



DRAFT FINANCE COMMITTEE MEETING
MINUTES November 13, 2025

Finance Committee Chair Taraski called the meeting to order at 8:30 a.m.

Name	Title	Present for Items
Andrews, Elizabeth	Commissioner	Absent
Levenston, Jr., Willie	Committee Member	1-4
Rodriguez, Stephen C.	Commission Chair	Absent
Glenn, Michael E.	Commissioner	Absent
Lakdawala, Vishnu K.	Committee Member	1-4
Stern, Nancy,	Commissioner	Absent
Taraski, Elizabeth	Committee Chair and Commissioner	1-4
Templeman, Ann	Commissioner	Absent

1. **Design-Build/CMAR Projects Review**

Bruce Husselbee provided a high-level [overview](#) of the approach for answering the Commission's questions regarding alternative project delivery methods. The proposed approach and results will be presented to the Commission in January 2026.

2. **Annual Results and Auditor Required Communications**

The Deputy General Manager and Chief Financial Officer (CFO) introduced Ms. Laura Hardin, CPA, Audit Director from Cherry Bekaert. Ms. Hardin [presented](#) a comprehensive overview of the results of the annual audit and explained the audit process. She indicated that there are no reportable deficiencies, no disagreements with management, and they issued an unmodified (clean) audit opinion on October 29, 2025.

3. **Financial Statement Overview**

The CFO provided an overview of the [Annual Comprehensive Financial Report \(ACFR\)](#). He reported that although the financial operations of HRSD for fiscal year 2025 were positive and the financial health of the organization remains sound, headwinds, such as a large, regulatory-driven, capital improvement program, create budgetary challenges in the coming fiscal years. An [overview](#) and analysis of the basic financial statements, Pension and Retiree Health Plan Trust Results, and Key Financial Policy Indicators were reviewed during the meeting.



DRAFT FINANCE COMMITTEE MEETING MINUTES
November 13, 2025

4. **Public Comments - None**

Next Commission Meeting Date: November 18, 2025

Meeting Adjourned: 9:34 a.m.

SUBMITTED:

APPROVED:

DRAFT

DRAFT

Elizabeth I. Scott
Commission Secretary

Elizabeth Taraski, Ph.D.
Committee Chair

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Finance Committee CIP Project Cost Projection Briefing

November 13, 2025

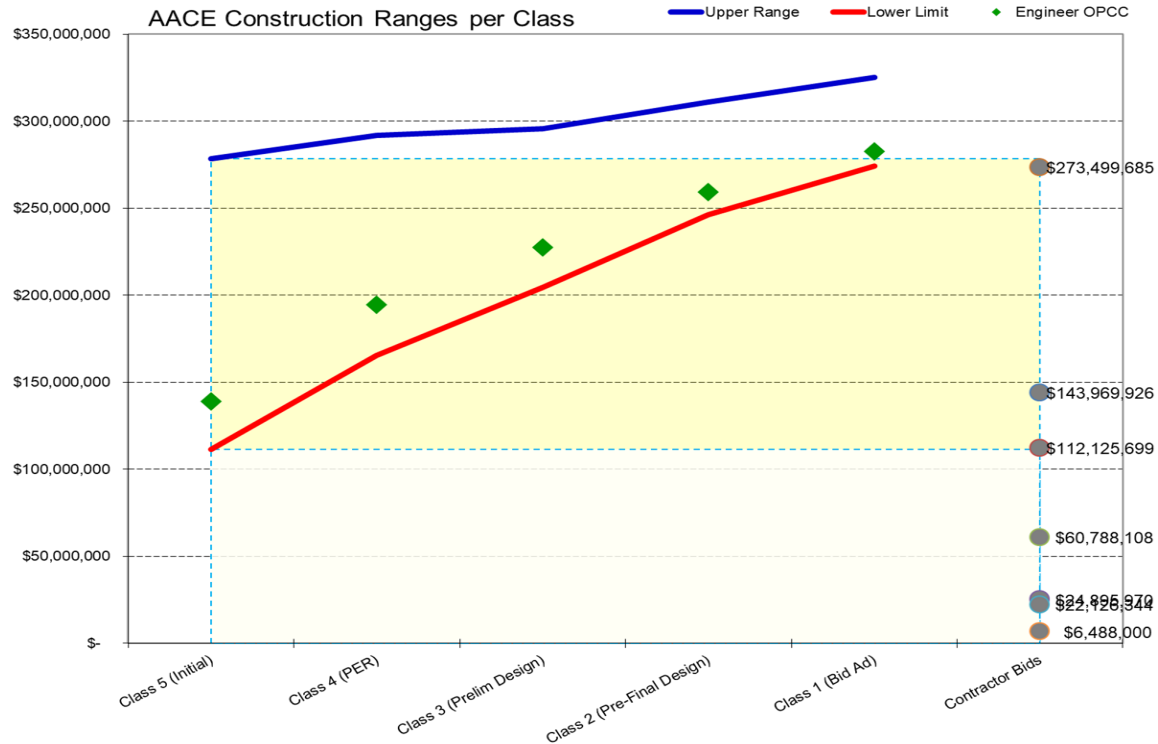


CIP Project Cost Guidelines

From Section 5 of the Design & Construction Standards

- Class 10: Future Need/Order of Magnitude Risk
- Class 5: Up to 2% project definition (Initial Budget Development stage) with expected accuracy range of -20% to +100% above calculated cost.
- Class 4: Project definition 1 to 15% (Study or PER stage) with an expected accuracy range of -15% to +50% above calculated cost.
- Class 3: Project definition 10 to 40% (Preliminary Design stage) with expected accuracy range of -10% to +30% above calculated cost.
- Class 2: Project definition 30 to 75% (Pre-Final Design stage) with expected accuracy range of -5% to +20% above calculated cost.
- Class 1: Project definition 65 to 100% (Bid Advertisement or Preconstruction stage) with expected accuracy range of -3% to +15% above calculated cost.

Typical CIP Project Cost Projections



Active CMAR & D-B Projects

Collaborative Delivery Projects - April 2025

<u>Project Name</u>	<u>Delivery Method Used</u>	<u>Total Value</u>	<u>Date Completed</u>
York River Treatment Plant Composting Facility	Fixed Price Design-Build	\$35M	NA
North Shore Operations Center	Fixed Price Design-Build	\$20M	2014
South Shore Operations Center	Fixed Price Design-Build	\$30M	2015
York River Treatment Plant Outfall & Diffuser	Fixed Price Design-Build	\$17M	2016
Sewer Rehabilitation Pilot Project	Fixed Price Design-Build	\$2M	2017
SWIFT Research Center	Fixed Price Design-Build	\$25M	2017
Woodstock Park EQ Tank and Pump Station	Fixed Price Design-Build	\$42M	2019
Pressure Reducing Station Modifications (6 sites)	CMAR	\$50M	2019
Water Quality Services Building	Fixed Price Design-Build	\$22M	2020
Atlantic Treatment Plant THP and FOG Receiving Facility (CAMBI)	CMAR	\$75M	2020
Surry Hydraulic Improvements & Interceptor Force Main	Fixed Price Design-Build	\$50M	2024
Eastern Shore Infrastructure Improvements	Fixed Price Design-Build	\$49M	2025
Boat Harbor Force Main Section 1 - Subaqueous Crossing	Fixed Price Design-Build	\$166M	2026
James River ANRI & SWIFT	Fixed Price Design-Build	\$579M	2026
Nansemond ANRI Phase II	Fixed Price Design-Build	\$318M	2026
Larchmont Sanitary Sewer Improvements	CMAR	\$69M	2027
Central Environmental Laboratory Expansion	CMAR	\$83M	2027
Wilroy Pressure Reducing Station and Offline Storage Facility	CMAR	\$64M	2027
Nansemond SWIFT	Fixed Price Design-Build	\$700M	2029
High Priority I&I Reduction Program	PPEA - Progressive Design-Build	\$180M	2029
Atlantic Treatment Plant THP Biosolids and Odor Control Improvements	CMAR	\$200M	2031



HAMPTON ROADS SANITATION DISTRICT **Audit Executive Summary**

November 13, 2025



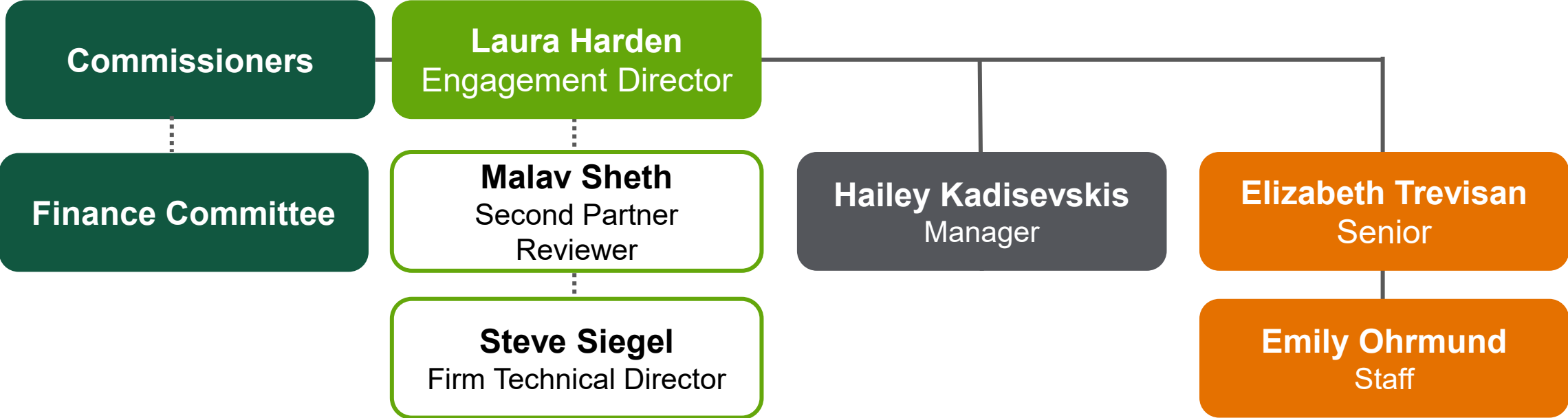
Agenda

- ▶ 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

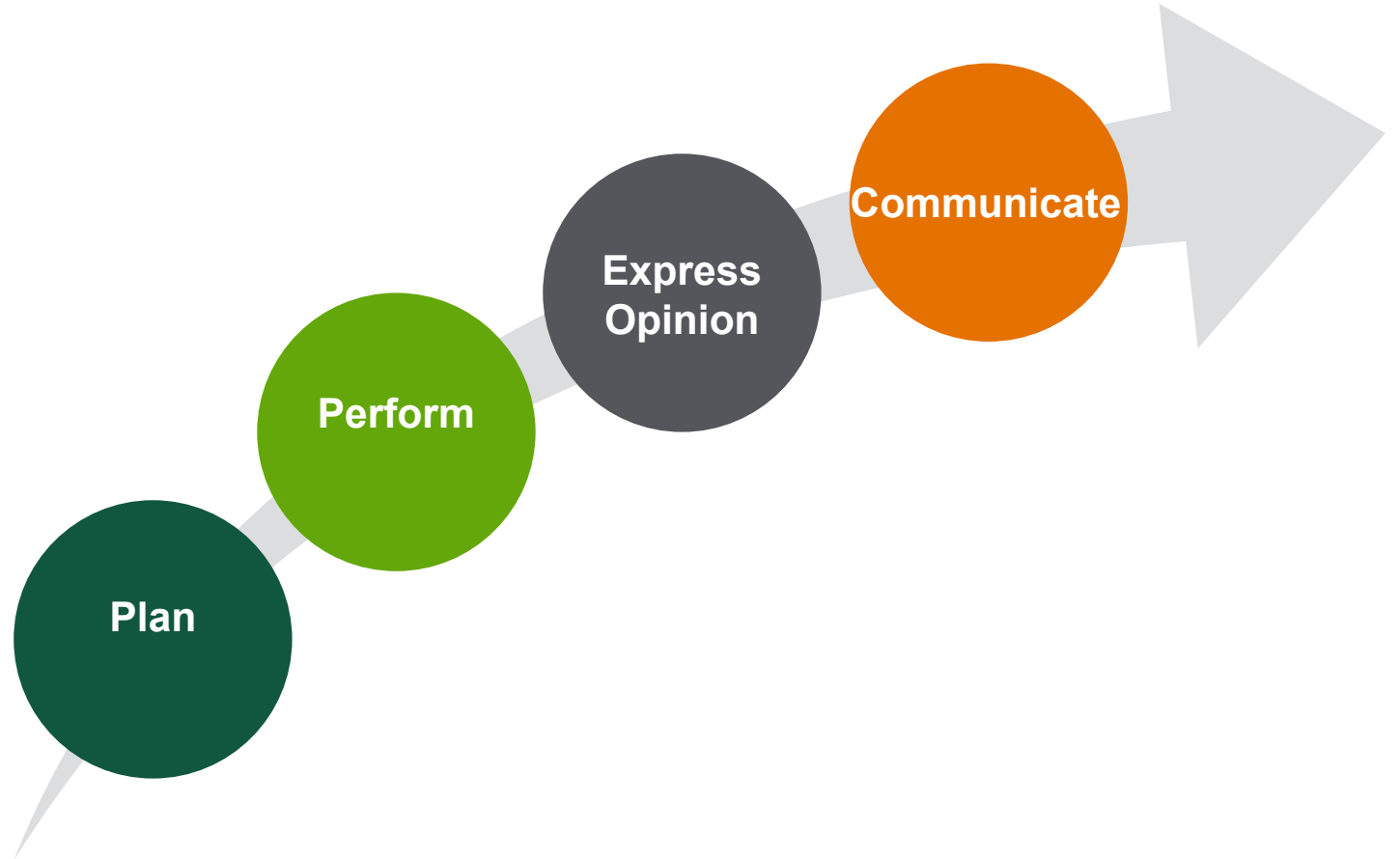
We have audited the financial statements of the Hampton Roads Sanitation District (“HRSD”), as of and for the year ended June 30, 2025 and 2024, and we issued our report thereon dated October 29, 2025.

We issued 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. We will issue our opinion once the final OMB Compliance Supplement is issued.



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.



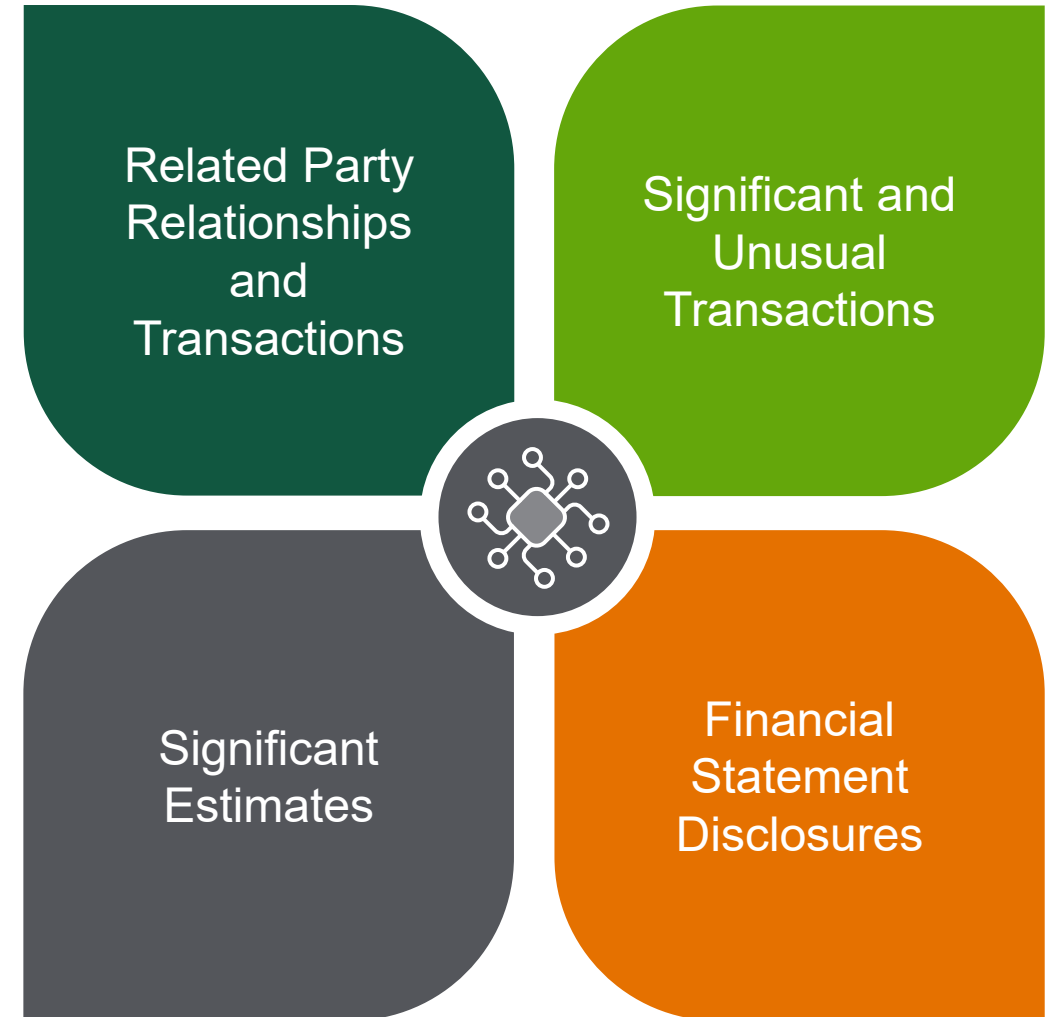
Qualitative Aspects of Accounting Practices

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.

HRSD implemented GASB Statement 101, *Compensated Absences*, which resulted in a restatement of beginning net position as of July 1, 2023 of \$7,394,000 and a restatement of compensated absences expense of \$254,000 during fiscal year 2024 (see Note 15 of the basic financial statements).

HRSD implemented GASB Statement 102, *Certain Risk Disclosures*. The implementation of this standard did not have a material impact on HRSD's financial statements for fiscal year 2025.

We noted no inappropriate accounting policies or practices.

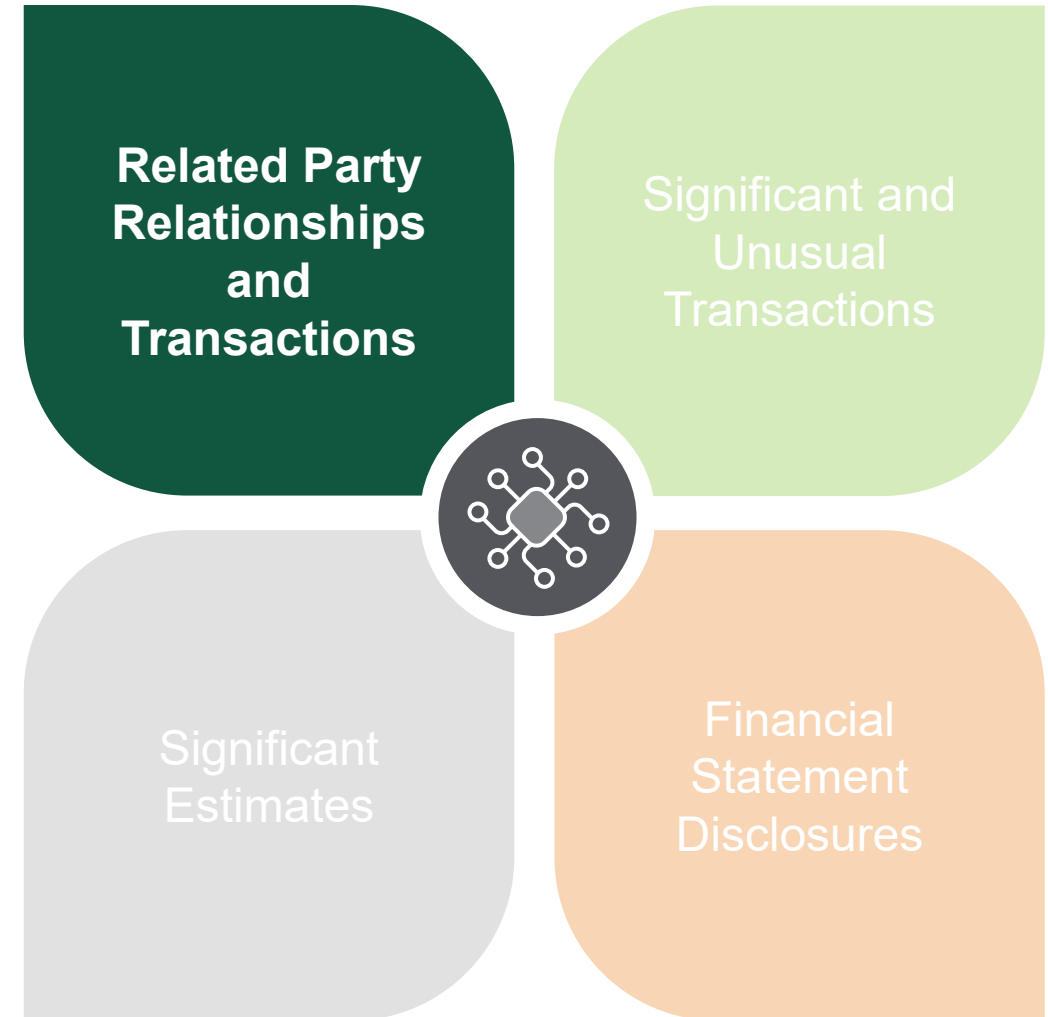


Qualitative Aspects of Accounting Practices

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.



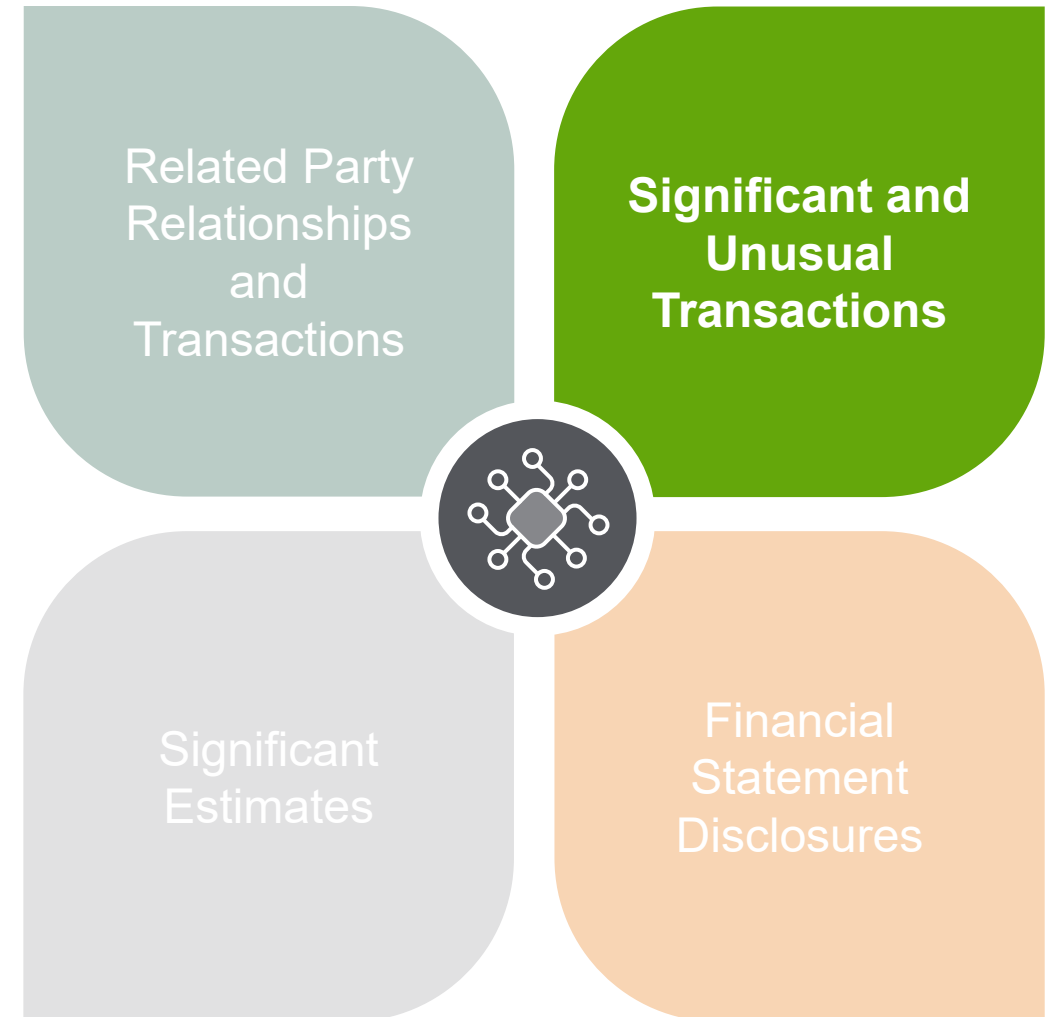
Qualitative Aspects of Accounting Practices

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.

HRSD reported a special item related to the change in OPEB benefits, which resulted in a one-time reduction in OPEB expense of \$23,758,000, which is disclosed in Note 16.

We noted no other significant unusual transactions during our audit.

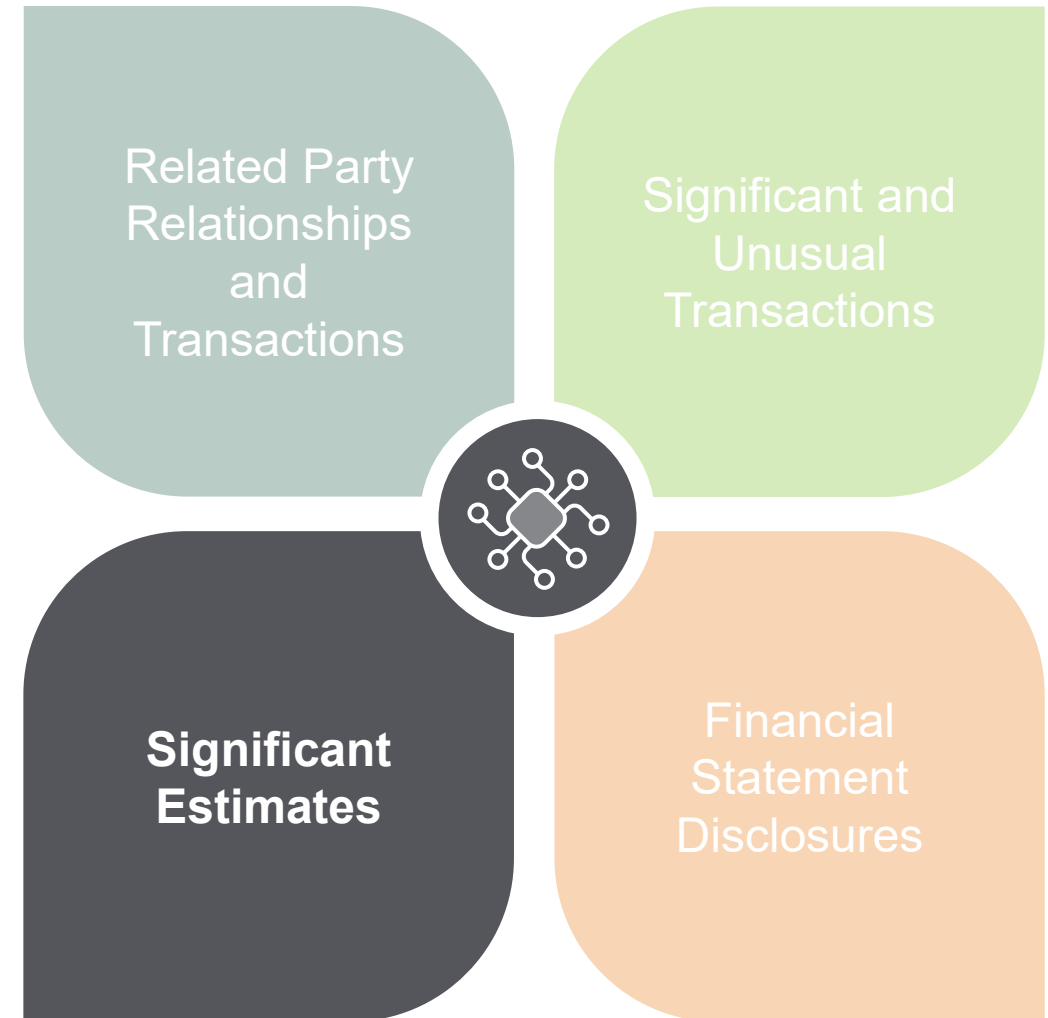


Qualitative Aspects of Accounting Practices

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
- Compensated absences

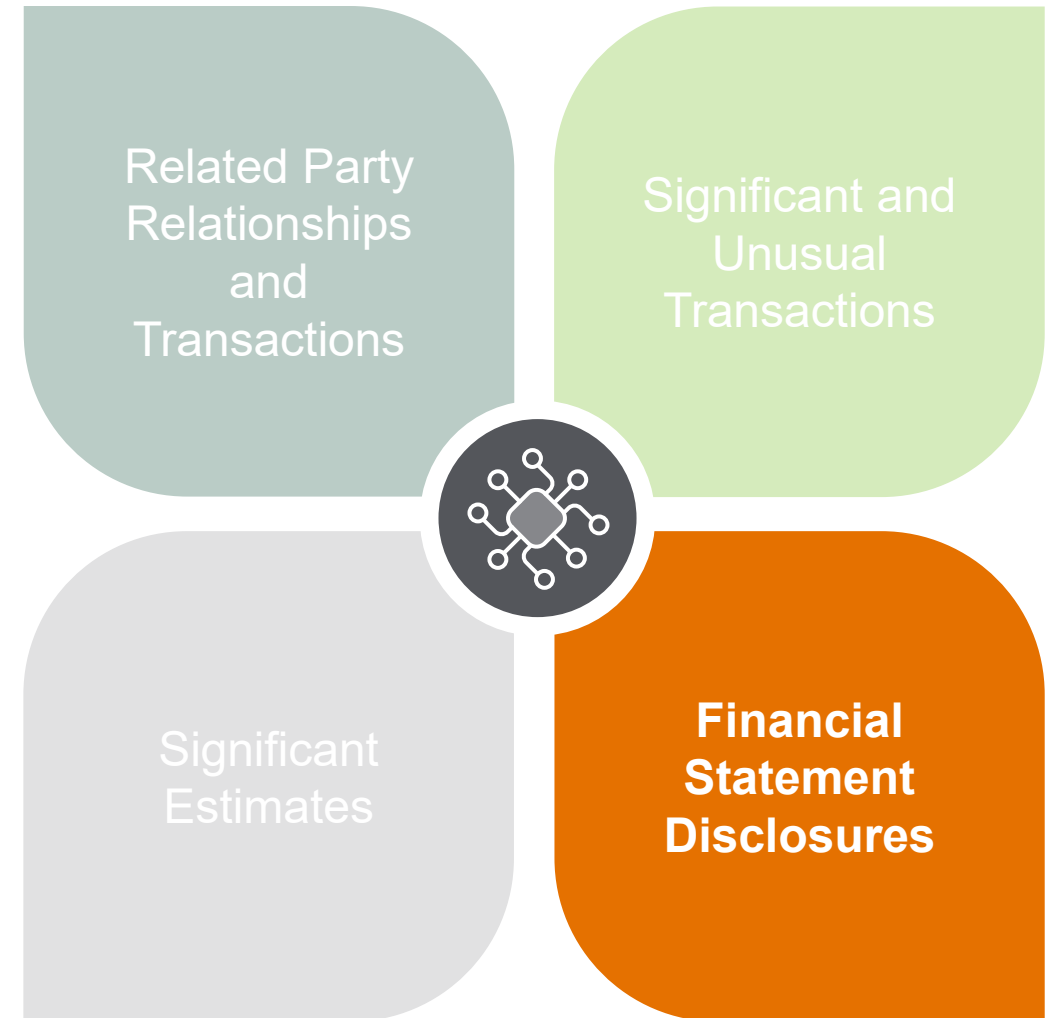
We evaluated the key factors and assumptions used to develop the estimates above in determining whether they are reasonable in relation to the financial statements taken as a whole.



