



FINANCE COMMITTEE MEETING MINUTES
October 15, 2024

Commission Vice-Chair Levenston called the meeting to order at 9:00 a.m.

Name	Title	Present for Item Nos.
Elofson, Frederick N.	Committee Member	1-6 (virtual)
Levenston, Jr., Willie	Committee Member	1-6
Rodriguez, Stephen C.	Commission Chair	Absent
Glenn, Michael E.	Commissioner	Absent
Lakdawala, Vishnu K.	Commissioner	1-6
Stern, Nancy,	Commissioner	Absent
Taraski, Elizabeth	Committee Chair and Commissioner	1-6
Templeman, Ann	Commissioner	Absent

1. **Appoint Finance Committee Chair**

Commissioners Levenston, Lakdawala, and Taraski were appointed to the Finance Committee in July 2024. The Finance Committee re-appointed Commissioner Taraski as the chair of this Committee.

2. **Annual Audit Report**

The Deputy General Manager/Chief Financial Officer (CFO) 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, no disagreements with management and expected they would be issuing an unmodified (clean) audit opinion.

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

The CFO provided an [update](#) of HRSD's finances for the 2024 fiscal year. He reported that although the financial operations of HRSD for fiscal year 2024 were positive and the financial health of the organization remains sound, headwinds, such as construction related inflationary pressures and a large, regulatory driven, capital improvement program create budgetary challenges in the coming fiscal years. Fortunately, general inflation, appears to have moderated. Costs related to construction, however, remain elevated largely due to a very competitive local construction market and periodic continued supply chain challenges.

The following items were reviewed:

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



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October 15, 2024

4. **Bi-Annual Financial Policy Review**

As required by the Financial Policy (Policy), staff reviewed and provided the Finance Committee with an overview of changes to the Policy. Staff explained that although most of the changes were administrative in nature, there were changes throughout the document necessitated by the elimination and extinguishment of the Senior Trust Agreement and organizational title and name changes that became effective July 1. Other changes to the Policy included changes to the Retiree Health Plan investment asset allocation that were deemed appropriate given HRSD's recent change from a "discretionary" investment advisor to a "non-discretionary" investment advisor. The proposed changes to the policy will be presented for Commission approval at their meeting on October 22, 2024.

5. **Internal Audit Request for Proposal**

Staff provided the following proposed schedule and process for the Request for Proposal (RFP) for HRSD's internal auditors:

- February 2025 – Issue RFP
- April 2025 – Staff summarize results and provide a recommendation to the Finance Committee
- May 2025 – New Internal Audit contract presented to Commission for approval
- October 2025 – Contract becomes effective

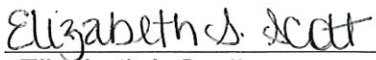
6. **Public Comments**

None


Next Commission Meeting Date: October 22, 2024

Meeting Adjourned: 10:25 a.m.

SUBMITTED:


Elizabeth I. Scott
Assistant Commission Secretary

APPROVED:


Elizabeth Taraski, Ph.D.
Committee Chair

Hampton Roads Sanitation District **Audit Executive Summary**

October 15, 2024

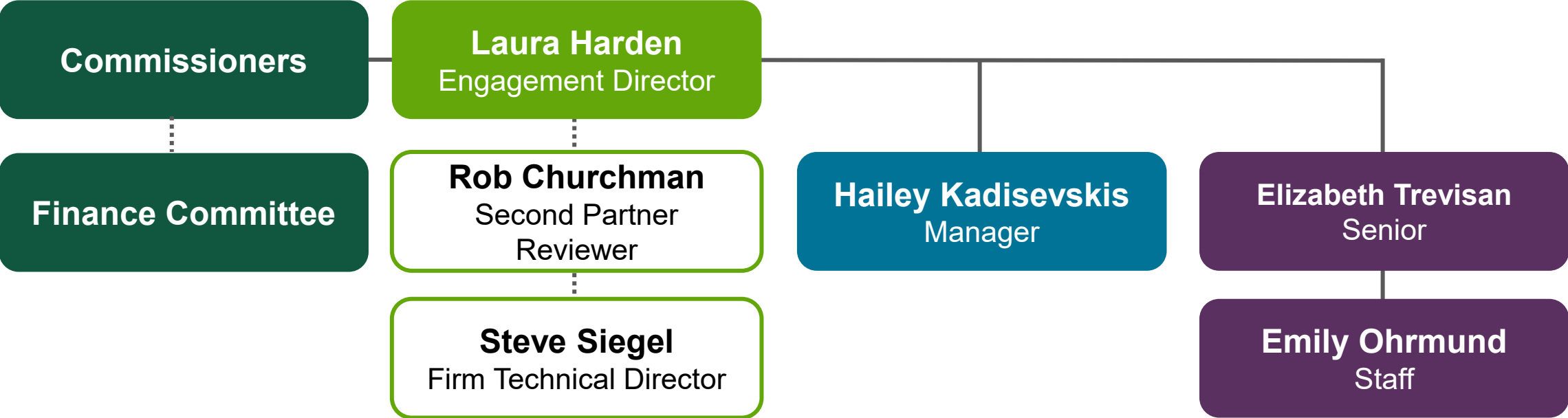
Agenda

- ▶ 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 the Board 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

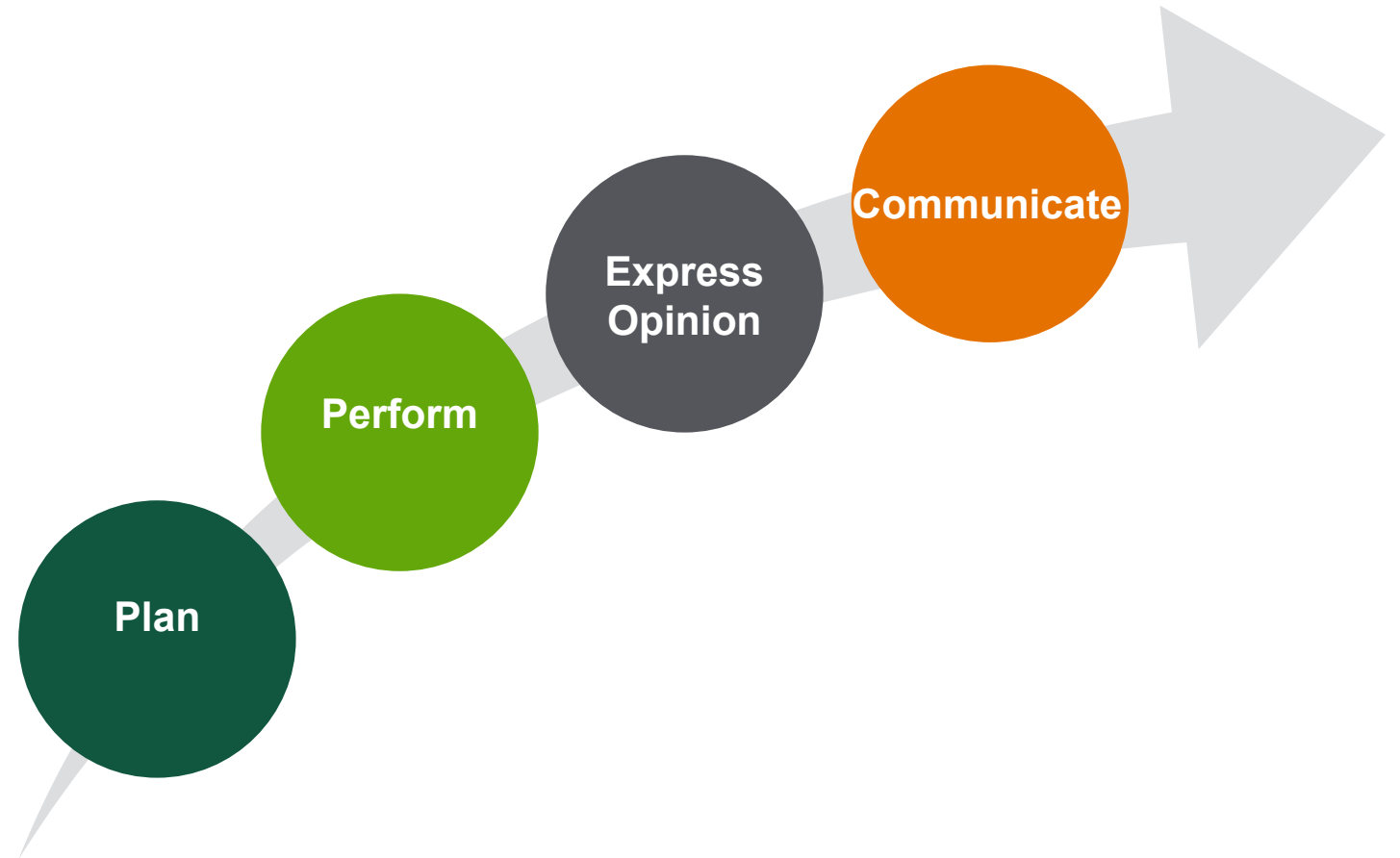
We have audited the financial statements of the Hampton Roads Sanitation District (“HRSD”), as of and for the year ended June 30, 2024, and we expect to issue our report thereon dated October 21, 2024.

