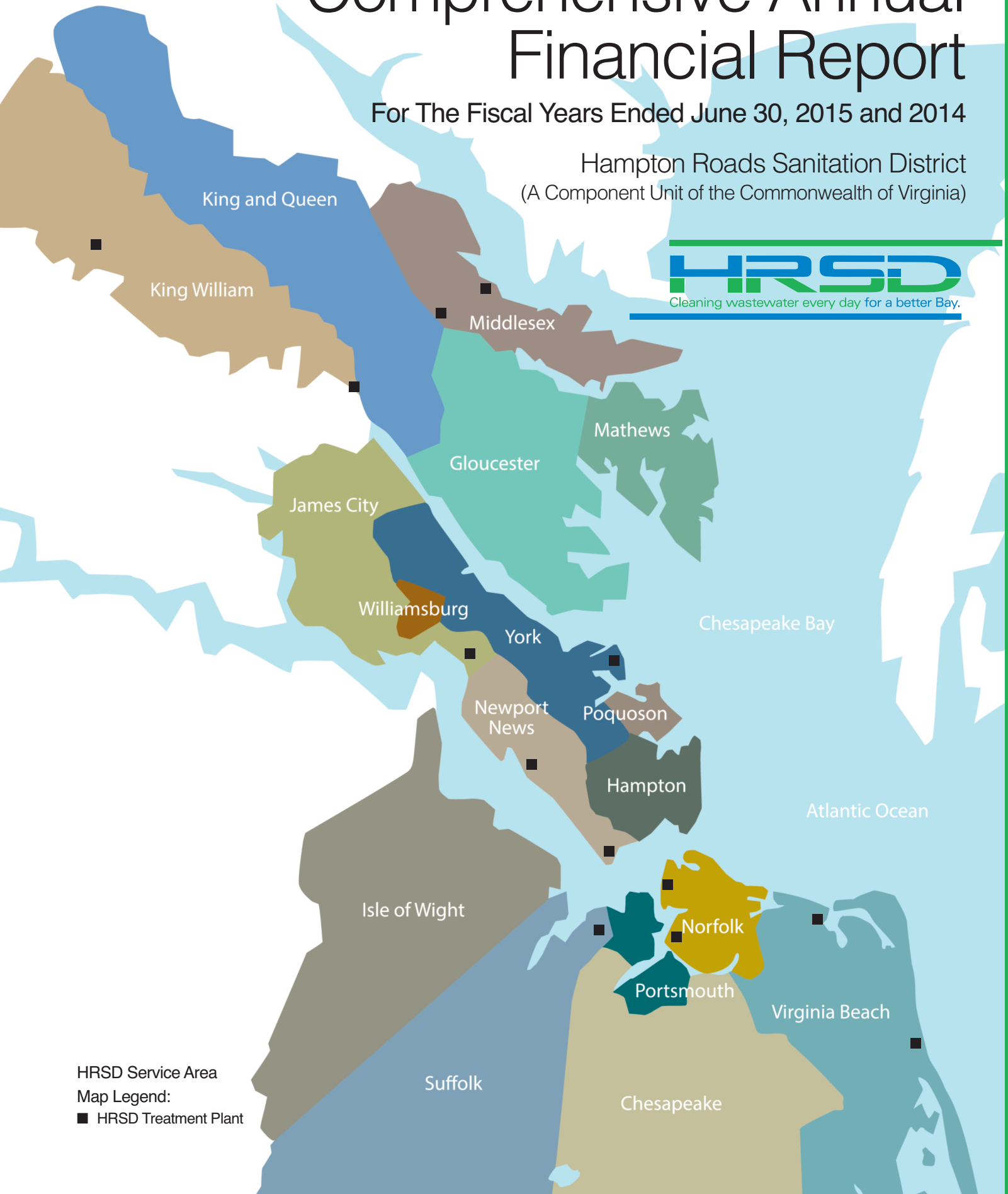


# Comprehensive Annual Financial Report

For The Fiscal Years Ended June 30, 2015 and 2014

Hampton Roads Sanitation District  
(A Component Unit of the Commonwealth of Virginia)

**HRSD**  
Cleaning wastewater every day for a better Bay.



HRSD Service Area

Map Legend:

■ HRSD Treatment Plant



**HAMPTON ROADS SANITATION DISTRICT**  
*(A Component Unit of the Commonwealth of Virginia)*

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the fiscal years ended  
June 30, 2015 and 2014**

**Prepared by:  
Finance Department**

# HAMPTON ROADS SANITATION DISTRICT

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# Introductory Section



**Norfolk** Berthed at Nauticus, the Battleship Wisconsin is one of the largest and last battleships ever built by the U.S. Navy.

