



FINANCE COMMITTEE
MEETING MINUTES
October 12, 2023

Commission Chair Rodriguez called the meeting to order at 1:00 p.m.

Name	Title	Present for Item Nos.
Elofson, Frederick N.	Commission Vice Chair and Committee Member	1 -4 (virtual)
Levenston, Jr., Willie	Committee Member	1-4
Rodriguez, Stephen C.	Commission Chair	1-4
Glenn, Michael E.	Commissioner	Absent
Lakdawala, Vishnu K.	Commissioner	Absent
Stern, Nancy,	Commissioner	Absent
Taraski, Elizabeth	Committee Chair and Commissioner	1-4
Templeman, Ann	Commissioner	1-4 (virtual)

In accordance with Virginia Code § 2.2-3708.3 (B) and the HRSD Remote Participation Commission Adopted Policy, Commissioner Elofson requested approval to participate in today's meeting from Newport News due to a medical condition preventing him from attending in person.

In addition, Commissioner Templeman requested approval to participate in today's meeting from Hampton due to a personal conflict.

Moved: Willie Levenston
Seconded: Elizabeth Taraski

Ayes: 3
Nays: 0
(Excludes Remote Participants)

1. **Appoint Finance Committee Chair**

Commissioners Elofson, Levenston and Taraski were appointed to the Finance Committee in July 2023. However, a Committee Chair was not elected at that time. The Finance Committee appointed Commissioner Taraski as the chair for this Committee.

2. **Annual Audit Report**

The Deputy General Manager/Director of Finance introduced representatives from Cherry Bekaert: Laura Hardin, CPA, Audit Director and Hailey Kadisevskis, CPA, Audit Manager. Ms. Hardin presented the [results](#) of the annual audit and explained the audit process. She said there are no reportable deficiencies and an unmodified (clean) audit opinion is expected. Staff will notify the Commission of changes prior to the final report being published and distributed.



FINANCE COMMITTEE
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3. **Annual Comprehensive Financial Report (ACFR) Review**

The Deputy General Manager/Director of Finance provided an [update](#) of HRSD's finances for the 2023 fiscal year. He reported that although the financial operations of HRSD for fiscal year 2023 were positive and the financial health of the organization remains sound, headwinds, such as inflationary pressures; water consumption trends and a large, regulatory driven, capital improvement program all create budgetary challenges in the coming fiscal years. Fortunately, inflation, although still high from an historical perspective, appears to be moderating and capital needs stabilize after 2028. The following items were reviewed:

- Overview and analysis of the basic financial statements
- Pension and Retiree Health Plan Trust Results
- Key Financial Policy Indicators

4. **Public Comments**

None

Next Commission Meeting Date: October 24, 2023

Meeting Adjourned: 1:48 p.m.

SUBMITTED:



Elizabeth I. Scott
Assistant Commission Secretary

APPROVED:



Elizabeth Taraski, Ph.D.
Committee Chair



Hampton Roads Sanitation District
Audit Executive Summary

October 12, 2023



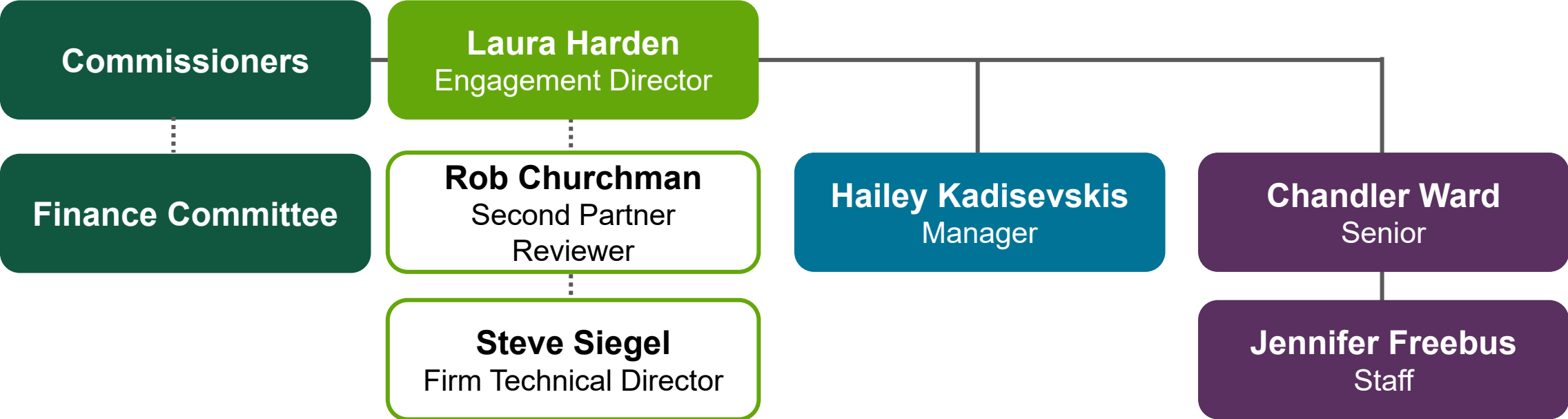
Agenda

- ▶ Client Service Team
- ▶ Results of the Audit
- ▶ Significant Audit Matters
- ▶ Corrected and Uncorrected Misstatements
- ▶ Qualitative Aspects of Accounting Practices
- ▶ Independence Considerations
- ▶ Other Required Communications
- ▶ Other Matters
- ▶ Upcoming Financial Reporting Changes

This information is intended solely for the use of Commissioners and management of the Hampton Roads Sanitation District and is not intended to be, and should not be, used by anyone other than these specified parties.



Client Service Team



Results of the Audit

Financial Statements:

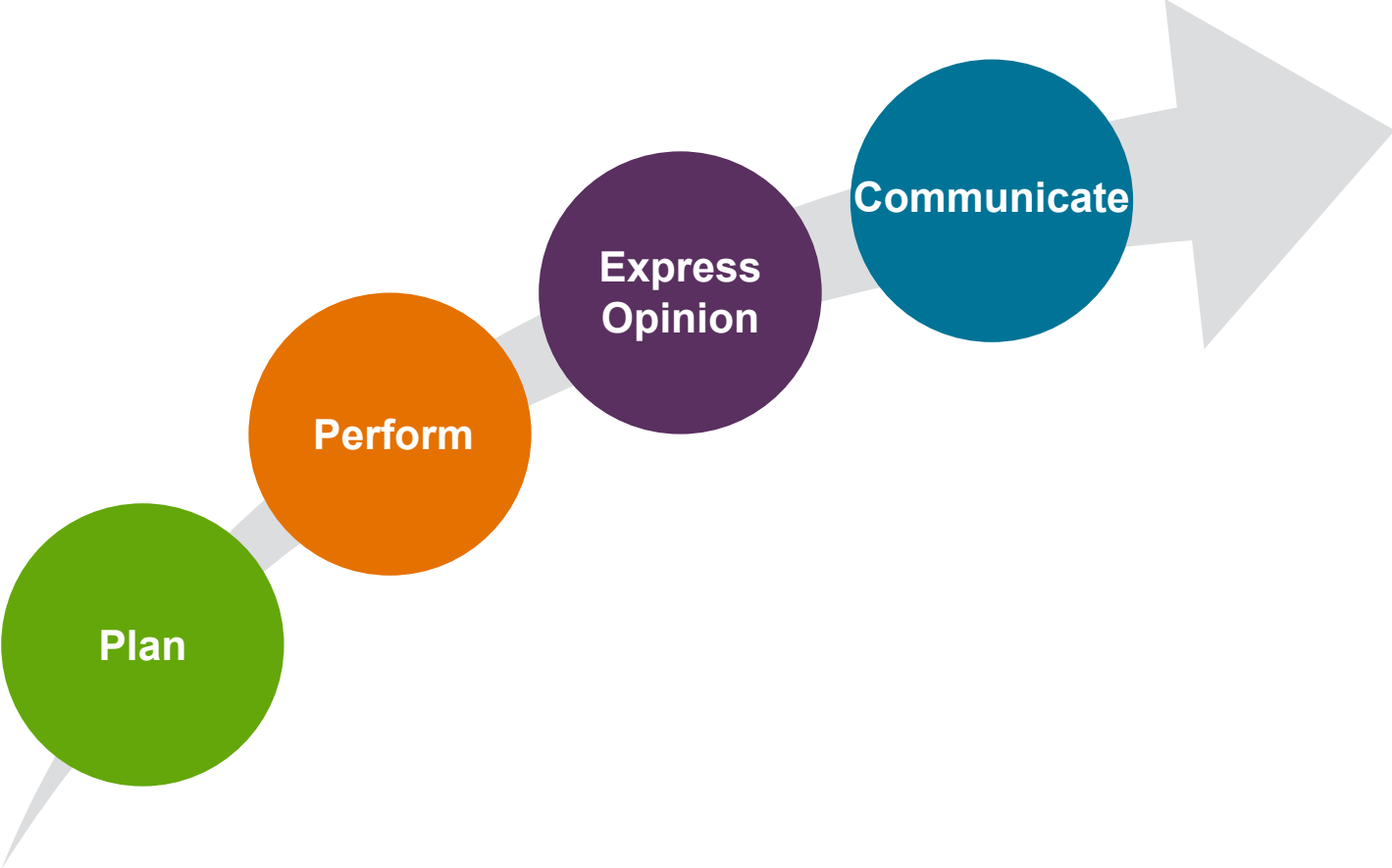
We have audited the financial statements of the Hampton Roads Sanitation District (“HRSD”), as of and for the year ended June 30, 2023, and we expect to issue our report thereon dated approximately October 23, 2023.