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

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.

We plan to issue an unmodified report on compliance for each federal program.



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

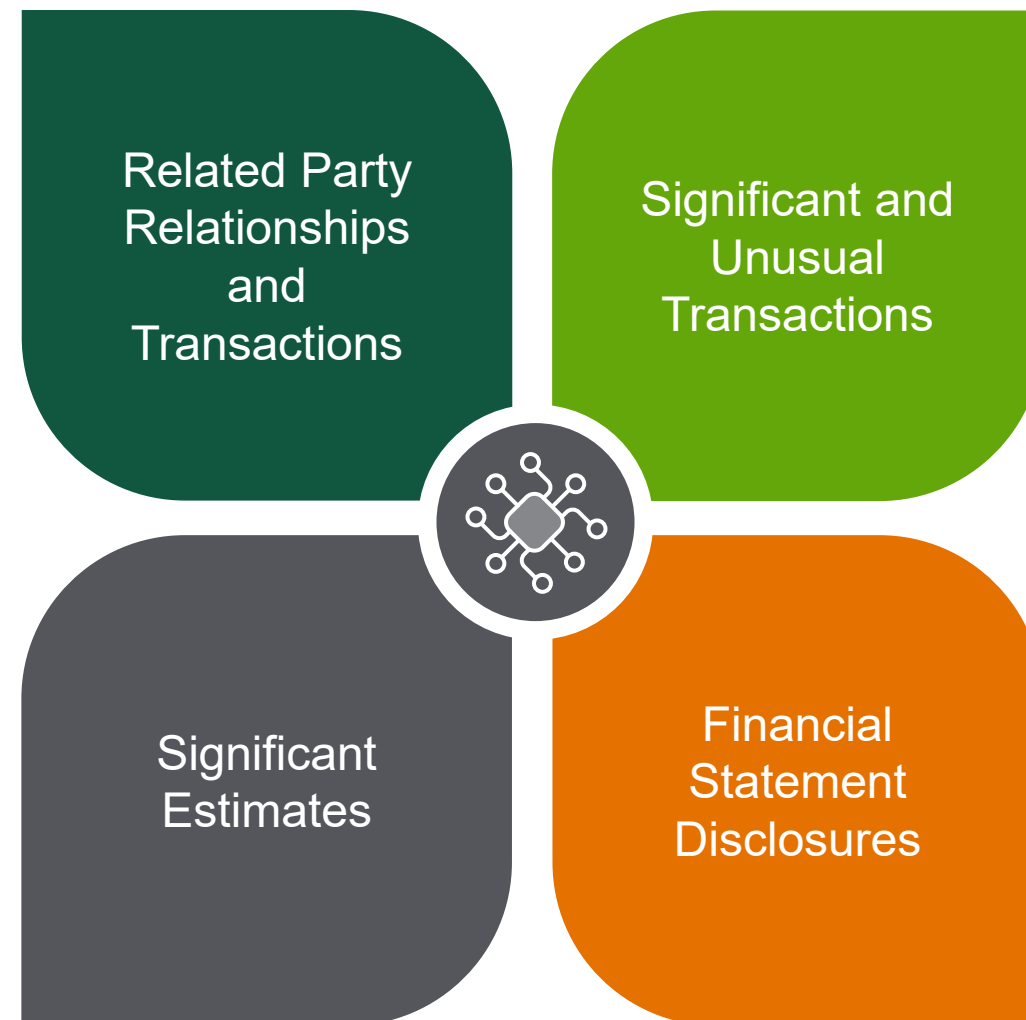
► None noted



Qualitative Aspects of Accounting Practices

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

No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no inappropriate accounting policies or practices.