**Portsmouth** offers Virginia's largest interactive children's museum (the home of the Lancaster Toy and Train Collection), which is located in Olde Towne, within a walkable stroll to other Portsmouth attractions, chef-owned restaurants and an eclectic mix of shops and galleries.

**Virginia Beach** King Neptune overlooks the Virginia Beach boardwalk and the 31st Street oceanfront park. Designed by P. DiPasquale, it is the largest cast bronze figure erected in the U.S. since the U.S. Marine Corps (Iwo Jima) Memorial in Washington, DC.

November 20, 2015

HRSD Commission  
Virginia Beach, Virginia

Dear Commissioners:

Political subdivisions of the Commonwealth of Virginia are required to publish a complete set of audited financial statements. This report fulfills that requirement for the fiscal year ended June 30, 2015.

HRSD's management assumes full responsibility for the completeness and reliability of 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.

KPMG LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on HRSD's financial statements for the year ended June 30, 2015. 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 1.7 million individuals, more than one-fifth of Virginia's population, reside in HRSD's service area, which is located in the southeastern corner of the Commonwealth. HRSD's territory of approximately 3,100 square miles encompasses nine cities, eight counties and several large military facilities. A brief history of HRSD is provided on page 8. 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. Currently, HRSD provides service and bills to approximately 465,000 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 by the Governor at his pleasure. The Commission appoints a General Manager, who appoints the senior staff.

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PO Box 5911, Virginia Beach, VA 23471-0911 • 757.460.7003

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**Commissioners:** Vishnu K. Lakdawala, PhD, Chair • Frederick N. Elofson, CPA, Vice-Chair • Michael E. Glenn  
Arthur C. Bredemeyer • Maurice P. Lynch, PhD • Stephen C. Rodriguez • Susan M. Rotkis • Willie Levenston, Jr.  
[www.hrsd.com](http://www.hrsd.com)

HRSD owns and operates 13 treatment plants. The nine major plants in Hampton Roads have design capacities ranging in size from 15 to 54 million gallons per day (MGD). Five of the major plants are located south of the James River and four are north of the James River (see map on page 7). The combined capacity of these nine plants is approximately 249 MGD. HRSD's four small rural treatment plants, which are located on the Middle Peninsula, have a combined capacity of almost one MGD.

HRSD maintains 532 miles of pipelines ranging from six inches to 66 inches in diameter. Interceptor pipelines, along with 83 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 33 pump stations on the Middle Peninsula.

## **LOCAL ECONOMY**

HRSD's service area includes nearly all of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). It is the ninth largest MSA in the southeastern United States and the thirty-seventh largest in the nation. Unlike many metropolitan areas, Hampton Roads' population nucleus is not confined to one central city. Instead, the approximately 1.7 million residents are spread among several cities and counties. Virginia Beach is the most populous city in the Commonwealth, with Norfolk and Chesapeake 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 849,500.

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 9.7 percent of wastewater revenues for fiscal year 2015. In addition, HRSD's 2015 revenues contained only limited reliance (3.1 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, senior revenue and total revenue bonded debt service coverage ratios should not be less than 1.5 and 1.4 times annual debt service, respectively. 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 \$1.4 billion, ten-year Capital Improvement Program. Regulatory requirements to reduce nutrient discharges, initiatives to ensure appropriate wet weather capacity

exists within the regional sanitary sewer system, major plant upgrades and replacements of interceptor pipelines drive the capital program. Major projects are currently under construction at the Army Base Treatment Plant and Virginia Initiative Plant.

To minimize the impacts of its capital investments on ratepayers, HRSD continues to pursue grant opportunities when available. In 2015, HRSD received approximately \$16.5 million in grant reimbursements for improvements to several of its treatment plants.

