRAM (DROP)

The DROP is a form of retirement that allows an employee that has attained the age of 50 with at least 20 years of service to continue working a maximum period of three (3) additional years while accumulating a savings account consisting of retirement benefits that would have been received had the employee actually retired. During the time the firefighter is participating in the DROP, the monthly pension is transferred to a special DROP account within the fund in the firefighter’s name. The firefighter’s contributions to the fund are also credited to the firefighter’s special DROP account. The firefighter’s special DROP account will no longer earn any interest on or after August 1, 2006. The DROP balance as of September 30, 2021 and 2020 was \$544,287 and \$453,842, respectively.

NOTE 8: RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. It is at least reasonably possible that changes in the value of the Plan’s investment securities may occur over the course of different economic and market cycles.

The Plan’s contribution rates and actuarial information are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

Certain members of the Plan are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Notes to Financial Statements

NOTE 8: RISKS AND UNCERTAINTIES (Continued)

Funding Soundness Restoration Plan

In accordance with State of Texas Statute Sec. 802-2015, the Board of Trustees and the City of Harlingen were required to jointly formulate a Funding Soundness Restoration Plan (FSRP) that will be sufficient to reduce the expected amortization period to less than 40 years and achieve this goal not later than the 10 year anniversary of the effective date of the FSRP. As the original FSRP was created as of December 31, 2015, the Fund's expected UAL amortization period, now 5.75 years later, must be less than 42.25 years as of September 30, 2021. Based on the results of the current valuation, the Fund's 23 year expected UAL amortization period satisfies the original FSRP.

NOTE 9 – SUBSEQUENT EVENTS

Evaluation of subsequent Events

Management of the Plan has evaluated subsequent events through April 29, 2022, which is the date the financial statements were available to be issued.

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

(This page intentionally left blank)

Required Supplementary Information

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Schedule of Changes in Net Pension Liability and
Related Ratios (Unaudited)

<i>For the Fiscal Years Ended</i>	September 30, 2017	September 30, 2018	September 30, 2019	September 30, 2020	September 30, 2021
Total pension liability					
Service cost	\$ 1,944,931	\$ 2,010,509	\$ 1,026,260	\$ 1,103,191	\$ 1,292,135
Interest	3,446,714	3,743,926	4,066,762	4,060,031	4,235,475
Changes of benefit terms	163,430	-	(227,586)	-	-
Differences between expected and and actual experience	(1,961,210)	-	(2,827,743)	-	684,744
Changes of assumptions	(18,585,414)	-	880,798	-	(112,145)
Benefits payments, including refunds of member contributions	(2,197,233)	(2,505,626)	(2,724,497)	(3,440,063)	(2,736,683)
Net change in total pension liability	(17,188,782)	3,248,809	193,994	1,723,159	3,363,526
Total pension liability - beginning	66,750,313	49,561,531	52,810,340	53,004,334	54,727,493
Total pension liability - ending (a)	49,561,531	52,810,340	53,004,334	54,727,493	58,091,019
Plan fiduciary net position					
Contributions - employer	921,686	963,468	1,032,488	1,185,530	1,214,765
Contributions - member	921,686	963,468	972,985	1,045,922	1,071,852
Net investment income	2,880,522	2,289,718	1,612,946	2,259,879	6,606,436
Benefit payments, including refunds of member contributions	(2,197,233)	(2,505,626)	(2,724,497)	(3,440,063)	(2,736,683)
Administrative expense	(49,366)	(31,582)	(84,821)	(28,501)	(116,474)
Other	-	-	-	-	-
Net change in plan fiduciary net position	2,477,295	1,679,446	809,101	1,022,767	6,039,896
Plan fiduciary net position - beginning	28,747,083	31,224,378	32,903,824	33,712,925	34,735,692
Plan fiduciary net position - ending (b)	31,224,378	32,903,824	33,712,925	34,735,692	40,775,588
Fund's net pension liability - ending (a)-(b)	\$ 18,337,153	\$ 19,906,516	\$ 19,291,409	\$ 19,991,801	\$ 17,315,431
Plan fiduciary net position as a percentage					
of the total pension liability	63.0%	62.3%	63.6%	63.5%	70.2%
Covered payroll	\$ 6,213,613	\$ 6,423,120	\$ 6,486,567	\$ 6,972,813	\$ 7,145,680
Fund's net pension liability as a percentage of covered payroll	295.1%	309.9%	297.4%	286.7%	242.3%

Notes to Schedule:

1. Covered payroll is estimated using firefighter contributions divided by the contribution percentage.

Schedule is intended to share information for 10 years. Additional years will be presented as they become available.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Schedule of Employer Contributions (Unaudited)

<i>For the Fiscal Years Ended September 30,</i>	2017	2018	2019	2020	2021
Actuarially determined contribution	\$ 921,686	\$ 963,468	\$ 1,032,488	\$ 1,185,530	\$ 1,214,765
Contributions in relation to the actuarially determined contribution	921,686	963,468	1,032,488	1,185,530	1,214,765
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 6,213,613	\$ 6,423,120	\$ 6,486,567	\$ 6,972,813	\$ 7,145,680
Contributions as a percentage of covered payroll	14.8%	15.0%	15.92%	17.00%	17.00%

Schedule is intended to share information for 10 years. Additional years will be presented as they become available.