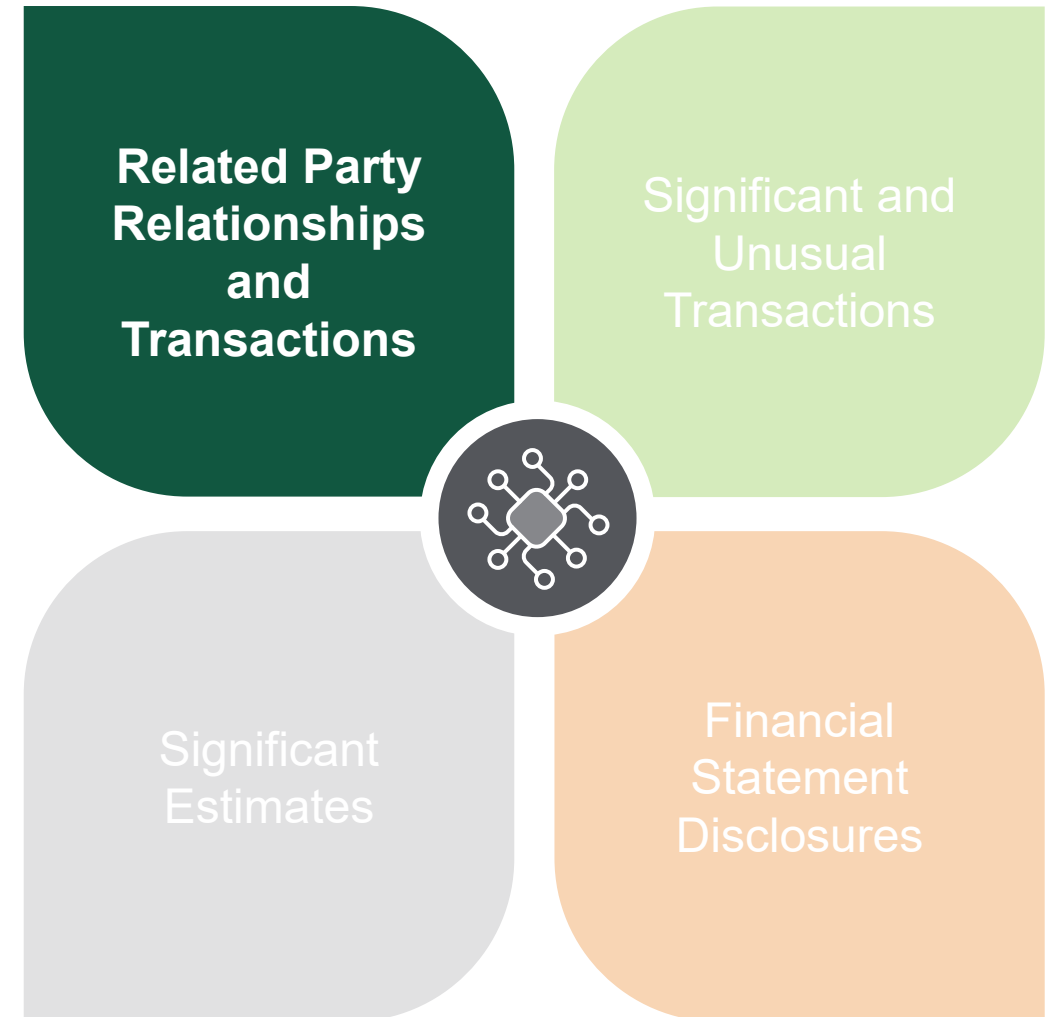


Qualitative Aspects of Accounting Practices

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:

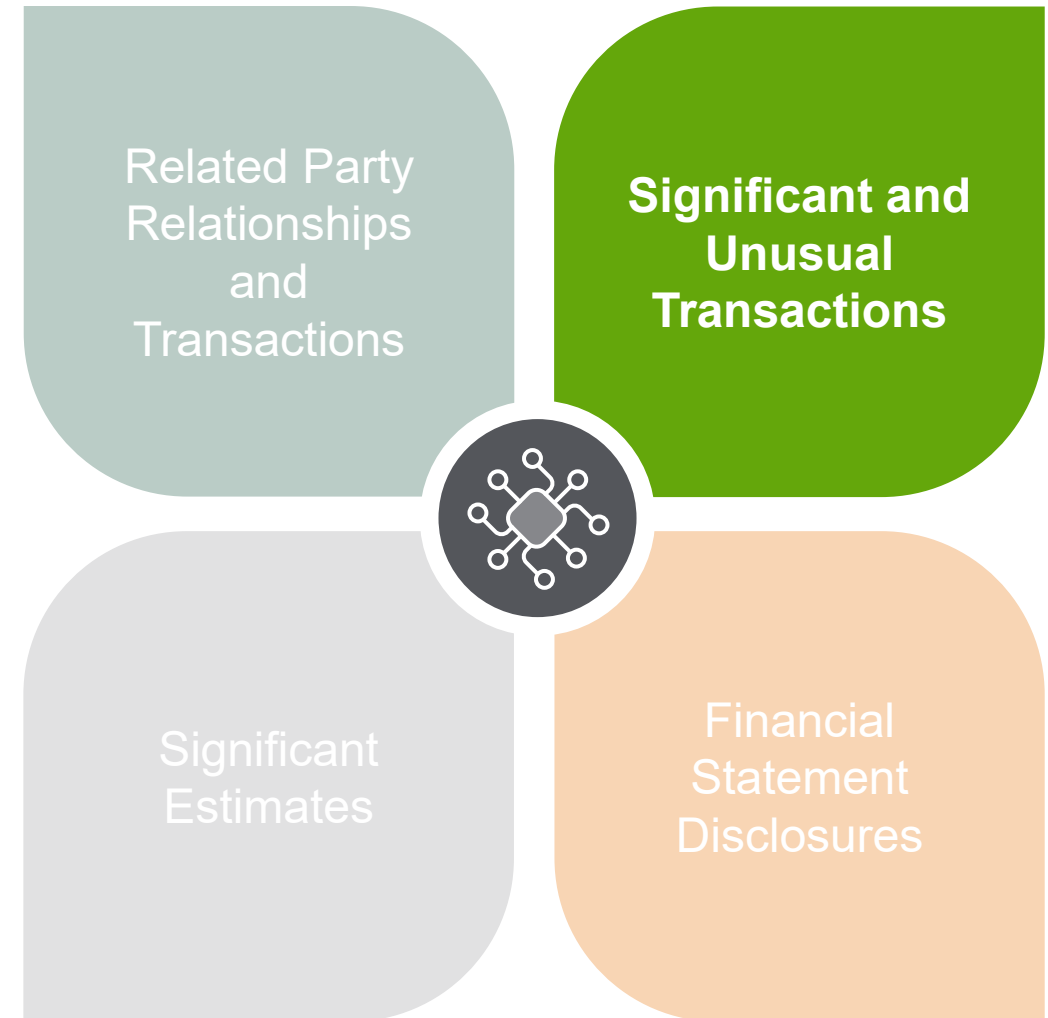
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with HRSD's policies or procedures or for which exceptions to HRSD's policies or procedures were granted;
- Significant 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.

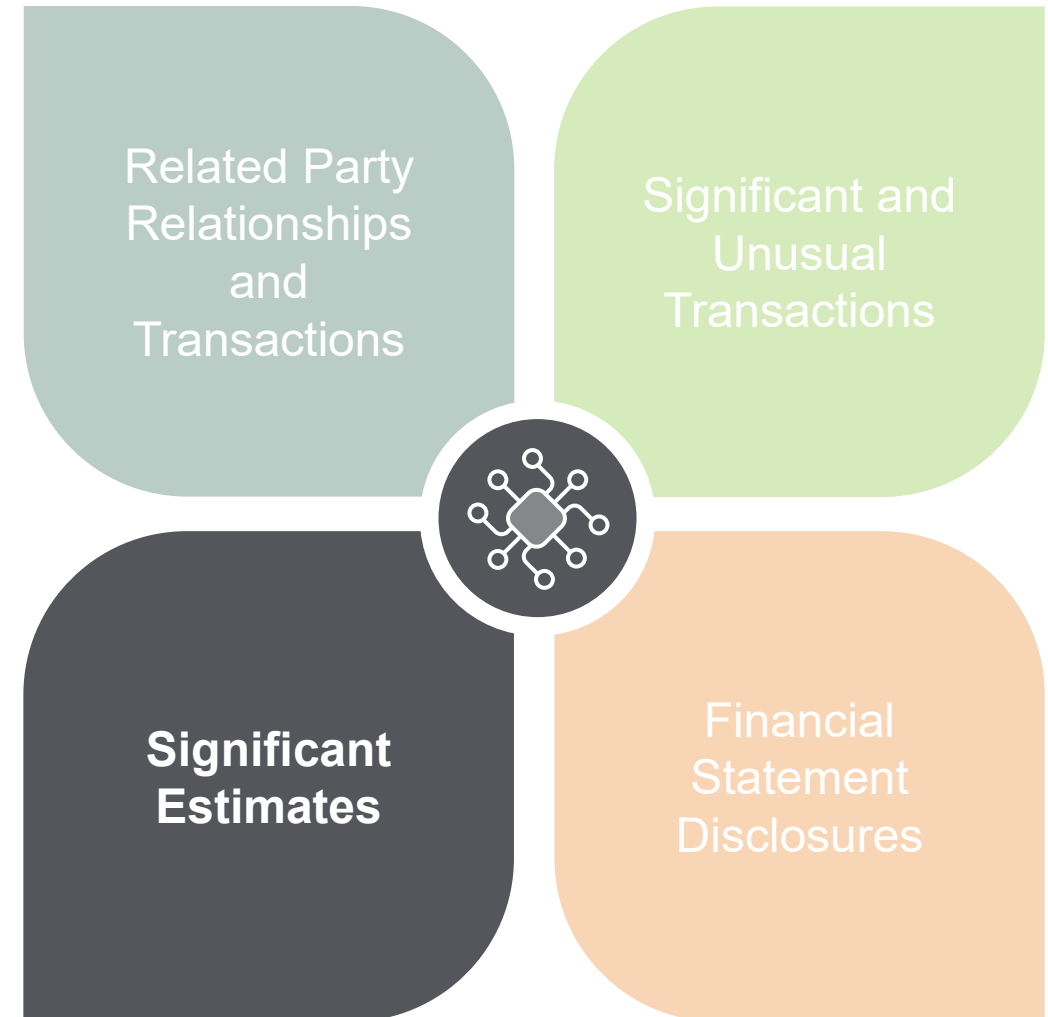


Qualitative Aspects of Accounting Practices

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 and related deferred flows of resources