## **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to HRSD for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014. This was the 32<sup>nd</sup> 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 CAFR that satisfied 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 CAFR 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 CAFR was made possible by the dedicated service of the entire Department of Finance staff. All members of the department 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,



Edward G. Henifin, P.E.  
General Manager



Jay A. Bernas, P.E., MBA  
Director of Finance



Carroll L. Acors, CPA  
Chief of Accounting



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Hampton Roads Sanitation District  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO



# Principal Officials

June 30, 2015

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## **COMMISSIONERS**

Vishnu K. Lakdawala, PhD, Chair

Frederick N. Elofson, CPA, Vice-Chair

Michael E. Glenn

Arthur C. Bredemeyer

Maurice P. Lynch, PhD

Stephen C. Rodriguez

Susan M. Rotkis

Willie Levenston, Jr.

## **COMMISSION SECRETARY**

Jennifer L. Cascio

## **SENIOR STAFF**

Edward G. Henifin, PE  
General Manager

Charles B. Bott, PhD, PE  
Director of Water Technology  
And Research

Donald C. Corrado  
Director of Information  
Technology

Steven G. de Mik, CPA  
Director of Finance  
and Treasurer

Paula A. Hogg  
Director of Talent  
Management

Phillip L. Hubbard, PE  
Special Assistant for Compliance  
Assurance

Bruce W. Husselbee, PE  
Director of Engineering

James J. Pletl, PhD  
Director of Water Quality

## **COUNSEL**

Kellam, Pickrell, Cox & Tayloe  
General Counsel

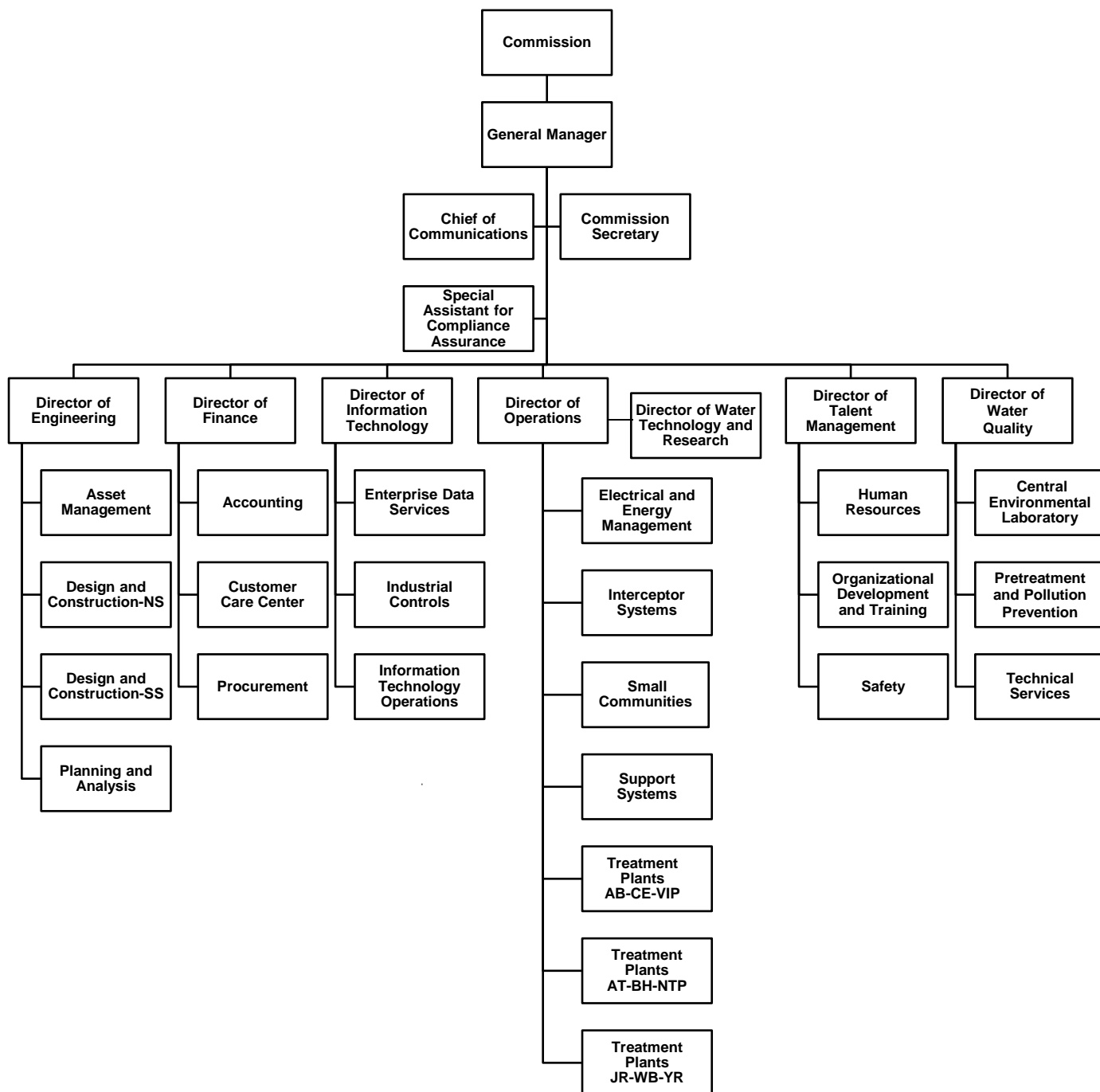
Jones, Blechman, Woltz & Kelly, PC  
Associate Counsel