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 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 dated October 29, 2025.



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

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 Statement 103, *Financial Reporting Model Improvements*

- ▶ GASB Statement 104, *Disclosure of Certain Capital Assets*



Questions

Contact

Laura Harden, CPA

Audit Director

LHarden@cbh.com

About Cherry Bekaert

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This material has been prepared for general informational purposes only and is not intended to be relied upon as tax, accounting, or other professional advice. Before taking any action, you should consult a professional advisor familiar with your particular facts and circumstances.



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A dynamic splash of water with numerous bubbles, creating a sense of movement and freshness. The water is clear and blue, with light reflecting off the surfaces.

Finance Committee Meeting

November 13, 2025



Agenda

- Design Build/CMAR Projects Review – Bruce Husselbee
- Audit Results and Auditor Required Communications – Laura Harden, Cherry Bekaert, LLP
- Financial Statement Overview – Steve de Mik

Auditor Presentation

ACFR Staff Overview

Financial Statement Overview

- Introductory Section
 - Letter
 - History, organization chart, etc.
- Financial Section
 - Auditor opinion
 - MDA
 - Financial Statements
 - Note Disclosures
- RSI
 - Pensions/OPEB
- Statistical Section
 - 10 year history
- Other Supplemental Section
 - Debt service
 - Budgetary comparison
 - Expenses summary



Acknowledgements

- Awarded 42 Consecutive Years
- Disclosures and requirements becoming more complex and burdensome
- Dedication of service from the entire Finance Division, especially the Accounting Department

Two Issues....

- Change in Accounting Principle
 - GASB 101 – Compensated Absences
 - Restatement of prior year financial statements
 - Reduced Net Position by \$7.4 million
 - Change was to recognize how the liability is calculated
- Change in Retiree Health Plan
 - Implementation of Medicare Advantage Plan caused significant reduction in costs
 - Impact reported as a “Special Item”

Summary of Net Position – Assets and Deferred Outflows

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

	<u>2025 vs 2024</u>				
	2025	2024 (Restated)	2023	\$ Change	% Change
Assets					
Unrestricted					
Cash and cash equivalents - Current	\$ 352,373	\$ 216,611	\$ 148,295	\$ 135,762	63%
Investments	69,597	65,916	63,074	3,681	6%
Total Unrestricted Cash and cash equivalents	421,970	282,527	211,369	139,443	49%
Cash and cash equivalents - restricted	181,639	22,307	33,830	159,332	714%
Total Cash and cash equivalents	603,609	304,834	245,199	298,775	98%
Accounts Receivable (net)	80,670	70,524	60,081	10,146	14%
Other	3,130	4,616	3,029	(1,486)	-32%
Inventory	25,425	26,288	26,005	(863)	-3%
Net OPEB Asset - Restricted	30,404	-	-	30,404	100%
Net Property Plant and Equipment	3,122,892	2,511,633	2,012,351	611,259	24%
Total Assets	<u>\$ 3,866,130</u>	<u>\$ 2,917,895</u>	<u>\$ 2,346,665</u>	<u>948,235</u>	<u>32%</u>
Deferred Outflows of Resources	<u>\$ 42,892</u>	<u>\$ 39,373</u>	<u>\$ 37,522</u>	<u>\$ 3,519</u>	<u>9%</u>

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

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

	2025 vs 2024				
	2025	2024 (Restated)	2023	\$ Change	% Change
Liabilities					
Bonds Payable - Current	\$ 51,251	\$ 53,642	\$ 45,561	\$ (2,391)	-4%
Variable Rate Demand Bonds (current)	50,000	50,000	50,000	-	0%
Bonds Payable - Long Term	1,753,071	1,213,803	884,181	539,268	44%
Notes Payable (LOC)	92,462	100,000	68,580	(7,538)	-8%
Total Capital Related Debt	1,946,784	1,417,445	1,048,322	529,339	37%
Net OPEB Liability	4,014	8,021	13,221	(4,007)	-50%
Net Pension Liability	32,011	28,608	18,337	3,403	12%
Trade, Contracts Payable and Retention	185,777	104,216	79,765	81,561	78%
Compensated Absences	19,476	18,142	10,095	1,334	7%
Other Liabilities	22,316	20,202	18,708	2,114	10%
Total Liabilities	\$ 2,210,378	\$ 1,596,634	\$ 1,188,448	\$ 613,744	38%
Deferred Inflows of Resources	\$ 28,458	\$ 16,625	\$ 18,717	\$ 11,833	71%
Net Position					
Net investment in capital assets	\$ 1,156,903	\$ 1,017,839	\$ 981,437	\$ 139,064	14%
Restricted for Debt Service	37,709	22,307	33,830	15,402	69%
Capital Projects	9,215	-	-	9,215	100%
Net OPEB Asset	30,404	-	-	30,404	100%
Unrestricted	435,955	303,863	161,755	132,092	43%
	\$ 1,670,186	\$ 1,344,009	\$ 1,177,022	\$ 326,177	24%

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

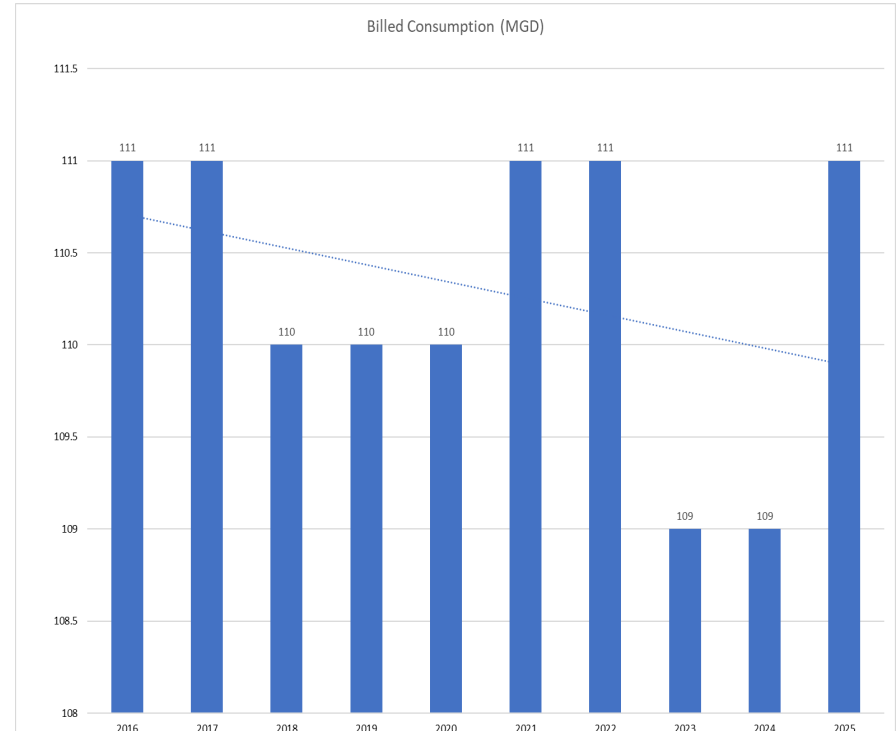
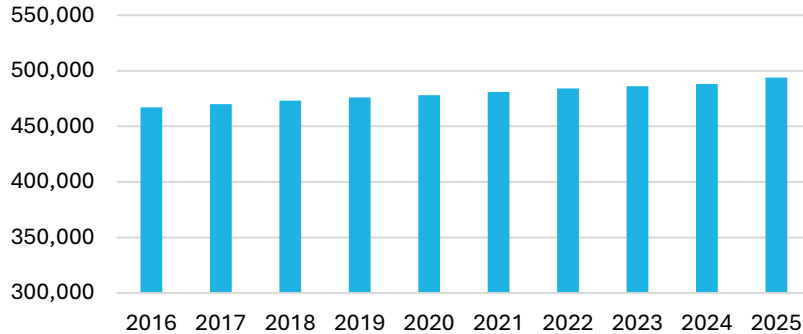
Summary of Revenues, Expenses and Changes in Net Position For the Year Ended June 30,

	2025	2024	2023	2025 vs 2024	
				\$ Change	% Change
Revenues					
Wastewater Treatment Charges	\$ 460,275	\$ 422,784	\$ 383,115	\$ 37,491	8%
Facility Charges	6,928	7,153	7,293	(225)	-3%
Investment Income	26,121	13,673	6,068	12,448	48%
Bond Interest Subsidy	-	1,622	2,015	(1,622)	-100%
Other	4,761	4,157	4,820	604	13%
Total Revenues	498,085	449,389	403,311	48,696	10%
Expenses					
Wastewater Treatment	173,973	167,327	149,532	6,646	4%
General and Administrative	57,028	60,152	53,995	(3,124)	-5%
Depreciation and Amortization	60,456	57,053	54,469	3,403	6%
Interest Expense	45,888	33,642	27,132	12,246	27%
Capital Distributions to Localities	811	2,005	2,422	(1,194)	-147%
Other	1,351	1,000	98	351	26%
Total Expenses	339,507	321,179	287,648	18,328	5%
Capital Contributions					
State Capital Grants	138,949	34,183	234	104,766	75%
Other Capital Contributions	4,892	12,242	1,641	(7,350)	-150%
Total Capital Contributions	143,841	46,425	1,875	97,416	68%
				-	
Change in Net Position - Before Special Item	302,419	174,635	117,538	127,784	42%
Special Item	23,758	-	-	23,758	100%
Change in Net Position	\$ 326,177	\$ 174,635	\$ 117,538	\$ 151,542	46%

Wastewater Treatment Changes

- 92% of all revenues are Wastewater Treatment Charges

Service Connections
Average Growth 0.63%/Year



Cost Increases by Category

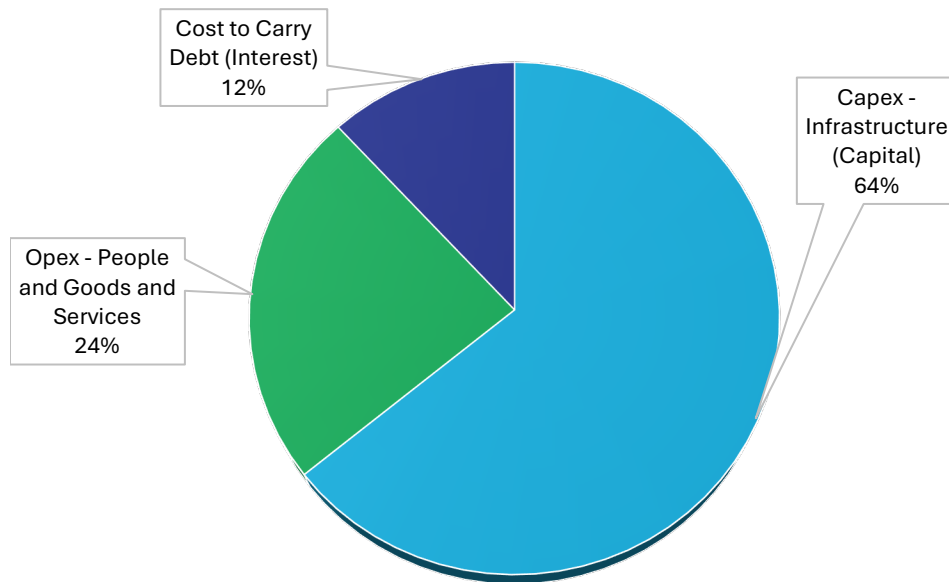
Operating Expenses	2025 vs 2024					
	2025	2024	2023	\$ Change	% Change	
Personal Services	\$ 79,965	\$ 71,682	\$ 65,549	\$ 8,283	12%	38 new FT positions; adjusted salaries by 5.89% and merit increases
Fringe Benefits	20,766	28,496	23,772	(7,730)	-27%	Benefit increases follow salary increases; costs offset by significant RHP change (OPEB)
Materials and Supplies	15,563	13,728	12,641	1,835	13%	VIP Secondary Clarifier Mechanism + NTP Dewatering System + ATP Odor control measures/emergency repairs + addressing multiple pipe failures/emergencies
Transportation	2,118	1,776	1,672	342	19%	Hauling Group ramp up – transporting solids
Utilities	16,491	18,045	17,044	(1,554)	-9%	ABTP Incinerator offline + CETP renegotiated electric fee schedule based on usage vs. capacity
Chemical Purchases	14,895	15,500	13,890	(605)	-4%	Awarded a contract to 3 bidders resulting in cost savings + Cost of chemicals slightly decreased - especially for Sodium Hypochlorite
Contractual Services	44,551	42,257	42,934	2,294	5%	EVERGREEN DCS Upgrade at ATP
Major Repairs	6,784	6,381	5,973	403	6%	Continued but steady inflationary pressures in 2025 - Cost of labor/construction / materials are still rising in this very competitive market
Capital Assets	2,563	2,174	1,758	389	18%	VIP Grit Classifier System + Onancock TP Membrane Replacement + purchase of spare parts with long lead times
Miscellaneous	2,923	3,044	2,863	(121)	-4%	
	\$ 206,619	\$ 203,083	\$ 188,096	\$ 14,987	8%	

Summary of Cash Flows, For The Years Ended June 30

Summary of Cash Flows For the Year Ended June 30,

	2025 vs 2024				
	2025	2024 (Restated)	2023	\$ Change	% Change
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 445,820	\$ 407,016	\$ 379,539	\$ 38,804	10%
Other	4,761	4,157	4,820	604	15%
Cash Payments for Goods & Services and Employees	(222,493)	(219,879)	(204,300)	(2,614)	1%
Net Cash Provided	228,088	191,294	180,059	36,794	19%
Cash Flows from Noncapital Financing Activities					
Capital Distributions to Localities	(811)	(2,005)	(2,422)	1,194	-60%
Cash Flows from Capital and Financing Activities					
Facility Charges	6,928	7,153	7,293	(225)	-3%
Capital Plan Expenses	(595,655)	(532,696)	(329,699)	(62,959)	12%
Proceeds from Capital Debt	601,229	417,673	188,540	183,556	44%
Principal Paid	(67,444)	(48,138)	(39,588)	(19,306)	40%
Interest Paid	(42,173)	(33,459)	(27,961)	(8,714)	26%
State Capital Grants	138,949	34,183	234	104,766	306%
Other Capital Contributions	4,892	12,242	1,641	(7,350)	-60%
Other	(1,351)	(285)	1,917	(1,066)	374%
Net Cash Used	45,375	(143,327)	(197,623)	188,702	-132%
Cash Flows from Investing Activities					
Interest and Dividends on Investments	22,442	10,831	6,068	11,611	107%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 295,094	\$ 56,793	\$ (13,918)	\$ 238,301	420%

Where did we spend our money?



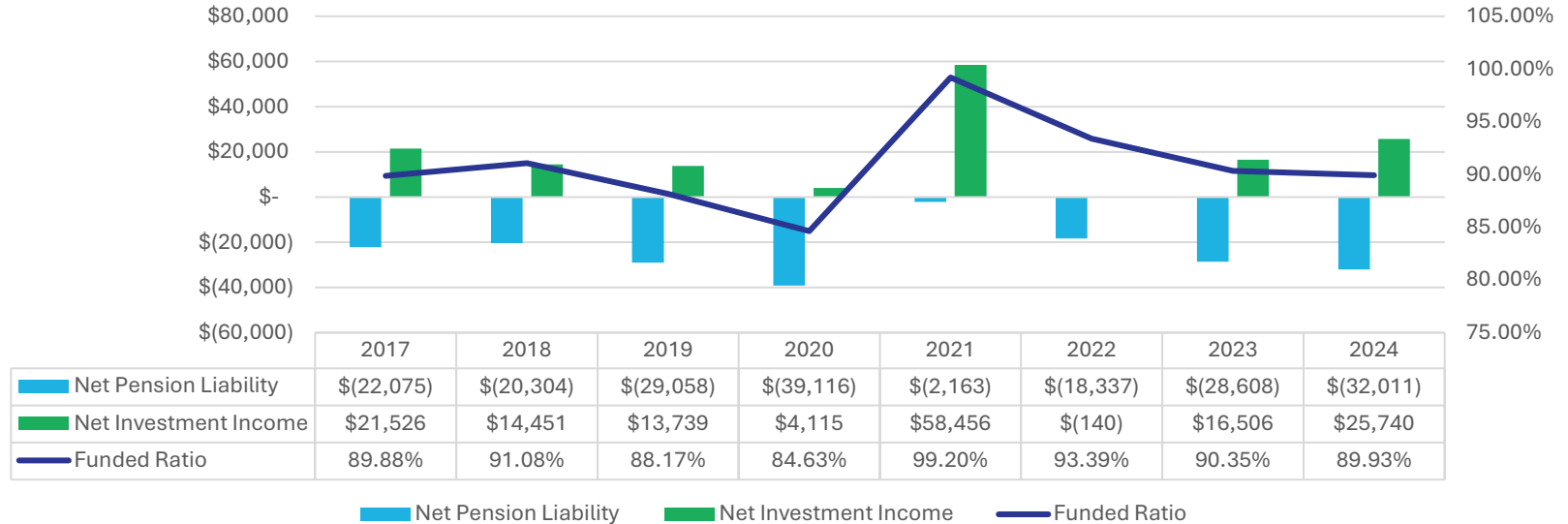
Major Pension and Other Post - Employee Benefits (OPEB)

- 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,	2024	2025
	Pension	
	VRS 1 & 2, Hybrid Plan	Retiree Health Plan (RHP)
Total Liability	\$ (317,872)	\$ (52,042)
Fiduciary Net Position (MVA)	285,861	82,446
Net Asset (Liability)	(32,011)	30,404
Funded Ratio	89.93%	158.42%

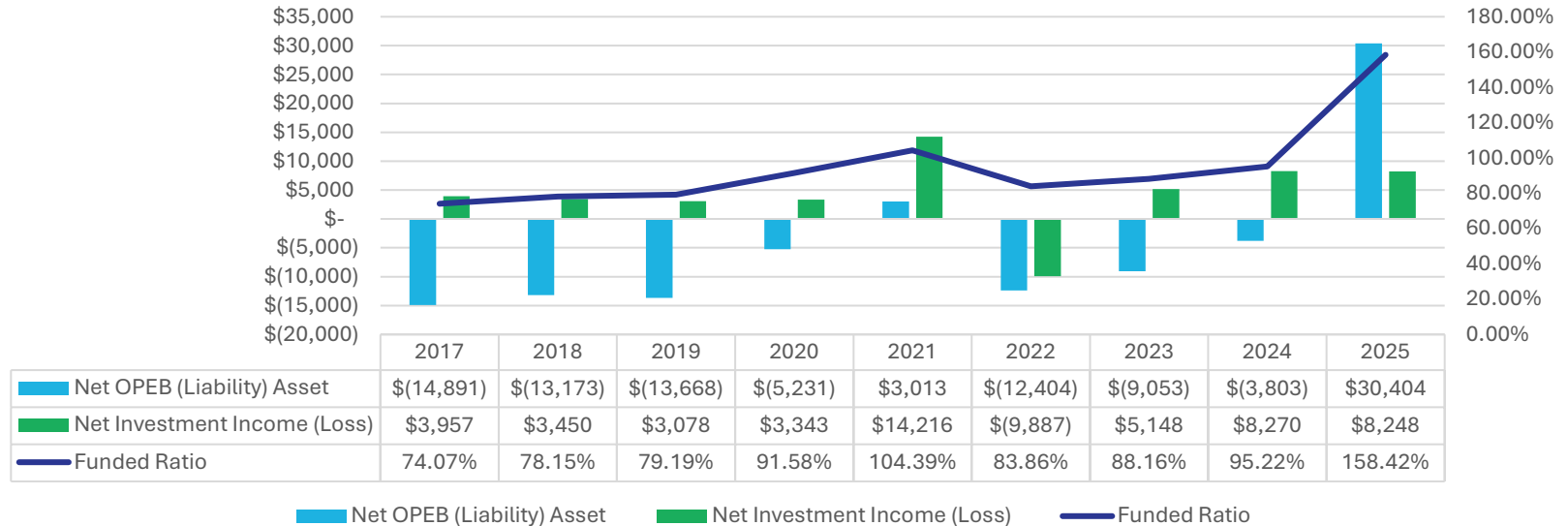
Virginia Retirement System

VRS (\$000's)



Retiree Health Plan - OPEB

RHP - OPEB



Key Financial Policy Indicators

Liquidity (HRSD's Unrestricted Savings Account) – Adjusted Days Cash on Hand (ADCOH)

- 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?

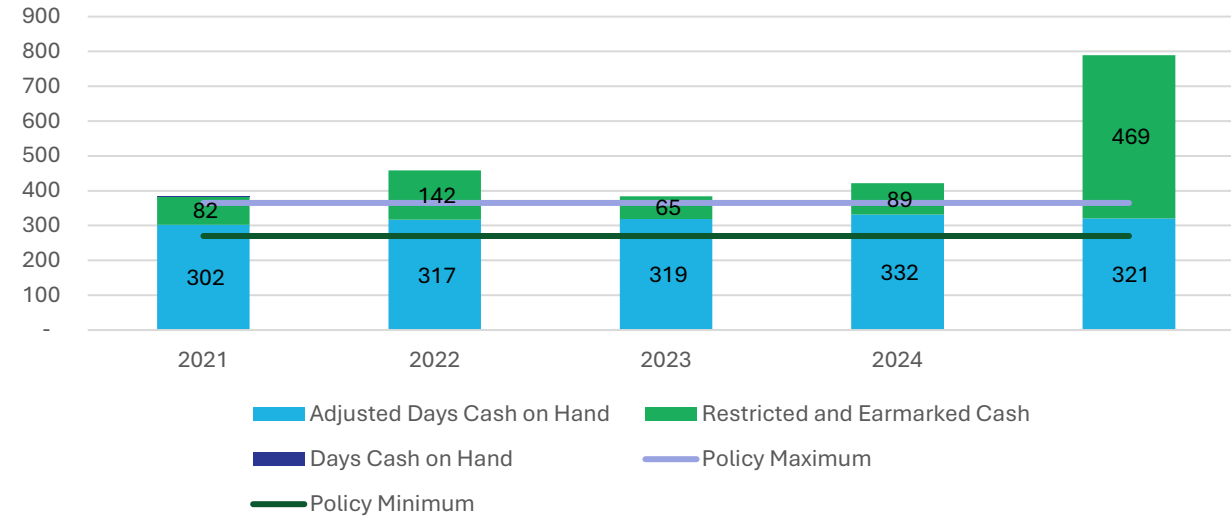
$$\text{ADCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

(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

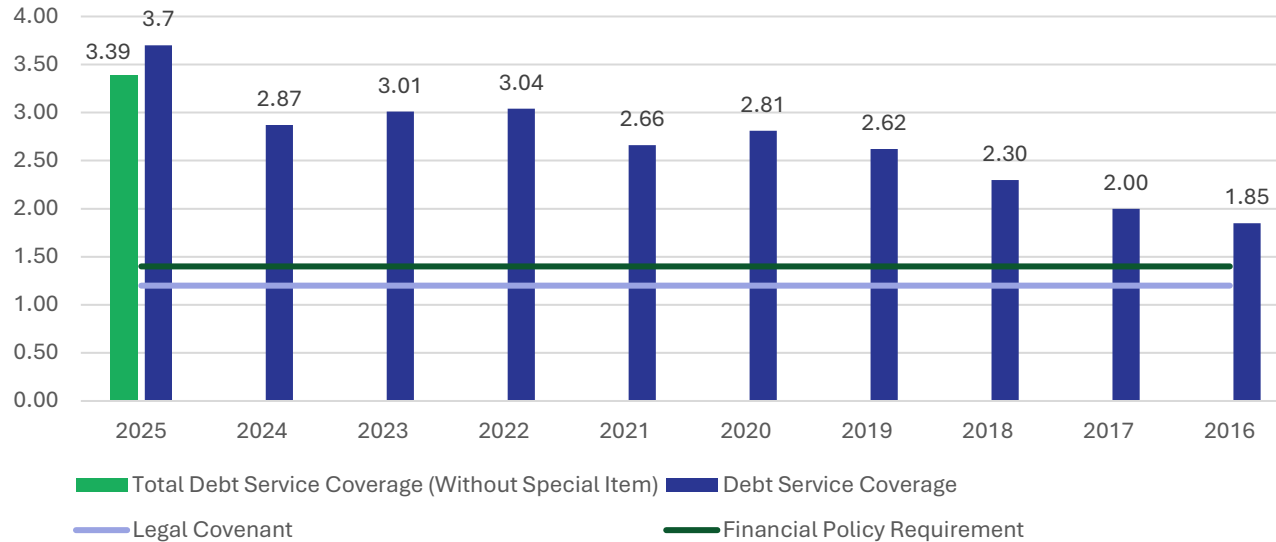
HRSD Ratings	Senior	Subordinate
Moody's	Aa1	Aa1
S&P	AA+	AA+
Fitch	AA+	AA

Debt Service Coverage Ratio (DSCR)

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

- *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

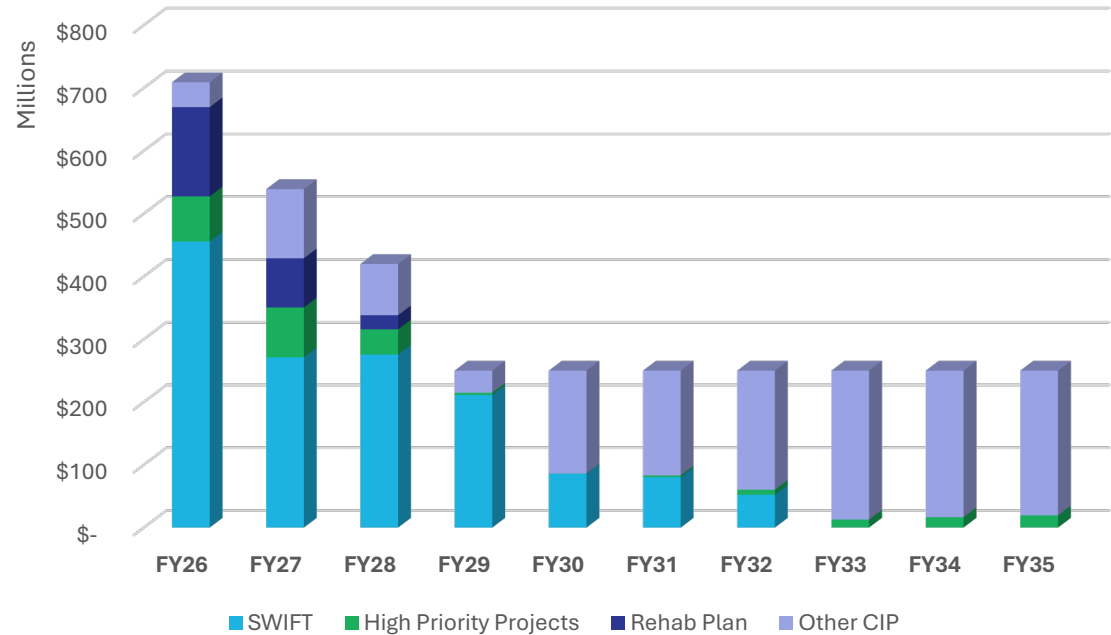


AA Rated Medians		Large Utilities
S&P	Fitch	Fitch
2.3	2.5	1.5

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

Conclusions

- Financial health is sound, but headwinds exist
 - General inflation has moderated, but remains for labor and construction costs
 - Capital Plan remains largely regulatorily driven (68% for five years) and expansive but moderates after 2028
 - Future forecast is heavily dependent on state appropriations (\$1.14B) for the WQIF program



Questions

ANNUAL COMPREHENSIVE FINANCIAL REPORT



For the Fiscal Years Ended June 30, 2025 and 2024

Hampton Roads Sanitation District
[A Component Unit of the Commonwealth of Virginia]





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HAMPTON ROADS SANITATION DISTRICT

A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2025 AND 2024

PREPARED BY THE FINANCE DIVISION



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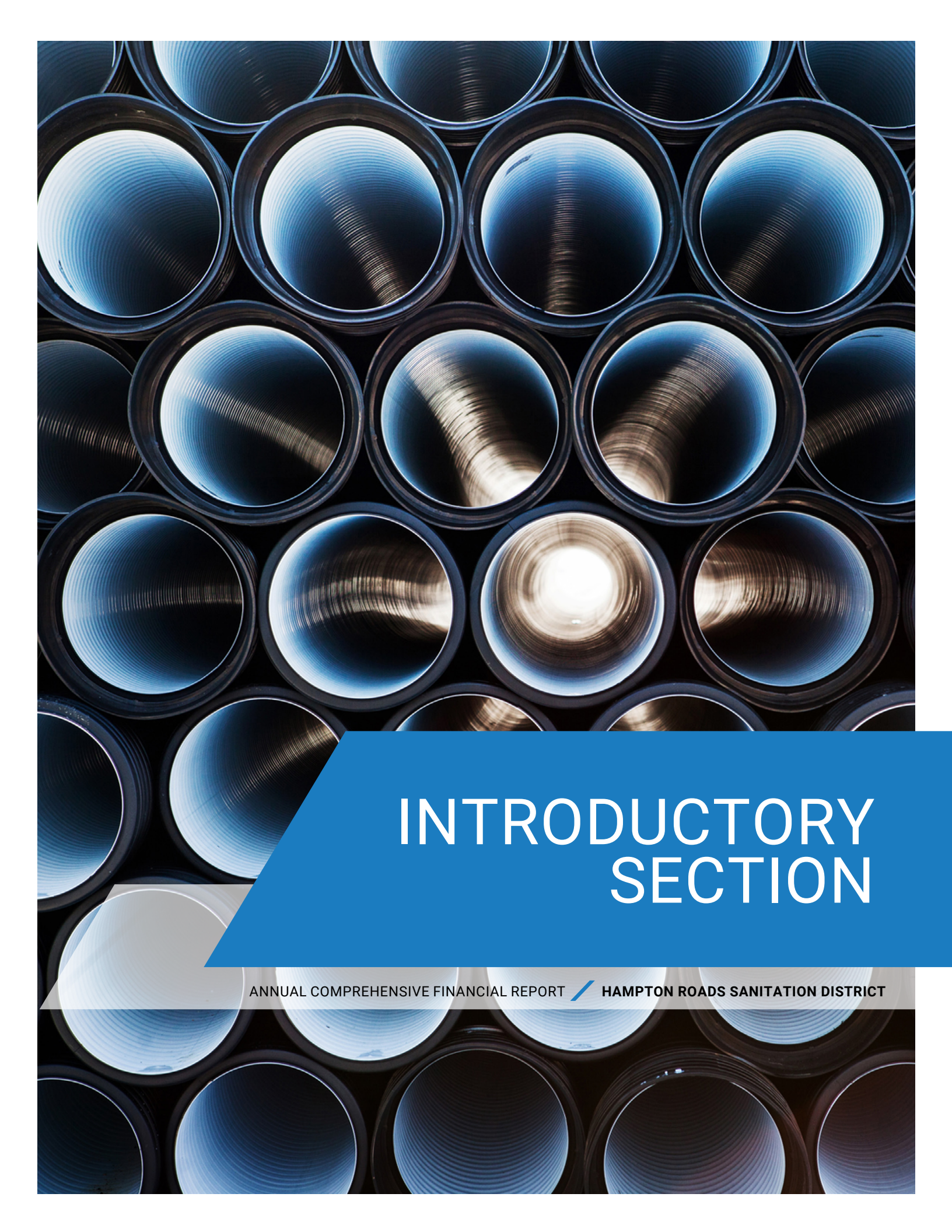
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INTRODUCTORY SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT



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October 29, 2025

To the Hampton Roads Sanitation District (HRSD) Board of Commissioners and Our Customers:

We are pleased to submit this Annual Comprehensive Financial Report for the fiscal year ended June 30, 2025. Political subdivisions of the Commonwealth of Virginia are required to publish a complete set of audited financial statements. This report fulfills that requirement.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Cherry Bekaert LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on HRSD's financial statements for the fiscal year ended June 30, 2025. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A, which complements this letter of transmittal, should be read in conjunction with it.