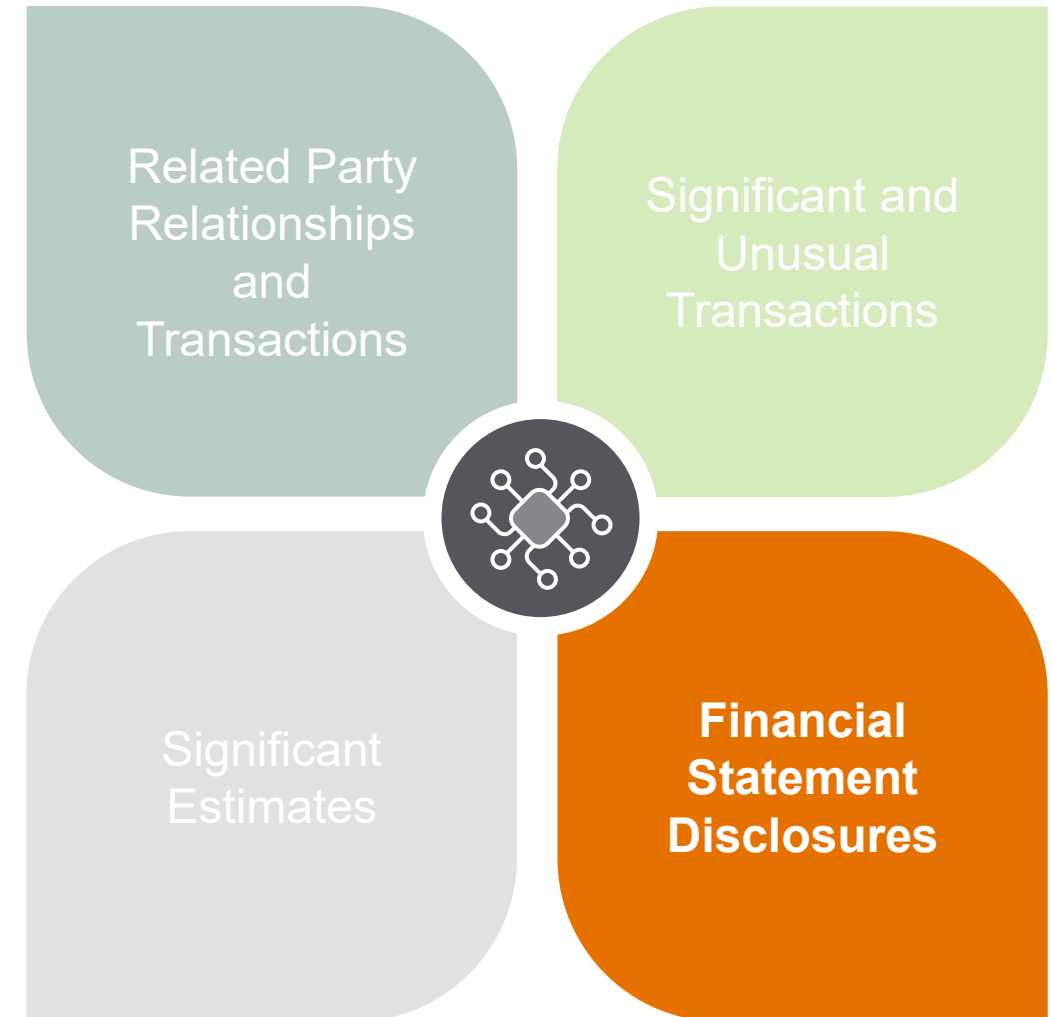
We evaluated the key factors and assumptions used to develop the estimates above in determining whether they are reasonable in relation to the financial statements taken as a whole.



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

- ▶ We will complete the appropriate sections of and sign the Data Collection Form.
- ▶ We performed consulting procedures related to GASB 87 and GASB 96.
- ▶ For all non attest 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 please 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 will request certain representations from management that are included in the management representation letter, which will be dated 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 the HRSD’s ability to continue as a going concern



Other Matters

Required Supplementary Information

We applied certain limited procedures to the required supplementary information (“RSI”) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



Other Information

HRSD’s audited financial statements are included in its annual report. We do not have an obligation to perform any procedures to corroborate the other information contained in the annual report. However, we read the other information and considered whether such information, or the manner of its presentation, was materially inconsistent with that appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, was materially inconsistent with that appearing in the financial statements.



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 101 – *Compensated Absences*
- ▶ GASB 102 – *Certain Risk Disclosures*
- ▶ GASB 103 – *Financial Reporting Model Improvements*



Questions

Laura Harden, CPA

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Hailey Kadisevskis, CPA

Audit Manager

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About Cherry Bekaert

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HRSD

Finance Committee Meeting

October 15, 2024

- 2024 Annual Comprehensive Financial Report (ACFR)
 - Auditor Presentation
 - Staff Overview
- Bi-Annual Financial Policy Review
- Internal Audit RFP – Process

ACFR Staff Overview



- Awarded 41 Consecutive Years
- Disclosures and requirements becoming more complex and burdensome
- Dedication of service from the entire Department of Finance, especially the Accounting Department

Summary of Net Position – Assets and Deferred Outflows

Summary of Net Position - Assets and Deferred Outflows As of June 30,

	2024	2023	2022	2024 vs 2023	
				\$ Change	% Change
Assets					
Unrestricted					
Cash and cash equivalents - Current	\$ 216,611	\$ 148,295	\$ 163,051	\$ 68,316	46%
Investments	65,916	63,074	62,932	2,842	100%
Total Unrestricted Cash and cash equivalents	282,527	211,369	225,983	71,158	34%
Cash and cash equivalents - restricted	22,307	33,830	33,134	(11,523)	-34%
Total Cash and cash equivalents	304,834	245,199	259,117	59,635	24%
Accounts Receivable (net)	70,524	60,081	59,493	10,443	17%
Other	4,616	3,029	2,860	1,587	52%
Inventory	26,288	26,005	25,297	283	1%
Net Property Plant and Equipment	2,511,633	2,012,351	1,715,108	499,282	25%
Total Assets	\$ 2,917,895	\$ 2,346,665	\$ 2,061,875	571,230	24%
Deferred Outflows of Resources	\$ 39,373	\$ 37,522	\$ 42,611	\$ 1,851	5%

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

*Summary of Net Position - Liabilities, Deferred Inflows and Net Position
As of June 30,*