We plan to issue an unmodified opinion on the financial statements.

Compliance:

We identified no instances of noncompliance required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

We identified no material weaknesses in internal control over financial reporting.



Significant Audit Matters

Management override of controls

- ▶ We tested a sample of journal entries for indication of management override of controls.



Customer Billings

- ▶ We tested a sample of revenue transactions from customer billings.
- ▶ We tested a sample of receivables which included sending confirmations to customers.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Corrected Misstatements

▶ None noted.

Uncorrected Misstatements

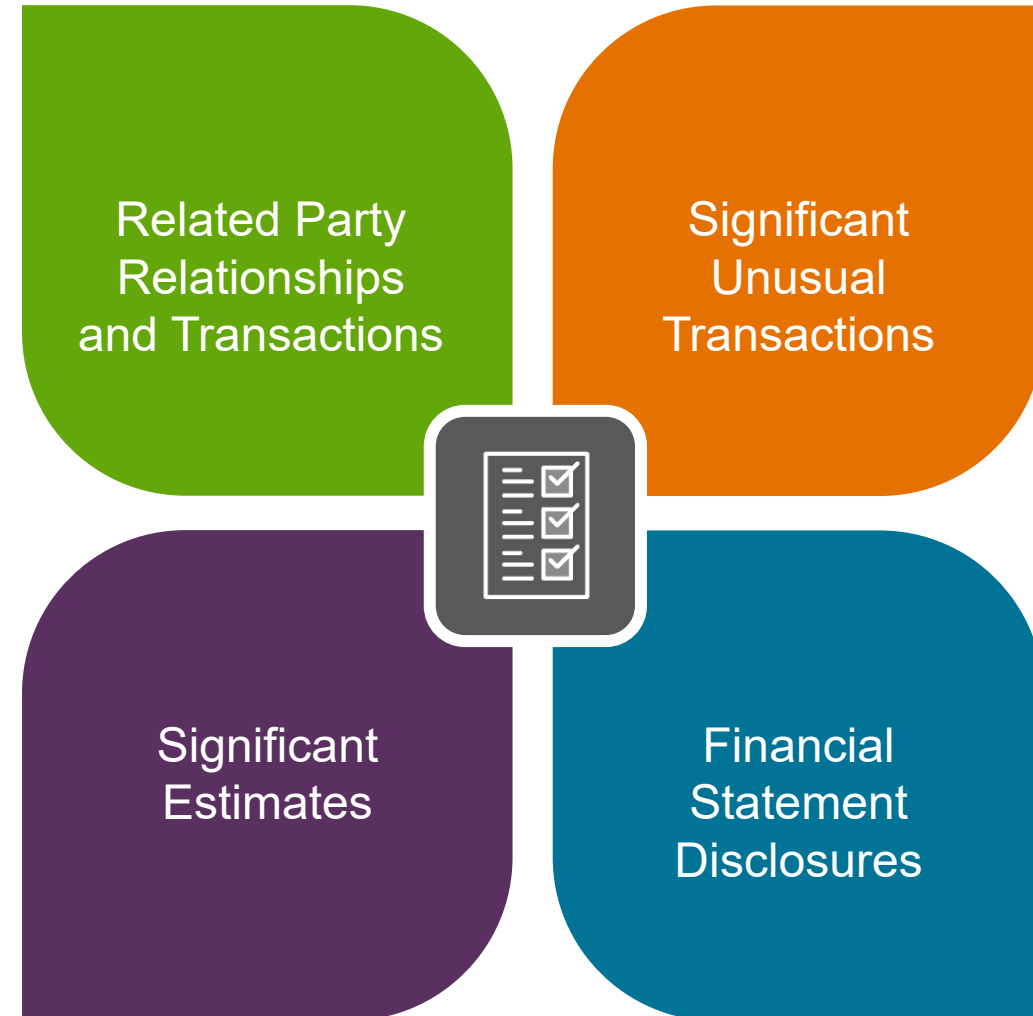
▶ None noted.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by HRSD are described in Note 2 to the financial statements.

As described in Note 2, HRSD determined GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective July 1, 2022, had an immaterial impact on the financial statements. In accordance with GASB, provisions of the Statement need not be applied to immaterial items and, as a result, HRSD has elected to not apply the provisions of this Statement. Management will evaluate annually to determine whether implementation is necessary.