AquaLaw, PLC  
Special Counsel

Sidley Austin, LLP  
Bond Counsel

# HRSD Organization Chart

June 30, 2015



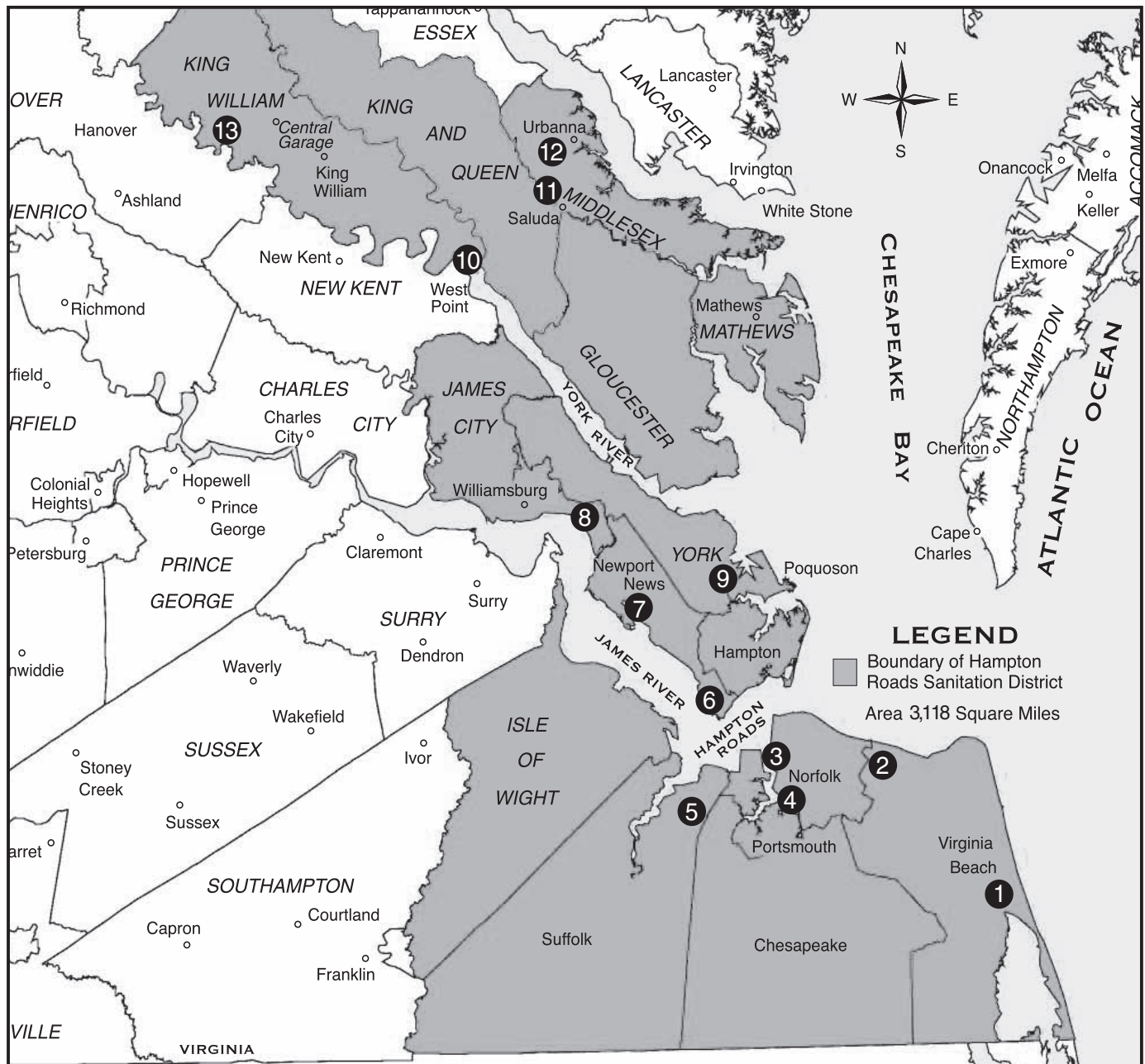
# Map of HRSD Facilities

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

1. Atlantic, Virginia Beach
2. Chesapeake-Elizabeth, Va. Beach
3. Army Base, Norfolk
4. Virginia Initiative, Norfolk
5. Nansemond, Suffolk
6. Boat Harbor, Newport News
7. James River, Newport News
8. Williamsburg, James City County
9. York River, York County
10. West Point, King William County
11. Central Middlesex, Middlesex County
12. Urbanna, Middlesex County
13. King William, King William County

Serving the Cities of  
Chesapeake, Hampton,  