	2024	2023	2022	2024 vs 2023	
				\$ Change	% Change
Liabilities					
Bonds Payable - Current	\$ 53,642	\$ 45,561	\$ 42,609	\$ 8,081	18%
Variable Rate Demand Bonds (current)	50,000	50,000	50,000	-	0%
Bonds Payable - Long Term	1,213,803	884,181	775,863	329,622	37%
Total Bonded Debt	1,317,445	979,742	868,472	337,703	34%
Notes Payable (LOC)	100,000	68,580	33,721	31,420	46%
Net OPEB Liability	8,021	13,221	16,523	(5,200)	-39%
Net Pension Liability	28,608	18,337	2,163	10,271	56%
Other Liabilities	134,912	108,568	87,063	26,344	24%
Total Liabilities	\$ 1,588,986	\$ 1,188,448	\$ 1,007,942	\$ 400,538	34%
Deferred Inflows of Resources	\$ 16,625	\$ 18,717	\$ 37,060	\$ (2,092)	-11%
Net Position					
Net investment in capital assets	\$ 1,110,507	\$ 981,437	\$ 832,427	\$ 129,070	13%
Restricted for Debt Service	22,307	33,830	33,134	(11,523)	-34%
Unrestricted	218,843	161,755	193,923	57,088	35%
	\$ 1,351,657	\$ 1,177,022	\$ 1,059,484	\$ 174,635	15%

- 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

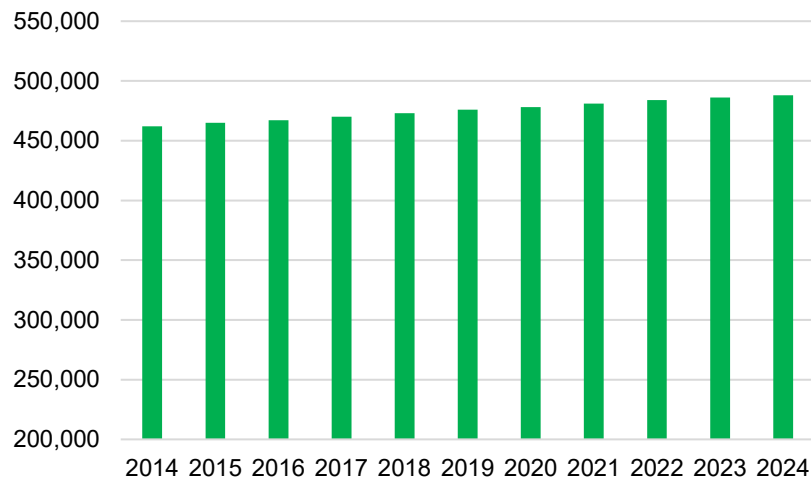
Summary of Revenues, Expenses and Changes in Net Position For the Year Ended June 30,

	2024	2023	2022	2024 vs 2023	
				\$ Change	% Change
Revenues					
Wastewater Treatment Charges	\$ 422,784	\$ 383,115	\$ 325,817	\$ 39,669	9%
Facility Charges	7,153	7,293	7,379	(140)	-2%
Investment Income	13,673	6,068	471	7,605	56%
Bond Interest Subsidy	1,622	2,015	2,167	(393)	-24%
Other	4,157	4,820	3,952	(663)	-16%
Total Revenues	449,389	403,311	339,786	46,078	10%
Expenses					
Wastewater Treatment	167,327	149,532	132,820	17,795	11%
General and Administrative	60,152	53,995	48,691	6,157	10%
Depreciation and Amortization	57,053	54,469	53,278	2,584	5%
Interest Expense	33,642	27,132	25,339	6,510	19%
Capital Distributions to Localities	2,005	2,422		(417)	-21%
Other	1,000	98	1,058	902	90%
Total Expenses	321,179	287,648	261,186	33,531	10%
Capital Contributions					
State Capital Grants	34,183	234	-	33,949	99%
Other Capital Contributions	12,242	1,641	2,317	10,601	87%
Total Capital Contributions	46,425	1,875	2,317	44,550	96%
				-	
Change in Net Position	\$ 174,635	\$ 117,538	\$ 80,917	\$ 57,097	33%

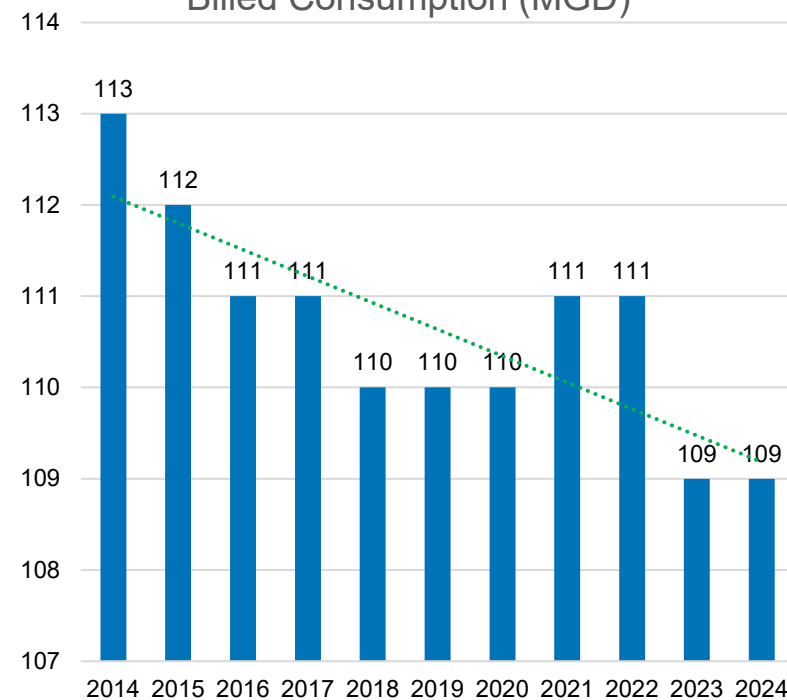
Wastewater Treatment Changes

- 94% of all revenues are Wastewater Treatment Charges

Service Connections
Average Growth 0.55% per Year



Billed Consumption (MGD)