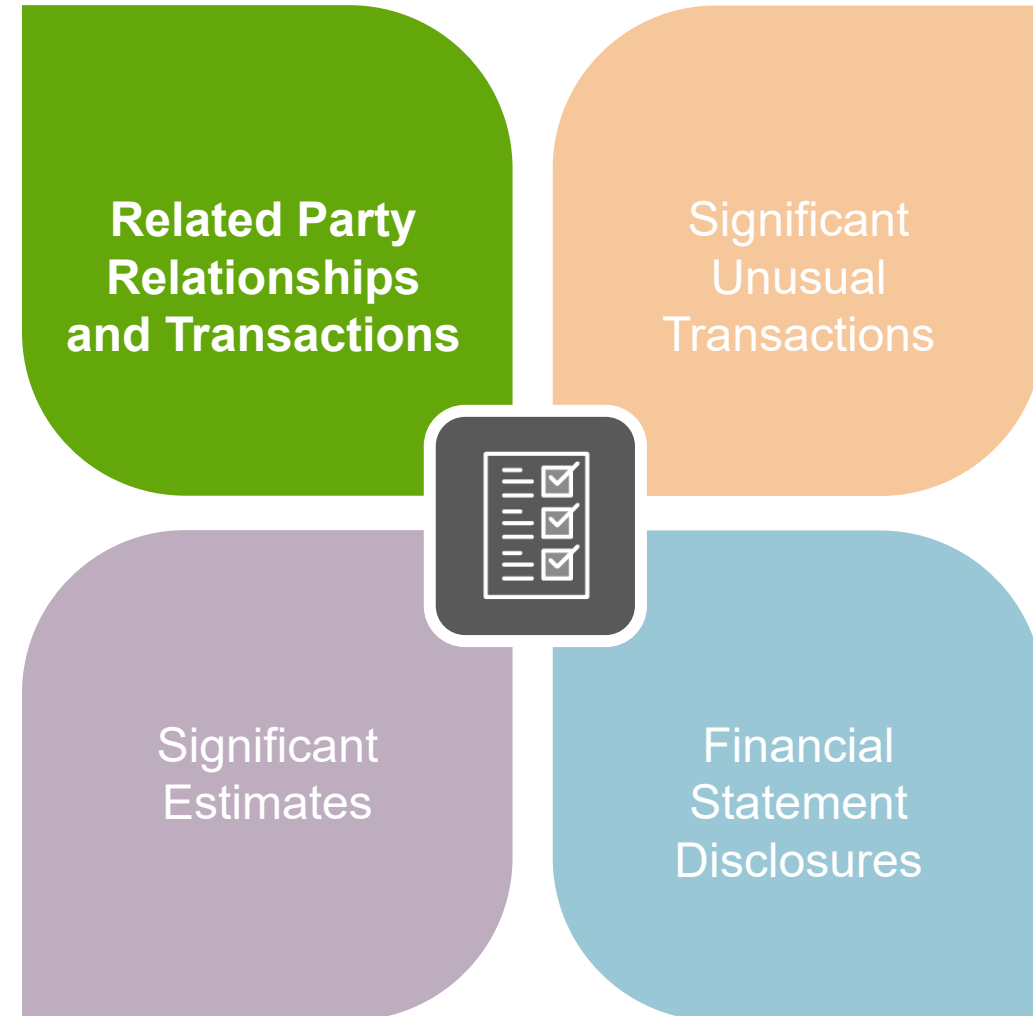


Qualitative Aspects of Accounting Practices

As part of our audit, we evaluated HRSD's identification of, accounting for, and disclosure of HRSD's relationships and transactions with related parties as required by professional standards.

We noted none of the following:

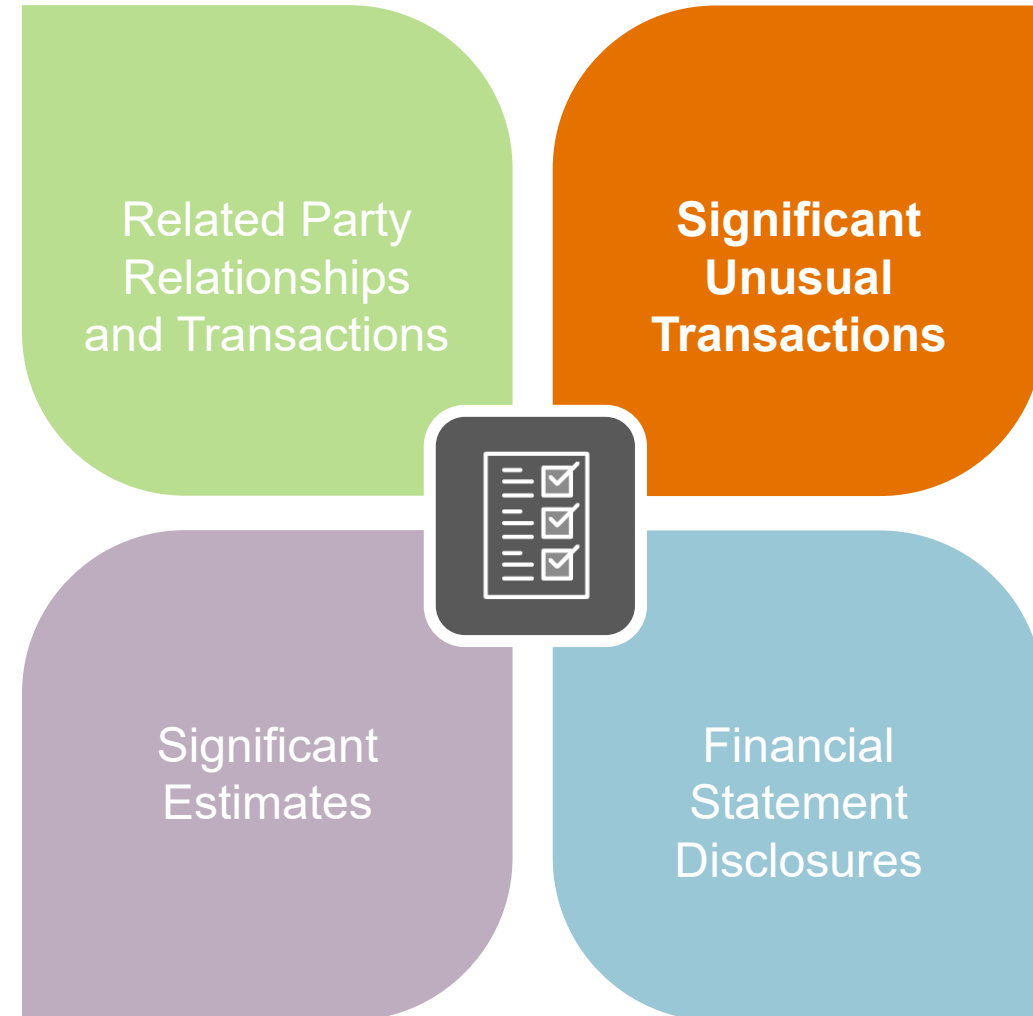
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with HRSD's policies or procedures or for which exceptions to HRSD's policies or procedures were granted;
- Significant related party transactions that appeared to lack a business purpose;
- Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions; and
- Difficulties in identifying the party that ultimately controls HRSD.



Qualitative Aspects of Accounting Practices

We noted no transactions entered into by HRSD during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

For purposes of this presentation, professional standards define significant unusual transactions as transactions that are outside the normal course of business for HRSD or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transactions during our audit.

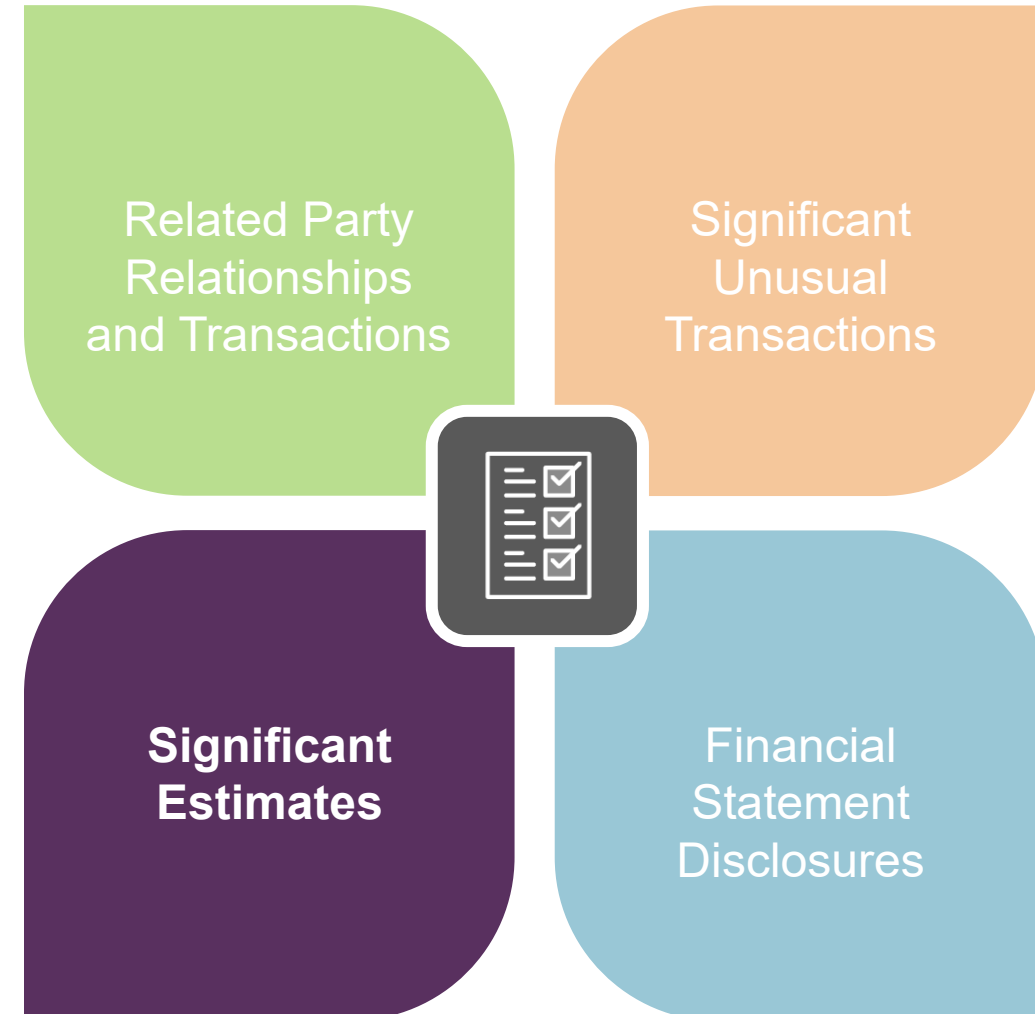


Qualitative Aspects of Accounting Practices

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Fair market value of investments
- Allowance for uncollectible accounts
- Capital asset useful lives
- Actuarial computations of pension and OPEB liabilities