Newport News, Norfolk,  
Poquoson, Portsmouth,  
Suffolk, Virginia Beach,  
Williamsburg, and the  
Counties of Gloucester,  
Isle of Wight, James City  
King and Queen,  
King William, Mathews,  
Middlesex and York



2011

# History of HRSD

June 30, 2015

---

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.

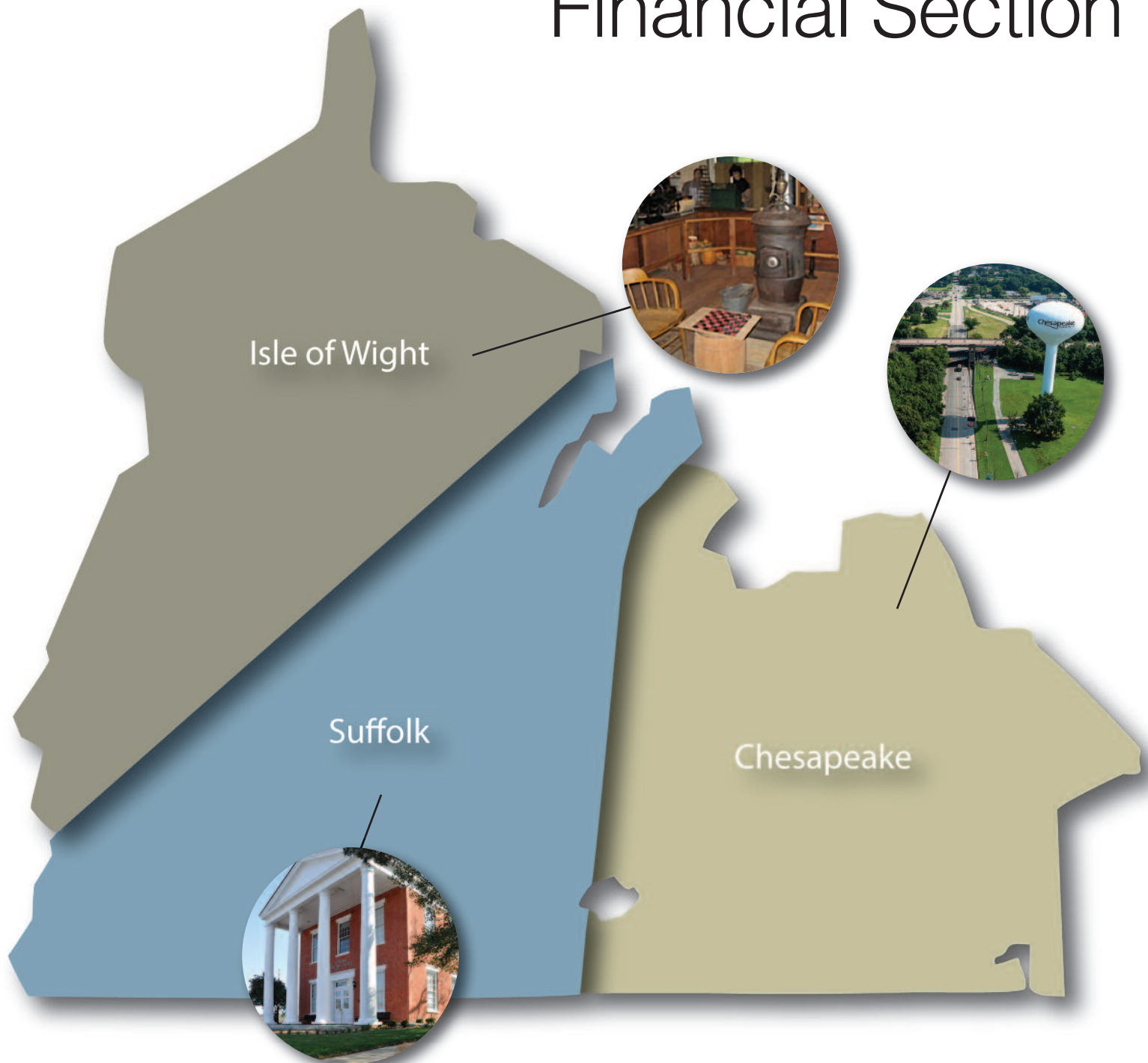
The Enabling Act provides for HRSD to operate as a political subdivision of the Commonwealth of Virginia for the specific purpose of water pollution abatement in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants. Its affairs are controlled by a Commission of eight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