Profile of HRSD

HRSD is an independent political subdivision of the Commonwealth of Virginia (the Commonwealth) created by referendum on November 5, 1940. HRSD was established to abate water pollution in the Hampton Roads area by providing a system of interceptor mains and wastewater treatment plants.

Approximately 1.9 million individuals, more than one-fifth of Virginia's population, reside in HRSD's service area, which is in the southeastern corner of the Commonwealth. HRSD's territory of approximately 5,000 square miles encompasses nine cities, eleven counties and several large military facilities. A brief history of HRSD is provided on page 7. HRSD is required by its Enabling Act to meet its obligations by charging user fees for its wastewater treatment services; no taxing authority is authorized by the Enabling Act. HRSD provides service and bills to approximately 494,000 service connections.

A board of eight commissioners (the Commission), appointed by the Governor of Virginia, governs HRSD. Commission members, who serve four-year staggered terms, can be reappointed without limitation, and may be suspended or removed at the Governor's pleasure. The Commission appoints a General Manager/Chief Executive Officer, who appoints the executive staff.

HRSD owns and operates 14 treatment plants. The eight major plants in Hampton Roads have design capacities ranging in size from 15 to 54 million gallons per day (MGD). Four of the major plants are located south of the James River and four are north of the James River. The combined capacity of these eight plants is approximately 138.4 MGD. HRSD's six small rural treatment plants have a combined capacity of 1.75 MGD.

HRSD maintains 538 miles of pipelines ranging from six inches to 66 inches in diameter. Interceptor pipelines, along with 92 pump stations in Hampton Roads, interconnect into two independent systems, one south of the James River and one north of the James River. The system allows some flow diversions to provide for maintenance or emergency work. HRSD owns and maintains 47 pump stations in the Small Communities.

Local Economy

HRSD's service area includes nearly all the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). It is the eighth largest MSA in the southeastern United States and the 37th largest in the nation. Unlike many metropolitan areas, Hampton Roads' population nucleus is not confined to one central city. Instead, the approximately 1.9 million residents are spread among several cities and counties. Virginia Beach is the most populous city in the Commonwealth, with Chesapeake and Norfolk second and third, respectively. Suffolk is the largest city by land area.

Unemployment rates remain below national averages in the region, which has a civilian labor force of approximately 850,000 as of June 2025.

The regional economy is supported by one of the highest military concentrations in the nation, diverse manufacturing and service sectors, shipbuilding and repair work, international port activities and tourism. Several state and private colleges and a large healthcare infrastructure also lend stability to the region.

A diverse customer base allows HRSD to maintain stable revenues. The ten largest customers account for only 7.4 percent of wastewater revenues for fiscal year 2025. In addition, HRSD's 2025 revenues contained only limited reliance (1.4 percent) on new customer connections.

Long-Term Financial Planning

HRSD's Financial Policy helps it maintain its solid fiscal health. Budgetary principles include using ongoing revenues to pay for ongoing expenses and establishing annual cash contribution goals of at least 15 percent of budgeted capital costs. Under the Financial Policy, debt service coverage ratios should not be less than 1.4 times annual debt service. Operating and ten-year capital improvement budgets are adopted annually. Included in the operating budget is a long-range financial forecast, which is guided by projections of operating and capital needs and the aforementioned Financial Policy requirements.

Major Initiatives

HRSD continues its ambitious \$3.4 billion, 10 year Capital Improvement Program. Regulatory requirements to reduce nutrient discharges and Clean Water Act compliance initiatives to ensure that appropriate wet weather capacity exists within the regional sanitary sewer system, major treatment plant upgrades, and replacements of interceptor pipelines drive the capital program. Most significantly, major projects are currently under construction at the James River, Boat Harbor and Nansemond treatment plants in support of HRSD'S Sustainable Water Initiative for Tomorrow (SWIFT) program, an innovative water treatment system designed to ensure a sustainable source of groundwater while addressing environmental challenges such as Chesapeake Bay restoration, sea level rise and saltwater intrusion. To minimize the impacts of its capital investments on ratepayers, HRSD continues to pursue grant and low-interest loan opportunities when available.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to HRSD for its annual comprehensive financial report (Annual Report) for the fiscal year ended June 30, 2024. This was the 42nd consecutive year that HRSD has received this prestigious award. In order to be awarded a Certificate of Achievement, HRSD must publish an easily readable and efficiently organized Annual Report that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Annual Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this Annual Report was made possible by the dedicated service staff in the Finance Division. All members of the division have our sincere appreciation for their contributions to the preparation of this report. Credit must also be given to the Commission for their support for maintaining the highest standard of professionalism in the management of HRSD's finances.

Respectfully submitted,



Jay A. Bernas, P.E.
General Manager/CEO



Steven G. de Mik, CPA
Deputy General Manager/CFO



Kassandra Pagan
Director of Accounting



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Hampton Roads Sanitation District
Virginia**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Merrill

Executive Director/CEO

Principal Officials

June 30, 2025

COMMISSIONERS

Stephen C. Rodriguez, Chair

Willie Levenston, Jr., Vice-Chair

Frederick N. Elofson, CPA

Michael E. Glenn

Vishnu K. Lakdawala, PhD

Nancy J. Stern

Elizabeth A. Taraski, PhD

Ann W. Templeman

COMMISSION SECRETARY

Jennifer L. Cascio

ASSISTANT COMMISSION SECRETARY

Elizabeth I. Scott

SENIOR STAFF

Jay A. Bernas, PE
General Manager and Chief Executive Officer

Steven G. de Mik, CPA
Deputy General Manager and Chief Financial Officer

Eddie Abisaab, PE, PMP, ENV SP
Chief Operating Officer

Charles B. Bott, PhD, PE, BCEE
Chief Technology Officer

Mary H. Corby
Chief Information Officer

Bruce W. Husselbee, PhD,
PE, DBIA
Chief Engineer

Brends Matesig
PHR, PSHRA-SCP, SHRM-SCP
Acting Chief People Officer

Jamie Heisig-Mitchell
Chief of Water Quality

Leila E. Rice, APR
Chief Communications Officer

COUNSEL, ADVISOR, TRUSTEE

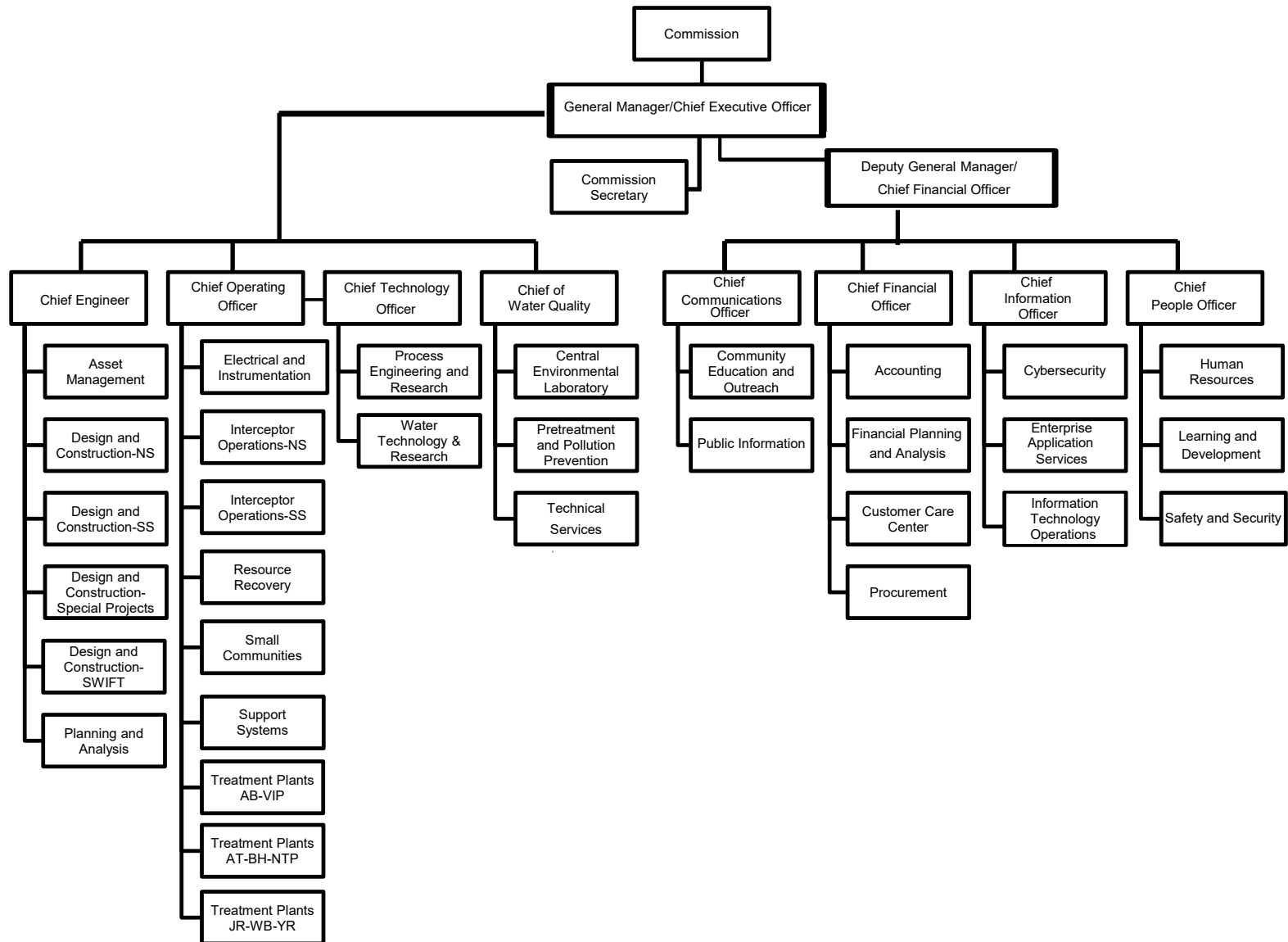
Sands Anderson, PC
General Counsel

PFM Financial Advisors LLC
Financial Advisors

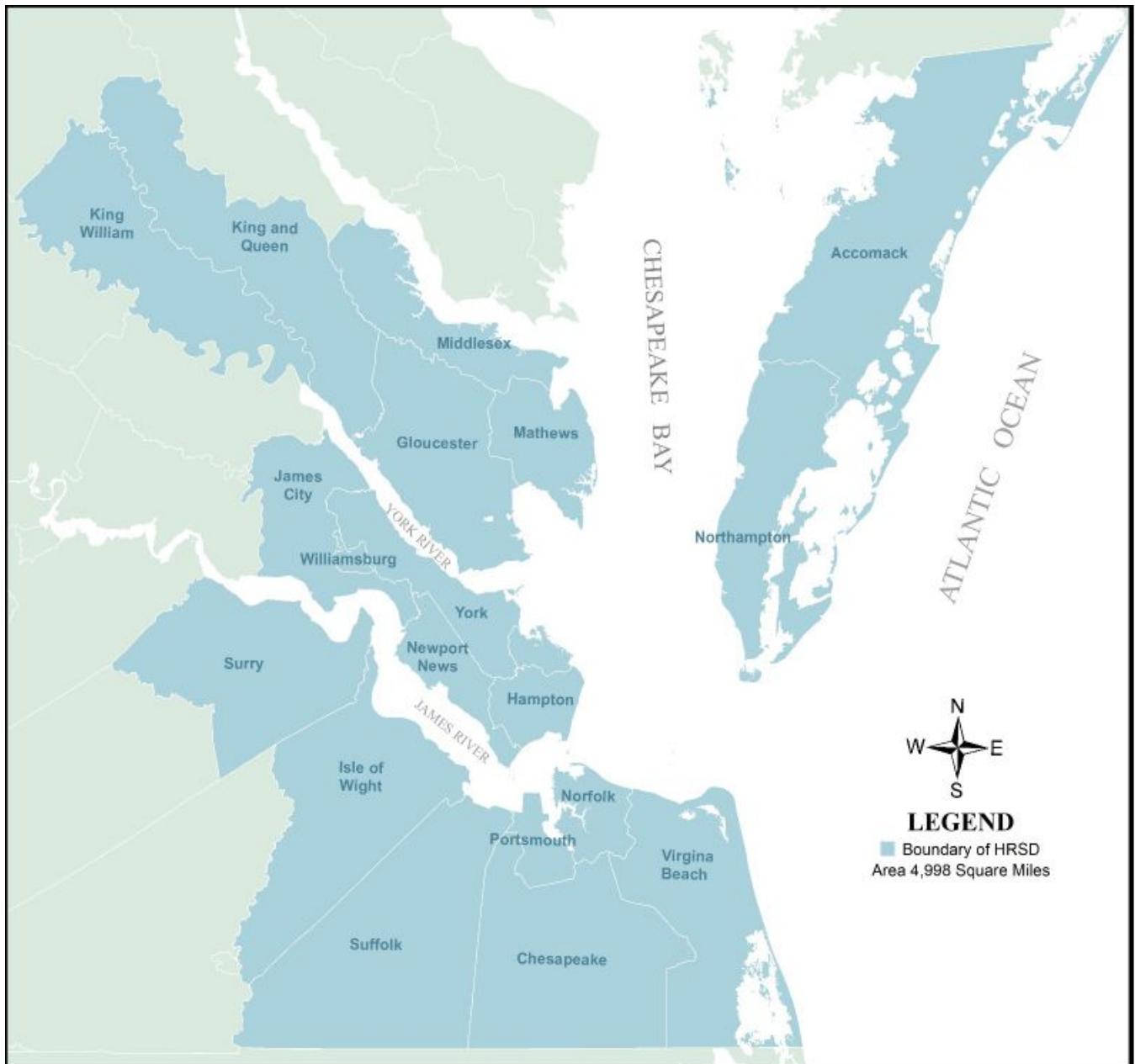
Norton Rose Fulbright US, LLP
Bond Counsel

HRSD Organization Chart

June 30, 2025



Service Area
June 30, 2025



History

June 30, 2025

HRSD can trace its beginnings to 1925 when the Virginia Department of Health condemned a large oyster producing area in Hampton Roads. The closure resulted in the Virginia General Assembly creating in 1927 a “Commission to Investigate and Survey the Seafood Industry of Virginia.” Other studies recommended a public body to construct and operate a sewage system in the area. HRSD was named after Hampton Roads, a ship anchorage used for five centuries located near the convergence of the James, Elizabeth and Nansemond Rivers, before they flow into the Chesapeake Bay in southeastern Virginia.

In 1934, the Virginia General Assembly created the Hampton Roads Sanitation Disposal Commission with instructions to plan the elimination of pollution in Hampton Roads. Recommendations were made to the General Assembly, which resulted in the Sanitary Districts Law of 1938, along with “an Act to provide for and create the Hampton Roads Sanitation District.” This Act required the qualified voters within HRSD to decide in a general election on November 8, 1938, if they favored creation of such a District. This referendum failed to gain a majority by about 500 votes out of nearly 20,000 votes cast. This led to a revision of the Act and another referendum was held on November 5, 1940, which resulted in a majority vote for the creation of the Hampton Roads Sanitation District.

The Enabling Act provides for HRSD to operate as a political subdivision of the Commonwealth of Virginia for the specific purpose of water pollution abatement in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants. Its affairs are controlled by a Commission of eight members appointed by the Governor for four-year terms. Administration is under the direction of a General Manager, supported by division chiefs and their staff.

HRSD began operations on July 1, 1946, using facilities acquired from the United States Government. The Warwick County Trunk Sewer, HRSD’s first construction project, began on June 26, 1946, and was funded by HRSD’s \$6.5 million Primary Pledge Sewer Revenue Bonds, dated March 1, 1946. The first treatment plant, the Army Base Treatment Plant, began operation on October 14, 1947. Since that time, the facilities of HRSD have grown to provide sanitary sewer service to all major population centers in southeastern Virginia. The population served has increased from nearly 288,000 in 1940 to about 1.9 million in 2025.

Throughout its rich history HRSD has earned many of its industry’s most prestigious awards. This tradition continued as HRSD earned the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association for its Popular Annual Financial Report, issued in Fall 2025 for the Fiscal Year ended June 2024.

Additional awards and honors received during the year ended June 30, 2024 include the Best Project Award for Atlantic Treatment Plant Thermal Hydrolysis Process (THP) and Fats, Oils, and Grease (FOG) Receiving Station by Engineering News and Record (ENR); the 2024 Top Projects Award by Wastewater Digest for the Surry Hydraulic Improvements and Interceptor Force Main; the American Council of Engineering Companies Virginia Grand Award for HRSD’s Climate Change Planning Study; the National Association of Clean Water Agencies (NACWA) National Environmental Achievement Awards in the categories of Public Information and Education, Watershed Collaboration, and Workforce Development. HRSD was also pleased to receive the 2024 Engineering Achievement Award presented by the Engineers Club of Hampton Roads for the “Boat Harbor Treatment Plant Force Main Section 1 – James River Crossing Project.”





FINANCIAL SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT



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Report of Independent Auditor

To the Commissioners
Hampton Roads Sanitation District
Virginia Beach, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Hampton Roads Sanitation District ("HRSD"), a component unit of the Commonwealth of Virginia, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise HRSD's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of HRSD, as of June 30, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia (the "Specifications"). Our responsibilities under those standards and Specifications are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of HRSD, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section, Statistical Section, and Other Supplemental Section, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2025, on our consideration of HRSD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HRSD's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HRSD's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
October 29, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This narrative overview and analysis of the financial activities of the Hampton Roads Sanitation District (HRSD) for the fiscal years ended June 30, 2025 and 2024, is provided by HRSD's management. Readers of the accompanying financial statements are encouraged to consider this information in conjunction with that furnished in the transmittal letter, which can be found on pages 1 through 2 of this report.

FINANCIAL HIGHLIGHTS

- Total net position increased by \$326.2 million, or 24.3 percent, in 2025 as a result of fiscal year 2025 operations. Total net position increased by \$174.4 million or 14.8 percent in fiscal year 2024.
- In fiscal year 2025, total revenues increased by \$48.7 million, or 10.8 percent, primarily driven by a \$38.1 million rise in wastewater treatment revenues following a 9 percent rate increase effective July 1, 2024. Investment income also grew by \$12.4 million, supported by the higher wastewater revenues and earnings on unspent proceeds from a \$268 million waterwater bond issued in July 2024. Similarly, in fiscal year 2024, operating revenues rose by \$46.1 million as a result of a 9 percent wastewater treatment rate increase effective July 1, 2023, while investment income increased \$7.6 million, largely due to higher interest rates.
- Overall, operating expenses increased by \$6.7 million, or 2.3 percent in fiscal year 2025. Increases in salaries (\$8.1 million) due to new positions and wage adjustments, materials and supplies (\$1.8 million), contractual services (\$2.3 million), and depreciation and amortization (\$3.4 million) were offset by a \$9.7 million (31.7 percent) reduction in fringe benefit costs. The decline in fringe benefits was driven by favorable medical claims experience (\$7.9 million) and a reduction (\$1.9 million) in Retiree Health Plan (RHP) OPEB expense. The OPEB decrease was primarily due to stronger-than-expected trust fund performance, changes in actuarial assumptions, and variances between expected and actual experience. For fiscal year 2024, restated operating expenses increased \$26.8 million. Most of this increase was attributable to a \$11.2 million increase in salaries and fringe benefit, a \$7.5 million increase in major repairs and improvements, a \$2.3 million increase in bad debt expense, and \$3.7 million increase in general materials, utilities and chemical purchases.
- In fiscal year 2025, a one-time \$23.8 million reduction in RHP OPEB expense was recorded as a Special Item on the Statements of Revenues, Expenses, and Changes in Net Position. This adjustment resulted from management's decision to modify its retiree health benefit by transitioning participants from a Medicare Supplement Plan to an employer-sponsored Medicare Advantage Plan.
- Restricted Cash and cash equivalents increased \$159.3 million, or 714.3 percent, in fiscal year 2025, primarily due to a Waterwater Treatment Revenue Bond issue. Unrestricted cash and cash equivalents increased \$135.8 million, or 62.7 percent. Fiscal year 2024 reflected a decrease in restricted cash and cash equivalents of \$11.5 million, or 34.1 percent, primarily due to the utilization of debt proceeds, the receipt of grant funds for capital construction projects, and the reduction in the amount of restricted cash and cash equivalents. Unrestricted cash and cash equivalents increased \$68.3 million, or 46.1 percent, primarily due to receipt of debt proceeds to fund capital construction projects.
- Net Property, Plant and Equipment's increase of \$611.3 million, or 24.3 percent, was mostly due to a \$481.5 million increase in construction in progress associated with three large capital projects. Fiscal year 2024 reflected a similar increase of \$499.3 million, or 24.8 percent, due to a \$465.6 million net increase in construction in progress.
- In fiscal year 2025, HRSD adopted GASB Statement No. 101, *Compensated Absences*, the recognition and measurement guidance for compensated absences. The Statement requires that the fiscal year ended June 30, 2024 be restated and that the fiscal year ended June 30, 2023 ending net position be adjusted. The financial impact for fiscal year 2024 was a decrease of \$7.4 million in beginning Net Position (due to FY 2023 adjusted net position) and a \$0.3 million decrease in Ending Net Position due restatement of FY 2024. See Note 15 for additional information.

OVERVIEW OF FINANCIAL STATEMENTS

HRSD's Basic Financial Statements are comprised of the financial statements and the notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the Basic Financial Statements.

The Basic Financial Statements, found on pages 20 through 25 of this report, are designed to provide readers with a broad overview of HRSD's finances in a manner similar to a private sector business.

The Statements of Net Position, found on pages 20 and 21 of this report, present information on all of HRSD's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; the difference between these components is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of HRSD is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position, found on page 22 of this report, present all of HRSD's revenues and expenses, showing how HRSD's net position changed during the year. All changes in net position are reported as soon as the underlying event takes place, thus giving rise to the changes, regardless of the timing of the cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The Statements of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, found on pages 24 and 25, provide information on the control of assets for which HRSD has a fiduciary responsibility and the beneficiaries with whom a fiduciary responsibility and are discussed in Notes 2 and 14.

The Notes to Financial Statements, found on pages 26 through 59 of this report, provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the Basic Financial Statements and the related notes, this report also presents certain required supplementary information concerning HRSD's progress in funding its obligations to provide pension and other postemployment benefits to its employees.

Required Supplementary Information can be found beginning on 63 page of this report.

FINANCIAL ANALYSIS

Net Position

HRSD's total net position at June 30, 2025 was \$1.67 billion, a \$326.2 million, or a 24.3 percent increase from June 30, 2024. Total assets increased \$948.2 million, or 32.5 percent, to \$3.9 billion and total liabilities increased \$613.7 million, or 38.4 percent to \$2.2 billion.

HRSD's total net position at June 30, 2024 was \$1.34 billion, a \$174.4 million, or a 14.8 percent increase from June 30, 2023. Total assets increased \$571.2 million, or a 24.3 percent, to \$2.9 billion and total liabilities increased \$408.2 million, or 34.3 percent to \$1.6 billion.

HRSD's net position is summarized in the following Condensed Statements of Net Position as of June 30:

HRSD's Condensed Statements of Net Position

(in thousands)	2024			2025 vs. 2024	
	2025	Restated	2023	Dollars	Percent
Capital assets	\$ 3,122,892	\$ 2,511,633	\$ 2,012,351	\$ 611,259	24.3%
Current and noncurrent assets	743,238	406,262	334,314	336,976	82.9%
Total assets	3,866,130	2,917,895	2,346,665	948,235	32.5%
Deferred outflows of resources	42,892	39,373	37,522	3,519	8.9%
Long-term liabilities	1,800,769	1,261,974	917,223	538,795	42.7%
Current liabilities	409,609	334,660	271,225	74,949	22.4%
Total liabilities	2,210,378	1,596,634	1,188,448	613,744	38.4%
Deferred inflows of resources	28,458	16,625	18,717	11,833	71.2%
Net investment in capital assets	1,156,903	1,017,839	981,437	139,064	13.7%
Restricted for debt service	37,709	22,307	33,830	15,402	69.0%
Restricted for capital projects	9,215	-	-	9,215	100.0%
Restricted for net OPEB asset	30,404	-	-	30,404	100.0%
Unrestricted	435,955	303,863	161,755	132,092	43.5%
Total net position	\$ 1,670,186	\$ 1,344,009	\$ 1,177,022	\$ 326,177	24.3%

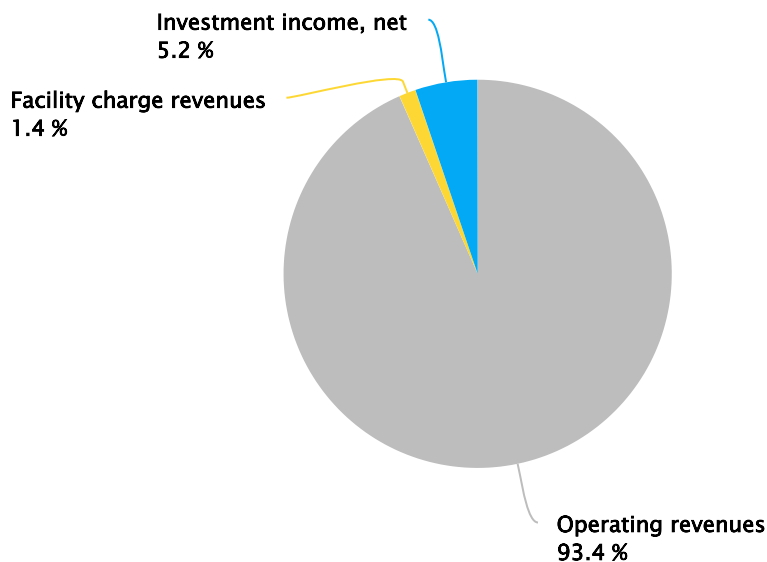
The increase in capital assets is primarily due to the significant increase in construction in progress, most notably for major expansion projects at two of HRSD's treatment plants and the construction of a storage tank, pump station and sub-aqueous force main under the Nansemond River in both fiscal years 2025 and 2024.

The changes in HRSD's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Position:

HRSD's Condensed Statements of Revenues, Expenses and Changes in Net Position

(in thousands)	2024		2023	2025 vs. 2024	
	2025	Restated		Dollars	Percent
Revenues:					
Operating revenues	\$ 465,036	\$ 426,941	\$ 387,935	\$ 38,095	8.9%
Facility charge revenues	6,928	7,153	7,293	(225)	(3.1%)
Investment income, net	26,121	13,673	6,068	12,448	91.0%
Bond interest subsidy	-	1,622	2,015	(1,622)	(100.0%)
Total revenues	498,085	449,389	403,311	48,696	10.8%
Operating expenses:					
Wastewater treatment	173,973	167,327	149,532	6,646	4.0%
General and administrative	57,028	60,406	53,995	(3,378)	(5.6%)
Depreciation and amortization	60,456	57,053	54,469	3,403	6.0%
Total operating expenses	291,457	284,786	257,996	6,671	2.3%
Non-operating expenses:					
Bond issuance costs	1,351	1,000	98	351	35.1%
Capital distributions to localities	811	2,005	2,422	(1,194)	(59.6%)
Interest expense	45,888	33,642	27,132	12,246	36.4%
Total non-operating expenses	48,050	36,647	29,652	11,403	31.1%
Total expenses	339,507	321,433	287,648	18,074	5.6%
Income before capital contributions and special item	158,578	127,956	115,663	30,622	23.9%
Capital contributions	143,841	46,425	1,875	97,416	209.8%
Change in net position before special item	302,419	174,381	117,538	128,038	73.4%
Special item - OPEB benefit adjustment	23,758	-	-	23,758	100.0%
Change in net position	326,177	174,381	117,538	151,796	87.0%
Beginning net position, as previously reported	1,344,009	1,177,022	1,059,484	166,987	14.2%
Restatement - change in accounting principle	-	(7,394)	-	7,394	100.0%
Beginning net position, as restated	\$ 1,344,009	\$ 1,169,628	\$ 1,059,484	\$ 174,381	14.9%
Total net position - ending	\$ 1,670,186	\$ 1,344,009	\$ 1,177,022	\$ 326,177	24.3%

Revenues by Source



Operating revenues increased by \$38.1 million, or 8.9 percent, in 2025 and by \$39.0 million, or 10.1 percent, in 2024. The increases were primarily due to wastewater rate increases each year of approximately 9.0 percent. Net Investment income increased \$12.4 million in 2025, or 91.0 percent, primarily due to the availability of unspent bond proceeds and higher interest rates, compared to a \$7.6 million increase, or 125.3 percent, in 2024.

Overall, operating expenses increased by \$6.7 million, or 2.3 percent in fiscal year 2025. Increases in salaries (\$2.6 million) due to new positions and wage adjustments, materials and supplies (\$1.8 million), contractual services (\$2.3 million), and depreciation and amortization (\$3.4 million) were offset by a \$9.7 million (31.7 percent) reduction in fringe benefit costs. The decline in fringe benefits was driven by favorable medical claims experience (\$7.9 million) and a reduction (\$1.9 million) in RHP OPEB expense. The OPEB decrease was primarily due to stronger-than-expected trust fund performance, changes in actuarial assumptions, and variances between expected and actual experience. For fiscal year 2024, restated operating expenses increased \$26.8 million, or 10.4 percent. Most of this increase was attributable to a \$18.5 million increase in salaries and fringe benefits. Other increases in operating expenses were attributable to an \$7.5 million increase in major repairs and improvements and a \$2.3 million increase in bad debt expense.

In 2025 and 2024, HRSD received \$143.8 million and \$46.4 million, respectively, in capital contributions to help pay for its capital improvement program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025 and 2024, HRSD had approximately \$3.1 billion and \$2.5 billion, respectively, invested in a broad range of capital assets, including land, wastewater treatment plants, interceptor systems, pump stations, administrative and maintenance buildings, equipment and software. These amounts represent a net increase of \$611.3 million, or 24.3 percent in 2025 and a net increase of \$499.3 million, or 24.8 percent in 2024.

The following summarizes HRSD's capital assets, net of accumulated depreciation, as of June 30:

HRSD's Capital Assets

(in thousands)	2025	2024	2023
Land	\$ 69,060	\$ 64,198	\$ 64,198
Treatment plants	622,316	627,956	644,214
Interceptor systems	727,949	598,700	561,916
Buildings	40,883	42,076	44,022
Small community facilities	19,002	14,928	15,474
Office equipment	714	930	569
Automotive	8,246	5,890	3,481
Other equipment	47,203	50,894	38,158
Software and intangible assets	163	214	71
	1,535,536	1,405,786	1,372,103
Construction in progress	1,587,356	1,105,847	640,248
Net property, plant and equipment	\$ 3,122,892	\$ 2,511,633	\$ 2,012,351

The following summarizes the changes in capital assets for the years ended June 30:

(in thousands)	2025	2024	2023
Balance at beginning of year	\$ 2,511,633	\$ 2,012,351	\$ 1,715,108
Additions	190,206	90,736	67,050
Transfers/retirements	(1,358)	(941)	-
Depreciation and amortization	(60,456)	(57,053)	(54,469)
Accumulated depreciation retired	1,358	941	-
Net increase in construction in progress	481,509	465,599	284,662
Balance at end of year	\$ 3,122,892	\$ 2,511,633	\$ 2,012,351

HRSD's total capital expenditures were \$692.6 million during 2025 and \$577.4 million in 2024. The continued capital improvement efforts for treatment plant expansion projects at the James River and Nansemond Treatment Plants

and the Boat Harbor sub-aqueous transmission forcemain and pump station projects were the largest contributors to the increase in expenses. Similarly, fiscal year 2024 was largely attributed to the same projects.