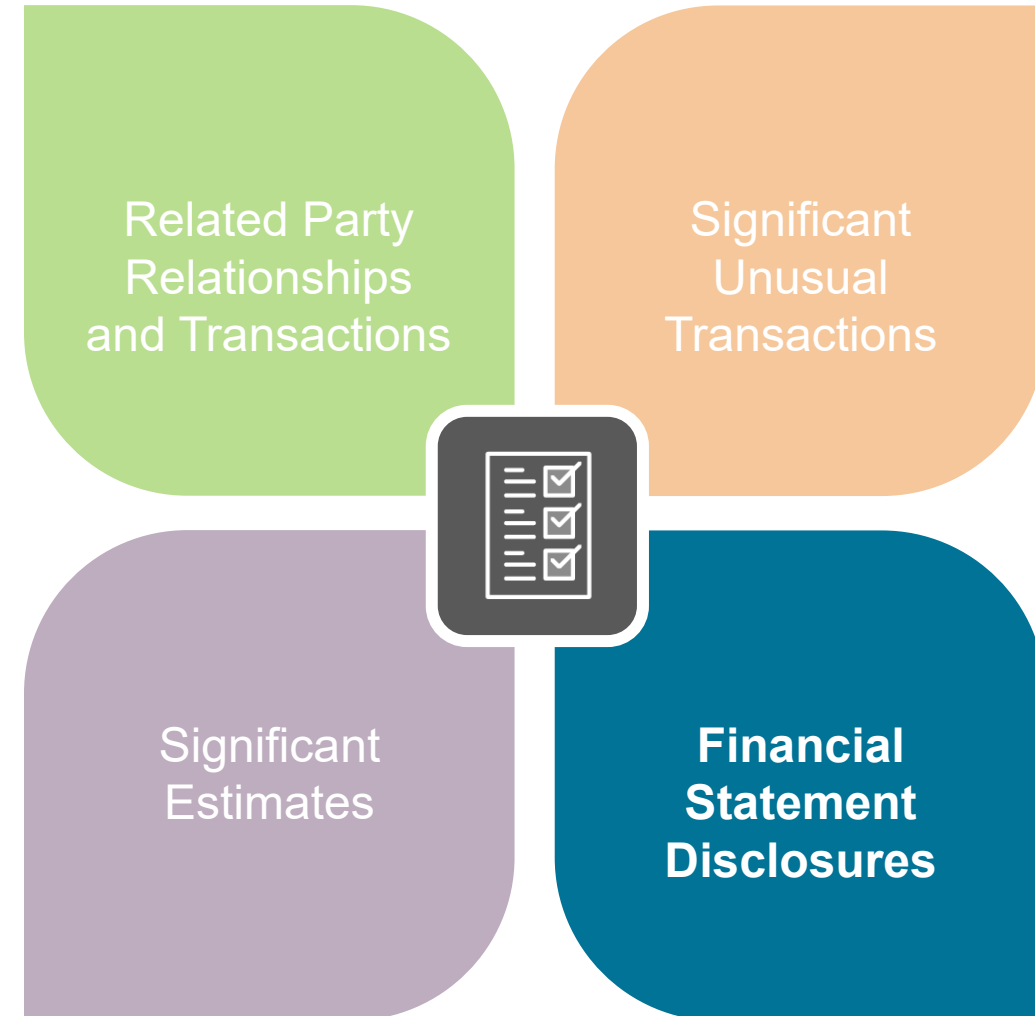
We evaluated the key factors and assumptions used to develop the estimates above in determining whether they are reasonable in relation to the financial statements taken as a whole.



Qualitative Aspects of Accounting Practices

The financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.



Independence Considerations

Nonattest Services

- ▶ Cherry Bekaert will complete the appropriate sections of and sign the Data Collection Form.
- ▶ For all nonattest services we perform, you are responsible for designating a competent employee to oversee the services, make any management decisions, perform any management functions related to the services, evaluate the adequacy of the services, and accept overall responsibility for the results of the services.

Independence Conclusion

- ▶ We are not aware of any other circumstances or relationships that create threats to auditor independence.
- ▶ We are independent of HRSD and have met our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.



Other Required Communications

Difficulties Encountered

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

Includes disagreements on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Auditor Consultations

We noted no matters that are difficult or contentious for which the auditor consulted outside the engagement team.

Management Representations

We have requested certain representations from management that are included in the management representation letter which will be dated as of the date of our audit report.



Other Required Communications

Management Consultations

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations.

To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year.

These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Fraud and Illegal Acts

As of the date of this presentation, no fraud, illegal acts, or violations of laws and regulations noted.

Going Concern

No events or conditions noted that indicate substantial doubt about HRSD’s ability to continue as a going concern.



Other Matters

Required Supplementary Information

With respect to the management's discussion and analysis and the additional required supplementary information, as listed in the table of contents, accompanying the financial statements, we have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards, 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.



Other Matters

Other Supplementary Information

With respect to the combining statements, as listed in the table of contents, accompanying the financial statements, we have applied certain additional procedures, including comparing and reconciling such information directly to the underlying accounting or other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards (“GAAS”). In our opinion the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Other Matters

Other Information

Our opinion on the basic financial statements does not cover the Introductory, Statistical, and Other Supplemental sections, as listed in the table of contents, of the Annual Comprehensive Financial Report, and we do not express an opinion or any form of assurance thereon.



Upcoming Financial Reporting Changes

These standards will be effective for HRSD in the upcoming years and may have a significant impact on HRSD's financial reporting.

We would be happy to discuss with management the potential impacts on HRSD's financial statements and how we may be able to assist in the implementation efforts.

GASB Statement
No. 99, *Omnibus*
2022

Audit standards
SAS 143-145
related to auditing
estimates, use of
specialists, and risk
assessment



GASB Statement No.
100, Accounting
Changes and Error
Corrections—an
amendment of GASB
Statement No. 62

GASB Statement No.
101, *Compensated*
Absences



Questions

Contacts

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About Cherry Bekaert LLP

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Fiscal Year – 2023
Annual Comprehensive Financial
Report

Finance Committee
October 12, 2023



- Awarded 40 Consecutive Years
- Disclosures and requirements becoming more complex and burdensome
- Dedication of service from the entire Department of Finance, especially the Accounting Division

Summary of Net Position – Assets and Deferred Outflows

	2023	2022	2021	2023 vs 2022	
				\$ Change	% Change
Assets					
Unrestricted					
Cash and cash equivalents - Current	\$ 148,295	\$ 163,051	\$ 125,838	\$ (14,756)	-9%
Cash and cash equivalents - Noncurrent	63,074	62,932	65,054	142	0%
Total Unrestricted Cash and cash equivalents	211,369	225,983	190,892	(14,614)	-6%
Cash and cash equivalents - restricted	33,830	33,134	30,455	696	2%
Total Cash and cash equivalents	245,199	259,117	221,347	(13,918)	-5%
Net OPEB Asset	-	-	3,013	-	0%
Accounts Receivable (net)	60,081	59,493	57,130	588	1%
Other	3,029	2,860	4,619	169	6%
Inventory	26,005	25,297	25,032	708	3%
Net Property Plant and Equipment	2,012,351	1,715,108	1,604,841	297,243	17%
Total Assets	\$ 2,346,665	\$ 2,061,875	\$ 1,915,982	\$ 284,790	14%
Deferred Outflows of Resources	\$ 37,522	\$ 42,611	\$ 42,277	\$ (5,089)	-12%