Cost Increases by Category

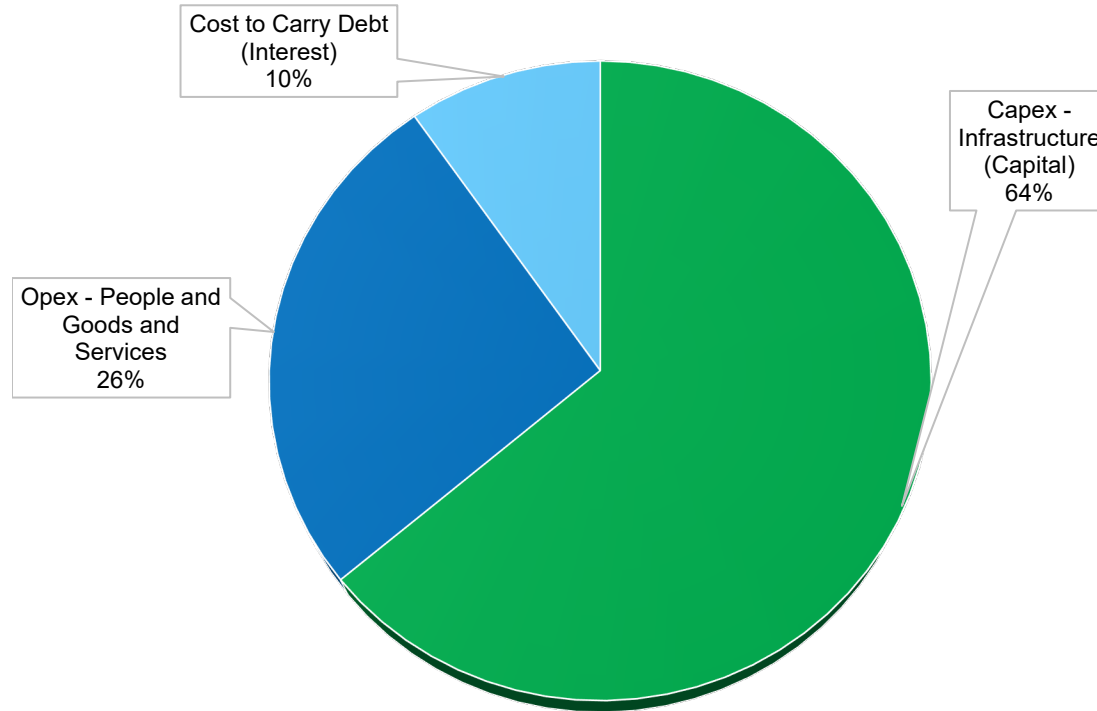
Operating Expenses	2024 vs 2023						
	2024	2023	2022	\$ Change	% Change		
Personal Services	\$ 71,682	\$ 65,549	\$ 61,157	\$ 6,133	9%	28 new FT positions; adjusted salaries by 6.5% and merit increases	
Fringe Benefits	28,496	23,772	20,467	4,724	20%	Benefit increases follow salary increases; pension increases largest	
Materials and Supplies	\$ 13,728	\$ 12,641	\$ 9,495	\$ 1,087	9%	Continued Inflationary pressures in 2024 but are moderating	
Transportation	1,776	1,672	1,380	104	6%		
Utilities	\$ 18,045	\$ 17,044	\$ 13,762	\$ 1,001	6%	Continued Inflationary pressures in 2024 but are moderating	
Chemical Purchases	15,500	13,890	10,044	1,610	12%	Continued Inflationary pressures in 2024 but are moderating	
Contractual Services	\$ 42,257	\$ 42,934	\$ 41,904	\$ (677)	-2%	Internal Project's Team - estimated savings \$600K to \$1M by doing some projects internally	
Major Repairs	6,381	5,974	8,853	407	7%	Continued inflationary pressures in 2024 but are moderating - Cost of labor/construction / materials are still rising in this very competitive market – much lower than 2022	
Capital Assets	\$ 2,174	\$ 1,758	\$ 2,029	\$ 416	24%	Continue to build parts inventories - additional purchases of failed VFDs, mixers, aerators, and spare parts with long lead times purchased such as 6 Centrifuges for approx. \$100k vs. typical cost \$2 - \$3M	
Miscellaneous	3,044	2,864	2,385	180	6%		
	\$ 203,083	\$ 188,098	\$ 171,476	\$ 14,985	8%		

Summary of Cash Flows, For The Years Ended June 30

Summary of Cash Flows For the Year Ended June 30,

	2024	2023	2022	2024 vs 2023	
				\$ Change	% Change
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 407,016	\$ 379,539	\$ 337,432	\$ 27,477	7%
Cash Received from CARES Act and ARPA	-	-	11,409	-	0%
Other	4,157	4,820	5,532	(663)	-14%
Cash Payments for Goods & Services and Employees	(219,879)	(204,300)	(182,354)	(15,579)	8%
Net Cash Provided	191,294	180,059	172,019	11,235	6%
Cash Flows from Noncapital Financing Activities					
Capital Distributions to Localities	(2,005)	(2,422)	(13)	417	-17%
Cash Flows from Capital and Financing Activities					
Facility Charges	7,153	7,293	7,072	(140)	-2%
Capital Plan Expenses	(532,696)	(329,699)	(173,292)	(202,997)	62%
Proceeds from Capital Debt	417,673	188,540	90,377	229,133	122%
Principal Paid	(48,138)	(39,588)	(35,228)	(8,550)	22%
Interest Paid	(33,459)	(27,961)	(25,992)	(5,498)	20%
State Capital Grants	34,183	234	-	33,949	14508%
Other Capital Contributions	12,242	1,641	2,737	10,601	646%
Other	(285)	1,917	1,741	(2,202)	-115%
Net Cash Used	(143,327)	(197,623)	(132,585)	54,296	-27%
Cash Flows from Investing Activities					
Interest and Dividends on Investments	13,673	6,068	(1,651)	7,605	125%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 59,635	\$ (13,918)	\$ 37,770	\$ 73,553	-528%

Where did we spend our money?