Long Term Debt

The balance for HRSD's total bonds outstanding including bond premium was \$1.9 billion as of June 30, 2025, versus \$1.3 billion at fiscal year end 2024, a 40.75 percent increase year over year. Outstanding notes payable decreased to \$92.5 million at fiscal year end 2025 from \$100.0 million at fiscal year end 2024, a 7.54 percent decrease over prior year. To capitalize on interest rate savings, in fiscal year 2025, HRSD issued Wastewater Revenue Bonds, Series 2024B, in the amount of \$240.8 million to support spending on capital improvements. In fiscal year 2024, HRSD issued Wastewater Revenue Bonds, Series 2024A in the amount of \$115.5 million to refund \$99.3 million in outstanding principal of its Build America Bonds Wastewater Revenue Bonds, Series 2009B and \$26.1 million in outstanding principal of its Wastewater Revenue Bonds, Series 2014A. This issuance resulted in a present value savings of \$3.8 million and HRSD fully discharged all debt previously identified as senior lien obligations. With no debt priority, all bonded indebtedness is now identified as senior obligations.

Draws on existing approved bonds, or loans for which a liability is not recognized until utilized, in the amount of \$332.1 million, were offset by payments on existing debt, in the amount of \$59.9 million. Unamortized bond premium as of June 30, 2025, was \$47.1 million versus \$23.1 million at fiscal year end 2024.

The following summarizes HRSD's outstanding debt principal as of June 30:

HRSD's Outstanding Debt

(in thousands)	2025	2024	2023
Senior revenue bonds (including bond premium)	\$ 1,854,322	\$ 1,317,445	\$ 166,268
Subordinate revenue bonds (including bond premium)	-	-	813,474
Notes payable	92,462	100,000	68,580
Total outstanding debt	\$ 1,946,784	\$ 1,417,445	\$ 1,048,322

HRSD's financial strengths are reflected in its high credit ratings listed below:

Ratings Agency	Senior Debt
Standard & Poor's	AA+
Fitch Ratings	AA
Moody's Investors Service	Aa1

The development of HRSD's Capital Improvement Program and its related debt programs are governed by its Trust Agreement. The Trust Agreement, as amended, requires a minimum debt service coverage of 1.2 times maximum annual debt service on debt service coverage basis. The debt service coverage permits certain expenses to be excluded from the calculation of debt service coverage. These adjustments are permitted for certain wet weather capacity related infrastructure capital improvements that HRSD makes on assets owned by the localities that HRSD serves.

"Operating Expenses" as defined by the Enabling Act and the Trust Agreement, includes those expenses required to pay the cost of maintaining, repairing and operating the Wastewater System, including, but not limited to, reasonable and necessary usual expenses of administration, operation, maintenance and repair, costs for billing and collecting the rates, fees and other charges for the use of or the services furnished by the Wastewater System, insurance premiums, credit enhancement and liquidity support fees, legal, engineering, auditing and financial advisory expenses, expenses and compensation of the Trustee, and deposits into a self-insurance program. Operating Expenses exclude depreciation and amortization and expenditures for extraordinary maintenance or repair or improvements. Additionally, Operating Expenses shall exclude expenses for improvements that will not be owned by HRSD, but which will, in the reasonable determination of the Commission, as evidenced by a resolution thereof, maintain or improve the integrity of the Wastewater System.

HRSD's Financial Policy requires the debt service coverage ratio to be a minimum of 1.4 times annual debt service. HRSD's operating and capital improvement plans were developed with the intent to maintain coverage ratios in excess of this requirement.

	Senior Debt Service Coverage	
	GAAP	HRSD
Senior Trust Agreement	1.20x (MADS)	None
Financial Policy	None	1.40x (Current Year)

More detailed information regarding HRSD's capital assets and long-term debt is presented in Notes 6 and 9, respectively.

ECONOMIC FACTORS AND RATES

Average billed consumption continues to remain stable as more efficient home appliances and industrial processes are utilized throughout the region. Billed consumption slightly increased from 109 MGD to 111 MGD in fiscal year 2025.

HRSD implemented a 9 percent wastewater treatment rate increase for the 2025 fiscal year to fund its operations and capital investments. As HRSD continues to implement its expansive \$3.7 billion, 10-year capital improvement program, it seeks to maximize federal and state subsidized low interest borrowing programs and grant opportunities to lower costs to our customers.

CONTACTING HRSD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of HRSD's finances for all those with an interest. Questions concerning the information provided in this report or any requests for additional information should be addressed to the Deputy General Manager/Chief Financial Officer, 1434 Air Rail Avenue, Virginia Beach, Virginia 23455.

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2025 AND 2024**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(in thousands)

	2025	2024 Restated
CURRENT ASSETS		
Cash and cash equivalents	\$ 352,373	\$ 216,611
Cash and cash equivalents - restricted	159,524	22,307
Accounts receivable, net	80,670	70,524
Other current assets	3,130	4,616
TOTAL CURRENT ASSETS	595,697	314,058
NONCURRENT ASSETS		
Cash and cash equivalents - restricted	22,115	-
Investments	69,597	65,916
Inventory	25,425	26,288
Net OPEB asset - restricted	30,404	-
	147,541	92,204
NET PROPERTY, PLANT AND EQUIPMENT		
Land	69,060	64,198
Treatment plants	1,518,062	1,490,990
Interceptor systems	991,780	846,052
Buildings	70,687	69,835
Small community facilities	30,705	26,094
Office equipment	45,881	45,881
Automotive	27,598	24,655
Other equipment	99,624	96,844
Software and intangible assets	40,332	40,332
	2,893,729	2,704,881
Less: Accumulated depreciation and amortization	1,358,193	1,299,095
	1,535,536	1,405,786
Construction in progress	1,587,356	1,105,847
NET PROPERTY, PLANT AND EQUIPMENT	3,122,892	2,511,633
TOTAL NONCURRENT ASSETS	3,270,433	2,603,837
TOTAL ASSETS	3,866,130	2,917,895
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding, net	14,808	16,319
Differences between expected and actual experience:		
OPEB plans	5,971	7,282
Pension plan	12,863	7,483
Changes of assumptions:		
OPEB plans	3,008	2,414
Pension plan	-	1,416
Net difference between projected and actual earnings on:		
Change in proportion, OPEB plans	93	35
Contributions subsequent to the measurement date:		
OPEB plans	499	496
Pension plan	5,650	3,928
TOTAL DEFERRED OUTFLOWS OF RESOURCES	42,892	39,373
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,909,022	\$ 2,957,268

See Accompanying Notes to Financial Statements

STATEMENTS OF NET POSITION AS OF JUNE 30, 2025 AND 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(in thousands)

	2025	2024 Restated
CURRENT LIABILITIES		
Trade and contracts payable	\$ 138,863	\$ 70,836
Contract retention	46,914	33,380
Accrued salaries and wages	2,504	1,955
Current portion of bonds payable	51,251	53,642
Variable rate demand bonds	50,000	50,000
Notes payable	92,462	100,000
Current portion of compensated absences	7,803	6,600
Debt interest payable	13,742	7,090
Other liabilities	6,070	11,157
TOTAL CURRENT LIABILITIES	409,609	334,660
LONG-TERM LIABILITIES		
Compensated absences	11,673	11,542
Net OPEB liability	4,014	8,021
Net pension liability	32,011	28,608
Bonds payable	1,753,071	1,213,803
TOTAL LONG-TERM LIABILITIES	1,800,769	1,261,974
TOTAL LIABILITIES	2,210,378	1,596,634
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience:		
OPEB plans	13,483	6,311
Pension plan	-	169
Changes of assumptions, OPEB plans	3,975	4,938
Net difference between projected and actual earnings on:		
OPEB plans investments	3,354	837
Pension plan investments	7,543	4,230
Change in proportion, OPEB plans	103	140
TOTAL DEFERRED INFLOWS OF RESOURCES	28,458	16,625
NET POSITION		
Net investment in capital assets	1,156,903	1,017,839
Restricted:		
Debt service	37,709	22,307
Capital projects	9,215	-
Net OPEB asset	30,404	-
Unrestricted	435,955	303,863
TOTAL NET POSITION	1,670,186	1,344,009
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 3,909,022	\$ 2,957,268

See Accompanying Notes to Financial Statements

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2025 and 2024**

(in thousands)	2025	2024 Restated
OPERATING REVENUES		
Wastewater treatment charges	\$ 460,275	\$ 422,784
Miscellaneous	4,761	4,157
TOTAL OPERATING REVENUES	465,036	426,941
 OPERATING EXPENSES		
Wastewater treatment	173,973	167,327
General and administrative	57,028	60,406
Depreciation and amortization	60,456	57,053
TOTAL OPERATING EXPENSES	291,457	284,786
 OPERATING INCOME	173,579	142,155
 NON-OPERATING REVENUES (EXPENSES)		
Wastewater facility charges	6,928	7,153
Investment income	26,121	13,673
Bond interest subsidy	-	1,622
Bond issuance costs	(1,351)	(1,000)
Capital distributions to localities	(811)	(2,005)
Interest expense	(45,888)	(33,642)
NET NON-OPERATING EXPENSES	(15,001)	(14,199)
 INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	158,578	127,956
 CAPITAL CONTRIBUTIONS		
Capital grants received	138,949	34,183
Other capital contributions	4,892	12,242
CAPITAL CONTRIBUTIONS	143,841	46,425
 CHANGE IN NET POSITION BEFORE SPECIAL ITEM	302,419	174,381
 Special item - OPEB benefit adjustment	23,758	-
 CHANGE IN NET POSITION	326,177	174,381
 TOTAL NET POSITION - Beginning, as previously reported	1,344,009	1,177,022
Restatement - change in accounting principle	-	(7,394)
BEGINNING NET POSITION, as restated	1,344,009	1,169,628
 TOTAL NET POSITION - Ending	\$ 1,670,186	\$ 1,344,009

See Accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS **FOR THE FISCAL YEARS ENDED JUNE 30, 2025 and 2024**

(in thousands)	2025	2024 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 445,820	\$ 407,016
Other operating revenues	4,761	4,157
Cash payments to suppliers for goods and services	(144,410)	(151,085)
Cash payments to employees for services	(78,083)	(68,794)
Net cash provided by operating activities	228,088	191,294
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Capital distributions to localities	(811)	(2,005)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Wastewater facility charges	6,928	7,153
Acquisition and construction of property, plant and equipment	(595,655)	(532,696)
Proceeds from capital debt	601,229	417,673
Bond interest subsidy	-	1,622
Principal paid on capital debt	(67,444)	(48,138)
Funds from debt defeasance	-	806
Capitalized interest expense	(6,241)	(1,713)
Capital grants	138,949	34,183
Other capital contributions	4,892	12,242
Bond issuance costs	(1,351)	(1,000)
Interest paid on interim financing	(4,142)	(4,661)
Interest paid on capital debt	(31,790)	(28,798)
Net cash provided by (used in) capital and related financing activities	45,375	(143,327)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	22,442	10,831
NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS - RESTRICTED	295,094	56,793
CASH AND CASH EQUIVALENTS, AND CASH AND CASH EQUIVALENTS - RESTRICTED, AT BEGINNING OF YEAR	238,918	182,125
CASH AND CASH EQUIVALENTS, AND CASH AND CASH EQUIVALENTS - RESTRICTED, AT END OF YEAR	\$ 534,012	\$ 238,918
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 173,579	\$ 142,155
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	60,456	57,053
Special Item related to OPEB asset	23,758	-
Decrease (increase) in operating assets:		
Accounts receivable	(10,146)	(10,443)
Inventory	863	(283)
OPEB asset	(30,404)	-
Other current assets	1,486	(1,587)
Increase (decrease) in operating liabilities:		
Trade and contracts payable	5,501	812
Accrued salaries and wages	549	562
Compensated absences	1,334	653
Other liabilities	(5,087)	2,334
OPEB liabilities and related deferred inflows and outflows	5,338	(1,272)
Pension liabilities and related deferred inflows and outflows	861	1,310
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 228,088	\$ 191,294
Noncash Capital and Related Financing Activities:		
Proceeds of refunding debt principal	\$ -	\$ 115,585
Refunding of debt principal	-	(125,400)
Contract Retainage	13,534	16,275
Accrual for capital expenditures	62,527	7,365
Amortization of premium	4,446	9,403
Amortization of deferred loss on bond refunding	1,511	1,090

See Accompanying Notes to Financial Statements

STATEMENTS OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2025 and 2024

(in thousands)					
	OPEB (RHP) Trust Fund		Custodial Funds (ARPA)		
	2025	2024	2025	2024	
ASSETS					
Cash and cash equivalents	\$ 363	\$ 818	\$ -	\$ -	
Investments at fair value					
Domestic equity	41,184	31,220	-	-	
International equity	10,442	15,465	-	-	
Fixed income	27,903	25,608	-	-	
Other income	2,554	2,646	-	-	
Total investments	82,083	74,939	-	-	
TOTAL ASSETS	\$ 82,446	\$ 75,757	\$ -	\$ -	
NET POSITION					
Restricted for:					
Postretirement benefits for OPEB	82,446	75,757	-	-	
TOTAL NET POSITION	\$ 82,446	\$ 75,757	\$ -	\$ -	

See Accompanying Notes to Financial Statements

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2025 and 2024

(in thousands)

	OPEB (RHP) Trust Fund		Custodial Funds (ARPA)	
	2025	2024	2025	2024
ADDITIONS:				
Contribution from HRSD	\$ -	\$ 1,914	\$ -	\$ -
Net investment income	8,248	8,270	-	-
Investment related expenses	(61)	(64)	-	-
Total Additions	8,187	10,120	-	-
DEDUCTIONS:				
Benefit payments for participants	1,498	1,786	-	-
Payments for customers	-	-	-	4
Total Deductions	1,498	1,786	-	4
Change in Net Position	6,689	8,334	-	(4)
Net Position - Beginning	75,757	67,423	-	4
NET POSITION - ENDING	\$ 82,446	\$ 75,757	\$ -	\$ -

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

Organization and Administration

The Hampton Roads Sanitation District (HRSD) was created by the Virginia General Assembly in 1940, as a political subdivision of the Commonwealth of Virginia (the Commonwealth), to construct, maintain, and operate a wastewater treatment system in the Hampton Roads area. The Hampton Roads Sanitation District Commission (the Commission) is HRSD's governing body and consists of eight members, appointed by the Governor. The Commission's functions were updated by Chapter 66 of the Acts of the Assembly of Virginia of 1960, as amended. The administration of HRSD is under the direction of a General Manager, supported by eight division chiefs.

Regulatory Oversight

HRSD's operations are subject to regulations established by the United States Environmental Protection Agency and the Virginia Department of Environmental Quality. Changes in these regulations could require HRSD to modify its treatment processes and require additional capital investment and/or incur additional costs.

Purpose of HRSD

HRSD was created for the specific purpose of abating pollution in the Hampton Roads area through the interception of wastewater outfalls, installation of interception service into new areas as necessary and providing treatment facilities. HRSD provides points of interception throughout the region. The responsibility of providing lateral sewers and subtrunk facilities to carry sewage from industries, residences and businesses is generally the responsibility of the local municipal governments.

Corporate Limits of HRSD

The geographical limits of HRSD include:

City of Chesapeake	City of Virginia Beach	King William County
City of Hampton	City of Williamsburg	Mathews County
City of Newport News	Accomack County	Middlesex County
City of Norfolk	Gloucester County	Northampton County
City of Poquoson	Isle of Wight County	Surry County (excluding Town of Claremont)
City of Portsmouth	James City County	York County
City of Suffolk	King and Queen County	

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HRSD is a political subdivision of the Commonwealth and a government instrumentality. The Commission is granted corporate powers by the *Code of Virginia*. The Governor of the Commonwealth appoints the Commission members, who serve at his pleasure. HRSD is reported in the Commonwealth's Annual Comprehensive Financial Report as a discretely presented component unit. The Commonwealth is not obligated to repay HRSD's debt. HRSD derives its revenues primarily from charges for wastewater treatment services. HRSD has no taxing authority.

RHP, as further described under Postemployment Benefits Other Than Pensions in this note and in Note 7, is reported in the fiduciary fund financial statements and, since HRSD has assumed responsibility to make contributions to the plan, it is also reported as a fiduciary component unit.

Basis of Accounting

The accompanying financial statements report the financial position and results of operations of HRSD in accordance with accounting principles generally accepted in the United States of America (GAAP). Because HRSD is a political subdivision of the Commonwealth, the preparation of HRSD's financial statements are governed by the

pronouncements of the Governmental Accounting Standards Board (GASB). These statements are prepared on an enterprise fund basis and present HRSD's operating revenues and expenses in a manner similar to a private business, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

An enterprise fund, a proprietary fund type, is accounted for on an economic resources measurement focus. All assets and liabilities, whether current or noncurrent, associated with its activities are included on its Statements of Net Position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in fund equity. The financial statements are presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

When both restricted and unrestricted resources are available for use, it is HRSD's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Accounting and Control

HRSD operates in accordance with annual operating and capital budgets prepared on a basis of accounting that is different from generally accepted accounting principles. The operating budget is adopted by division with budgetary controls exercised administratively by management at the divisional level. The CEO is authorized to add or eliminate positions and transfer funds among divisions without further approval by the Commission. Appropriations lapse at the end of the fiscal year. Valid, outstanding encumbrances (those for which performance is expected in a subsequent fiscal year) are reappropriated without further approval by the Commission.

The Capital Budget represents a ten-year plan. Funds for the Capital Budget are appropriated throughout a fiscal year on a project basis. Transfers among projects require approval by the Commission. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled.

Fiduciary Activities

The accompanying financial statements for the fiscal years ended June 30, 2025 and 2024 include information on the RHP, one of HRSD's three postemployment benefits other than pensions (other postemployment benefits, or OPEB) plans, information on funds held by HRSD to apply toward customer accounts under the American Recovery Plan Act (ARPA). The RHP plan is discussed in Note 7, and ARPA is discussed in Note 14.

Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to cash, and at the day of purchase, have an original maturity date of no longer than three months. Current restricted cash and cash equivalents are for debt service payments payable within the next year. Investments in the Virginia Investment Pool (VIP) Stable NAV Liquidity Pool provide HRSD an investment vehicle that offers daily liquidity at a stable net asset value (NAV). Investments in the VIP Liquidity Pool are recorded at fair value approximating NAV. Fair value is determined daily. See Notes 3 and 13 for additional discussion of cash and cash equivalent and investment valuations.

Investments

Investments in VIP 1-3 Year High Quality Bond Fund consist of U.S. government obligations including agencies, FDIC-guaranteed corporate notes, other corporate notes and bonds, and municipal bonds, which are reported at fair value, approximating NAV. The VIP 1-3 Year High Quality Bond Fund has an average effective duration period of 1.8 years and although the funds are easily convertible into cash, the intention of HRSD is to hold the funds as an investment.

The HRSD RHP investments consist of domestic equity, international equity, fixed income, other income, and money market instruments. HRSD's investment practices are governed by its Financial Policy. See Notes 3, 7 and 13 for additional information on RHP investments.

Allowance for Uncollectible Accounts

HRSD provides an allowance for estimated uncollectible accounts receivable based on its bad debt experience. The balance in the allowance for uncollectible accounts is considered by management to be sufficient to cover anticipated losses on reported receivable balances.

Inventory

Inventory is carried at the lower of cost or fair value and consists primarily of operating and maintenance materials.

NOTES TO THE FINANCIAL STATEMENTS

Property, Plant and Equipment

HRSD funds its capital improvement program through the issuance of debt, capital grants and it may receive its own resources. The proceeds of debt are reported as restricted assets. Generally, for projects funded with both debt proceeds and other resources, it is HRSD's policy to use available debt proceeds to pay project expenditures prior to using its own resources.

Property, plant and equipment purchased or constructed are reported at cost, including interest cost on funds borrowed to finance the construction of major capital additions. The asset capitalization threshold is \$20,000. Donated assets are reported at acquisition value at the date of donation. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Treatment plants, buildings and facilities	30 years
Interceptor systems	50 years
Office furniture and equipment	5-10 years
Software and intangible assets	5-7 years
Automotive	5 years

Depreciation and amortization recognized on property, plant and equipment is an operating expense.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and as such will not be recognized as an expense until then. HRSD has two types of deferred outflows reported: deferred outflows of resources from debt refunding, and deferred outflows of resources from pension and OPEB activities. The deferred outflows of resources relating to the debt refunding is the amount by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded debt. Deferred outflow related to debt is being amortized over the remaining life of the refunded debt or the life of the new debt, whichever is shorter.

Deferred inflows of resources represents an acquisition of net assets that applies to a future period and as such will not be recognized as a revenue until then. The HRSDs deferred inflows of resources consist of pension and OPEB activities.

Deferred outflows of resources and deferred inflows of resources related to pension and OPEB activity will be recognized in pension and OPEB expenses in future reporting periods.

Revenue Recognition

Generally, wastewater treatment charges are computed based on a user's water consumption. These charges are recognized as revenue when billed. Revenues earned but unbilled through June 30 of each fiscal year are accrued at year-end. Wastewater facility charges are generally computed based on a new connection's water meter size and potential for high strength pollutant discharges, and are recognized as revenue prior to the issuance of a building or operating permit.

Operating and Non-operating Revenues and Expenses Recognition

HRSD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with HRSD's principal service of providing wastewater treatment. The majority of operating revenues are from wastewater treatment, but other associated miscellaneous income from other related services and charges are also included. Revenues and expenses not meeting the operating definition are reported as non-operating. These consist mainly of wastewater facility charges, investment income, capital contributions and interest expense.

Compensated Absences

All permanent employees earn leave upon starting a full-time position. The amount and type of leave earned is based upon the employee's date of hire and years of service and is recorded as an expense as employees earn the right to these benefits.

Depending on years of service, permanent employees enrolled in the Virginia Retirement System (VRS) 1 or VRS 2 retirement plan earn from 123.5 to 221 hours of annual leave per year. These employees have a vested right to their

annual leave when earned and have a maximum pay out upon separation ranging from 363.5 to 653 hours based on number of years of service. In addition, these employees earn 97.5 hours per year of sick leave regardless of the number of years of service. After five years of service with HRSD, an employee has vested rights to 35 percent of accumulated sick leave to a maximum of \$10,000.

Permanent employees enrolled in the VRS Hybrid retirement plan earn 208 hours of paid time off (PTO) per year. These employees have a vested right to their annual leave after two years of service and have a maximum pay out upon separation ranging from 120 to 480 hours based on number of years of service. As required by state law, HRSD also provides a long-term disability (LTD) benefit since these employees are not eligible for disability retirement benefits through VRS. The long-term disability benefit provides income replacement for employees who become disabled and unable to work for an extended period of time due to a non-work-related or work-related condition (as determined under the Virginia Workers' Compensation Act). Long-term disability benefits begin at the expiration of an additional state mandated employer paid short-term disability (STD) benefit period of 125 days.

Postemployment Benefits Other Than Pensions (OPEB)

HRSD employees participate in three OPEB plans:

The HRSD RHP is a single employer, defined benefit plan that provides health benefits for eligible members. HRSD administers the RHP through the Hampton Roads Sanitation District Retiree Health Trust. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHP and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the RHP. For this purpose, the RHP recognizes benefit payments when due and payable in accordance with the benefit terms.

The VRS Political Subdivision Health Insurance Credit Program (HIC) is a multiple-employer, agent-defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. The Political Subdivision HIC Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the HIC OPEB, and the HIC OPEB expense, information about the fiduciary net position of the VRS HIC, and the additions to/deductions from the VRS HIC's fiduciary net position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The VRS Group Life Insurance (GLI) Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to § 51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB Liability, deferred outflows of resources and deferred inflows of resources related to the GLI Program OPEB, and GLI Program OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI Program OPEB's fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pensions

HRSD employees participate in the VRS Political Subdivision Retirement Plan which is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of HRSD's Retirement Plan and the additions to or deductions from HRSD's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported to HRSD by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's estimates.

NOTES TO THE FINANCIAL STATEMENTS

Change in Accounting Pronouncements

In fiscal year 2025, there were two new GASB Standards, No. 101 and No. 102. GASB pronouncement Statement No. 101, *Compensated Absences*, establishes standards of accounting and financial reporting by updating the recognition and measurement guidance for compensated absences. See Note 15 for additional information. GASB Statement No. 102, *Certain Risk Disclosures*, establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. The implementation of this new standard did not have a material impact on HRSD's financial statements for fiscal year 2025.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments

Custodial Credit Risk. This risk is associated with the inability of a governmental entity to recover deposits from a financial institution in the event of a failure. At June 30, 2025 and 2024, the carrying values of HRSD's deposits were \$65,806,000 and \$60,129,000, respectively, and the bank balances were \$63,797,000 and \$58,164,000, respectively. All of the bank balances at June 30, 2025 and 2024 were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral in the form of federal obligations with a fair value equal to 110 percent of HRSD's deposits with a third party trustee in the name of the Treasurer of the Commonwealth. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse HRSD up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

Credit Risk. HRSD invests in VACo/VML Virginia Investment Pool's (VIP) 1-3 Year High Quality Bond Fund and Stable NAV Liquidity Pool. Oversight is provided by the VACo/VML Board of Trustees. HRSD's investments in the VIP 1-3 Year High Quality Bond Fund and the VIP Stable NAV Liquidity Pool were rated AA+f/S1 and AAAM, respectively, by Standard & Poor's.

The components of cash and cash equivalents at June 30 are as follows:

(in thousands)	2025	2024
Cash and cash equivalents - unrestricted:		
Cash deposits - unrestricted	\$ 65,806	\$ 60,129
VIP Stable NAV Liquidity - unrestricted	286,567	156,482
Total cash and cash equivalents - unrestricted	352,373	216,611
Cash and cash equivalents - restricted:		
VIP Stable NAV Liquidity - restricted	37,709	22,307
SNAP - restricted	143,930	-
Total cash and cash equivalents - restricted	181,639	22,307
Total cash and cash equivalents - unrestricted and restricted	\$ 534,012	\$ 238,918

The components of investments at June 30 are as follows:

VIP 1-3 Year High Quality Bond Fund	\$ 69,597	\$ 65,916
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HRSD OPEB Trust Investments

The HRSD OPEB Trust has investments in mutual funds, cash, and cash equivalents on deposit with its trustee, US Bank. Investments are reported at fair value. HRSD's OPEB investment practices are governed by its Financial Policy.

The plan had the following cash, cash equivalents and investments at June 30:

(in thousands)	2025	2024
Domestic equity	\$ 41,184	\$ 31,220
International equity	10,442	15,465
Fixed income	27,903	25,608
Other income	2,554	2,646
Money market	363	818
Total investments, cash and cash equivalents	\$ 82,446	\$ 75,757

Fixed income investments had an average maturity of 7.8 years and 8.0 years as of June 30, 2025 and 2024, respectively. The average credit quality was A as of June 30, 2025 and AA as of June 30, 2024. Other investments do not have a stated maturity or credit rating.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, HRSD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. HRSD's policy is to utilize its Trustee, U.S. Bank Trust Department, for its OPEB investments as recipient of all investment transactions on a delivery versus pay basis. The Trustees may not be a counterparty to the investment transaction.

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

An analysis of the allowance for uncollectible accounts for the years ended June 30:

(in thousands)	2025	2024
Balance, beginning of year	\$ 2,910	\$ 2,282
Add: Current provision for uncollectible accounts	4,275	5,325
Less: Charge-off of uncollectible accounts	(3,974)	(4,697)
Balance, end of year	<u>\$ 3,211</u>	<u>\$ 2,910</u>

HRSD's collection ratios for the years ended June 30, 2025 and 2024 were 99.1% and 98.9%, respectively.

NOTE 5 - COMPENSATED ABSENCES

Analysis of liability for vested annual leave, sick leave, paid time off, compensatory leave, military leave and parental leave for years ended June 30:

	2025	2024 *
(in thousands)		
Beginning of year	\$ 18,142	\$ 17,489
Net change	1,334	653
End of year	\$ 19,476	\$ 18,142
Less: current portion	7,803	6,600
Noncurrent portion	<u>\$ 11,673</u>	<u>\$ 11,542</u>

* Fiscal year 2024 was restated due to GASB 101. See Note 15 for additional information.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Analysis of property, plant and equipment activity for years ended June 30:

(in thousands)	Balance 2023	Additions	Transfers/ Retirements	Balance 2024	Additions	Transfers/ Retirements	Balance 2025
Non-Depreciable Capital Assets:							
Land	\$ 64,198	\$ -	\$ -	\$ 64,198	\$ 4,862	\$ -	\$ 69,060
Construction in progress	640,248	562,250	(96,651)	1,105,847	669,151	(187,642)	1,587,356
Depreciable Capital Assets:							
Treatment plants	1,474,641	16,349	-	1,490,990	27,072	-	1,518,062
Interceptor systems	793,863	52,189	-	846,052	145,728	-	991,780
Buildings	69,759	76	-	69,835	852	-	70,687
Small community facilities	26,094	-	-	26,094	4,611	-	30,705
Office equipment	45,353	528	-	45,881	-	-	45,881
Automotive	21,694	3,902	(941)	24,655	4,301	(1,358)	27,598
Other equipment	79,329	17,515	-	96,844	2,780	-	99,624
Software and intangible assets	40,155	177	-	40,332	-	-	40,332
Total	\$ 3,255,334	\$ 652,986	\$ (97,592)	\$ 3,810,728	\$ 859,357	\$ (189,000)	\$ 4,481,085
Less Accumulated Depreciation and Amortization:							
Treatment plants	\$ (830,427)	\$ (32,607)	\$ -	\$ (863,034)	\$ (32,712)	\$ -	\$ (895,746)
Interceptor systems	(231,947)	(15,405)	-	(247,352)	(16,479)	-	(263,831)
Buildings	(25,737)	(2,022)	-	(27,759)	(2,045)	-	(29,804)
Small community facilities	(10,620)	(546)	-	(11,166)	(537)	-	(11,703)
Office equipment	(44,784)	(167)	-	(44,951)	(216)	-	(45,167)
Automotive	(18,213)	(1,493)	941	(18,765)	(1,945)	1,358	(19,352)
Other equipment	(41,171)	(4,779)	-	(45,950)	(6,471)	-	(52,421)
Software and intangible assets	-	-	-	-	-	-	-
-amortization	(40,084)	(34)	-	(40,118)	(51)	-	(40,169)
Total	(1,242,983)	(57,053)	941	(1,299,095)	(60,456)	1,358	(1,358,193)
Net Property, Plant and Equipment	\$ 2,012,351	\$ 595,933	\$ (96,651)	\$ 2,511,633	\$ 798,901	\$ (187,642)	\$ 3,122,892

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

As discussed in Note 2, HRSD provides OPEB for its employees through three plans: the Hampton Roads Sanitation District RHP, a single employer defined benefit plan, and two plans administered by VRS, the GLI, a multiple employer cost-sharing plan, and the HIC, a multiple-employer, agent defined benefit plan.

RHP

The RHP was established and may be amended by the Commission. HRSD administers the RHP through the Hampton Roads Sanitation District Retiree Health Trust (the Trust), an irrevocable trust to be used solely for providing benefits to eligible retired employees and their beneficiaries (members) in the RHP. HRSD's contributions to the Trust are dedicated irrevocably to providing post-retirement health benefits, the RHP assets are exclusively dedicated to providing benefits to members, and the RHP assets of the Trust are not subject to the claims of HRSD creditors or the Plan administrator. Employer contributions are recorded in the year they are made. Investments are reported at fair value based on published prices and quotations. The RHP does not issue stand-alone financial statements.

Eligible Employees

HRSD employees are eligible for benefits upon retirement provided the employee has 15 years of service with HRSD or 10 years of service with HRSD plus 10 years of service with another employer participating in the VRS with a retiree health plan; are qualified for normal, early or disability retirement benefits under the VRS; and are enrolled in the HRSD Health Insurance Plan prior to retirement. Participating beneficiaries may continue coverage under the plan after the death of the retiree. Medicare eligible participants are required to enroll in both Medicare Part A and Part B and may participate in a Medicare advantage plan. Members not eligible for Medicare may participate in a high deductible health plan.