Summary of Net Position – Liabilities, Deferred Inflows and Net Position

	2023	2022	2021	2023 vs 2022	
				\$ Change	% Change
Liabilities					
Bonds Payable - Current	\$ 45,561	\$ 42,609	\$ 38,419	\$ 2,952	7%
Variable Rate Demand Bonds (current)	50,000	50,000	50,000	-	0%
Bonds Payable - Long Term	884,181	775,863	746,587	108,318	14%
Total Bonded Debt	979,742	868,472	835,006	111,270	13%
Notes Payable (LOC)	68,580	33,721	15,299	34,859	103%
Net OPEB Liability	13,221	16,523	5,529	(3,302)	-20%
Net Pension Liability	18,337	2,163	39,116	16,174	748%
Other Liabilities	108,568	87,063	94,583	21,505	25%
	\$ 1,188,448	\$ 1,007,942	\$ 989,533	\$ 180,506	18%
Deferred Inflows of Resources	\$ 18,717	\$ 37,060	\$ 17,902	\$ (18,343)	-49%
Net Position					
Net investment in capital assets	\$ 981,437	\$ 832,427	\$ 776,253	\$ 149,010	18%
Restricted for Debt Service	33,830	33,134	30,455	696	2%
Unrestricted	161,755	193,923	144,116	(32,168)	-17%
	\$ 1,177,022	\$ 1,059,484	\$ 950,824	\$ 117,538	11%

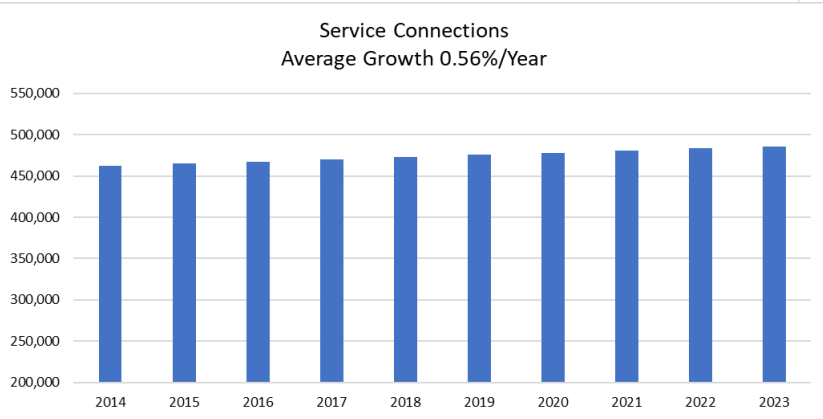
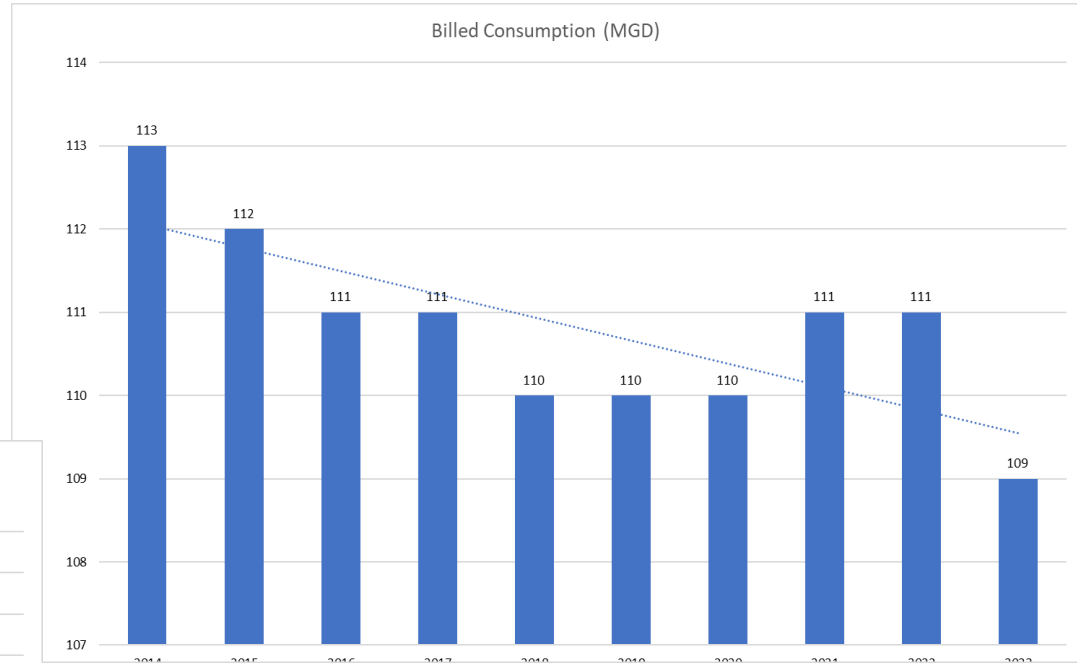
- Represents a consumption or acquisition of Net Assets that applies to future periods
 - Will be recognized as an expense or revenue in future years
 - Deferred outflows are reported similar to an asset amortized as an expense overtime
 - Deferred inflows are reported similar to a liability amortized as revenue over time
 - Examples:
 - Deferred loss on a refunding
 - Differences between actual and expected experience for Pension and OPEB plans
 - Changes in Pension or OPEB Plan Assumptions

Summary of Revenues, Expenses, and Changes in Net Position , For The Years Ended June 30

	2023 vs 2022				
	2023	2022	2021	\$ Change	% Change
Revenues					
Wastewater Treatment Charges	\$ 383,115	\$ 352,414	\$ 325,817	\$ 30,701	8%
Facility Charges	7,293	7,072	7,379	221	3%
Investment Income	6,068	(1,651)	471	7,719	127%
Bond Interest Subsidy	2,015	2,052	2,167	(37)	-2%
Other	4,820	5,532	3,952	(712)	-15%
Total Revenues	403,311	365,419	339,786	37,892	9%
Expenses					
Wastewater Treatment	149,532	134,135	132,820	15,397	10%
General and Administrative	53,995	45,673	48,691	8,322	15%
Depreciation and Amortization	54,469	54,357	53,278	112	0%
Interest Expense	27,132	25,007	25,339	2,125	8%
Capital Distributions to Localities	2,422	13		2,409	99%
Other	98	311	1,058	(213)	-217%
Total Expenses	287,648	259,496	261,186	28,152	10%
Capital Contributions					
State Capital Grants	234	200	-	34	15%
Other Capital Contributions	1,641	2,537	2,317	(896)	-55%
Total Capital Contributions	1,875	2,737	2,317	(862)	-46%
Change in Net Position	\$ 117,538	\$ 108,660	\$ 80,917	\$ 8,878	8%