Notes to Schedule:

Valuation date

September 30, 2021

Contributions to the fund are based on negotiations between the members and the City rather than an actuarially determined rate. The funding policy of the Harlingen Firemen's Relief and Retirement Fund requires contributions from both the City and the firefighters. The City's contribution rate is currently 17% of member payroll for with each active member contributing 15% of member payroll.

The discount rate remains at 7.75% but the mortality assumption was updated. There were no other changes to the valuation assumptions since the prior valuation. The plan provisions were amended effective April 1, 2019 to reduce the longevity benefit and to create a new lower cost benefit tier for future members. In addition, the City increased its contribution from 15% to 17% of member payroll. There were no other changes to the plan provisions

Inflation	2.5%
Payroll Growth	3.5%
Salary increase	5.0% per annum
Investment rate of return	7.75%, Net of pension plan investment expenses
Mortality	For pre-retirement mortality, the PubS-2010. Employee tables projected generationally with Scale MP-2020. For post-retirement mortality projected generationally with Scale MP-2020.

**Firemen’s Relief and Retirement Fund
City of Harlingen, Texas
Schedule of Investment Returns (Unaudited)**

	December 31, 2015*	September 30, 2016	September 30, 2017	September 30, 2018	September 30, 2019	September 30, 2020	September 30, 2021
Annual money-weighted rate of return, net of investment expense	-2.54%	9.83%	10.09%	7.41%	4.96%	6.83%	19.18%

* *Change in Measurement Date* - The measurement date was changed from December 31st to September 30th as of September 30, 2016. The 2016 rate of return is the prior nine months ended September 30, 2016 and was annualized to a twelve-month period. The rates of return going forward will be an annual rate for October 1st to September 30th.

Schedule is intended to share information for 10 years. Additional years will be presented as they become available.

(This page intentionally left blank)

Additional Supplementary Information

**Firemen's Relief and Retirement Fund
City of Harlingen, Texas**

**Schedule of Investment Services, Professional Services and Administrative Expenses
Years Ended September 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Investment Services:		
Custodial	\$ 136,886	\$ 180,706
Investment Consulting	30,000	30,000
	<u>\$ 166,886</u>	<u>\$ 210,706</u>
 Professional Services:		
Actuarial Services	\$ -	\$ 13,000
Audit and Accounting Services	9,500	12,700
Legal	49,833	14,278
Insurance	9,908	9,600
	<u>\$ 69,241</u>	<u>\$ 49,578</u>
 Administrative Expenses:		
Software Maintenance	\$ 6,030	\$ 6,030
Travel & Training	13,355	-
Supplies	-	37
Penalties and fees	262	-
Dues and Memberships	271	171
	<u>\$ 19,918</u>	<u>\$ 6,238</u>

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
Schedule of Investment Services, Professional Services and Administrative Expenses
Years Ended September 30, 2021 and 2020

Summary of Investment Services Fiscal Year Ended September 30, 2021

<u>Individual or Firm Name</u>	<u>Amount</u>	<u>Nature of Services</u>
ANDCO Consulting, LLC	\$ 30,000	Consulting
Westwood Trust	112,022	Money management
Clarion Lion Properties Fund	19,781	Money management
ARA Core Properties Fund	5,083	Money management
	<u>\$ 166,886</u>	

Summary of Professional Services Fiscal Year ended September 30, 2021

<u>Individual or Firm Name</u>	<u>Amount</u>	<u>Nature of Services</u>
Carr, Riggs & Ingram, LLC	9,500	Audit
Jackson Walker L.L.P.	49,833	Legal
Victor Insurance Managers, Inc.	9,908	Insurance
	<u>\$ 69,241</u>	

Summary of Investment Services Fiscal Year Ended September 30, 2020

<u>Individual or Firm Name</u>	<u>Amount</u>	<u>Nature of Services</u>
ANDCO Consulting, LLC	\$ 30,000	Consulting
Westwood Trust	162,073	Money management
Clarion Lion Properties Fund	18,633	Money management
	<u>\$ 210,706</u>	

Summary of Professional Services Fiscal Year ended September 30, 2020

<u>Individual or Firm Name</u>	<u>Amount</u>	<u>Nature of Services</u>
Retirement Horizons Incorporated	\$ 13,000	Actuarial Services
Carr, Riggs & Ingram, LLC	12,700	Audit
Jackson Walker L.L.P.	14,278	Legal
Victor Insurance Managers, Inc.	9,600	Insurance
	<u>\$ 49,578</u>	

Compliance

(This page intentionally left blank)

(This page intentionally left blank)