Benefits provided

The RHP health plan provides medical and prescription services using both in network and out of network providers through a self-funded plan administered by a third-party administrator. Members may elect to purchase dental and vision benefit plans at their own expense.

GLI

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for GLI Program OPEB, including eligibility, coverage and benefits follows:

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The benefits payable under the GLI Program have several components.

- Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit – The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Seatbelt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in Benefit Amounts

The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25 percent on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25 percent on each subsequent January 1 until it reaches 25 percent of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$9,532 as of June 30, 2025.

HIC

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Program upon employment. This plan is administered by the VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any

NOTES TO THE FINANCIAL STATEMENTS

portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Program OPEB, including eligibility, coverage and benefits follows:

Eligible Employees

The Political Subdivision Retiree HIC Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit. Eligible employees of participating political subdivisions are enrolled automatically upon employment. They include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.

Benefit Amounts

The political subdivision's Retiree HIC Program provides the following benefits for eligible employees:

- At Retirement – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month.
- Disability Retirement – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Program Notes:

- The monthly HIC benefit cannot exceed the individual premium amount.
- No HIC for premiums paid and qualified under the VRS Line of Duty Act Program (LODA), however, the employee may receive the credit for premiums paid for other qualified health plans.
- Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Employees Covered by Benefit Terms

RHP

As of the July 1, 2024 and 2023 actuarial valuation dates the following employees were covered by the benefit terms of the RHP:

	2024	2023
Beneficiaries currently receiving benefit payments	244	248
Active employees	767	734
Total	1,011	982

There are no inactive employees entitled to but not yet receiving plan benefits.

HIC

As of the June 30, 2023 and 2022 actuarial valuation dates the following employees were covered by the benefit terms of the HIC:

	2023	2022
Inactive members or their beneficiaries currently receiving benefit payments	395	420
Active employees	830	774
Total	1,225	1,194

ContributionsRHP

RHP contribution requirements are actuarially determined. Funding is subject to approval by the Commission. Medicare-eligible members contribute \$45 per month for retiree-only coverage and from \$165 to \$171 per month for retiree and dependent coverage. Members not eligible for Medicare contribute \$45 per month for retiree-only coverage and from \$360 to \$366 per month for retiree and dependent coverage. HRSD funds the cost of coverage under the RHP by paying the difference between the contributions it requires retirees to make and the actuarially determined contribution (ADC). HRSD contributed \$0 and \$1,914,000 to the RHP for the years ended June 30, 2025 and 2024, respectively.

GLI

The contribution requirements for the GLI Program are governed by § 51.1-506 and § 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.18 percent of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.71 percent (1.18 percent X 60 percent) and the employer component was 0.47 percent (1.18 percent X 40 percent). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2025, was 0.47 percent of covered employee compensation. This rate was the final approved General Assembly rate which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI from HRSD were \$345,000 and \$357,000 for the years ended June 30, 2025 and June 30, 2024, respectively.

HIC

The HIC contribution requirement for active employees is governed by §51.1-1402(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. HRSD's contractually required employer contribution rate for the years ended June 30, 2025 and June 30, 2024, was 0.21 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from HRSD to the Political Subdivision HIC Program were \$154,000 and \$139,000 for the years ended June 30, 2025, and June 30, 2024, respectively.

OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of ResourcesRHP

HRSD recognized RHP OPEB gain of \$24,756,000 and expense of \$921,000 for the years ended June 30, 2025 and 2024, respectively. HRSD reported deferred outflows of resources and deferred inflows of resources related to RHP OPEB from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Year ended June 30, 2025:		
Differences between expected and actual experience	\$ 5,448	\$ 13,210
Changes in assumptions	2,941	3,833
Net diff between projected and actual earnings on plan investments	-	3,260
Total	<u>\$ 8,389</u>	<u>\$ 20,303</u>
Year ended June 30, 2024:		
Differences between expected and actual experience	\$ 6,880	\$ 6,182
Changes in assumptions	2,274	4,730
Net diff between projected and actual earnings on plan investments	-	705
Total	<u>\$ 9,154</u>	<u>\$ 11,617</u>

NOTES TO THE FINANCIAL STATEMENTS

HRSD's measurement date is its fiscal year end so there are no deferred outflows of resources resulting from contributions subsequent to the measurement date. Other amounts reported as deferred outflows and inflows of resources related to RHP OPEB will be recognized in OPEB expense in future reporting periods as follows:

(in thousands)			
Years Ended June 30		2025	2024
2025		\$ -	\$ (805)
2026		(434)	1,352
2027		(3,274)	(1,487)
2028		(3,179)	(1,392)
2029		(1,491)	296
2030		(1,354)	-
Thereafter		(2,182)	(427)
		<u>\$ (11,914)</u>	<u>\$ (2,463)</u>

GLI

At June 30, 2025, HRSD reported a liability of \$2,872,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2024 and the total GLI OPEB Liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. HRSD's proportion of the Net GLI OPEB Liability was based on the HRSD's actuarially determined employer contributions to the GLI Program for the fiscal year ended June 30, 2024, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, HRSD's proportion was 0.2574%.

At June 30, 2024, HRSD reported a liability of \$3,002,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2023 and the total GLI OPEB Liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2022, and rolled forward to the measurement date of June 30, 2023. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the fiscal year ended June 30, 2023, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2023, the participating employer's proportion was 0.2503%.

For the years ended June 30, 2025 and 2024, HRSD recognized GLI OPEB expenses of \$61,000 and \$116,000, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2025 and 2024, HRSD reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Year ended June 30, 2025:		
Differences between expected and actual experience	\$ 453	\$ 242
Net diff bet projected and actual earnings on program investments	-	70
Change in assumptions	16	142
Changes in proportion	93	103
Employer contributions subsequent to the measurement date	345	-
Total	<u>\$ 907</u>	<u>\$ 557</u>
Year ended June 30, 2024:		
Differences between expected and actual experience	\$ 300	\$ 91
Net diff bet projected and actual earnings on program investments	-	121
Change in assumptions	64	208
Changes in proportion	35	140
Employer contributions subsequent to the measurement date	357	-
Total	<u>\$ 756</u>	<u>\$ 560</u>

HRSD reported \$345,000 and \$357,000 as of June 30, 2025 and 2024, respectively, as deferred outflows of resources related to the GLI OPEB resulting from the HRSD's contributions subsequent to the measurement date which will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Years ending June 30, 2026 and 2025, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

(in thousands)		
Years ended June 30	2025	2024
2025	\$ -	(46)
2026	(138)	(150)
2027	48	31
2028	(6)	(22)
2029	43	26
2030	58	-
	<u>\$ 5</u>	<u>(161)</u>

HIC

HRSD recognized HIC Program OPEB expense of \$129,000 and \$130,000 for the years ended June 30, 2025 and 2024, respectively. HRSD reported deferred outflows of resources and deferred inflows of resources related to the Political Subdivision HIC Program from the following sources:

HIC (in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Year ended June 30, 2025:		
Differences between expected and actual experience	\$ 70	\$ 31
Net diff bet projected and actual earnings on program investments	-	24
Change in assumptions	51	-
Employer contributions subsequent to the measurement date	154	-
Total	<u>\$ 275</u>	<u>\$ 55</u>
Year ended June 30, 2024:		
Differences between expected and actual experience	\$ 102	\$ 38
Net diff bet projected and actual earnings on program investments	-	11
Change in assumptions	76	-
Employer contributions subsequent to the measurement date	139	-
Total	<u>\$ 317</u>	<u>\$ 49</u>

HRSD reported \$154,000 for FY 2025 and \$139,000 for FY 2024 as deferred outflows of resources related to the HIC OPEB resulting from HRSD's contributions subsequent to the measurement date which will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2026 and 2025, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

(in thousands)		
Years ended June 30	2025	2024
2025	\$ -	37
2026	15	21
2027	41	47
2028	17	24
2029	(7)	-
	<u>\$ 66</u>	<u>\$ 129</u>

NOTES TO THE FINANCIAL STATEMENTS

Aggregate OPEB RHP, GLI and HIC Inflows and Outflows

For the years ended June 30, 2025 and 2024, HRSD reported deferred outflows of resources and deferred inflows of resources related to the RHP, GLI and HIC OPEB plans from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Year ended June 30, 2025:		
Differences between expected and actual experience	\$ 5,971	\$ 13,483
Net diff bet projected and actual earnings on program investments	-	3,354
Changes in proportion	93	103
Change in assumptions	3,008	3,975
Employer contributions subsequent to the measurement date	499	-
Total	<u>\$ 9,571</u>	<u>\$ 20,915</u>
Year ended June 30, 2024:		
Differences between expected and actual experience	\$ 7,282	\$ 6,311
Net diff bet projected and actual earnings on program investments	-	837
Change in assumptions	35	140
Changes in proportion	2,414	4,938
Employer contributions subsequent to the measurement date	496	-
Total	<u>\$ 10,227</u>	<u>\$ 12,226</u>

HRSD reported \$499,000 for FY 2025 and \$496,000 for FY 2024 as deferred outflows of resources related to the OPEB plans resulting from HRSD's contributions subsequent to the measurement date which will be recognized as a reduction of the net OPEB Liability in the fiscal year ending June 30, 2026 and 2025, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plans will be recognized in HRSD's OPEB expense in future reporting periods as follows:

(in thousands)	2025	2024
<u>Years ended June 30</u>		
2025	\$ -	(814)
2026	(557)	1,223
2027	(3,185)	(1,409)
2028	(3,168)	(1,390)
2029	(1,455)	322
2030	(1,296)	(427)
Thereafter	(2,182)	-
	<u>\$ (11,843)</u>	<u>\$ (2,495)</u>

HRSD reported a gain of \$24,566,000 for FY 2025 and an expense of \$1,167,000 for FY 2024 as combined OPEB gains and expenses related to the RHP, GLI and HIC OPEB plans as follows:

(in thousands)	2025	2024
<u>Years ended June 30</u>		
RHP	(24,756)	921
GLI	61	116
HIC	129	130
Total OPEB (Gain) Expense	<u>\$ (24,566)</u>	<u>\$ 1,167</u>

In fiscal year 2025, \$23,758,000 of the reported RHP gain is related to the Special Item reported separately on the Statements of Revenues, Expenses and Changes in Net Position. See Note 16 Special Item for additional information.

Actuarial Methods and AssumptionsRHP

The total RHP OPEB liabilities were based on actuarial valuations as of July 1, 2024 and 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement dates of June 30, 2025 and 2024.

Year ended June 30, 2025 and 2024:

Inflation	2.5 percent
Salary increases, including inflation	2.5 percent
Investment rate of return	6.0 percent, net of investment expenses, including inflation

Mortality rates for the RHP are as follows:

Healthy Retirees	SOA Pub-2010 General Retirees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021
Disabled Retirees	SOA Pub-2010 General Disabled Retirees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021
Active	SOA Pub-2010 General Employees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021

GLI

The total GLI OPEB Liability was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Year ended June 30, 2024:

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35 percent
Investment rate of return	6.75 percent, net of investment expenses, including inflation

Mortality tables and assumptions for GLI are as follows:

Pre-Retirement:	Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years.
Post-Retirement:	Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year.
Post-Disablement:	Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years.
Beneficiaries and Survivors	Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally.
Mortality Improvement Scale	Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

Year ended June 30, 2023:

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35 percent
Investment rate of return	6.75 percent, net of investment expenses, including inflation

Mortality tables and assumptions for GLI are as follows:

Pre-Retirement:	Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males set forward 2 years; 105% of rates for females set forward 3 years.
Post-Retirement:	Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year.
Post-Disablement:	Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years.
Beneficiaries and Survivors	Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally.
Mortality Improvement Scale	Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

NOTES TO THE FINANCIAL STATEMENTS

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action for Years ended June 30, 2024 and June 30, 2023 are as follows:

Mortality rates	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Pre-retirement, post-retirement healthy, and disabled	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Retirement Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Withdrawal Rates	No change
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

HIC

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Year ending June 30, 2024:

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35 percent
Investment rate of return	6.75 percent, net of investment expenses, including inflation

Mortality tables and assumptions for HIC are as follows:

Pre-Retirement:	Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
Post-Retirement:	Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
Post-Disablement:	Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
Beneficiaries and Survivors	Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
Mortality Improvement Scale	Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

Note: Assumptions for measurement date June 30, 2024 were the same as June 30, 2023.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Pre-retirement, post-retirement healthy, and disabled	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Retirement Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Withdrawal Rates	No change
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Note: Assumptions for measurement date June 30, 2024 were the same as June 30, 2023.

Long-Term Expected Rate of ReturnRHP

The long-term expected rate of return on RHP investments was determined using an economic building block approach that projects economic and corporate profit growth and takes into consideration the fundamental factors driving long-term real economic growth, our expectation for inflation, productivity, and labor force growth. The returns presented here are geometric return projections based on long-term capital market assumptions. The asset target allocations are governed by its Financial Policy. The best estimate of arithmetic real rates of return for each major asset class are summarized in the following tables:

Year ended June 30, 2025

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Domestic Equity	48.00%	5.62%	2.70%
International Developed Equity	12.00%	6.99%	0.84%
Core Fixed	31.00%	2.20%	0.68%
High Yield	5.00%	3.94%	0.20%
Core Real Estate	4.00%	6.18%	0.24%
Total	100.00%		4.66%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.16%

* The above allocation provides a one-year return of 7.16%. However, one-year returns do not take into account the volatility present in each of the asset classes so a rate of 6.0% is used.

Year ended June 30, 2024

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Geometric Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Domestic Equity	39.00%	5.96%	2.32%
International Developed Equity	19.00%	8.08%	1.54%
International Emerging Markets Equity	2.00%	8.27%	0.17%
Core Fixed	32.00%	2.69%	0.86%
Short-Term Fixed	2.00%	1.41%	0.03%
High Yield	2.00%	4.33%	0.09%
core Real Estate	4.00%	5.52%	0.22%
Total	100.00%		5.23%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.73%

* The above allocation provides a one-year return of 7.73%. However, one-year returns do not take into account the volatility present in each of the asset classes so a rate of 6.0% is used.

NOTES TO THE FINANCIAL STATEMENTS

GLI and HIC

The long-term expected rate of return on the GLI and HIC investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of GLI and HIC's 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. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following tables:

Year ended June 30, 2025

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return *
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP-Private Investment Partnership	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	(3.00%)	3.50%	(0.11%)
Total	100.00%		7.07%
* Expected arithmetic nominal return			7.07%

* The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Year ended June 30, 2024

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return *
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP-Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	100.00%		5.75%
Inflation			2.50%
* Expected arithmetic nominal return			8.25%

* The above allocation provides a one-year return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount RatesRHP

The discount rate used to measure the total OPEB liability for the RHP, as of June 30, 2024 and 2023, was 6.0%. The projection of cash flows used to determine the discount rate assumes that HRSD contributions will be made in accordance with the funding plan established by an independent actuarial review.

GLI and HIC

The discount rate used to measure the total GLI and HIC OPEB liability was 6.75 percent as of June 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal years ending June 30, 2024 and 2023, the rate contributed by the entity for GLI was 113 percent and HIC was 100 percent of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to continue to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the GLI and HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI and HIC OPEB liability.

Change in Net OPEB LiabilityRHP

HRSD's net RHP OPEB liability was measured as of June 30, 2025 and 2024, using a June 30, 2024 and 2023 valuation, which has been rolled forward to the June 30, 2025 and 2024 measurement date.

(in thousands)	Total RHP OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net RHP OPEB Liability (a) - (b)
RHP OPEB Liability Balances at June 30, 2023	\$ 76,476	\$ 67,423	\$ 9,053
Changes for the year - Increase (Decrease):			
Service cost	1,274	-	1,274
Interest	4,533	-	4,533
Changes of assumptions	2,599	-	2,599
Difference between expected and actual experience	(3,472)	-	(3,472)
Contributions - employer	-	1,914	(1,914)
Net investment income	-	8,270	(8,270)
Benefit payments, including refunds of employee contributions	(1,850)	(1,850)	-
Net changes	3,084	8,334	(5,250)
RHP OPEB Liability Balances at June 30, 2024	\$ 79,560	\$ 75,757	\$ 3,803
Changes for the year - Increase (Decrease):			
Service cost	1,338	-	1,338
Interest	4,754	-	4,754
Changes of benefit terms	(23,758)	-	(23,758)
Changes of assumptions	1,133	-	1,133
Difference between expected and actual experience	(9,426)	-	(9,426)
Net investment income	-	8,248	(8,248)
Benefit payments, including refunds of employee contributions	(1,559)	(1,559)	-
Net changes	(27,518)	6,689	(34,207)
RHP OPEB Liability (Asset) Balances at June 30, 2025	\$ 52,042	\$ 82,446	\$ (30,404)

RHP fiduciary net position as a percentage of the total RHP OPEB liability was 158.42% and 95.22% as of June 30, 2025 and 2024, respectively.

NOTES TO THE FINANCIAL STATEMENTS

GLI

HRSD's net GLI OPEB liability represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement dates of June 30, 2024 and 2023, net OPEB liability amounts for the GLI Program are as follows:

(in thousands)	2024	2023
Total GLI OPEB Liability	\$ 4,196,055	\$ 3,907,052
Plan Fiduciary Net Position	3,080,133	2,707,739
Net GLI OPEB Liability	<u>\$ 1,115,922</u>	<u>\$ 1,199,313</u>

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability: 73.41% 69.30%

The total GLI OPEB Liability is calculated by the VRS's actuary, and each plan's fiduciary net position is reported in VRS's financial statements. The net GLI OPEB Liability is disclosed in accordance with the requirements of GASB Statement No. 74 in VRS's notes to the financial statements and required supplementary information.

HIC

HRSD's net HIC OPEB liability was measured as of June 30, 2024 and 2023. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2023 and 2022, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024 and 2023.

(in thousands)	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (a) - (b)
HIC OPEB Liability Balances at June 30, 2022	\$ 2,241	\$ 1,108	\$ 1,133
Changes for the year - Increase (Decrease):			
Service cost	18	-	18
Interest	147	-	147
Difference between expected and actual experience	106	-	106
Contributions - employer	-	124	(124)
Net investment income	-	65	(65)
Benefit payments, including refunds of employee contributions	(161)	(161)	-
Administrative expense	-	(1)	1
Net changes	110	27	83
HIC OPEB Liability Balances at June 30, 2023	\$ 2,351	\$ 1,135	\$ 1,216
Changes for the year - Increase (Decrease):			
Service cost	19	-	19
Interest	154	-	154
Difference between expected and actual experience	(5)	-	(5)
Contributions - employer	-	139	(139)
Net investment income	-	104	(104)
Benefit payments, including refunds of employee contributions	(167)	(167)	-
Administrative expense	-	(1)	1
Net changes	1	75	(74)
HIC OPEB Liability Balances at June 30, 2024	\$ 2,352	\$ 1,210	\$ 1,142

Sensitivity of the Net OPEB Liabilities (Assets) to Changes in the Discount Rate and Healthcare Cost Trend Rate

RHP

The following table presents the net RHP OPEB liability (asset) using the discount rate of 6.0%, as well as what the liability (asset) would be if it is calculated using a discount rate that is one percentage point lower (at 5.00%) or one percentage point higher (at 7.00%) than the current discount rate:

<u>RHP Discount Rate</u>	RHP Discount Rate		
	1% Decrease 5.00%	Current Rate 6.00%	1% Increase 7.00%
Net RHP OPEB Liability/(Asset) (in thousands)			
Year ended June 30, 2025	\$ (23,238)	\$ (30,404)	\$ (36,318)
Year ended June 30, 2024	16,411	3,803	(6,350)

The following table presents the net RHP OPEB liability (asset) using the Trend rate, as well as what the liability (asset) would be if it is calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

<u>RHP Ultimate Trend</u>	RHP - Healthcare Cost Trend Rate		
	1% Decrease 2.92%	Current Rate 3.92%	1% Increase 4.92%
Year ended June 30, 2025 rates:			
Net RHP OPEB Asset (in thousands)	\$ (37,452)	\$ (30,404)	\$ (21,605)
Year ended June 30, 2024 rates:	2.94%	3.94%	4.94%
Net RHP OPEB Liability/(Asset) (in thousands)	\$ (7,724)	\$ 3,803	\$ 18,423

GLI

The following presents the net GLI OPEB liability using the discount rate of 6.75%, as well as what the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (at 5.75%) or one percentage point higher (at 7.75%) than the current rate:

<u>GLI Discount Rate</u>	GLI Discount Rate		
	1% Decrease 5.75%	Current Rate 6.75%	1% Increase 7.75%
GLI Net OPEB Liability (in thousands)			
Year ended June 30, 2025	\$ 4,466	\$ 2,872	\$ 1,584
Year ended June 30, 2024	4,450	3,002	1,832

HIC

The following presents the net HIC OPEB liability using the discount rate of 6.75%, as well as what the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (at 5.75%) or one percentage point higher (at 7.75%) than the current rate:

<u>HIC Discount Rate</u>	HIC Discount Rate		
	1% Decrease 5.75%	Current Rate 6.75%	1% Increase 7.75%
HIC Net OPEB Liability (in thousands)			
Year ended June 30, 2025	\$ 1,383	\$ 1,142	\$ 937
Year ended June 30, 2024	1,461	1,216	1,008

NOTES TO THE FINANCIAL STATEMENTS

GLI Fiduciary Net Position and HIC Plan Data

Information about the VRS Political Subdivision HIC Program and GLI Program Fiduciary Net Position are available in the separately issued VRS 2024 *Annual Comprehensive Financial Report*. A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at [VRS Annual Comprehensive Financial Report for Fiscal Year 2024](#) or by writing to VRS's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 8 – DEFINED BENEFIT PENSION PLAN
Pensions

VRS HRSD Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the HRSD Retirement Plan and the additions to/deductions from the HRSD Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent employees of HRSD are automatically covered by a VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

- Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or at age 55 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, and they were not vested as of January 1, 2013. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- The Hybrid Retirement Plan (HRP) combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window from January 1 through April 30, 2014. The employee's retirement benefit is funded through mandatory and voluntary contributions made by the employee and HRSD to both the defined benefit and the defined contribution components of the plan. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Members in Plan 1 and Plan 2 contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. HRSD makes a separate actuarially determined contribution to VRS for all covered employees. The retirement benefit for members in the HRP is funded through mandatory and voluntary contributions made by the member and HRSD to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the

defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Members in Plan 1 and Plan 2 earn creditable service for each month they are employed in a covered position, and vest when they have at least five years (60 months) of creditable service. Members in the HRP earn one month of service credit for each month they are employed in a covered position for the defined benefit component, and service credits are used to determine vesting for the employer contribution portion of the plan. HRP members are always 100% vested in the defined contributions they make, and upon retirement or leaving covered employment are eligible to withdraw employer contributions of 50%, 75%, or 100% after two, three, or four years of service, respectively.

The VRS Basic Benefit for Plan 1 and Plan 2 members, and the defined benefit component for HRP members, is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the HRP, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members in Plan 1 is 1.7%; in Plan 2 the multiplier is 1.7% for service earned, purchased or granted prior to January 1, 2013 and 1.65% after that date. The multiplier is 1% for members in the HRP. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5%; under Plan 2 and for the HRP defined benefit component, the COLA cannot exceed 3%. During years of no inflation or deflation there is no COLA adjustment. The VRS also provides death and disability benefits.

Employees Covered by Benefit Terms

As of the June 30, 2023 and 2022 actuarial valuation dates, the following employees were covered by the benefit terms of the pension plan:

	2023	2022
Number of:		
Retirees and Beneficiaries	509	491
Inactive Members Vested	120	120
Inactive Members Nonvested	199	177
Active Elsewhere in VRS	93	81
Active Employees	830	774
Total	1,751	1,643

Contributions

The contribution requirement for active employees is governed by § 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. HRSD's contractually required employer contribution rate for the year ended June 30, 2025 was 7.72% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from HRSD were \$5,650,000 and \$3,928,000 for the years ended June 30, 2025 and 2024, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For HRSD, the net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

NOTES TO THE FINANCIAL STATEMENTS

Actuarial Methods and Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Year ended June 30, 2024

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent to 5.35 percent
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality:

Mortality rates:

Pre-Retirement	Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years
Post-Retirement	Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years
Post-Disablement	Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
Beneficiaries and Survivors	Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years
Mortality Improvement	Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

Note: Assumptions for measurement date June 30, 2024 were the same as June 30, 2023.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Year ended June 30, 2024

Mortality Rates- Pre-retirement, post-retirement healthy, and disabled	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Note: Assumptions for measurement date June 30, 2024 were the same as June 30, 2023.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension system investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected real rates of return (expected returns, net of pension system 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.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Year ended June 30, 2024			
Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	32.00%	6.70%	2.14%
Fixed income	16.00%	5.40%	0.86%
Credit strategies	16.00%	8.10%	1.30%
Real assets	15.00%	7.20%	1.08%
Private equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnership	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	(3.00%)	3.50%	(0.11%)
Total	100.00%		7.07%
* Expected arithmetic nominal return			7.07%

* The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for VRS, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Year ended June 30, 2023			
Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return *
Public equity	34.00%	6.14%	2.09%
Fixed income	15.00%	2.56%	0.38%
Credit strategies	14.00%	5.60%	0.78%
Real assets	14.00%	5.02%	0.70%
Private equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	100.00%		5.75%
Inflation			2.50%
** Expected arithmetic nominal return			8.25%

*The above allocation provides a one-year expected return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for VRS, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

** On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

NOTES TO THE FINANCIAL STATEMENTS

Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the alternate rate was the employer contribution rate is 100 percent of the actuarially determined employer contribution rate from the June 30, 2023, actuarial valuations. From July 1, 2024, on, participating employers are assumed to continue to contribute 100 percent of the actuarially determined contribution rates. 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 active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

(in thousands)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Pension Liability Balances at June 30, 2022	\$ 277,575	\$ 259,238	\$ 18,337
Changes for the year - Increase (Decrease):			
Service cost	4,081	-	4,081
Interest	18,537	-	18,537
Difference between expected and actual experience	10,377	-	10,377
Contributions - employer	-	3,592	(3,592)
Contributions - employee	-	2,787	(2,787)
Net investment income	-	16,506	(16,506)
Benefit payments, including refunds of employee contributions	(14,069)	(14,069)	-
Administrative expense	-	(168)	168
Other changes	-	7	(7)
Net changes	18,926	8,655	10,271
Pension Liability Balances at June 30, 2023	\$ 296,501	\$ 267,893	\$ 28,608
Changes for the year - Increase (Decrease):			
Service cost	4,538	-	4,538
Interest	19,827	-	19,827
Difference between expected and actual experience	11,603	-	11,603
Contributions - employer	-	3,928	(3,928)
Contributions - employee	-	3,068	(3,068)
Net investment income	-	25,740	(25,740)
Benefit payments, including refunds of employee contributions	(14,597)	(14,597)	-
Administrative expense	-	(175)	175
Other changes	-	4	(4)
Net changes	21,371	17,968	3,403
Pension Liability Balances at June 30, 2024	\$ 317,872	\$ 285,861	\$ 32,011

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

The following presents HRSD's net pension liability/(asset) using the discount rate of 6.75%, as well as what HRSD's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (at 5.75%) or one percentage point higher (at 7.75%) than the current rate:

Net Pension Liability/(Asset) (in thousands)	1% Decrease 5.75%	Current Discount 6.75%	1% Increase 7.75%
Pension Discount Rate			
Year ended June 30, 2025	\$ 74,921	\$ 32,011	\$ (2,882)
Year ended June 30, 2024	69,805	28,608	(4,899)

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

HRSD recognized pension expense of \$6,511,000 and \$5,239,000 for the years ended June 30, 2025 and 2024, respectively. At June 30, 2025 and 2024, HRSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Year ended June 30, 2025:		
Differences between expected and actual experience	\$ 12,863	\$ -
Net diff bet projected and actual earnings on program investments	-	7,543
Employer contributions subsequent to the measurement date	5,650	-
Total	<u>\$ 18,513</u>	<u>\$ 7,543</u>
Year ended June 30, 2024:		
Differences between expected and actual experience	\$ 7,483	\$ 169
Changes of assumptions	1,416	-
Net diff bet projected and actual earnings on program investments	-	4,230
Employer contributions subsequent to the measurement date	3,928	-
Total	<u>\$ 12,827</u>	<u>\$ 4,399</u>

HRSD reported \$5,650,000 and \$3,928,000 as of June 30, 2026 and 2025, respectively, as deferred outflows of resources resulting from HRSD's contributions subsequent to the measurement date, which will be recognized as reductions of the Net Pension Liability in the years ended June 30, 2026 and 2025, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

(in thousands)		
<u>Years ended June 30</u>	<u>2025</u>	<u>2024</u>
2026	\$ -	1,151
2027	(451)	(2,163)
2028	7,079	5,367
2029	276	145
2030	(1,584)	-
	<u>\$ 5,320</u>	<u>\$ 4,500</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Report. A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – NOTES PAYABLE AND BONDSNotes Payable

On October 30, 2015, HRSD entered into a Credit Agreement with Bank of America, N.A. (BoFA) to provide a revolving line of credit (LOC) for interim financing or refinancing of capital project costs. June 30, 2022, HRSD entered into a Second Amended and Restated Credit Agreement. A Second Amendment to the Second Amended and Restated Credit Agreement was entered into April 9, 2024. Pursuant to the Third Amendment to Second Amended and Restated Credit agreement, dated June 5, 2025, the maximum outstanding authorization on the LOC was \$300,000,000.

Interest on advances is payable monthly at a fluctuating rate per annum. The monthly interest rate is calculated based on the equal to the sum of 80 percent of Daily Secured Overnight Financing Rate (SORF) or 80 percent of term SOFR rate, and 41 basis points.

At June 30, 2025 and 2024, the principal balance in the BOA line of credit was \$92,462,000 and \$100,000,000, respectively. The remaining available balance at June 30, 2025 and 2024, respectively was \$207,538,000 and \$200,000,000. The agreement provides for certain actions to be taken in events of default including acceleration of payment of the line of credit balance, termination of the lender's commitment to make further advances, and increasing the interest rate in effect to a higher default rate until paid in full. The line of credit is recorded as Notes Payable in the Current Liabilities section of the Statements of Net Position.

Bonds

In fiscal year 2025, HRSD sold \$240,775,000 of Wastewater Revenue Bonds, Series 2024B, to fund various capital projects. The bonds were sold at an overall interest rate of 4.15 percent and will be repaid through 2054. With HRSD's issuance of Wastewater Revenue Bond, Series 2024A, in fiscal year 2024, HRSD fully discharged all bond debt previously identified as senior lien obligations. With no bond debt priority, all bond debt is now identified as senior obligations.

HRSD issues revenue bonds for various capital improvements including but not limited to wastewater treatment plants and interceptor system improvements. HRSD's principal outstanding balance (including unamortized bond premium) as of June 30, 2025 and 2024 was \$742,350,000 and \$526,950,000, respectively.

Included in the total outstanding bond balance, HRSD has \$50 million outstanding in variable rate demand bonds, Series 2016B, utilized to partially finance its capital improvement plan. The bonds bear interest in either a Weekly Period or a Long-term Period. The bonds were initially issued in a Weekly Interest Period and bear interest at a varying interest rate until, at HRSD's option, they are converted to the Long-term Period. Liquidity to pay the purchase price of the bonds that are tendered and not remarketed is provided by HRSD. Maturities of the principal and interest for these bonds are shown in the following table as if held to maturity. The bonds are subject to optional redemption by HRSD prior to their maturity. Through June 30, 2025, the bonds have been successfully remarketed by the Remarketing Agent. The interest rate for the bonds at June 30, 2025 and 2024 was 2.97% and 3.45%, respectively. The 2025 rate was used to calculate interest maturity amounts shown below.