Wastewater Treatment Changes

- 95% of all revenues are Wastewater Treatment Charges



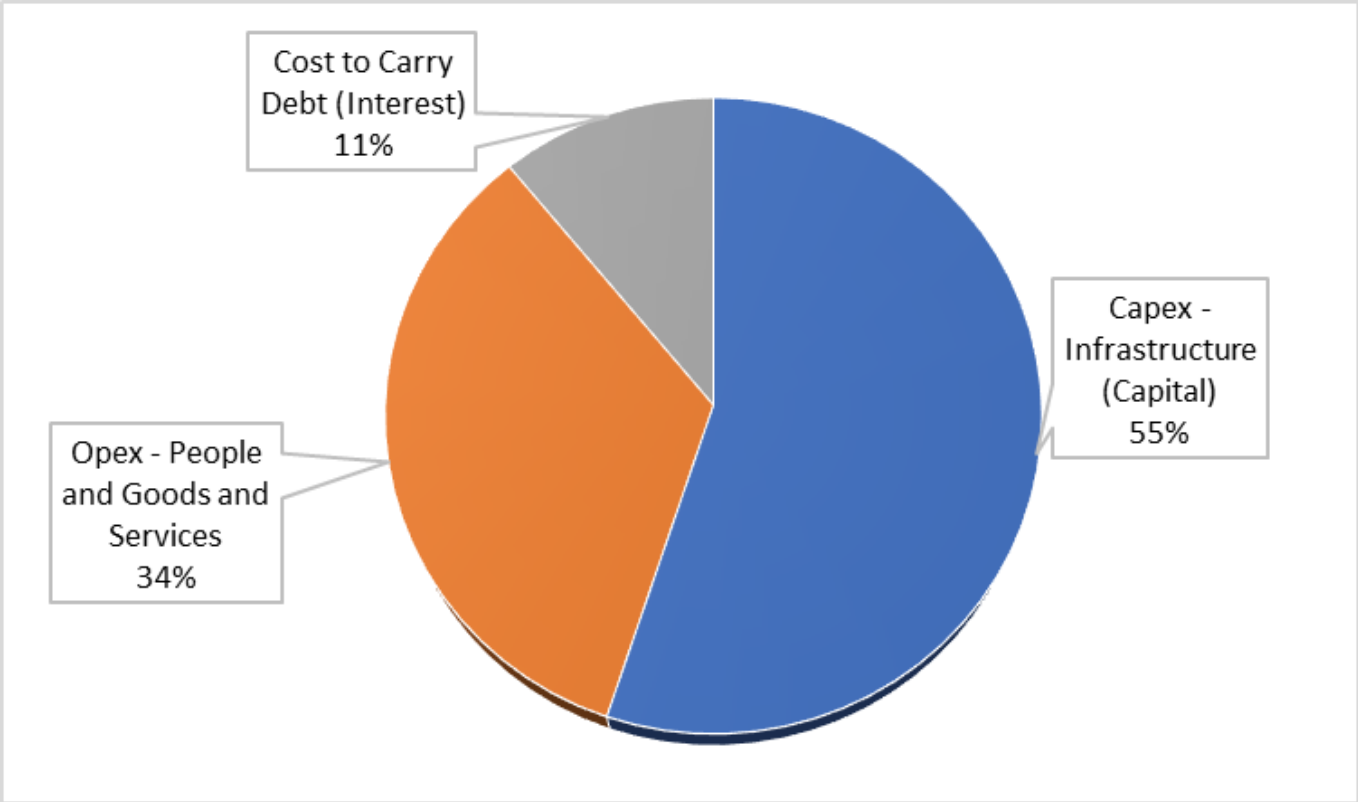
Cost Increases by Category

Operating Expenses	2023 vs 2022						
	2023	2022	2021	\$ Change	% Change		
Personal Services	\$ 65,549	\$ 61,157	\$ 60,250	\$ 4,392	7%	Inflationary salary increases and new positions	
Fringe Benefits	23,772	20,467	23,879	3,305	16%	Inflationary salary increases and new positions	
Materials and Supplies	12,641	9,495	11,413	3,146	33%	Inflationary pressures	
Transportation	1,672	1,380	1,100	292	21%	Inflationary pressures	
Utilities	17,044	13,762	12,947	3,282	24%	Inflationary pressures	
Chemical Purchases	13,890	10,044	8,719	3,846	38%	Inflationary pressures	
Contractual Services	42,934	41,904	37,278	1,030	2%		
Major Repairs	5,974	8,853	6,758	(2,879)	-33%		
Capital Assets	1,758	2,029	1,567	(271)	-13%		
Miscellaneous	2,864	2,385	2,685	479	20%		
	<u>\$ 188,098</u>	<u>\$ 171,476</u>	<u>\$ 166,596</u>	<u>\$ 16,622</u>	<u>10%</u>		

Summary of Cash Flows, For The Years Ended June 30

	<u>2023 vs 2022</u>			
	2023	2022	2021	% Change
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 379,539	\$ 337,432	\$ 302,160	12%
Cash Received from CARES Act and ARPA	-	11,409	4,163	-100%
Other	4,820	5,532	3,952	-13%
Cash Payments for Goods & Services and Employees	(204,300)	(182,354)	(179,302)	12%
Net Cash Provided	180,059	172,019	130,973	5%
Cash Flows from Noncapital Financing Activities				
Capital Distributions to Localities	(2,422)	(13)	-	18531%
Cash Flows from Capital and Financing Activities				
Facility Charges	7,293	7,072	7,379	3%
Capital Plan Expenses	(329,699)	(173,292)	(180,623)	90%
Proceeds from Capital Debt	188,540	90,377	60,751	109%
Principal Paid	(39,588)	(35,228)	(42,206)	12%
Interest Paid	(26,802)	(25,790)	(27,007)	4%
Other	2,633	4,276	3,720	-38%
Net Cash Used	(197,623)	(132,585)	(177,986)	49%
Cash Flows from Investing Activities				
Interest and Dividends on Investments	6,068	(1,651)	95	-468%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (13,918)	\$ 37,770	\$ (46,918)	-137%

Where do we spend our money?

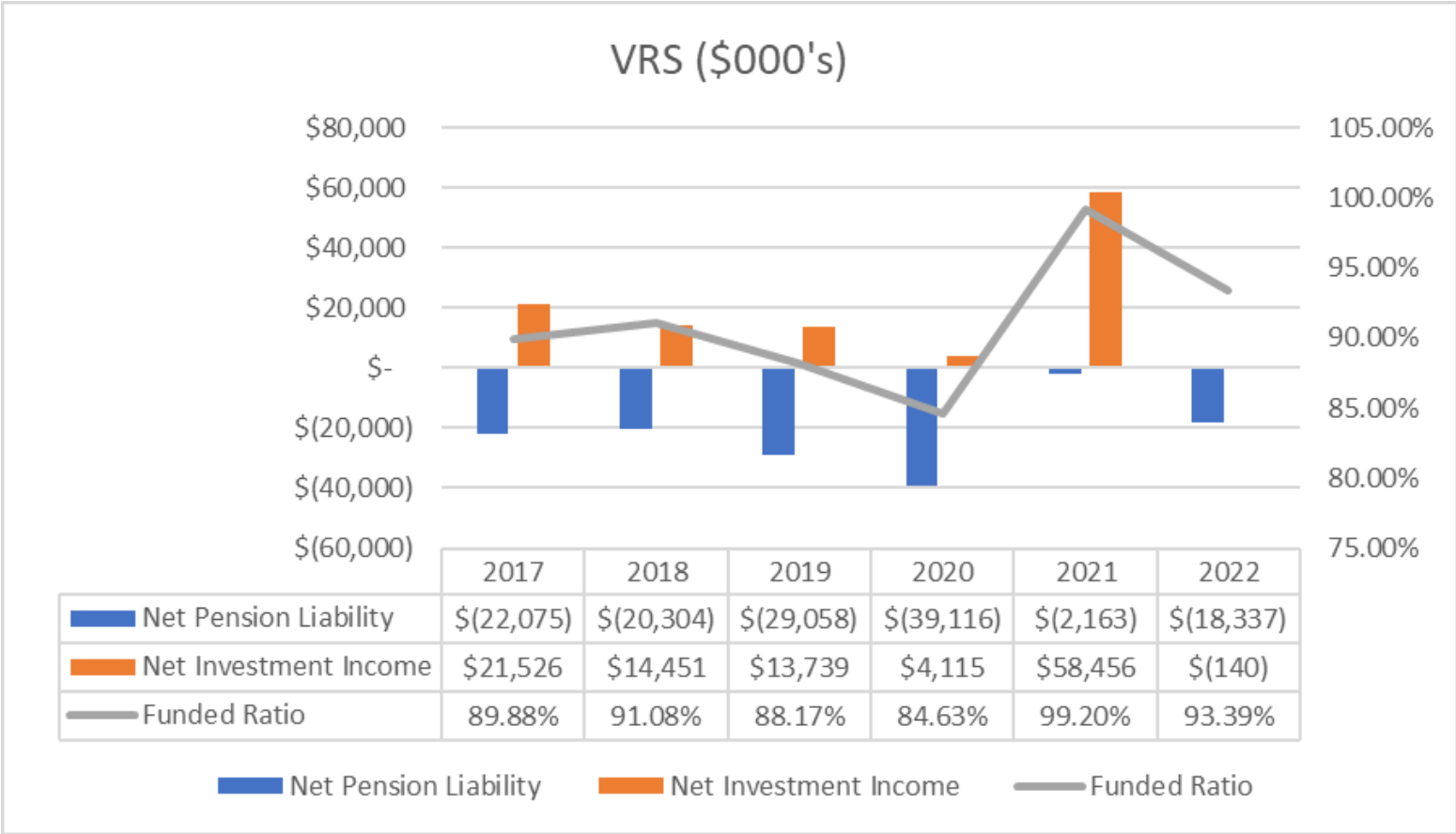


Pension and Other Post-Employee Benefits (OPEB)