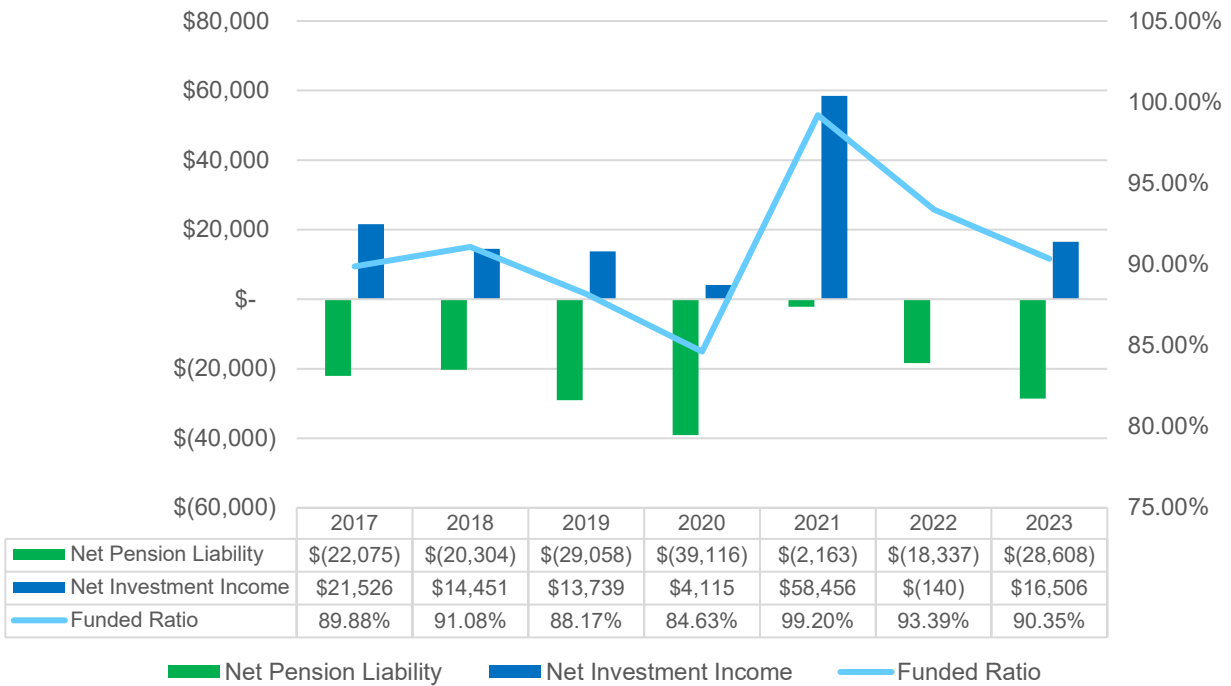


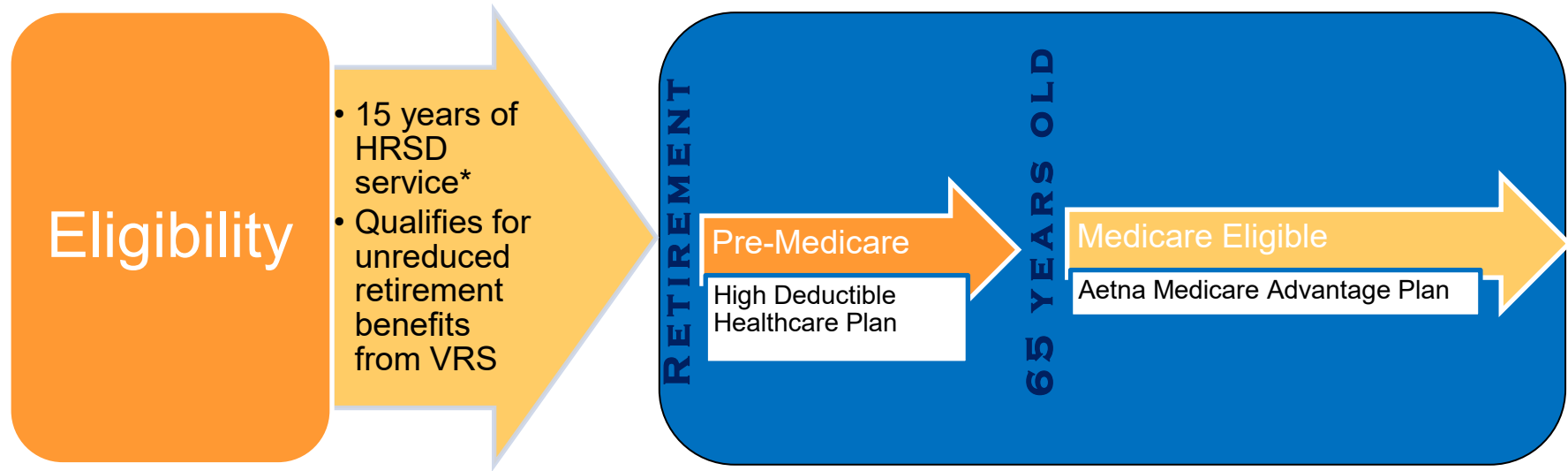
Pension and Other Post - Employee Benefits (OPEB)

- 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

		Virginia Retirement System		HRSD		
June 30,	2023		2024			
	Pension	OPEB				
	VRS 1 & 2, Hybrid Plan	Group Term Life	Health Insurance Credit	Retiree Health Plan (RHP)	Total OPEB	
	Total Liability	\$ (296,501)	\$ (3,002)	\$ (2,351)	\$ (79,560)	\$ (84,913)
	Fiduciary Net Position (MVA)	267,893		1,135	75,757	76,892
	Net Asset (Liability)	(28,608)	(3,002)	(1,216)	(3,803)	(8,021)
Funded Ratio	90.35%	69.30%	48.28%	95.22%		

VRS (\$000's)

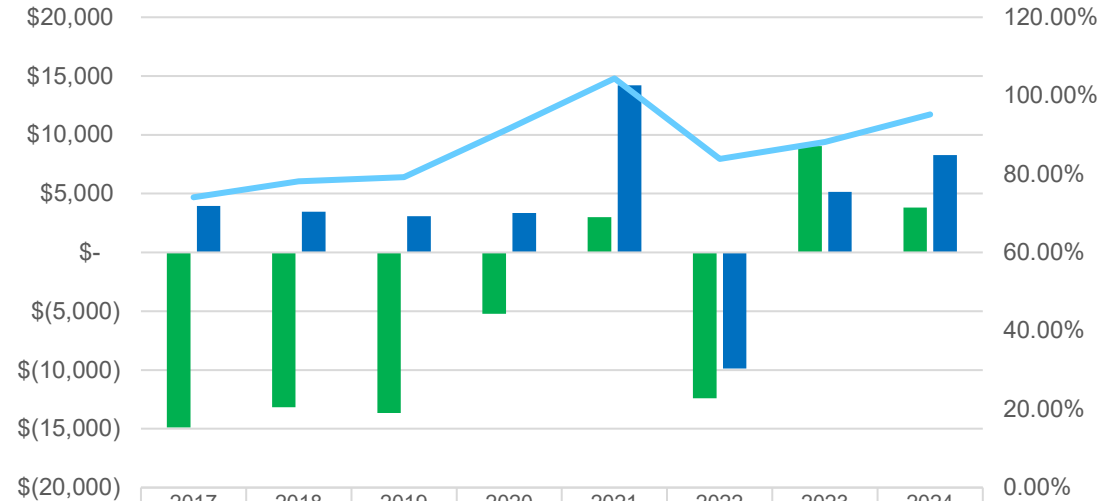




- Retiree responsible for:
 - Deductibles
 - Co-payments
 - Retiree Premiums
 - Less than 65 = \$120/month (High Deductible Plan), Spouse \$415
 - Greater than 65 = \$45/month (Medicare Supplement), Spouse \$235

Retiree Health Plan - OPEB

RHP - OPEB



Net OPEB Liability (Asset)	2017	2018	2019	2020	2021	2022	2023	2024
Net Investment Income (Loss)	\$3,957	\$3,450	\$3,078	\$3,343	\$14,216	\$(9,887)	\$5,148	\$8,270
Funded Ratio	74.07%	78.15%	79.19%	91.58%	104.39%	83.86%	88.16%	95.22%

■ Net OPEB Liability (Asset)
 ■ Net Investment Income (Loss)
 — Funded Ratio

Key Financial Policy Indicators

- 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?

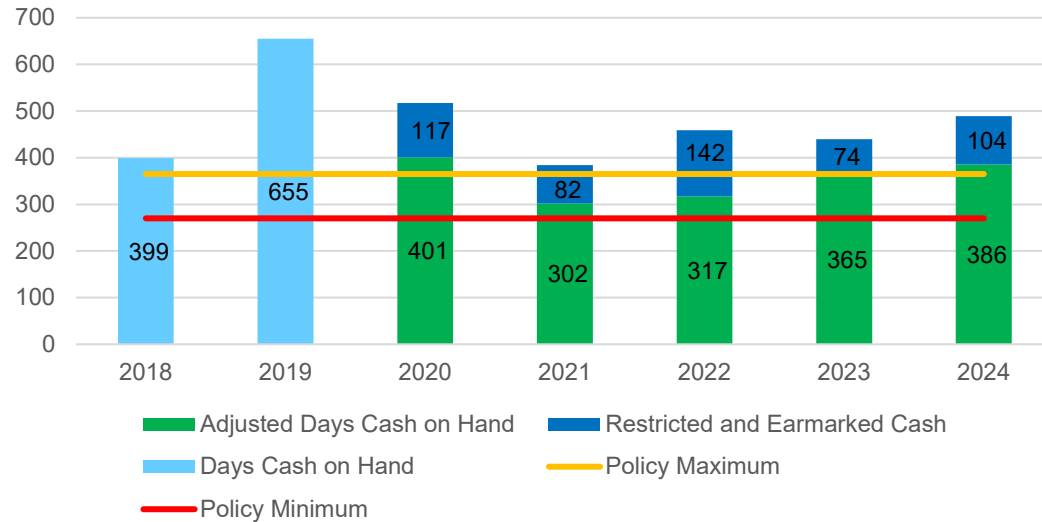
$$\text{ADCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

(EXCLUDES RESERVES AND PAYGO FOR CIP)

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

Adjusted Days Cash on Hand (DCOH)