Virginia Resources Authority (VRA)

HRSD is indebted for bond issues payable to the VRA as administrator of the Virginia Water Facilities Fund. HRSD is required to adhere to and is in compliance with the rebate and reporting requirements of the federal regulations pertaining to arbitrage. HRSD's principal outstanding balance as of June 30, 2025 and 2024, was \$374,168,000 and \$366,890,000, respectively.

Water Infrastructure Finance and Innovation Act (WIFIA)

WIFIA established a federal credit program administered by EPA for eligible water and wastewater infrastructure projects. The WIFIA implementation rule outlines the eligibility and other requirements for prospective borrowers. The construction completion eligibility timeline required HRSD to enter into a Master Financing Agreement (MFA) with the WIFIA program. The MFA sets all the requirement conditions of the projects that will be funded under this program. To comply with the construction schedule completion requirements, the program will be funded in multiple tranches. On September 30, 2024, HRSD entered into a new MFA with the WIFIA program and closed on Tranche 3 for \$268,088,000 at 4.19 percent. To date, there are no draws on the WIFIA Tranche 3 loan. A liability is recognized when funds are drawn to reimburse HRSD for eligible expenses. The principal outstanding WIFIA balance as of June 30, 2025, was \$690,732,000 and \$400,483,000 as of June 30, 2024.

All bonds are secured by the revenues of HRSD and are payable over the duration of that issue. Summary of activity:

(in thousands)	Balance at 6/30/2023			Balance at 6/30/2024			Balance at 6/30/2025	Due within One year
	6/30/2023	Additions	Deductions	6/30/2024	Additions	Deductions	6/30/2025	One year
BONDS								
Series-2009B	\$ 103,710	\$ -	\$ (103,710)	\$ -	\$ -	\$ -	\$ -	\$ -
Series-2014A	38,565	-	(38,565)	-	-	-	-	-
Series-2016A	83,680	-	(3,235)	80,445	-	(3,405)	77,040	3,985
Series-2016B VR	50,000	-	-	50,000	-	-	50,000	50,000
Series-2017A	72,055	-	-	72,055	-	-	72,055	-
Series-2018A	17,215	-	(1,205)	16,010	-	(1,265)	14,745	1,330
Series-2019A	196,190	-	(3,335)	192,855	-	(3,390)	189,465	3,455
Series-2024A	-	115,585	-	115,585	-	(17,315)	98,270	17,120
Series-2024B	-	-	-	-	240,775	-	240,775	-
WIFIA								
WIFIA-Tranche 1	80,180	118,553	-	198,733	27,132	(110)	225,755	226
WIFIA-Tranche 2	-	201,750	-	201,750	263,227	-	464,977	-
VRA								
VRA - AB Generator	229	-	(75)	154	-	(76)	78	78
VRA - Atlantic Expansion	1,792	-	(442)	1,350	-	(445)	905	450
VRA - Ches-Eliz Expansion	9,790	-	(2,411)	7,379	-	(2,435)	4,944	2,459
VRA - Williamsburg PS	437	-	(95)	342	-	(97)	245	97
VRA - York River Expansion	14,182	-	(1,610)	12,572	-	(1,654)	10,918	1,699
VRA - JRTP	6,126	-	(770)	5,356	-	(784)	4,572	798
VRA - NTP	9,219	-	(1,081)	8,138	-	(1,102)	7,036	1,121
VRA - Metering	4,760	-	(558)	4,202	-	(569)	3,633	579
VRA - ABTP	27,141	-	(2,616)	24,525	-	(2,670)	21,855	2,725
VRA - WTP	2,713	-	(315)	2,398	-	(322)	2,076	329
VRA - BHTP	3,710	-	(404)	3,306	-	(412)	2,894	421
VRA - ATP	3,592	-	(341)	3,251	-	(345)	2,906	349
VRA - Rodman	923	-	(38)	885	-	(38)	847	40
VRA - BHTP Switchgear	6,871	-	(384)	6,487	-	(392)	6,095	399
VRA - Lucas	2,593	-	(93)	2,500	-	(95)	2,405	98
VRA - Ferguson	736	-	(31)	705	-	(32)	673	33
VRA - Huxley	3,500	-	(183)	3,317	-	(186)	3,131	188
VRA - Atlantic	54,463	-	(1,839)	52,624	-	(11,652)	40,972	2,082
VRA - Deep Creek IFM	4,529	-	(234)	4,295	-	(237)	4,058	240
VRA - Orcutt Ave and Mercury	7,389	-	(238)	7,151	-	(245)	6,906	252
VRA - TP Dewatering	3,165	-	(164)	3,001	-	(166)	2,835	168
VRA - ES*	18,008	6,975	(4,937)	20,046	-	(1,245)	18,801	1,198
VRA - Group Loan	97,692	-	(4,629)	93,063	-	(4,683)	88,380	4,736
VRA - 2022 Projects	40,868	58,904	-	99,772	229	(4,539)	95,462	4,596
VRA - 2024 Projects	-	71	-	71	41,470	-	41,541	-
Total	966,023	501,838	(173,538)	1,294,323	572,833	(59,906)	1,807,250	101,251
Unamortized Bond Premium	13,719	12,463	(3,060)	23,122	28,396	(4,446)	47,072	
Total Bonds Payable	979,742	514,301	(176,598)	1,317,445	601,229	(64,352)	1,854,322	101,251
Notes Payable	68,580	31,420	-	100,000	-	(7,538)	92,462	92,462
Total Outstanding Debt	\$ 1,048,322	\$ 545,721	\$ (176,598)	\$ 1,417,445	\$ 601,229	\$ (71,890)	\$ 1,946,784	\$ 193,713

NOTES TO THE FINANCIAL STATEMENTS

Senior bonds outstanding at June 30, 2025:

(in thousands)	Issue	Principal Outstanding			Interest to	Interest	Duration	Final Maturity
	Amount	Total	Current	Long-Term	Maturity	Rates	of Issue	
Series-2016A	\$ 246,845	\$ 77,040	\$ 3,985	\$ 73,055	\$ 18,884	3.00% - 5.00%	20 years	August 1, 2036
Series-2017A	83,485	72,055	-	72,055	30,301	3.50% - 5.00%	26 years	October 1, 2043
Series-2018A	63,185	14,745	1,330	13,415	3,562	5.00%	15 years	October 1, 2033
Series-2019A	205,675	189,465	3,455	186,010	38,020	1.86% - 2.78%	20 years	February 1, 2039
Series-2024A	115,585	98,270	17,120	81,150	36,058	5.00%	15 years	November 1, 2039
Series-2024B	240,775	240,775	-	240,775	243,296	5.00%	30 years	July 1, 2054
WIFIA-Tranche 1	225,866	225,755	226	225,529	94,357	1.40%	40 years	April 1, 2060
WIFIA-Tranche 2 *	-	464,977	-	464,977	245,711	1.95%	40 years	April 1, 2060
VRA - AB Generator	1,235	78	78	-	1	2.00%	20 years	April 1, 2026
VRA - Atlantic Expansion	7,340	905	450	455	11	1.00%	20 years	February 1, 2027
VRA - Ches-Eliz Expansion	40,330	4,944	2,459	2,485	62	1.00%	20 years	June 1, 2027
VRA - Williamsburg PS	1,605	245	97	148	4	1.00%	20 years	July 1, 2027
VRA - York River Expansion	29,683	10,918	1,699	9,219	989	2.72%	20 years	March 1, 2031
VRA - JRTP	13,431	4,572	798	3,774	251	1.80%	20 years	September 1, 2030
VRA - NTP	19,395	7,036	1,121	5,915	418	1.80%	20 years	March 1, 2031
VRA - Metering	9,989	3,633	579	3,054	216	1.80%	20 years	March 1, 2031
VRA - ABTP	50,000	21,855	2,725	19,130	1,835	2.05%	20 years	September 1, 2032
VRA - WTP	5,727	2,076	329	1,747	141	2.05%	20 years	March 1, 2031
VRA - BHTP	7,584	2,894	421	2,473	212	2.05%	20 years	September 1, 2031
VRA - ATP	6,318	2,906	349	2,557	144	1.15%	20 years	February 1, 2033
VRA - Rodman	1,096	847	40	807	184	2.25%	25 years	June 1, 2043
VRA - BHTP Switchgear	7,619	6,095	399	5,696	825	1.85%	20 years	December 1, 2040
VRA - Lucas	2,949	2,405	98	2,307	677	2.65%	27 years	October 1, 2044
VRA - Ferguson	866	673	33	640	167	2.70%	25 years	March 1, 2042
VRA - Huxley	3,868	3,131	188	2,943	305	1.20%	20 years	August 1, 2040
VRA - Atlantic	57,149	40,972	2,082	38,890	8,164	2.25%	30 years	March 1, 2046
VRA - Deep Creek IFM	4,989	4,058	240	3,818	401	1.20%	20 years	December 1, 2040
VRA - Orcutt Ave and Mercury	7,968	6,906	252	6,654	2,263	2.85%	30 years	February 1, 2046
VRA - TP Dewatering	3,498	2,835	168	2,667	279	1.20%	20 years	October 1, 2040
VRA - ES *	-	18,801	1,198	17,603	3,018	1.30%	20 years	October 1, 2043
VRA - Group Loan	100,000	88,380	4,736	83,644	9,175	1.15%	22 years	March 1, 2042
VRA - 2022 Projects	100,000	95,462	4,596	90,866	12,247	1.30%	20 years	December 1, 2043
VRA - 2024 Projects *	-	41,541	-	41,541	16,434	2.20%	20 years	December 1, 2045
Total Fixed Bonds Payable		1,757,250	51,251	1,705,999	768,612			
Unamortized Bonds Premium		47,072	-	47,072	-			
Total		1,804,322	51,251	1,753,071	768,612			
Series-2016B VR		50,000	50,000	-	31,393	Variable 2.97% June 30, 2025	30 years	August 1, 2046
Total Bonds Payable		1,854,322	101,251	1,753,071	800,005			
Notes Payable		92,462	92,462	-	-	Variable 3.87% June 30, 2025		
Total Outstanding Debt		\$ 1,946,784	\$ 193,713	\$ 1,753,071	\$ 800,005			

* These VRA and WIFIA bonds are still in the draw down phase of the loan.

Maturities of senior bond principal and interest as of June 30, 2025:

(in thousands)				
June 30,	Principal	Interest	Total	
2026	\$ 101,251	\$ 39,068	\$ 140,319	
2027	55,794	38,261	94,055	
2028	53,874	36,829	90,703	
2029	55,316	45,110	100,426	
2030	56,701	43,544	100,245	
2031-2035	281,976	194,720	476,696	
2036-2040	235,155	155,615	390,770	
2041-2045	217,060	117,186	334,246	
2046-2050	200,905	73,933	274,838	
2051-2055	313,164	43,211	356,375	
2056-2060	236,054	12,528	248,582	
Total	1,807,250	800,005	2,607,255	
Unamortized Bond Premium	47,072	-	47,072	
Total	\$ 1,854,322	\$ 800,005	\$ 2,654,327	

HRSD defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the fund's financial statements. At June 30, 2025, the following defeased bonds from advance refunding are still outstanding:

Defeased in	Original Issue	Amount (in thousands)	Redemption
2017	Series 2016A	\$ 7,720	08/01/26
2019	Series 2016A	24,395	08/01/26
2019	Series 2016A	110,947	08/01/26
2019	Series 2017A	11,732	10/01/27
2019	Series 2018A	11,866	10/01/27
2019	Series 2018A	30,915	10/01/27
2024	Series 2014A	26,632	07/01/25
Total		\$ 224,207	

NOTE 10 – NET POSITIONRestricted Portion of Net Position

HRSD has three components of restricted net position: Debt service, Capital projects and Net OPEB asset. At June 30, 2025 and 2024, the total restricted net position was \$77,328,000 and \$22,307,000, respectively.

Reserved Portion of Unrestricted Net Position

Reserved for Improvement. HRSD's Master Trust Agreement requires a reserve for improvements. There is no specific funding mechanism established by the Trust Agreement. At June 30, 2025 and 2024, \$1,423,000 and \$1,306,000, respectively, were contained in the unrestricted net position. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2025 and 2024.

Reserved for Construction. A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2025 and 2024, \$171,857,000 and \$37,469,000, respectively, was contained in the unrestricted net position.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - RISK MANAGEMENT

HRSD is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. HRSD purchases commercial insurance for specific types of coverage including property, liability, auto, crime, public officials and workers' compensation. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

HRSD has a self-insured health, dental and vision care benefits program for all employees. Claims processing and payments for all health care claims are made through third-party administrators. HRSD uses the information provided by the third-party administrators and a health care benefits consultant to aid in the determination of self-insurance reserves. Hospitalization Reserve is included in Other Liabilities in the Current Liabilities section of the Statements of Net Position.

(in thousands)	Beginning of Fiscal Year	Estimated Claims Incurred	Claims Paid	End of Fiscal Year
2025	\$ 7,532	\$ 12,314	\$ (17,844)	\$ 2,002
2024	\$ 5,097	\$ 15,624	\$ (13,189)	\$ 7,532

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Consent Decree

On December 19, 2014, the Commonwealth of Virginia entered into a long-term State Consent Agreement (the "2014 Consent Agreement") with 14 of the localities that HRSD serves. The 2014 Consent Agreement requires the localities to perform long-term management, operations and maintenance of their sewer systems in support of HRSD's efforts to provide long-term regional wet weather wastewater capacity. HRSD is not a party to the 2014 Consent Agreement. Instead, HRSD's obligation to provide regional wet weather sewer capacity is now memorialized in its federal consent decree (the "Consent Decree"). HRSD entered into the Consent Decree with the Commonwealth and the United States Environmental Protection Agency ("EPA").

The Consent Decree was entered by the federal district court for the Eastern District of Virginia (the "District Court") on February 23, 2010. The Consent Decree has been amended six times, most recently on January 19, 2024 (the "Amended Consent Decree"). The sixth amendment reorders and/or revises certain projects (with no change in overall program cost).

The Amended Consent Decree has two major operative requirements. First, it requires HRSD to implement its approved Regional Wet Weather Management Plan ("RWWMP") to control 69 percent of the capacity-related sewer overflow volume predicted to occur in a five-year storm event. Because HRSD has assumed responsibility for planning (in consultation with the 14 affected localities), designing, funding, and implementing the controls (high priority projects) in both the localities' systems and the HRSD system contained in the approved RWWMP, HRSD estimates the regional ratepayers will achieve significantly reduced program costs than if each locality sought to address peak wet weather wastewater flows on its own. To further facilitate this approach, the 14 affected localities entered into a Memorandum of Agreement with HRSD in 2014 in which they agreed to (1) cooperate with HRSD, (2) facilitate the construction of and accept ownership of any improvements which HRSD may need to construct in the localities' systems, and (3) maintain the integrity of their systems to industry standards.

The Amended Consent Decree includes a schedule for wastewater system improvements that expressly accommodates HRSD's Sustainable Water Initiative for Tomorrow (SWIFT) program. That schedule requires that HRSD implement \$200 million worth of High Priority Project sewer overflow control projects between 2020 and 2030 and then another \$200 million in sewer overflow control projects between 2030 and 2040. These two sets of projects prioritize system improvements that HRSD is to implement along with the SWIFT project. The Amended Consent Decree gives HRSD until 2032 to invest \$1.1 billion in the SWIFT program. Finally, the Amended Consent Decree provides that if HRSD will not make the full \$1.1 billion investment in the SWIFT Project by 2032 then EPA can require HRSD to accelerate some or all of the second group (\$200 million worth) of High Priority sewer overflow control projects to offset the avoided investment in the SWIFT program.

Capital Commitments

HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. As of June 30, 2025 and 2024, HRSD has outstanding commitments for contracts in progress of approximately \$1.28 billion and \$1.61 billion, respectively.

NOTE 13 – FAIR VALUE MEASUREMENTS

HRSD categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on 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.

Debt securities reported as investments are classified in Level 2 of the fair value hierarchy and are valued using the following approaches:

- U.S. Treasury securities are valued using quoted prices for identical or similar securities.
- All other investments are valued based on matrix pricing using observable data of securities with similar attributes.

The VIP is an Internal Revenue Code Section 115 governmental trust fund created under the Joint Exercise of Powers statute of the Commonwealth of Virginia to provide political subdivisions with an investment vehicle to pool their funds and to invest such funds into two or more investment portfolios under the direction and daily supervision of a professional fund manager. The Trust was established and created by the City of Chesapeake, Virginia, and the City of Roanoke, Virginia (the "Founding Participants") and operates under a Trust Agreement as amended September 23, 2016.

Investments in the VIP fall within two primary funds, 1-3 Year High Quality Bond Fund and Stable NAV Liquidity Pool. The 1-3 High Quality Bond Fund redemptions are available twice a month and participants are required to provide 5 days' notice. Redemptions greater than \$5 million are requested to be submitted 60 days in advance and if the redemption is greater than 10% of the portfolio's net asset value without the 60 days' notice, the redemption can be executed over time. The Stable NAV Liquidity Pool has no restrictions on withdrawals and funds are available the same day.

HRSD's total investment in VIP 1-3 Year High Quality Bond Fund was \$69.60 million (valued at NAV) and \$65.92 million, as of June 30, 2025 and 2024, respectively. HRSD's total investment in VIP's Stable NAV Liquidity Pool (valued at NAV) was \$324.28 million and \$178.79 million as of June 30, 2025 and 2024, respectively. The Stable NAV Liquidity Pool was rated AAAM and the 1-3 Year High Quality Bond Fund was rated AA+f/S1 by Standard & Poor's (S&P) as of June 30, 2025.

The State Non-Arbitrage Program (SNAP) was the result of the Tax Reform Act of 1986 which placed arbitrage restrictions and reporting requirements on issuers of tax-exempt debt. The Virginia Legislature passed the Government Non-Arbitrage Investment Act in 1989 (Sections 2.2-4700 through 2.2-4705 of the Code of Virginia). The law authorized the Virginia Treasury Board to create the Virginia State Non-Arbitrage Program (SNAP). The Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and their agencies, institutions and authorities ("Virginia Issuers" or "Issuers") are all eligible to invest in the Program.

HRSD's SNAP fund balance as of June 30, 2025, was \$143.93 million (valued at amortized cost). There were no SNAP funds as of June 30, 2024. SNAP Fund Total S&P Rating was AAAM as of June 30, 2025.

See Note 3 for additional information.

NOTES TO THE FINANCIAL STATEMENTS

HRSD OPEB Trust Investments

The HRSD OPEB Trust has investments in mutual funds, cash, and cash equivalents on deposit with its trustee, U.S. Bank. HRSD categorizes its fair value measurements within the fair value hierarchy consistent with the approach described above.

(in thousands)	Balance at June 30, 2025	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Mutual Funds - Equity	\$ 51,626	\$ 47,353	\$ 4,273	-
Mutual Funds - Fixed Income	27,903	7,807	20,096	
Real Return	2,554	-	-	2,554
Total Investments by Fair Value Level	\$ 82,083	\$ 55,160	\$ 24,369	\$ 2,554
Cash Equivalents Measured at Net Asset Value				
Money Market Funds	363			
Fiduciary Net Position of HRSD's OPEB	<u>\$ 82,446</u>			
	Balance at June 30, 2024	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Mutual Funds - Equity	\$ 46,685	\$ 41,130	\$ 5,555	-
Mutual Funds - Fixed Income	25,608	6,501	19,107	-
Other Income	2,646	-	-	2,646
Total Investments by Fair Value Level	\$ 74,939	\$ 47,631	\$ 24,662	\$ 2,646
Cash Equivalents Measured at Net Asset Value				
First American Government Obligation	818			
Fiduciary Net Position of HRSD's OPEB	<u>\$ 75,757</u>			

Additional information about HRSD's OPEB Plan is in Notes 3 and 7.

NOTE 14 - FIDUCIARY ACTIVITIES

As discussed in Note 2, HRSD has prepared fiduciary fund financial statements for the fiscal years ended June 30, 2025 and 2024. The statements include information on HRSD's RHP, one of HRSD's three postemployment benefits other than pensions (other postemployment benefits, or OPEB) plans, and information on funds held by HRSD to apply toward customer accounts.

Retiree Health Plan

Detailed information related to HRSD's RHP is included in Notes 2, 3, 7 and 13 and in the Required Supplementary Information section of the Annual Comprehensive Financial Report. The RHP meets the requirements of GAAP for inclusion in the fiduciary fund financial statements. HRSD's other two OPEB plans are administered by VRS and do not qualify for inclusion. The RHP had total assets of \$82.4 million and \$75.8 million as of June 30, 2025 and 2024, respectively, which are restricted to providing postretirement benefits for plan participants.

American Recovery Plan Act

In further response to the COVID-19 pandemic disaster, the United States federal government enacted the American Recovery Plan Act of 2021 (ARPA) to provide funding for numerous programs to address the COVID-19 pandemic disaster, providing assistance to states, local, territorial, and tribal governments for direct impacts of the COVID-19 pandemic disaster through the establishment of the Coronavirus Relief Fund (CRF). Consistent with ARPA, the Commonwealth of Virginia established the State and Local Fiscal Recovery Funds (SLFRF) of ARPA to provide direct assistance to utility customers with accounts over 60 days in arrears.

During the fiscal years ended June 30, 2025 and 2024, HRSD did not receive any additional federal SLFRF-ARPA funds.

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year 2025, HRSD adopted a new GASB pronouncement, Statement No. 101, *Compensated Absences*. Statement No. 101 establishes standards of accounting and financial reporting by updating the recognition and measurement guidance for compensated absences. The statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash. This statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability.

The financial reporting impact from the implementation of Statement No. 101 resulted in the restatement of HRSD's Statement of Net Position for fiscal year ended June 30, 2024, and adjusted ending net position for year ended 2023. The change in the compensated leave liability is outlined below and incorporates the restatement.

(in thousands)

	FY 2023 Ending Net Position	Net Compensated Leave Liability Adjustment	FY 2024 Restated Beginning Net Position
Total	\$ 1,177,022	\$ 7,394	\$ 1,169,628

NOTE 16 - SPECIAL ITEM

In fiscal year 2025, HRSD changed the RHP OPEB benefit by requiring retirees participating in HRSD's employer sponsored Medicare Supplement Plan to move to an employer sponsored Medicare Advantage Plan. The effect of this change resulted in a one-time reduction in the OPEB expense of \$23,758,000.

NOTE 17 - SUBSEQUENT EVENTS

On July 24, 2025, HRSD issued \$223,860,000 of Subordinate Wastewater Revenue Bonds, Series 2025A. The Series 2025A Bonds interest rate (true interest cost) is 2.93 percent, with final maturity on July 15, 2026. The Series 2025A Bonds serve as interim financing to fund capital improvements during the construction period. HRSD is authorized to repay the Series 2025A Bonds at their maturity with the existing WIFIA Tranche 3 loan (interest rate of 4.15 percent), the issuance of long-term bonds, grants, or other funds. To date, there are no draws on the WIFIA Tranche 3 loan.



A close-up photograph of a metal faucet with water dripping from it. The water forms a series of droplets falling into a sink. The background is blurred, showing the sink and some blue objects.

REQUIRED SUPPLEMENTARY INFORMATION_(UNAUDITED)

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT



INDEX TO REQUIRED SUPPLEMENTARY INFORMATION

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT

In accordance with the Governmental Accounting Standards Board, the following information is required to accompany the Basic Financial Statements.

Contents	Page
Pension	65
Schedule of Employer Pension Contributions and Schedule of Changes in Net Pension Liability and Related Ratios	
OPEB	69
Schedule of Employer OPEB Contributions and Schedule of Changes in Net OPEB Liability and Related Ratios	

See notes to required supplementary information



SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS FOR THE YEARS ENDED JUNE 30, 2016 THROUGH 2025

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2025	\$ 5,650,000	\$ 5,650,000	\$ -	\$ 73,189,000	7.72%
2024	3,928,000	3,928,000	-	66,051,000	5.95%
2023	3,592,000	3,592,000	-	58,965,000	6.09%
2022	3,441,000	3,441,000	-	54,750,000	6.28%
2021	3,453,000	3,453,000	-	54,107,000	6.38%
2020	2,897,000	2,897,000	-	53,085,000	5.46%
2019	2,866,000	2,866,000	-	51,336,000	5.58%
2018	3,635,000	3,635,000	-	50,874,000	7.15%
2017	4,326,000	4,326,000	-	49,286,000	8.78%
2016	4,222,000	4,222,000	-	47,838,000	8.83%

Notes to Required Supplementary Information For the Year Ended June 30, 2025:

Changes of benefit terms

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation.

Changes of assumptions

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates:

Pre-retirement, post-retirement healthy, and disabled	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/ Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Information pertaining to Pensions can be found in Notes 2 and 8 to the financial statements.

See notes to required supplementary information

**SCHEDULE OF CHANGES IN
NET PENSION LIABILITY AND RELATED RATIOS**

(in thousands)	2024	2023	2022	2021	2020
Total pension liability					
Service cost	\$ 4,538	\$ 4,081	\$ 3,833	\$ 4,264	\$ 4,229
Interest	19,827	18,537	18,012	16,787	16,223
Changes of benefit terms	-	-	-	6,599	-
Changes in assumptions	-	-	-	-	-
Difference between expected and actual experience	11,603	10,377	44	(266)	(991)
Benefit payments, including refunds of employee contributions	(14,597)	(14,069)	(14,637)	(11,512)	(10,696)
Net change in total pension liability	21,371	18,926	7,252	15,872	8,765
Total pension liability - beginning	296,501	277,575	270,323	254,451	245,686
Total pension liability - ending (a)	\$ 317,872	\$ 296,501	\$ 277,575	\$ 270,323	\$ 254,451
Plan fiduciary net position					
Contributions - employer	\$ 3,928	\$ 3,592	\$ 3,440	\$ 3,453	\$ 2,897
Contributions - employee	3,068	2,787	2,578	2,569	2,538
Net investment income	25,740	16,506	(140)	58,456	4,115
Benefit payments, including refunds of employee contributions	(14,597)	(14,069)	(14,637)	(11,512)	(10,696)
Administrative expense	(175)	(168)	(169)	(147)	(142)
Other	4	7	6	6	(5)
Net change in plan fiduciary net position	17,968	8,655	(8,922)	52,825	(1,293)
Plan fiduciary net position - beginning	267,893	259,238	268,160	215,335	216,628
Plan fiduciary net position - ending (b)	\$ 285,861	\$ 267,893	\$ 259,238	\$ 268,160	\$ 215,335
Net pension liability - ending (a) - (b)	\$ 32,011	\$ 28,608	\$ 18,337	\$ 2,163	\$ 39,116
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	89.93%	90.35%	93.39%	99.20%	84.63%
Covered payroll (c)	\$ 66,051	\$ 58,965	\$ 54,750	\$ 54,107	\$ 53,085
Net pension liability as a percentage of the covered payroll ((a)-(b))/(c)	48.46%	48.52%	33.49%	4.00%	73.69%

(Continued)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(in thousands)

	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 3,946	\$ 3,825	\$ 4,145	\$ 4,025	\$ 4,115
Interest	15,598	14,953	14,750	13,872	13,559
Changes of benefit terms	-	-	-	-	-
Changes in assumptions	7,378	-	(3,975)	-	-
Difference between expected and actual experience	760	(101)	(3,175)	2,980	(4,910)
Benefit payments, including refunds of employee contributions	(9,655)	(9,250)	(8,475)	(8,161)	(8,446)
Net change in total pension liability	18,027	9,427	3,270	12,716	4,318
Total pension liability - beginning	227,659	218,232	214,962	202,246	197,928
Total pension liability - ending (a)	\$ 245,686	\$ 227,659	\$ 218,232	\$ 214,962	\$ 202,246
Plan fiduciary net position					
Contributions - employer	\$ 2,866	\$ 3,710	\$ 3,609	\$ 4,083	\$ 4,099
Contributions - employee	2,468	2,424	2,351	2,286	2,314
Net investment income	13,739	14,451	21,526	3,062	7,807
Benefit payments, including refunds of employee contributions	(9,655)	(9,250)	(8,475)	(8,161)	(8,446)
Administrative expense	(137)	(125)	(124)	(109)	(107)
Other	(8)	(12)	(19)	(1)	(2)
Net change in plan fiduciary net position	9,273	11,198	18,868	1,160	5,665
Plan fiduciary net position - beginning	207,355	196,157	177,289	176,129	170,464
Plan fiduciary net position - ending (b)	\$ 216,628	\$ 207,355	\$ 196,157	\$ 177,289	\$ 176,129
Net pension liability - ending (a) - (b)	\$ 29,058	\$ 20,304	\$ 22,075	\$ 37,673	\$ 26,117
Plan fiduciary net position as a percentage of the total pension liability (b)/(a)	88.17%	91.08%	89.88%	82.47%	87.09%
Covered payroll (c)	\$ 51,336	\$ 50,874	\$ 49,286	\$ 47,838	\$ 47,674
Net pension liability as a percentage of the covered payroll ((a)-(b))/(c)	56.60%	39.91%	44.79%	78.75%	54.78%

See notes to required supplementary information



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SCHEDULE OF EMPLOYER RHP OPEB CONTRIBUTIONS FOR THE YEARS ENDED JUNE 30, 2016 THROUGH 2025

Date	Actuarially Determined Contribution	Contribution in Relation to the Actuarially Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2025	\$ -	\$ -	\$ -	72,905,000	0.00%
2024	1,558,000	1,914,000	(356,000)	65,575,000	2.38%
2023	1,606,000	2,467,000	(861,000)	58,965,000	2.72%
2022	1,828,000	2,260,000	(432,000)	55,853,000	3.27%
2021	1,858,000	1,963,000	(105,000)	55,731,000	3.33%
2020	2,730,000	2,730,000	-	54,799,000	4.98%
2019	2,993,000	2,993,000	-	52,070,000	5.75%
2018	2,729,000	2,729,000	-	50,874,000	5.36%
2017	2,558,000	2,558,000	-	49,286,000	5.19%
2016	2,178,000	2,178,000	-	47,838,000	4.55%

Notes to Required Supplementary Information For the Year Ended June 30, 2025:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of projected payroll
Amortization period	An experience gain/loss base is created each year and amortized over a 15 year period
Asset valuation	The asset valuation method is the smoothed fair value with phase-in method, using a smoothing period of 5 years, as described in paragraph 3.11 of IRS Revenue Procedure 2000-40.
Assumed rate of inflation	2.50%
Healthcare cost trend:	Society of Actuaries (SOA) 2022 Getzen Long-Term Healthcare Cost Trend Model with baseline assumptions. This model is designed to estimate the trend after 2024. The trend rate for 2023 and 2024 was set to 7.5%.
Salary increase rate	2.50%
Investments rate of return	6.00%
Mortality rates:	
Active Employees	SOA Pub-2010 General Employees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021
Healthy Retirees	SOA Pub-2010 General Retirees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021
Disabled Retirees	SOA Pub-2010 General Disabled Retirees Headcount-Weighted Mortality Table projected on a fully generational basis with mortality improvement scale MP-2021

See notes to required supplementary information

**SCHEDULE OF CHANGES IN
NET RHP OPEB LIABILITY (ASSET) AND RELATED RATIOS**

(in thousands)

	2025	2024	2023	2022	2021
Total OPEB liability					
Service cost	\$ 1,338	\$ 1,274	\$ 1,534	\$ 1,435	\$ 1,333
Interest	4,754	4,533	4,398	4,052	3,672
Changes of benefit terms	(23,758)	-	-	-	-
Changes in assumptions	1,133	2,599	(5,285)	-	-
Differences between expected and actual experience	(9,426)	(3,472)	3,617	2,303	2,930
Benefit payments, including refunds of employee contributions	(1,559)	(1,850)	(2,329)	(1,902)	(1,425)
Net change in total OPEB liability	(27,518)	3,084	1,935	5,888	6,510
Total OPEB liability - beginning	79,560	76,476	74,541	68,653	62,143
Total OPEB liability - ending (a)	\$ 52,042	\$ 79,560	\$ 76,476	\$ 74,541	\$ 68,653
Plan fiduciary net position					
Contributions - employer	\$ -	\$ 1,914	\$ 2,467	\$ 2,260	\$ 1,963
Contributions - retirees	-	-	-	-	-
Net investment income	8,248	8,270	5,148	(9,887)	14,216
Benefit payments, including refunds of employee contributions	(1,559)	(1,850)	(2,329)	(1,902)	(1,425)
Administrative expense	-	-	-	-	-
Net change in plan fiduciary net position	6,689	8,334	5,286	(9,529)	14,754
Plan fiduciary net position - beginning	75,757	67,423	62,137	71,666	56,912
Plan fiduciary net position - ending (b)	\$ 82,446	\$ 75,757	\$ 67,423	\$ 62,137	\$ 71,666
Net OPEB liability (asset) - ending (a) - (b)	\$ (30,404)	\$ 3,803	\$ 9,053	\$ 12,404	\$ (3,013)
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	158.42%	95.22%	88.16%	83.36%	104.39%
Covered payroll (c)	\$ 72,905	\$ 65,575	\$ 58,965	\$ 55,853	\$ 55,731
Net OPEB liability (asset) as a percentage of the covered payroll ((a)-(b))/(c)	(41.70%)	5.80%	15.35%	22.21%	(5.41%)

(continued)

Notes to Required Supplementary Information For the Year Ended June 30, 2025:

Benefit changes:

HRSD made several changes to the plans offered to retirees, including moving Medicare-eligible retirees to a Medicare Advantage plan.