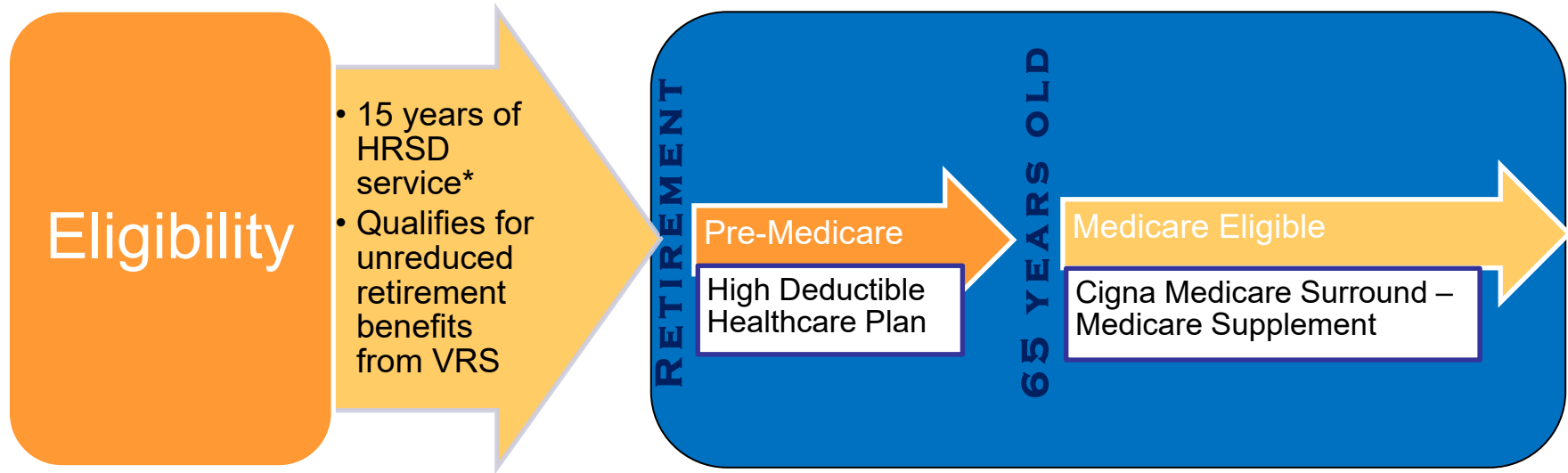
- Pension and OPEB plans are pre-funded trusts where money is set aside to pay for benefits promised
- Financial statement impacts
 - When assets=liabilities = No financial statement impact
 - When assets>liabilities = Net asset on financial statements
 - When assets<liabilities = Net liability on financial statements

June 30,	Virginia Retirement System		HRSD		
		2022		2023	
	Pension	OPEB			
	VRS 1 & 2, Hybrid Plan	Group Term Life	Health Insurance Credit	Retiree Health Plan (RHP)	Total OPEB
Total Liability	\$ (277,575)	\$ (3,035)	\$ (2,241)	\$ (76,476)	\$ (81,752)
Fiduciary Net Position (MVA)	259,238		1,108	67,423	68,531
Net Asset (Liability)	(18,337)	(3,035)	(1,133)	(9,053)	(13,221)
Funded Ratio	93.39%	67.21%	49.44%	88.16%	

Virginia Retirement System

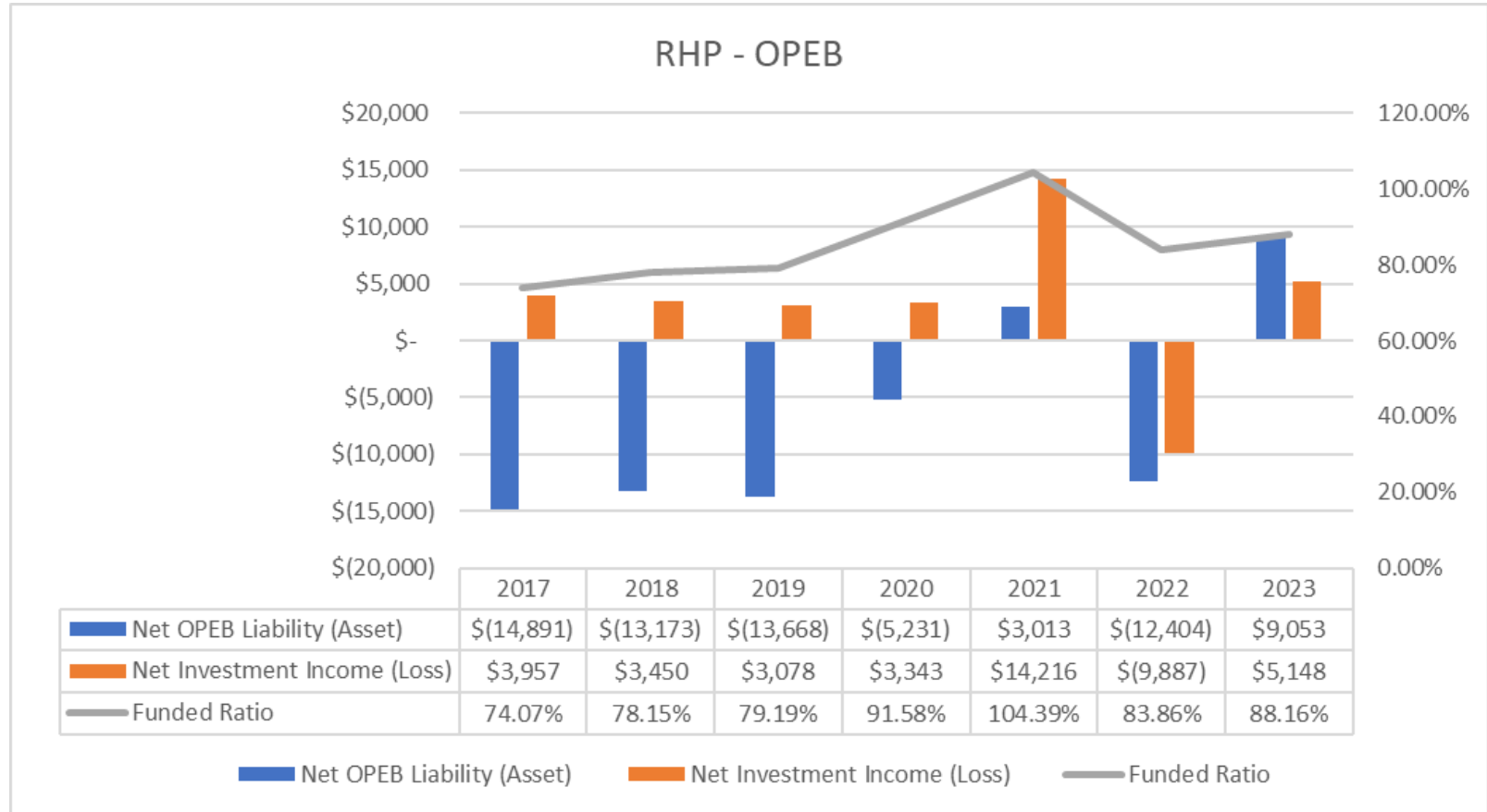


Retiree Health Plan (RHP)