Days Cash on Hand



AA Rated Medians		Large Utilities
S&P	Fitch	Fitch
584	577	471

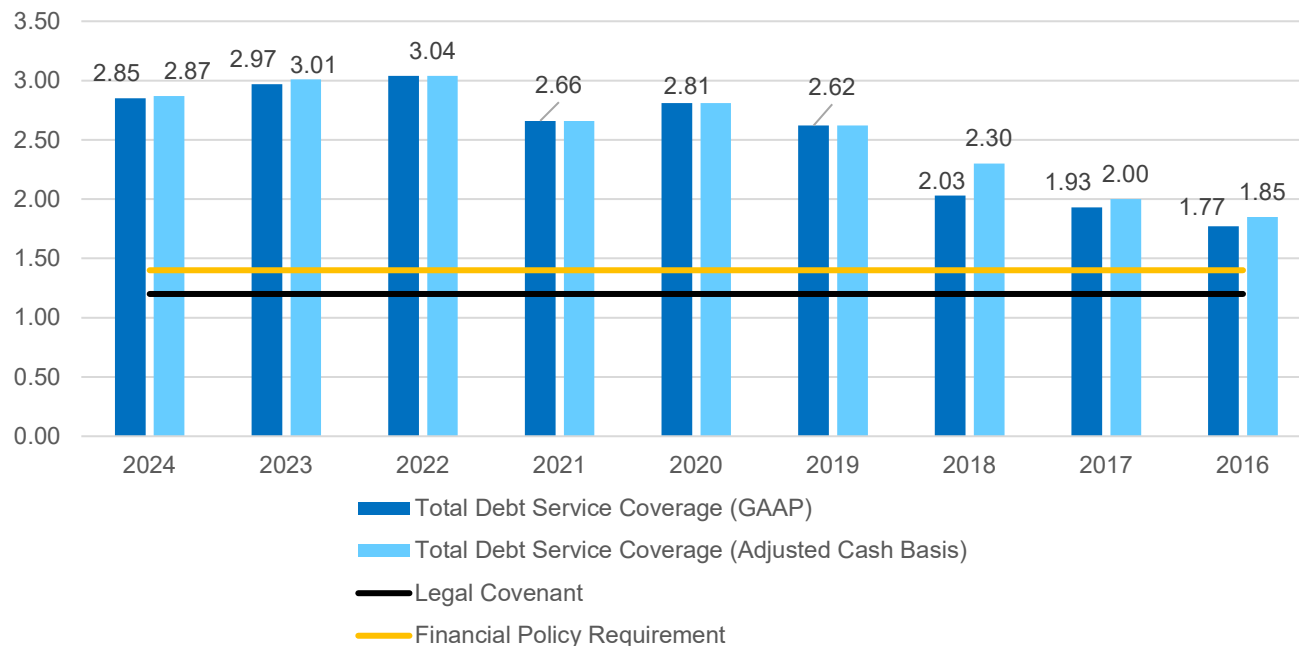
HRSD Ratings	Senior	Subordinate
Moody's	Aa1	Aa1
S&P	AA+	AA+
Fitch	AA+	AA

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

- *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

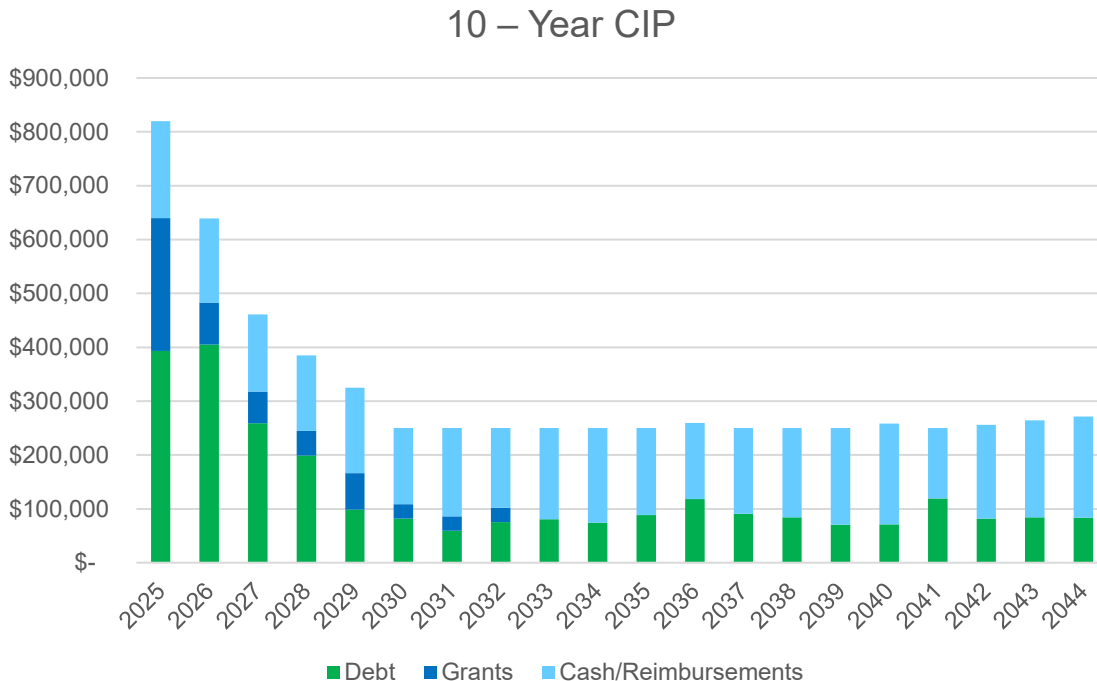
Trust Agreement



AA Rated Medians		Large Utilities
S&P	Fitch	Fitch
2.3	2.5	1.5

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
 - Inflation has moderated, but remains relatively high from a historical perspective
 - Capital Plan remains largely regulatorily driven and expansive but moderates after 2028



Financial Policy Review – Summary of Recommendations

- Policy is reviewed by staff, consultants and bond counsel every two years
- Changes recommended are mostly administrative in nature
- Most notable
 - Changes resulting from closing Senior Lien
 - Changes to Retiree Health Plan Trust Policy

- Global
 - Title/Department - Division changes
 - Changes necessitated by elimination of the Senior Trust Agreement
- Definitions
 - 2.15 Capital Asset – beyond capitalization criteria we don't need to define accounting criteria
 - 2.58 – LIBOR as a reference/benchmark rate eliminated

- Section 3.5
 - Added language that after a solicitation every 5 years, if auditors are not changed, HRSD will ensure that *“auditor senior engagement staff, such as engagement partners and senior managers, be rotated to provide a fresh perspective.”*
 - GFOA Best Practice

Summary of Changes – Section 4.3.3 Retiree Health Plan Trust

- Changes to Policy to make it clear that we changed from a “discretionary” to “non-discretionary” investment advisor this past year
- Narrowed range of Investment Assets
 - 60/40
 - designed to meet or exceed expected return (6%) while balancing risk
 - Clarified some classifications

Investment Asset Classes	Asset Range (Prior/ Proposed) (%)	Weightings Target (Prior/ Proposed) (%)
Growth Assets		
Domestic Equity	19-59 / 38-58	39 / 48
International Equity	14-17 / 7-17	21 / 12
Other	0-10 / 0-10	0
Income Assets		
Core / Core Plus Fixed Income	20-60 / 19-39	40 / 29
High Yield Fixed Income	0-7.5	5
Other	0-10	0
Real Return Assets	0-20 / -	0 / -
Core Real Estate	0-7	4
Cash Equivalents	0-20 / 0-5	0

Internal Audit RFP

- Update Finance Committee October 2024
- Issue RFP February 2025
- Discuss recommendation with Finance Committee April 2025
- Contract to Commission May 2025
- Effective date October 2025