The pre-Medicare retiree contribution and the pre and post-Medicare spousal contributions were lowered.

The eligibility requirements for the Plan were amended to allow for early retirement under VRS and eliminate the age 55 requirement.

The post-Medicare retiree contribution for spousal coverage was lowered from \$397 to \$235 per month.

Changes of assumptions:

The healthcare cost trend assumption was updated based on the 2024 Getzen model released by the SOA and adjusted to reflect the expected impact of the Inflation Reduction Act.

The spousal election rate was increased for future retirees from 35% to 60% to reflect the expectation that more retirees will elect to cover their spouse as a result of the lower contribution required for spouses.

Discount rate	6/30/2025	6.00%
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See notes to required supplementary information

SCHEDULE OF CHANGES IN NET RHP OPEB LIABILITY (ASSET) AND RELATED RATIOS

(in thousands)

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 1,345	\$ 1,300	\$ 1,260	\$ 1,188
Interest	3,883	3,571	3,391	3,208
Changes of benefit terms	-	-	-	-
Changes in assumptions	(518)	(1,607)	-	-
Differences between expected and actual experience	(7,074)	3,302	-	-
Benefit payments, including refunds of employee contributions	(1,186)	(1,149)	(1,791)	(892)
Net change in total OPEB liability	(3,550)	5,417	2,860	3,504
Total OPEB liability - beginning	65,693	60,276	57,416	53,913
Total OPEB liability - ending (a)	\$ 62,143	\$ 65,693	\$ 60,276	\$ 57,417
Plan fiduciary net position				
Contributions - employer	\$ 2,730	\$ 2,993	\$ 2,729	\$ 2,558
Contributions - retirees	-	-	303	-
Net investment income	3,343	3,078	3,450	3,957
Benefit payments, including refunds of employee contributions	(1,186)	(1,149)	(1,791)	(892)
Administrative expense	-	-	(114)	(495)
Net change in plan fiduciary net position	4,887	4,922	4,577	5,128
Plan fiduciary net position - beginning	52,025	47,103	42,526	37,398
Plan fiduciary net position - ending (b)	\$ 56,912	\$ 52,025	\$ 47,103	\$ 42,526
Net OPEB liability (asset) - ending (a) - (b)	\$ 5,231	\$ 13,668	\$ 13,173	\$ 14,891
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	91.58%	79.19%	78.15%	74.07%
Covered payroll (c)	\$ 54,799	\$ 52,070	\$ 50,874	\$ 49,286
Net OPEB liability (asset) as a percentage of the covered payroll ((a)-(b))/(c)	9.55%	26.25%	25.89%	30.21%

Note: This schedule is intended to show information for 10 years. However, until a full ten-year trend is compiled, HRSD will present information for those years for which information is available.

See notes to required supplementary information

**SCHEDULE OF EMPLOYER GLI OPEB CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2016 THROUGH 2025**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2025	\$ 345,000	\$ 345,000	\$ -	\$ 73,394,000	0.47%
2024	357,000	357,000	-	66,079,000	0.54%
2023	318,000	318,000	-	58,965,000	0.54%
2022	296,000	296,000	-	54,835,000	0.54%
2021	293,000	293,000	-	54,222,000	0.54%
2020	276,000	276,000	-	53,126,000	0.52%
2019	267,000	267,000	-	51,376,000	0.52%
2018	259,000	259,000	-	49,846,000	0.52%
2017	250,000	250,000	-	47,987,000	0.52%
2016	246,000	223,000	23,000	46,417,000	0.53%

Notes to Required Supplementary Information For the Year Ended June 30, 2025:

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates:

Pre-retirement, post-retirement healthy, and disabled	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/ Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Information pertaining to OPEB can be found in Notes 2 and 7 to the financial statements.

**SCHEDULE OF EMPLOYER'S SHARE OF
NET GLI OPEB LIABILITY AND RELATED RATIOS
FOR THE MEASUREMENT DATES OF JUNE 30, 2017 THROUGH 2024**

(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017
Employer's Proportion of the Net GLI OPEB Liability	0.2574%	0.2503%	0.2521%	0.2626%	0.2581%	0.2621%	0.2621%	0.2602%
Employer's Proportionate Share of the Net GLI OPEB Liability	\$ 2,872	\$ 3,002	\$ 3,035	\$ 3,058	\$ 4,307	\$ 4,265	\$ 3,981	\$ 3,915
Employer's Covered Payroll	\$ 66,079	\$ 58,965	\$ 54,835	\$ 54,222	\$ 53,126	\$ 51,376	\$ 49,846	\$ 47,987
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	4.35%	5.09%	5.53%	5.64%	8.11%	8.30%	7.99%	8.16%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	73.41%	69.30%	67.21%	67.45%	52.64%	52.00%	51.22%	48.86%

Note: This schedule is intended to show information for 10 years. However, until a full ten-year trend is compiled, HRSD will present information for those years for which information is available.

In accordance with GAAP, Net Liability is reported using the measurement date, which is one year prior to the reporting date.

See notes to required supplementary information

**SCHEDULE OF EMPLOYER HIC OPEB CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2016 THROUGH 2025**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2025	\$ 154,000	\$ 154,000	\$ -	\$ 73,189,000	0.21%
2024	139,000	139,000	-	66,051,000	0.21%
2023	124,000	124,000	-	58,965,000	0.21%
2022	115,000	115,000	-	54,750,000	0.21%
2021	114,000	114,000	-	54,107,000	0.21%
2020	111,000	111,000	-	53,085,000	0.21%
2019	108,000	108,000	-	51,336,000	0.21%
2018	95,000	95,000	-	49,821,000	0.19%
2017	91,000	91,000	-	47,987,000	0.19%
2016	74,000	74,000	-	46,417,000	0.16%

Notes to Required Supplementary Information For the Year Ended June 30, 2025:

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows: actuarial assumptions as a result of the experience study are as follows:

Mortality rates:

Pre-retirement, post-retirement healthy, and disabled	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/ Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Information pertaining to OPEB can be found in Notes 2 and 7 to the financial statements.

SCHEDULE OF CHANGES IN NET HIC OPEB LIABILITY AND RELATED RATIOS

(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability								
Service cost	\$ 19	\$ 18	\$ 22	\$ 28	\$ 28	\$ 26	\$ 26	27
Interest	154	147	145	140	137	134	130	129
Changes in assumptions	-	-	88	15	-	50	-	(22)
Differences between expected and actual experience	(5)	106	(59)	5	16	26	27	-
Benefit payments, including refunds of employee contributions	(167)	(161)	(151)	(137)	(129)	(124)	(133)	(94)
Net change in total OPEB liability	1	110	45	51	52	112	50	40
Total OPEB liability - beginning	2,351	2,241	2,196	2,145	2,093	1,981	1,931	1,891
Total OPEB liability - ending (a)	\$ 2,352	\$ 2,351	\$ 2,241	\$ 2,196	\$ 2,145	\$ 2,093	\$ 1,981	\$ 1,931
Plan fiduciary net position								
Contributions - employer	\$ 139	\$ 124	\$ 115	\$ 114	\$ 111	\$ 108	\$ 95	91
Net investment income	104	65	2	238	18	56	60	90
Benefit payments, including refunds of employee contributions	(167)	(161)	(151)	(137)	(129)	(124)	(133)	(94)
Administrative expense	(1)	(1)	(2)	(3)	(2)	(1)	(1)	(1)
Other	-	-	9	-	-	-	(5)	4
Net change in plan fiduciary net position	75	27	(27)	212	(2)	39	16	90
Plan fiduciary net position - beginning	1,135	1,108	1,135	923	925	886	870	780
Plan fiduciary net position - ending (b)	\$ 1,210	\$ 1,135	\$ 1,108	\$ 1,135	\$ 923	\$ 925	\$ 886	\$ 870
Net OPEB liability - ending (a) - (b)	\$ 1,142	\$ 1,216	\$ 1,133	\$ 1,061	\$ 1,222	\$ 1,168	\$ 1,095	\$ 1,061
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	51.45%	48.28%	49.44%	51.68%	43.03%	44.19%	44.72%	45.05%
Covered payroll (c)	\$ 66,051	\$ 58,965	\$ 54,750	\$ 54,107	\$ 53,085	\$ 51,336	\$ 49,821	\$ 47,987
Net OPEB liability as a percentage of the covered payroll ((a)-(b))/(c)	1.73%	2.06%	2.07%	1.96%	2.30%	2.28%	2.20%	2.21%

Note: This schedule is intended to show information for 10 years. However, until a full ten-year trend is compiled, HRSD will present information for those years for which information is available.

See notes to required supplementary information





STATISTICAL SECTION_(UNAUDITED)

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT



INDEX TO STATISTICAL SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT

This section of HRSD's annual comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about HRSD's overall financial health.

Contents	Page
Demographic and Economic Information	81
This schedule offers demographic and economic indicators to help the reader understand the environment within which HRSD's financial activities take place and to help make comparisons over time and with other governments.	
Financial Trends	82
These schedules contain trend information to help the reader understand how HRSD's financial performance and well-being have changed over time.	
Debt Capacity	85
This schedule presents information to help the reader assess the affordability of HRSD's current levels of outstanding debt and HRSD's ability to issue additional debt in the future.	
Revenue Capacity	86
These schedules contain information to help the reader assess the factors affecting HRSD's ability to generate revenue from rate payers.	
Operating Information	88
These schedules contain information about HRSD's operations and resources to help the reader understand how HRSD's financial information relates to the services HRSD provides and the activities it performs.	

Sources: Unless otherwise noted the information in these schedules is derived from the annual comprehensive financial reports and accounting records for the relevant year.



DEMOGRAPHIC AND OTHER MISCELLANEOUS STATISTICS FOR THE LAST TEN FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Date of Incorporation - 1940	4,998	4,998	4,998	4,998	4,998	3,087	3,087	3,087	3,087	2,808
Area in Square Miles (1)	768	766	766	766	766	758	758	758	758	672
Present Service Area in Square Miles (1)	8	8	8	9	9	9	9	9	9	9
Treatment Plants (Major) (2)										
Treatment Plant Capacity (MGD)										
Army Base, Norfolk	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Atlantic, Virginia Beach	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0
Boat Harbor, Newport News	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Chesapeake-Elizabeth, Virginia Beach (2)	-	-	-	24.0	24.0	24.0	24.0	24.0	24.0	24.0
James River, Newport News	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Nansemond, Suffolk	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Virginia Initiative, Norfolk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Williamsburg, James City County	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
York River, York County	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Treatment Plants (Major) Capacity	224.5	224.5	224.5	248.5	248.5	248.5	248.5	248.5	248.5	248.5
Small Communities Treatment Plants	8	8	8	8	7	7	7	7	5	4
Small Communities Plant Capacity (MGD)										
Central Middlesex, Middlesex County	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025
King William, King William County	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100
Lawnes Point, Isle of Wight County (3)	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	-
Onancock, Accomack County(4)	0.750	0.750	0.750	0.750	-	-	-	-	-	-
Surry County, (5)	-	-	0.065	0.065	0.065	0.065	0.065	0.065	-	-
Town of Surry (5)	-	-	0.060	0.060	0.060	0.060	0.060	0.060	-	-
Urbanna, Middlesex County	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100
West Point, King William County	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600
Total Small Communities Treatment Plants Capacity	1.625	1.625	1.750	1.750	1.000	1.000	1.000	1.000	0.875	0.825
Miles of Interceptor Systems	557	557	561	538	540	541	541	542	540	536
Interceptor Pump Stations	92	92	90	89	90	88	87	88	89	88
Small Communities Pump Stations	47	47	46	44	42	42	41	34	38	33
Maintenance Facilities	2	2	2	2	2	2	2	2	2	2
Number of Service Connections (in thousands)	494	488	486	484	481	478	476	473	470	467
Daily Average Treatment in Millions of Gallons	139	146	135	132	154	141	153	145	153	155
Bond Rating: Moody's										
Senior	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa2	Aa2
Subordinate Long-term			Aa1	Aa1	Aa1	Aa1	Aa2	Aa2	-	-
Bond Rating: Standard & Poor's										
Senior	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Subordinate Long-term			AA+	AA+	AA+	AA+	AA+	AA	AA	AA
Subordinate Short-term			A-1+	A-1+	A-1+	A-1+	A-1+	A-1+	A-1+	A-1+
Bond Rating: Fitch										
Senior	AA	AA	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Subordinate Long-term			AA	AA	AA	AA	AA	AA	AA	AA
Subordinate Short-term			F1+	F1+	F1+	F1+	F1+	F1+	F1+	F1+

(1) HRSD added additional service areas in the counties of Isle of Wight and Surry during the year ended June 30, 2017 and the Eastern Shore of Virginia during the year ended June 30, 2021.

(2) The Chesapeake-Elizabeth Treatment Plant was closed on December 31, 2021. Wastewater from the area was redirected to the Atlantic Treatment Plant.

(3) Lawnes Point was acquired during the year ended June 30, 2017.

(4) The Onancock Plant was acquired during the year ended June 30, 2022.

(5) The Surry Plants were acquired during the year ended June 30, 2018 and closed in fiscal year 2024.

**SCHEDULE OF OPERATING REVENUES, EXPENSES, NET POSITION BY COMPONENT
AND DEBT SERVICE EXPENSES LAST TEN FISCAL YEARS**

(in thousands)	(restated)				
	2025	2024	2023	2022	2021
OPERATING REVENUES					
Wastewater treatment charges	\$ 460,275	\$ 422,784	\$ 383,115	\$ 352,414	\$ 325,817
Miscellaneous	4,761	4,157	4,820	5,532	3,952
TOTAL OPERATING REVENUES	465,036	426,941	387,935	357,946	329,769
OPERATING EXPENSES					
Wastewater treatment	173,973	167,327	149,532	134,135	132,820
General and administrative	57,028	60,406	53,995	45,673	48,691
Depreciation	60,456	57,053	54,469	54,357	53,278
TOTAL OPERATING EXPENSES	291,457	284,786	257,996	234,165	234,789
OPERATING INCOME	173,579	142,155	129,939	123,781	94,980
NON-OPERATING REVENUES (EXPENSES)					
Wastewater facility charges	6,928	7,153	7,293	7,072	7,379
Investment income	26,121	13,673	6,068	(1,651)	471
Bond interest subsidy	-	1,622	2,015	2,052	2,167
Change in fair value of investments	-	-	-	-	-
Capital distributions to localities	(811)	(2,005)	(2,422)	(13)	(376)
Bond issuance costs	(1,351)	(1,000)	(98)	(311)	(682)
Disposal of capital assets	-	-	-	-	-
Interest expense	(45,888)	(33,642)	(27,132)	(25,007)	(25,339)
NET NON-OPERATING EXPENSES	(15,001)	(14,199)	(14,276)	(17,858)	(16,380)
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM	158,578	127,956	115,663	105,923	78,600
CAPITAL CONTRIBUTIONS					
State capital grants	138,949	34,183	234	200	-
Other capital contributions	4,892	12,242	1,641	2,537	2,317
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	302,419	174,381	117,538	108,660	80,917
Special Item	23,758	-	-	-	-
CHANGE IN NET POSITION	\$ 326,177	\$ 174,381	\$ 117,538	\$ 108,660	\$ 80,917
NET POSITION					
Net investment in capital assets	\$ 1,156,903	\$ 1,017,839	\$ 981,437	\$ 832,427	\$ 776,253
Restricted:					
Debt service	37,709	22,307	33,830	33,134	30,455
Capital projects	9,215	-	-	-	-
Net OPEB asset	30,404	-	-	-	-
Unrestricted	435,955	303,863	161,755	193,923	144,116
TOTAL NET POSITION	\$ 1,670,186	\$ 1,344,009	\$ 1,177,022	\$ 1,059,484	\$ 950,824
Net Revenues Available for Debt Service (GAAP)	288,680	218,651	197,264	185,287	157,217
Add Back: Operating Expenses on Improvements Not Owned by HRSD *	811	2,005	2,422	13	376
Net Revenues Available for Debt Service	\$ 289,491	\$ 220,656	\$ 199,686	\$ 185,300	\$ 157,593
DEBT SERVICE					
Senior debt	\$ 78,314	\$ 76,894	\$ 27,624	\$ 24,549	\$ 26,085
Subordinate debt	-	-	38,767	36,468	33,128
Total Debt Service	\$ 78,314	\$ 76,894	\$ 66,391	\$ 61,017	\$ 59,213
Debt Service Coverage					
Debt Service Coverage	3.70	2.87	3.01	3.04	2.66

Notes:

FY2025 - HRSD implemented GASB Statement 101 effective July 1, 2024. GASB 101 establishes standards of accounting and financial reporting by updating the recognition and measurement guidance for compensated absences and required restatement of FY2024.

FY2024 - HRSD fully discharged all debt previously identified as senior lien obligations. With no debt priority, all debt is now identified as senior obligations. Additional information pertaining to Outstanding Debt can be found in Note 9 to the financial statements.

* Operating Expenses on Improvements Not Owned by HRSD are funded through HRSD's Capital Improvement Plan from sources which may include cash, debt, grants, and other sources. Such expenses are excluded from the definition of Operating Expenses under the Trust Agreement.

(Continued)

**SCHEDULE OF OPERATING REVENUES, EXPENSES, NET POSITION BY COMPONENT
AND DEBT SERVICE EXPENSES LAST TEN FISCAL YEARS**

(in thousands)	2020	2019	2018	(adjusted) 2017	2016
OPERATING REVENUES					
Wastewater treatment charges	\$ 318,585	\$ 299,323	\$ 275,539	\$ 254,961	\$ 234,020
Miscellaneous	3,447	3,798	3,504	3,669	3,861
TOTAL OPERATING REVENUES	322,032	303,121	279,043	258,630	237,881
OPERATING EXPENSES					
Wastewater treatment	122,393	117,189	116,982	113,100	106,575
General and administrative	46,949	41,121	40,480	40,287	40,026
Depreciation	51,383	53,225	52,349	49,311	45,670
TOTAL OPERATING EXPENSES	220,725	211,535	209,811	202,698	192,271
OPERATING INCOME	101,307	91,586	69,232	55,932	45,610
NON-OPERATING REVENUES (EXPENSES)					
Wastewater facility charges	6,444	6,662	6,673	7,511	6,699
Investment income	5,876	8,719	3,654	2,287	1,563
Bond interest subsidy	2,205	2,308	2,330	2,275	2,399
Change in fair value of investments	-	-	(1,382)	(1,119)	750
Capital distributions to localities	-	-	(311)	(138)	(3,287)
Bond issuance costs	(1,290)	(53)	(1,061)	(42)	(1,713)
Disposal of capital assets	(739)	-	-	-	-
Interest expense	(26,179)	(27,964)	(20,226)	(22,630)	(21,631)
NET NON-OPERATING EXPENSES	(13,683)	(10,328)	(10,323)	(11,856)	(15,220)
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM	87,624	81,258	58,909	44,076	30,390
CAPITAL CONTRIBUTIONS					
State capital grants	-	2,444	2,502	7,462	14,389
Other capital contributions	578	374	2,124	1,136	-
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	88,202	84,076	63,535	52,674	44,779
Special Item	-	-	-	-	-
CHANGE IN NET POSITION	\$ 88,202	\$ 84,076	\$ 63,535	\$ 52,674	\$ 44,779
NET POSITION					
Net investment in capital assets	\$ 646,505	\$ 494,779	\$ 512,398	\$ 428,670	\$ 410,287
Restricted:					
Debt service	28,155	28,553	27,799	22,701	23,798
Capital projects	-	-	-	-	-
Net OPEB asset	-	-	-	-	-
Unrestricted	195,247	258,373	157,432	202,907	167,519
TOTAL NET POSITION	\$ 869,907	\$ 781,705	\$ 697,629	\$ 654,278	\$ 601,604
Net Revenues Available for Debt Service (GAAP)	165,925	162,447	133,177	117,274	100,228
Add Back: Operating Expenses on Improvements Not Owned by HRSD *	-	-	311	138	3,287
Net Revenues Available for Debt Service	\$ 165,925	\$ 162,447	\$ 133,488	\$ 117,412	\$ 103,515
DEBT SERVICE					
Senior debt	\$ 28,595	\$ 33,592	\$ 36,488	\$ 35,837	\$ 38,198
Subordinate debt	30,416	28,313	20,633	23,603	17,068
Total Debt Service	\$ 59,011	\$ 61,905	\$ 57,121	\$ 59,440	\$ 55,266
Debt Service Coverage					
Debt Service Coverage	2.81	2.62	2.30	2.00	1.85

Notes:

FY2018 - HRSD implemented GASB Statement 75 effective July 1, 2017, which requires recording net OPEB assets or liabilities and related deferred outflows and inflows of resources.

FY2019 - HRSD implemented GASB Statement 89 effective July 1, 2018, establishes accounting requirements for interest cost incurred before the end of a construction period.

* Operating Expenses on Improvements Not Owned by HRSD are funded through HRSD's Capital Improvement Plan from sources which may include cash, debt, grants, and other sources. Such expenses are excluded from the definition of Operating Expenses under the Trust Agreement.

**OBJECTIVE CLASSIFICATION OF DIVISIONAL EXPENSES
FOR OPERATIONS - LAST TEN FISCAL YEARS**

(in thousands)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Personal Services	\$ 79,965	\$ 71,864	\$ 65,549	\$ 61,157	\$ 60,250	\$ 59,666	\$ 56,336	\$ 55,160	\$ 53,401	\$ 51,801
Fringe Benefits	20,766	28,568	23,772	20,467	23,879	21,417	18,235	20,275	19,106	17,974
Repairs and Maintenance *	29,419	27,625	20,174	18,004	21,207	17,419	13,786	16,763	19,933	22,824
Materials and Supplies	15,563	13,728	12,641	9,495	11,413	9,364	9,314	8,865	8,310	7,843
Transportation	2,118	1,776	1,672	1,380	1,100	1,194	1,423	1,271	1,386	1,537
Utilities	16,491	18,045	17,044	13,762	12,947	12,584	12,749	11,968	11,523	11,249
Chemical Purchases	14,895	15,500	13,890	10,044	8,719	8,760	8,746	8,750	8,020	7,512
Contractual Services	44,551	42,257	42,934	41,904	37,278	33,748	32,123	30,165	26,977	21,573
Miscellaneous Expense	2,924	3,045	2,864	2,385	2,685	2,953	2,622	2,509	2,329	1,842
General **	4,309	5,325	2,987	1,210	2,033	2,237	2,976	1,736	2,402	2,446
Subtotal, Expense before Depreciation	231,001	227,733	203,527	179,808	181,511	169,342	158,310	157,462	153,387	146,601
Depreciation	60,456	57,053	54,469	54,357	53,278	51,383	53,225	52,349	49,311	45,670
Total Operating Expenses	\$ 291,457	\$ 284,786	\$ 257,996	\$ 234,165	\$ 234,789	\$ 220,725	\$ 211,535	\$ 209,811	\$ 202,698	\$ 192,271

Notes:

* Includes Capital Improvement Program items expensed

** Includes bad debt expense

**RATIOS OF OUTSTANDING DEBT BY TYPE
FOR THE YEARS ENDED JUNE 30, 2016 THROUGH 2025**

As of June 30,	No. Of Service Connections	(in thousands)				Debt Per Service Connection
		Senior	Subordinate		Total	
		Revenue Bonds	Revenue Bonds	Notes Payable	Outstanding Debt	
2025	494,000	\$ 1,854,322	\$ -	\$ 92,462	\$ 1,946,784	\$ 3,941
2024	488,000	1,317,445	-	100,000	1,417,445	2,905
2023	486,000	166,268	813,474	68,580	1,048,322	2,157
2022	484,000	186,227	682,245	33,721	902,193	1,864
2021	481,000	202,486	632,520	15,299	850,305	1,768
2020	478,000	219,776	615,703	-	835,479	1,748
2019	476,000	326,531	565,098	-	891,629	1,873
2018	473,000	349,313	542,129	-	891,442	1,885
2017	470,000	458,255	388,529	-	846,784	1,802
2016	467,000	476,734	402,560	-	879,294	1,883

Notes:

Unamortized bond premiums are included in Senior and Subordinate Revenue Bonds.

In fiscal year 2024, HRSD fully discharged all debt previously identified as senior lien obligations. With no debt priority, all debt is now identified as senior obligations. Additional information pertaining to Outstanding Debt can be found in Note 9 to the financial statements.

**RATE SCHEDULE
WASTEWATER TREATMENT CHARGES
LAST TEN FISCAL YEARS**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
<u>Residential - Metered</u>										
Per CCF * (single step)	\$ 8.28	\$ 7.60	\$ 6.97	\$ 6.39	\$ 5.86	\$ 5.86	\$ 5.37	\$ 4.92	\$ 4.51	\$ 4.13
Minimum Charges Per day	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.25
<u>Residential - Unmetered per 30-day period</u>										
Flat rate accounts	65.10	60.00	57.90	52.20	48.64	48.64	34.91	31.98	29.32	26.32
<u>Non-Residential - Special Category</u>										
Biochemical Oxygen Demand (BOD)										
Per mg/liter per CCF										
Excess over 282 mg/liter	-	-	-	-	0.000129	0.000129	0.000104	0.000091	0.000206	0.000485
Excess over 297 mg/liter	0.000182	0.000185	0.000185	0.000176	-	-	-	-	-	-
Total Suspended Solids (TSS)										
Per mg/liter per CCF										
Excess over 261 mg/liter	-	-	-	-	0.000630	0.000630	0.000592	0.000520	0.000454	0.000448
Excess over 282 mg/liter	0.000613	0.000612	0.000611	0.000584	-	-	-	-	-	-
Total Phosphorus (TP)										
Per mg/liter per CCF										
Excess over 6 mg/liter	-	-	-	-	0.009871	0.009871	0.009535	0.011569	0.011642	0.004361
Excess over 7 mg/liter	0.009169	0.009258	0.009531	0.010050	-	-	-	-	-	-
Total Kjeldahl Nitrogen (TKN)										
Per mg/liter per CCF										
Excess over 47 mg/liter	-	-	-	-	0.003378	0.003378	0.003595	0.003156	0.00166	0.000917
Excess over 57 mg/liter	0.002868	0.002784	0.002705	0.002660	-	-	-	-	-	-
<u>Hauled Wastewater (Indirect Discharge Water)</u>										
Tank Truck Waste (per gallon)	-	-	-	-	0.1717	0.1717	0.1697	0.1300	0.1366	0.1362
Fats, Oils, and Grease (FOG)	0.3658	0.3517	0.3339	0.2737	-	-	-	-	-	-
Other Approved Hauled Wastes	0.1812	0.1812	0.1812	0.1717	-	-	-	-	-	-

Notes:

Rates can be adjusted by the Commission.

Unusual wastes not covered by this schedule may be assigned a special rate.

*CCF = 100 Cubic Feet (Approx. 748 gallons)

Source: HRSD's Yearly Rate Schedule Publications

**RATE SCHEDULE
WASTEWATER FACILITY CHARGES
LAST TEN FISCAL YEARS**

		2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Residential		\$ 2,430	\$ 2,420	\$ 2,285	\$ 2,055	\$ 1,905	\$ 1,905	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,895
Commercial/Industrial											
Volume based facility charges:											
5/8" Meter		\$ 2,430	\$ 2,420	\$ 2,285	\$ 2,055	\$ 1,905	\$ 1,905	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,895
3/4" Meter		4,210	4,210	4,210	4,210	4,210	4,210	4,830	4,830	4,830	4,830
1" Meter		7,410	7,410	7,410	7,410	7,410	7,410	8,170	8,170	8,170	8,170
1 1/2" Meter		18,395	18,395	17,590	16,645	16,645	16,645	17,260	17,260	17,260	17,260
2" Meter		35,825	35,825	34,415	31,465	30,505	30,505	30,510	30,510	30,510	29,420
3" Meter		91,665	91,665	88,570	80,405	73,810	73,810	70,800	70,800	70,800	67,350
4" Meter		178,485	178,485	173,245	156,530	138,445	138,445	128,660	128,660	128,660	122,400
6" Meter		456,620	456,620	445,910	400,625	336,960	336,960	298,610	298,610	298,610	284,070
8" Meter		889,185	889,185	872,130	780,840	634,710	634,710	542,680	542,680	542,680	516,260
10" Meter		1,491,070	1,491,070	1,467,435	1,310,665	1,038,525	1,038,525	862,550	862,550	862,550	820,560
12" Meter		2,274,730	2,274,730	2,244,900	2,001,460	1,554,120	1,554,120	1,259,520	1,259,520	1,259,520	1,198,210
14" Meter		3,251,050	3,251,050	3,215,910	2,863,155	2,186,505	2,186,505	1,734,700	1,734,700	1,734,700	1,650,250
16" Meter		4,429,645	4,429,645	4,390,660	3,904,635	2,940,135	2,940,135	2,289,010	2,289,010	2,289,010	2,177,580

Notes:

One charge per connection.