- Retiree responsible for:
 - Deductibles
 - Co-payments
 - Retiree Premiums
 - Less than 65 = \$120/month (High Deductible Plan), Spouse \$415
 - Greater than 65 = \$45/month (Medicare Supplement), Spouse \$397

Retiree Health Plan - OPEB



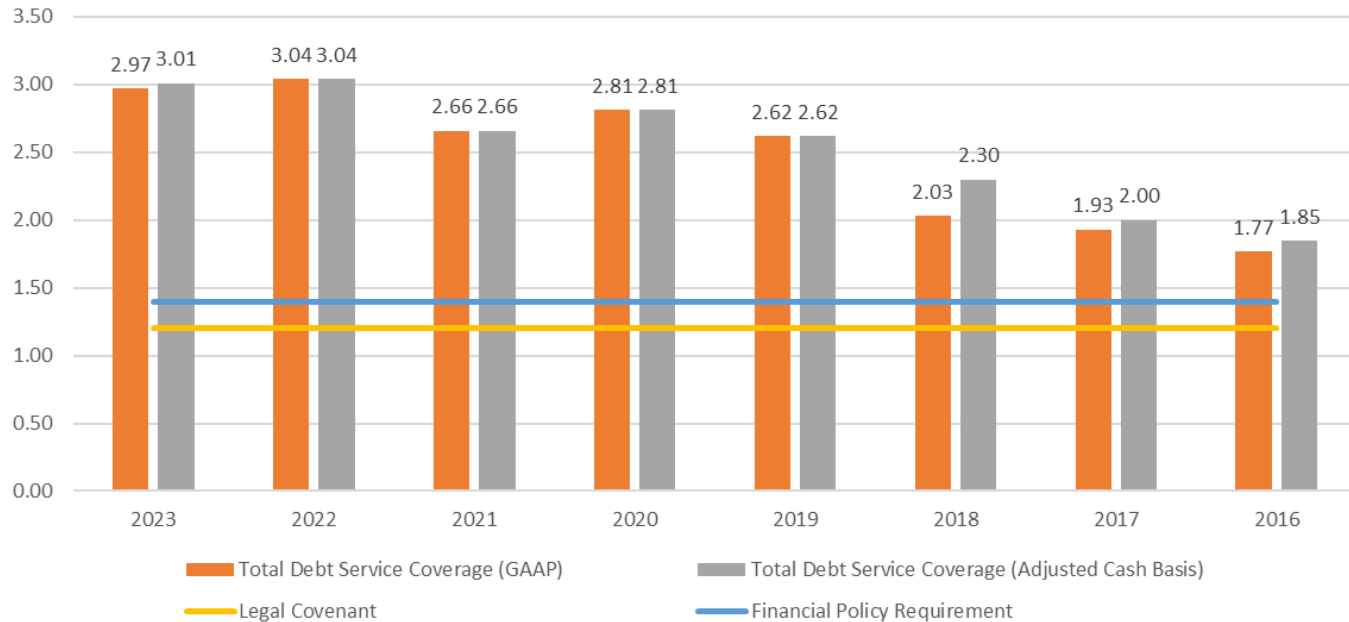
Key Financial Policy Indicators

$$\text{Debt Service Coverage Ratio} = \frac{\text{REVENUES} - \text{EXPENSES}}{\text{Principal} + \text{Interest}}$$

- *How much income will you have to pay Debt Service (principal + interest)?*
- *Measure of sufficiency of revenues and rates to meet obligations*
- *Quantifies **RISK** - Likelihood bond investors get paid back?*

Debt Service Coverage

Subordinate Trust Agreement



AA Rated Medians	
S&P	Fitch
2.3	2.4

HRSD Ratings	Senior	Subordinate
Moody's	Aa1	Aa1
S&P	AA+	AA+
Fitch	AA+	AA

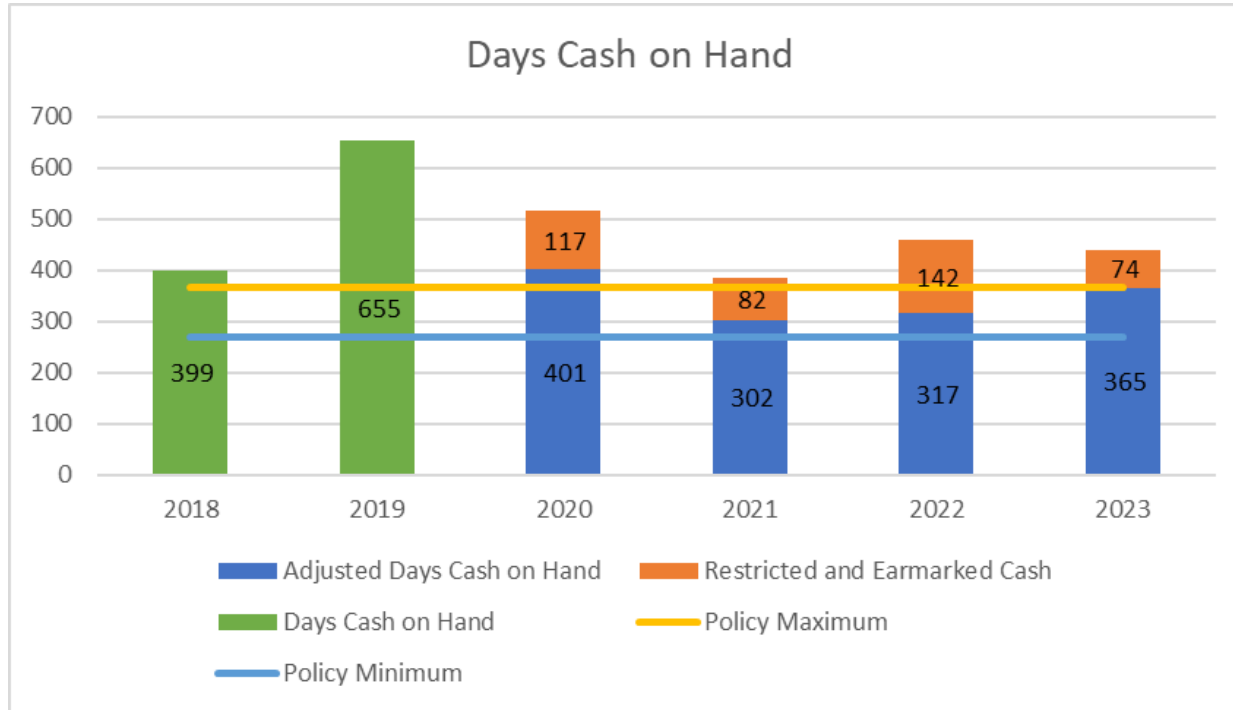
- Liquidity indicates financial flexibility to pay near-term obligations and margin of safety
- Adjusted Days Cash on Hand (ADCOH)
 - Excludes reserves and PAYGO for CIP
- How many days can you operate with available cash if no revenue is coming in?

$$\text{ADCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

(EXCLUDES RESERVES AND PAYGO FOR CIP)

HRSD POLICY - Min = 270 ADCOH, Max = 365 ADCOH

Adjusted Days Cash on Hand (DCOH)



AA Rated Medians	
S&P	Fitch
584	621

HRSD Ratings	Senior	Subordinate
Moody's	Aa1	Aa1
S&P	AA+	AA+
Fitch	AA+	AA

- Financial health is sound, but headwinds exist
 - Future water consumption trends
 - Expenses are impacted by rising inflation, supply chain issues
 - Inflation has moderated, but remains relatively high from a historical perspective
 - Capital Plan remains largely regulatorily driven and expansive but moderates after 2028