Source: HRSD's Yearly Rate Schedule Publications

MAJOR TREATMENT PLANT OPERATING SUMMARY
LAST TEN FISCAL YEARS
(Average Quantity per Day)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total										
Flow (MGD)	138.4	145.8	135.1	132.3	154.4	140.9	152.6	145.2	152.9	155.1
Influent (1,000 lbs.)										
BOD	279.3	273.6	284.4	263.5	269.1	252.4	281.9	285.1	288.2	282.5
TSS	229.3	228.3	253.4	203.4	215.4	226.2	211.4	215.8	215.9	228.8
TP	6.2	6.3	6.4	6.3	6.5	6.6	6.6	6.8	7.0	6.9
TKN	50.9	49.4	50.3	45.0	46.7	47.0	47.6	47.2	46.4	45.7
Effluent (1,000 lbs.)										
BOD	8.7	8.5	8.8	7.4	9.2	8.0	8.2	7.5	8.9	9.8
TSS	8.2	7.8	7.7	6.3	9.0	7.1	7.4	6.7	9.4	9.3
TP	0.6	0.6	0.5	0.5	0.7	0.7	0.8	0.7	0.9	0.9
TKN	4.7	3.7	4.3	5.1	8.1	8.4	8.5	7.3	7.7	8.0
Army Base Plant										
Flow (MGD)	8.6	10.6	8.4	8.2	11.1	10.4	11.1	10.0	9.5	9.6
Influent (1,000 lbs.)										
BOD	15.1	14.3	18.1	17.4	16.6	16.0	16.6	16.3	13.2	13.3
TSS	13.7	12.1	19.0	21.8	19.0	16.9	13.9	14.0	11.7	13.3
TP	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
TKN	2.9	2.8	2.9	2.9	3.2	3.3	3.3	3.1	2.7	2.7
Effluent (1,000 lbs.)										
BOD	0.2	0.3	0.2	0.2	0.6	0.2	0.3	0.2	0.3	0.3
TSS	0.2	0.4	0.3	0.4	0.9	0.3	0.4	0.3	0.4	0.5
TP	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1
TKN	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Atlantic Plant										
Flow (MGD)	43.4	44.8	42.8	35.9	27.4	24.5	28.1	26.1	28.2	27.2
Influent (1,000 lbs.)										
BOD	80.7	85.9	85.9	74.4	58.5	49.3	58.2	56.7	53.2	55.6
TSS	67.0	79.5	73.0	51.9	39.6	35.5	39.3	36.6	38.7	38.5
TP	2.0	2.2	2.1	1.8	1.4	1.3	1.4	1.3	1.4	1.4
TKN	17.5	16.9	17.2	15.2	11.4	10.7	11.9	11.2	11.0	10.9
Effluent (1,000 lbs.)										
BOD	4.5	4.3	5.4	3.5	2.9	3.0	2.5	2.4	2.3	2.7
TSS	4.4	3.5	4.7	2.9	2.5	1.5	1.6	1.6	1.9	1.9
Boat Harbor Plant										
Flow (MGD)	11.5	12.0	10.7	11.7	15.2	13.6	15.8	14.2	13.9	15.6
Influent (1,000 lbs.)										
BOD	17.2	16.9	17.8	17.7	20.0	18.4	20.6	19.2	17.4	18.3
TSS	12.5	12.6	12.7	13.2	16.1	16.0	18.0	16.6	15.7	18.1
TP	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TKN	3.6	3.4	3.5	3.6	3.8	4.0	4.2	3.9	3.8	3.8
Effluent (1,000 lbs.)										
BOD	1.0	0.8	0.6	0.9	1.0	0.6	0.9	0.6	0.6	1.0
TSS	0.8	0.8	0.6	0.7	1.0	0.8	1.0	0.7	0.7	0.9
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	2.5	1.6	2.5	2.2	2.1	2.0	2.5	1.3	1.2	1.8

MAJOR TREATMENT PLANT OPERATING SUMMARY
LAST TEN FISCAL YEARS
(Average Quantity per Day)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Chesapeake-Elizabeth Plant *										
Flow (MGD)	-	-	-	10.1	16.8	17.4	17.6	18.7	18.0	16.3
Influent (1,000 lbs.)										
BOD	-	-	-	20.2	30.5	38.1	37.2	35.4	35.2	30.2
TSS	-	-	-	14.0	23.0	24.6	26.8	26.6	26.1	22.9
TP	-	-	-	0.5	0.7	0.8	0.8	0.8	0.8	2.7
TKN	-	-	-	4.0	6.1	6.9	6.8	6.6	6.4	5.1
Effluent (1,000 lbs.)										
BOD	-	-	-	1.2	2.5	2.2	2.0	2.8	2.3	2.0
TSS	-	-	-	0.9	1.9	2.0	1.9	3.2	2.3	1.8
TP	-	-	-	0.1	0.1	0.2	0.1	0.2	0.1	0.1
TKN	-	-	-	2.0	3.9	4.4	4.1	4.5	4.1	3.6
* The Chesapeake-Elizabeth Plant was closed December 31, 2021.										
James River Plant										
Flow (MGD)	11.6	11.8	12.1	12.7	14.7	12.4	13.9	13.0	12.3	13.2
Influent (1,000 lbs.)										
BOD	25.5	24.1	35.5	24.9	23.1	24.0	25.8	26.8	25.5	24.4
TSS	18.7	18.6	46.4	17.5	18.1	17.4	18.7	19.3	17.4	17.8
TP	0.5	0.5	0.6	0.6	0.6	0.5	0.6	0.6	0.5	0.5
TKN	4.4	4.4	5.2	4.7	5.0	4.7	4.7	4.8	4.3	4.2
Effluent (1,000 lbs.)										
BOD	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.4	0.4
TSS	0.7	0.8	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5
TP	0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1
TKN	0.5	0.5	0.6	0.6	0.5	0.5	0.3	0.4	0.5	0.4
Nansemond Plant										
Flow (MGD)	16.4	16.6	15.3	15.5	17.4	15.9	16.9	17.5	18.8	18.5
Influent (1,000 lbs.)										
BOD	34.6	33.6	30.1	29.9	33.8	32.5	33.0	31.9	40.7	35.8
TSS	31.8	29.1	27.7	25.9	36.0	46.5	37.2	33.4	40.3	38.4
TP	0.8	0.8	0.9	0.8	0.9	1.0	1.0	1.2	1.5	1.5
TKN	7.1	7.0	6.4	6.2	6.8	6.9	6.7	7.1	7.4	7.0
Effluent (1,000 lbs.)										
BOD	0.8	0.7	0.5	0.4	0.6	0.6	0.7	0.7	0.8	0.7
TSS	1.1	0.9	0.8	0.5	0.8	0.6	0.8	0.7	0.8	0.9
TP	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
TKN	0.5	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.5	0.5
Virginia Initiative Plant										
Flow (MGD)	26.9	30.0	24.7	23.5	29.1	26.2	27.6	26.7	30.9	31.7
Influent (1,000 lbs.)										
BOD	38.3	42.4	42.3	39.1	39.4	37.0	40.4	47.5	50.1	50.4
TSS	27.5	32.9	37.3	33.2	31.5	35.4	23.2	30.0	31.3	32.0
TP	1.0	1.0	1.0	1.0	1.0	1.1	0.9	1.0	1.0	1.0
TKN	7.2	7.2	7.2	6.5	6.7	7.1	6.8	7.0	7.3	7.4
Effluent (1,000 lbs.)										
BOD	0.9	1.0	0.9	0.7	0.6	0.5	0.6	0.8	1.2	1.7
TSS	0.6	1.1	0.5	0.4	0.7	1.0	0.7	0.7	1.4	1.9
TP	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2
TKN	0.5	0.5	0.4	0.3	0.4	0.3	0.4	0.6	0.4	0.7

TREATMENT PLANT OPERATING SUMMARY
LAST TEN FISCAL YEARS
(Average Quantity per Day)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Williamsburg Plant										
Flow (MGD)	8.3	8.1	8.7	8.3	9.0	8.6	7.7	8.0	8.6	8.4
Influent (1,000 lbs.)										
BOD	49.2	38.2	36.7	33.3	32.5	33.4	32.6	36.1	33.2	34.7
TSS	42.1	27.4	21.5	17.4	18.0	21.2	24.1	19.1	27.9	16.2
TP	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TKN	4.2	3.7	4.0	3.6	3.7	3.6	3.5	3.3	3.6	3.2
Effluent (1,000 lbs.)										
BOD	0.3	0.4	0.4	0.3	0.4	0.2	0.2	0.2	0.3	0.3
TSS	0.3	0.3	0.2	0.2	0.6	0.2	0.2	0.2	0.3	0.3
TP	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1
TKN	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
York River Plant										
Flow (MGD)	11.6	12.0	11.6	11.6	13.9	13.2	12.6	12.6	12.7	12.6
Influent (1,000 lbs.)										
BOD	18.6	18.0	18.0	16.7	14.6	15.8	16.8	16.7	16.3	18.2
TSS	16.0	16.2	15.8	15.5	14.1	15.4	15.0	15.1	16.7	16.9
TP	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
TKN	4.0	3.9	3.9	3.8	3.8	3.7	3.6	3.6	3.5	3.5
Effluent (1,000 lbs.)										
BOD	0.3	0.3	0.2	0.1	0.2	0.5	0.3	0.3	0.4	0.4
TSS	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2
TP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
TKN	0.3	0.4	0.3	0.3	0.4	0.3	0.2	0.2	0.3	0.3

**TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO**

(in thousands)

<u>Customer</u>	<u>Type</u>	2025			2016		
		Annual Billing	Rank	Percent of Wastewater Treatment Revenue	Annual Billing	Rank	Percent of Wastewater Treatment Revenue
U.S. Navy - Norfolk Naval Base	Military Facility	\$ 9,125	1	2.0%	\$ 4,383	1	1.9%
Anheuser - Busch, Inc.	Brewery	4,060	2	0.9%	2,961	3	1.3%
Huntington Ingalls Industries	Shipbuilding	3,208	3	0.7%	1,970	4	0.8%
Norfolk Redevelopment & Housing Authority	Housing Authority	2,908	4	0.6%	1,439	7	0.6%
City of Norfolk	Municipality	2,850	5	0.6%	1,353	8	0.6%
Norfolk Naval Shipyard Military Ship Repair		2,761	6	0.6%	1,859	5	0.8%
U.S. Air Force - Langley Air Force Base	Military Facility	2,755	7	0.6%	-		-
Joint Expeditionary Base Little Creek-Fort Story	Military Facility	2,340	8	0.5%	1,457	6	0.6%
City of Virginia Beach	Municipality	2,188	9	0.5%	-		-
Smithfield Foods	Meat Processor	1,796	10	0.4%	4,067	2	1.7%
Oceana Naval Air Station / Dam Neck	Military Facility	-		-	1,067	10	0.5%
Fort Eustis	Military Facility	-		-	1,200	9	0.5%
Total		\$ 33,991		7.4%	\$ 21,756		9.3%

**TEN LARGEST EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>Type</u>	2025			2016		
		Number of Employees	Rank	Percent of Regional Employment	Number of Employees	Rank	Percent of Regional Employment
Naval Station Norfolk	Military Facility	82,000	1	9.6%	64,357	1	7.0%
Huntington Ingalls Industries	Shipbuilding and Repair	44,000	2	5.2%	24,000	2	2.6%
Joint Base Langley-Eustis	Military Facility	20,884	3	2.5%	20,140	4	2.2%
Sentara Healthcare	Health Care Network	16,000	4	1.9%	22,000	3	2.4%
Norfolk Naval Shipyard	Military Ship Repair	12,000	5	1.4%	10,734	7	1.2%
Naval Support Activity/ Naval Medical Center	Military Facility	10,300	6	1.2%	-	-	-
Naval Air Station Oceana- Dam Neck	Military Facility	10,227	7	1.2%	17,156	5	1.9%
Riverside Health System	Health Care Network	9,000	8	1.1%	8,000	9	0.9%
Virginia Beach Public Schools	Public Schools	7,597	9	0.9%	10,576	8	1.1%
Norfolk City Public Schools	Public Schools	6,278	10	0.7%	6,527	10	0.7%
Joint Expeditionary Base Little Creek - Fort Story	Military Facility	-	-	-	14,775	6	1.6%
Total		<u>218,286</u>		<u>25.7%</u>	<u>133,908</u>		<u>14.5%</u>

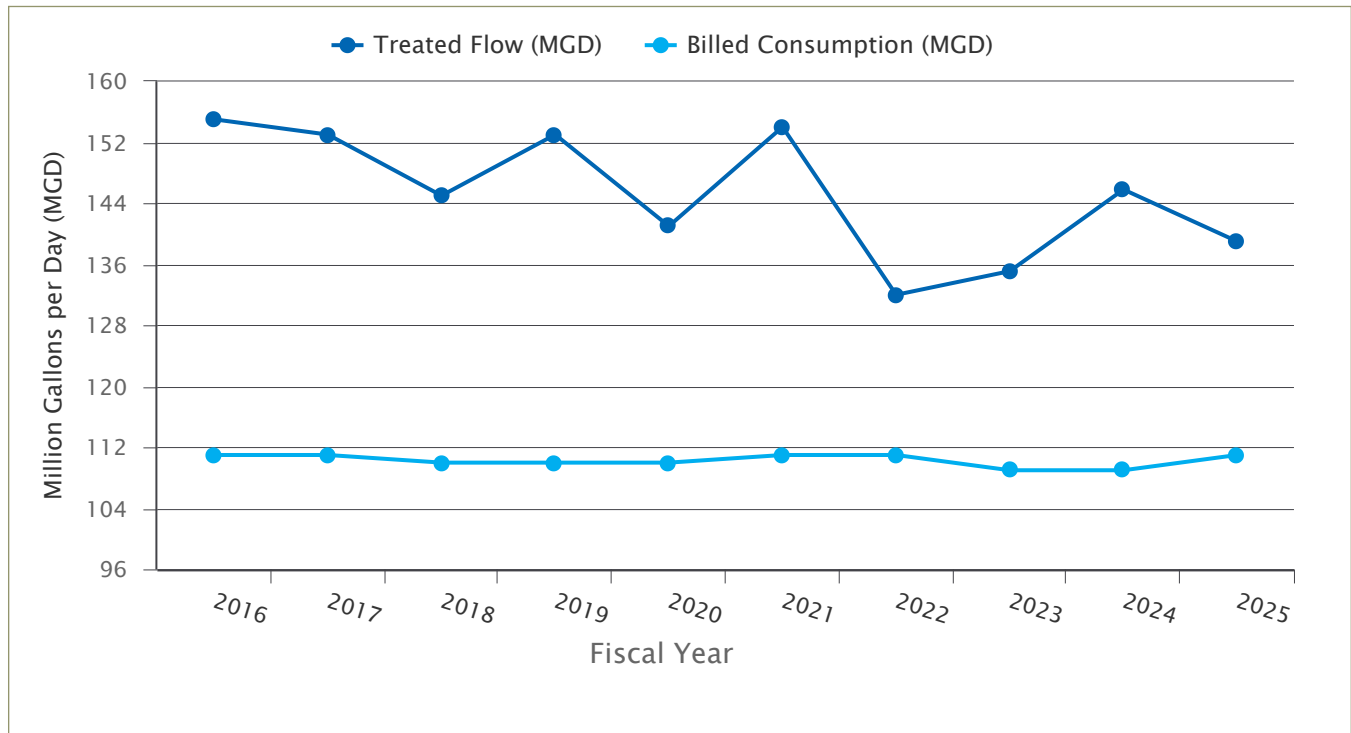
Sources:

Hampton Roads Economic Development Alliance

Hampton Roads PDC

Hampton Roads Business

COMPARISON OF TREATED FLOW TO BILLED FLOW LAST TEN FISCAL YEARS



Year ended June 30,	Treated Flow (MGD)	Billed Consumption (MGD)
2016	155	111
2017	153	111
2018	145	110
2019	153	110
2020	141	110
2021	154	111
2022	132	111
2023	135	109
2024	146	109
2025	139	111

**NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
LAST TEN FISCAL YEARS**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
<u>General Management</u>										
General Manager	1	1	1	1	1	1	1	2	3	3
Support Staff	1	1	1	1	1	1	1	1	1	1
Total General Management	2	2	2	2	2	2	2	3	4	4
<u>Communications</u>										
Communications	4	1	1	1	1	1	1	1	-	-
Support Staff	-	3	3	2	2	2	2	1	-	-
Total Communications	4	4	4	3	3	3	3	2	-	-
<u>Talent Management</u>										
Human Resources	9	6	6	5	6	6	6	6	6	5
Safety	6	5	5	5	4	3	3	3	3	3
Training	5	6	4	4	4	3	3	2	2	2
Support Staff	5	4	3	3	3	4	4	4	4	4
Total Talent Management	25	21	18	17	17	16	16	15	15	14
<u>Finance</u>										
Accounting	13	15	15	15	15	12	12	11	10	10
Customer Care Center	65	64	63	65	71	77	77	77	77	77
Procurement	11	11	11	12	11	10	10	10	10	10
Financial Planning and Analysis	11	9	9	6	-	-	-	-	-	-
Support Staff	13	6	5	4	5	3	3	3	3	2
Total Finance	113	105	103	102	102	102	102	101	100	99
<u>Information Technology</u>										
Information Technology	54	58	52	49	48	48	43	48	47	45
Support Staff	7	1	2	2	2	2	2	2	1	1
Total Information Technology	61	59	54	51	50	50	45	50	48	46
<u>Operations</u>										
Army Base Treatment Plant	26	31	31	29	32	34	34	34	34	31
Atlantic Treatment Plant	41	36	36	36	37	35	35	35	35	32
Boat Harbor Treatment Plant	34	33	33	34	32	35	35	35	35	32
Chesapeake-Elizabeth Treatment Plant	-	-	-	25	31	32	32	32	32	31
Interceptor System Maintenance	115	111	111	112	121	119	119	118	117	115
James River Treatment Plant	28	24	24	24	24	22	22	22	22	20
Maintenance Shops	112	125	114	112	85	74	73	71	70	83
Nansemond Treatment Plant	28	32	32	30	35	32	32	32	32	30
Virginia Initiative Plant	34	33	33	33	32	34	34	33	33	30
Williamsburg Treatment Plant	30	30	30	28	28	29	29	29	29	28
York River Treatment Plant	23	24	24	23	23	24	24	24	24	22
Small Communities Division	36	33	29	27	23	23	23	23	23	21
Technology	8	5	-	-	-	-	-	-	-	-
Support Staff	46	20	27	20	23	23	23	23	23	24
Total Operations	561	537	524	533	526	516	515	511	509	499
<u>Engineering</u>										
Design and Construction	61	57	51	43	31	31	30	26	25	25
Support Staff	1	2	2	2	13	13	13	13	14	14
Total Engineering	62	59	53	45	44	44	43	39	39	39
<u>Water Quality</u>										
Pretreatment & Pollution Prevention	29	28	27	27	27	28	27	27	26	26
Technical Services	42	39	35	34	36	34	31	31	29	28
Laboratory	52	52	53	52	50	47	47	46	45	42
Support Staff	2	4	5	6	5	5	5	5	6	6
Total Water Quality	125	123	120	119	118	114	110	109	106	102
Total	953	910	878	872	862	847	836	830	821	803



OTHER SUPPLEMENTAL SECTION (UNAUDITED)



INDEX TO OTHER SUPPLEMENTAL SECTION

ANNUAL COMPREHENSIVE FINANCIAL REPORT / HAMPTON ROADS SANITATION DISTRICT

In accordance with the Governmental Accounting Standards Board, the following information is required to accompany the Basic Financial Statements.

Contents	Page
Debt Service	98
This schedule presents information pertaining to HRSD's primary bonded debt service. It covers senior debt service payments projected for fiscal years ending from June 30, 2026 through June 30, 2060.	
Budgetary Information	99
These schedules contain information about HRSD's budget and resources to help the reader understand HRSD's budgeting process.	

SUMMARY OF PRIMARY BONDED DEBT SERVICE
June 30, 2025

(in thousands)	Senior Bonds - Excluding Bond Premium and Notes Payable		
As of June 30,	Principal	Interest	Debt Service
2026	\$ 101,251	\$ 39,068	\$ 140,319
2027	55,794	38,261	94,055
2028	53,874	36,829	90,703
2029	55,316	45,110	100,426
2030	56,701	43,544	100,245
2031	58,709	42,075	100,784
2032	55,439	40,569	96,008
2033	55,387	38,780	94,167
2034	55,874	37,339	93,213
2035	56,567	35,957	92,524
2036	52,361	34,332	86,693
2037	53,941	32,844	86,785
2038	51,419	31,158	82,577
2039	37,257	29,296	66,553
2040	40,177	27,985	68,162
2041	41,245	26,593	67,838
2042	40,249	25,155	65,404
2043	45,413	23,601	69,014
2044	47,306	21,795	69,101
2045	42,847	20,042	62,889
2046	49,702	18,208	67,910
2047	38,025	15,332	53,357
2048	27,676	14,199	41,875
2049	28,393	13,657	42,050
2050	57,109	12,537	69,646
2051	46,197	11,292	57,489
2052	65,503	10,092	75,595
2053	64,555	8,608	73,163
2054	68,617	7,282	75,899
2055	68,292	5,937	74,229
2056	62,539	4,726	67,265
2057	61,608	3,654	65,262
2058	60,508	2,592	63,100
2059	50,362	1,543	51,905
2060	1,037	13	1,050
Total	\$ 1,807,250	\$ 800,005	\$ 2,607,255

BUDGETARY COMPARISON SCHEDULE **June 30, 2025**

(in thousands)

(in thousands)

	Budget			Variance Favorable/ (Unfavorable)	
	Adopted	Amended	Actual	Amended Budget	Percent Variance
OPERATING BUDGET EXPENSES					
General Management	\$ 616	\$ 617	\$ 590	\$ 27	4.4%
Communications	1,182	1,220	880	340	27.9%
Finance	18,952	19,400	18,652	748	3.9%
Information Technology	22,300	24,326	19,970	4,356	17.9%
Talent Management	3,725	3,892	3,000	892	22.9%
Operations	140,779	154,966	135,547	19,419	12.5%
Engineering	11,602	12,464	10,604	1,860	14.9%
Water Quality	18,838	19,622	18,353	1,269	6.5%
General	5,564	6,526	(977)	7,503	115.0%
Debt Service - Including COI	88,000	88,000	104,725	(16,725)	(19.0%)
TOTAL	311,558	331,033	311,344	\$ 19,689	5.9%
Transfer to CIP	155,635	155,635			
TOTAL BUDGET	\$ 467,193	\$ 486,668			
Add:					
Unbudgeted Depreciation and Amortization			60,456		
Unbudgeted Bad Debt Expense			4,309		
Capital Improvement Program Items Expensed			23,447		
Less:					
Capitalized Assets			2,563		
Debt Service			104,725		
Capital Distributions to Localities			811		
TOTAL OPERATING EXPENSES			\$ 291,457		

NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2025

BUDGETARY HIGHLIGHTS

HRSD's Commission adopts an Annual Operating Budget that contains the day-to-day operating expenses of the District. The Operating Budget as adopted for FY 2025 was \$428,490,000 and contains personnel costs, fringe benefits, material and supplies, electricity, chemicals, insurance, contractual services, debt service and other miscellaneous expenses. There were several modifications to the Operating Budget during the year to reflect changes in spending patterns. All amendments to the Annual Budget were from encumbrances carried forward or from transfers within or among divisions.

NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL Budget Preparation

HRSD prepares its Annual Budget under the provisions of its enabling legislation, used to establish rates, fees and other charges, and the Trust Agreement. In accordance with those provisions, the following process is used to adopt the Annual Budget.

The process begins in late December with the issuance of the Annual Budget Instructions by the General Manager. Each division completes its Operating and Improvement Budgets by March 1 for the General Manager's review.

The HRSD Commission appoints a Finance Committee consisting of three Commissioners. The three Commissioners meet in early April to review the Budgets, which are presented by staff at the April Commission meeting. HRSD's Commission reviews these budgets at that meeting.

The final Annual Budget, which incorporates the Operating and Capital Budgets, is presented at the May Commission meeting for adoption. The Commission simultaneously adopts the budget and any resulting wastewater rate schedule. All rate adjustments must be publicly advertised four consecutive weeks before they can take effect.

The HRSD Commission approves any budget amendments during the ensuing year.

HRSD's Trust Agreement requires the debt service coverage ratio to be a minimum of 1.2 times annual debt service. The HRSD Commission has a policy of maintaining adjusted debt service coverage ratios of not less than 1.4 times annual debt service. HRSD's operating and capital improvement plans were developed with the intent to maintain coverage ratios in excess of this requirement.

Budget Accounting

The Annual Budget is prepared on a basis of accounting generally consistent with accounting principles generally accepted in the United States of America. No provision is provided, however, for non-cash items such as depreciation and bad debt expense and principal payments on outstanding debt are considered an operating expense. The FY 2025 Annual Budget consists of two parts: an operating budget that covers day-to-day operations and a capital budget that identifies all major capital project requirements over the next 10 years. All operating budget amounts lapse at year-end. Funds for the capital budget are appropriated throughout the fiscal year on a project basis and continue until the purpose of the project has been fulfilled.

**SCHEDULE OF REVENUES, EXPENSES AND
DEBT SERVICE FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

(in thousands)

	Actual	Amended Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
OPERATING REVENUES				
Wastewater Treatment Charges	\$ 460,275	\$ 450,655	\$ 9,620	2%
Miscellaneous	4,761	3,067	1,694	55%
TOTAL OPERATING REVENUES	465,036	453,722	11,314	1%
CURRENT EXPENSES				
General Management	590	617	27	4%
Communications	880	1,220	340	28%
Finance	18,652	19,400	748	4%
Information Technology	19,970	24,326	4,356	18%
Talent Management	3,000	3,892	892	23%
Operations	135,547	154,966	19,419	13%
Engineering	10,604	12,464	1,860	15%
Water Quality	18,353	19,622	1,269	6%
General	(977)	6,526	7,503	115%
TOTAL CURRENT EXPENSES	206,619	243,033	36,414	15%
EXCESS OF OPERATING REVENUES OVER EXPENSES	258,417	210,689	47,728	23%
NON-OPERATING REVENUES				
Wastewater Facility Charge	6,928	6,170	758	12%
Interest Income	26,121	7,300	18,821	258%
TOTAL NON-OPERATING REVENUES	33,049	13,470	19,579	145%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	291,466	224,159	67,307	30%
CAPITAL CONTRIBUTIONS				
Other Capital Contributions	143,841	-	143,841	100%
INCOME BEFORE SPECIAL ITEM	435,307	224,159	211,148	94%
Special Item	23,758	-	23,758	100%
AMOUNT AVAILABLE FOR DEBT	459,065	224,159	234,906	105%
DEBT SERVICE				
Principal and Interest	103,374	104,691	1,317	1%
Cost of Issuance	1,351	300	(1,051)	(350%)
TOTAL DEBT SERVICE	104,725	104,991	266	0%
AMOUNT AVAILABLE TO REINVEST	\$ 354,340	\$ 119,168	\$ 235,172	197%

**OBJECTIVE CLASSIFICATION OF DIVISIONAL EXPENSES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

(in thousands)

	General Management	Communications	Finance	Information Technology	Talent Management	Operations
Personal Services	\$ 431	\$ 485	\$ 8,269	\$ 7,019	\$ 1,951	\$ 45,061
Fringe Benefits	110	139	3,008	2,226	688	17,077
Materials & Supplies	2	117	70	1,387	62	12,251
Transportation	12	13	31	22	20	1,964
Utilities	-	-	189	1,693	-	13,616
Chemical Purchases	-	-	-	-	-	14,895
Contractual Services	13	88	6,857	6,796	126	20,911
Major Repairs	-	-	-	588	-	6,161
Capital Assets	-	-	-	-	-	2,563
Miscellaneous Expense	22	38	228	239	153	1,048
	\$ 590	\$ 880	\$ 18,652	\$ 19,970	\$ 3,000	\$ 135,547

**OBJECTIVE CLASSIFICATION OF DIVISIONAL EXPENSES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

(in thousands)

	Engineering	Water Quality	General	Total	Percent of Total	Amended Budget	Variance Favorable/ (Unfavorable)
Personal Services	\$ 7,059	\$ 10,603	\$ (913)	\$ 79,965	26%	\$ 80,140	\$ 175
Fringe Benefits	2,228	3,906	(8,616)	20,766	7%	30,767	10,001
Materials & Supplies	32	1,627	15	15,563	5%	15,246	(317)
Transportation	34	22	-	2,118	1%	2,383	265
Utilities	-	1	992	16,491	5%	16,643	152
Chemical Purchases	-	-	-	14,895	5%	16,974	2,079
Contractual Services	1,016	1,768	6,976	44,551	14%	57,869	13,318
Major Repairs	-	35	-	6,784	2%	16,779	9,995
Capital Assets	-	-	-	2,563	1%	2,361	(202)
Miscellaneous Expense	235	391	569	2,923	1%	3,871	948
	<u>\$ 10,604</u>	<u>\$ 18,353</u>	<u>\$ (977)</u>	<u>\$ 206,619</u>	<u>67%</u>	<u>\$ 243,033</u>	<u>\$ 36,414</u>
Debt Service							
Principal and Interest				103,374	33%	104,691	1,317
Cost of Issuance				1,351	0%	300	(1,051)
Total Debt Service				<u>\$ 104,725</u>	<u>34%</u>	<u>\$ 104,991</u>	<u>\$ 266</u>
Total Division and Debt Service				<u>\$ 311,344</u>	<u>100%</u>	<u>\$ 348,024</u>	<u>\$ 36,680</u>

**DIVISION SUMMARY OF EXPENSES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

(in thousands)

	Actual	Amended Budget	Variance Favorable/ (Unfavorable)
General Management			
Personal Services	\$ 431	\$ 360	\$ (71)
Fringe Benefits	110	93	(17)
Materials & Supplies	2	10	8
Transportation	12	13	1
Contractual Services	13	121	108
Miscellaneous Expense	22	20	(2)
	<u>590</u>	<u>617</u>	<u>27</u>
Communications			
Personal Services	485	488	3
Fringe Benefits	139	155	16
Materials & Supplies	117	313	196
Transportation	13	17	4
Contractual Services	88	214	126
Miscellaneous Expense	38	33	(5)
	<u>880</u>	<u>1,220</u>	<u>340</u>
Finance			
Personal Services	8,269	8,356	87
Fringe Benefits	3,008	3,203	195
Materials & Supplies	70	88	18
Transportation	31	25	(6)
Utilities	189	258	69
Contractual Services	6,857	7,179	322
Miscellaneous Expense	228	291	63
	<u>18,652</u>	<u>19,400</u>	<u>748</u>
Information Technology			
Personal Services	7,019	7,902	883
Fringe Benefits	2,226	2,515	289
Materials & Supplies	1,387	1,464	77
Transportation	22	28	6
Utilities	1,693	1,491	(202)
Contractual Services	6,796	9,068	2,272
Major Repairs	588	1,557	969
Miscellaneous Expense	239	301	62
	<u>19,970</u>	<u>24,326</u>	<u>4,356</u>

(Continued)

**DIVISION SUMMARY OF EXPENSES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

(in thousands)

	Actual	Amended Budget	Variance Favorable/ (Unfavorable)
Talent Management			
Personal Services	\$ 1,951	\$ 2,409	\$ 458
Fringe Benefits	688	843	155
Materials & Supplies	62	70	8
Transportation	20	28	8
Contractual Services	126	177	51
Miscellaneous Expense	153	365	212
	<u>3,000</u>	<u>3,892</u>	<u>892</u>
Operations			
Personal Services	45,061	44,959	(102)
Fringe Benefits	17,077	18,306	1,229
Materials & Supplies	12,251	11,424	(827)
Transportation	1,964	2,198	234
Utilities	13,616	14,256	640
Chemical Purchases	14,895	16,974	2,079
Contractual Services	20,911	28,039	7,128
Major Repairs	6,161	15,201	9,040
Capital Assets	2,563	2,361	(202)
Miscellaneous Expense	1,048	1,248	200
	<u>135,547</u>	<u>154,966</u>	<u>19,419</u>
Engineering			
Personal Services	7,059	7,609	550
Fringe Benefits	2,228	2,549	321
Materials & Supplies	32	45	13
Transportation	34	33	(1)
Contractual Services	1,016	1,912	896
Miscellaneous Expense	235	316	81
	<u>10,604</u>	<u>12,464</u>	<u>1,860</u>
Water Quality			
Personal Services	10,603	10,738	135
Fringe Benefits	3,906	4,255	349
Materials & Supplies	1,627	1,810	183
Transportation	22	41	19
Utilities	1	3	2
Contractual Services	1,768	2,169	401
Major Repairs	35	21	(14)
Miscellaneous Expense	391	585	194
	<u>18,353</u>	<u>19,622</u>	<u>1,269</u>
General			
Personal Services	(913)	(2,681)	(1,768)
Fringe Benefits	(8,616)	(1,152)	7,464
Materials & Supplies	15	22	7
Utilities	992	635	(357)
Contractual Services	6,976	8,990	2,014
Miscellaneous Expense	569	712	143
	<u>(977)</u>	<u>6,526</u>	<u>7,503</u>
TOTAL DIVISIONAL EXPENSES	<u>\$ 206,619</u>	<u>\$ 243,033</u>	<u>\$ 36,414</u>







HRSD

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