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 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 1.7 million in 2015.

Throughout its rich history HRSD has earned many of its industry's most prestigious awards. This tradition continued as the National Association of Clean Water Agencies (NACWA) presented Peak Performance Awards to every HRSD treatment plant for outstanding compliance with National Pollutant Discharge Elimination System (NPDES) permits during calendar year 2014. The Army Base Treatment Plant was honored for 28 consecutive years of perfect permit compliance, an achievement unsurpassed in the nation. The other major treatment plants received the following awards in recognition of their outstanding permit compliance status: Atlantic Plant—Silver, Boat Harbor—Platinum (13 consecutive years), Chesapeake-Elizabeth—Platinum, James River—Gold, Nansemond—Platinum (13 consecutive years), Virginia Initiative Plant—Platinum (19 consecutive years), Williamsburg—Platinum (20 consecutive years) and York River—Platinum (7 consecutive years). Three treatment plants in the Small Communities Division, Central Middlesex, King William and West Point, earned Gold Awards while Urbanna received a Silver.

HRSD's other Fiscal Year 2015 honors included one NACWA National Environmental Achievement Award in the Operations & Environmental Performance category and a second in the Research & Technology category for a joint initiative. HRSD and its partners also received a 2014 International Water Association Project Innovation Award for Applied Research. The US Green Building Council awarded Silver Leadership in Energy and Environmental Design (LEED) Certification for the South Shore Operations Center and the Elizabeth River Project recognized HRSD with a Living Lafayette Award. In addition, Team HRSD placed first overall in the International Operations Challenge Division 2 competition, a North Shore Interceptor Team received the Courageous Service Award presented by the Virginia Section of the American Water Works Association and the Chesapeake-Elizabeth Treatment Plant received the George W. Burke, Jr. Safety Award presented by the Virginia Water Environment Association.

# Financial Section



**Chesapeake** Blending the best of urban and rural life, the City of Chesapeake remains a great place to live, work and raise a family. With a strong commitment to preserving both its historic and natural resources, coupled with a focus on a thriving future, the City has anchored the heart of Hampton Roads for more than 50 years.

**Isle of Wight County** Interpreting local history, the Isle of Wight County Museum's exhibits include prehistoric fossils; Civil War, Native American and colonial artifacts; a country store; and the museum's most notable artifact - the world's oldest, edible cured ham. The 1902 pork product exemplifies the patented Smithfield curing process.

**Suffolk** Overlooking the Nansemond River, the former Nansemond County Courthouse (1840) is a provincial Roman Revival style structure that served as a courthouse until the completion of the Mills Godwin Courts Complex in 1998. Today it retains its commanding presence and historical significance as the Suffolk Visitor Center. The first floor provides an exhibit gallery highlighting the history of Suffolk and the Great Dismal Swamp, a greeting and information area and a gift shop. The second floor houses municipal offices for the Department of Economic Development and Division of Tourism.



KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## **Independent Auditors' Report**

The Commissioners  
Hampton Roads Sanitation District:

We have audited the accompanying financial statements of the Hampton Roads Sanitation District (HRSD), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise HRSD's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HRSD as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matters***

As discussed in note 2 to the basic financial statements, in fiscal year 2015, HRSD adopted new accounting guidance described in Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

As discussed in note 12 to the basic financial statements, the 2014 basic financial statements have been adjusted to correct a misstatement. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 11 through 15 and the Required Supplementary Information and related Notes to Required Supplementary Information on pages 39 through 41 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.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, statistical section and other supplemental section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**KPMG LLP**

November 20, 2015



## **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 year ended June 30, 2015 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 letter of transmittal, which can be found on pages 1 through 3 of this report.

### **FINANCIAL HIGHLIGHTS**

- Total net position, as adjusted, increased \$1.9 million, or 0.3 percent, in 2015 as a result of this year's operations and adjustments for a change in accounting principle for pension liability, as explained in Note 12 to the financial statements.
- Total revenues increased \$11.2 million, or 5.0 percent. This increase is primarily attributable to wastewater revenue rate increases.
- Operating expenses increased \$9.8 million, or 5.3 percent, principally due to a \$9.1 million increase in repairs and maintenance for repairs to collector systems required to maintain the integrity of the sewer and collector systems, and \$1.8 million for personnel services for a retirement incentive, partially offset by a \$1.4 million decrease in materials and supplies expense.
- Nonoperating expenses decreased \$1.9 million, or 7.5 percent, primarily due to lower interest expense.
- HRSD received \$16.5 million in capital grants from the Commonwealth of Virginia and \$3.0 million in other capital contributions in 2015 to help finance its capital improvement program.
- Restricted cash and cash equivalents and investments decreased \$86.4 million, or 50.0 percent, primarily due to capital asset construction activity. Unrestricted cash and cash equivalents and investments increased \$4.6 million, or 3.7 percent, primarily as a result of increased cash flows from wastewater rate increases.
- Net Property, Plant and Equipment increased \$87.4 million, or 8.6 percent, primarily due to expansion of treatment plants and interceptor systems.

### **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 16 through 19 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 16 and 17 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 18 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 Notes to Financial Statements, found on pages 20 through 37 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 post employment benefits to its employees.

Required Supplementary Information can be found beginning on page 39 of this report.

### **FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of HRSD's financial position. Assets exceeded liabilities by \$556.8 million at June 30, 2015 and by \$554.9 million at June 30, 2014.



By far, the largest portion of HRSD's net position (69.2 percent and 63.3 percent at June 30, 2015 and 2014, respectively) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding, net of unspent bond proceeds. HRSD uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although HRSD's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate these liabilities.

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

<b>HRSD's Condensed Statements of Net Position</b>					
	(as adjusted)		(as adjusted)		2015 vs. 2014
(in thousands)	2015	2014 (1)	2013 (1)	Dollars	Percent
Capital assets	\$ 1,101,351	\$ 1,013,958	\$ 972,099	\$ 87,393	8.6%
Current assets and noncurrent assets	291,573	367,381	395,946	(75,808)	-20.6%
<b>Total assets</b>	<b>\$ 1,392,924</b>	<b>\$ 1,381,339</b>	<b>\$ 1,368,045</b>	<b>\$ 11,585</b>	<b>0.8%</b>
Long-term liabilities	\$ 724,251	\$ 716,563	\$ 741,747	\$ 7,688	1.1%
Current liabilities	118,035	109,829	100,302	8,206	7.5%
<b>Total liabilities</b>	<b>\$ 842,286</b>	<b>\$ 826,392</b>	<b>\$ 842,049</b>	<b>\$ 15,894</b>	<b>1.9%</b>
Net investment in capital assets	\$ 385,597	\$ 351,191	\$ 337,342	\$ 34,406	9.8%
Restricted for debt service	22,070	24,064	23,843	(1,994)	-8.3%
Restricted for debt service reserve fund	44,118	45,207	-	(1,089)	-2.4%
Unrestricted	105,040	134,485	164,811	(29,445)	-21.9%
<b>Total net position</b>	<b>\$ 556,825</b>	<b>\$ 554,947</b>	<b>\$ 525,996</b>	<b>\$ 1,878</b>	<b>0.3%</b>

(1) As adjusted for the correction of inventory values. See Note 12 of the Notes to Financial Statements.

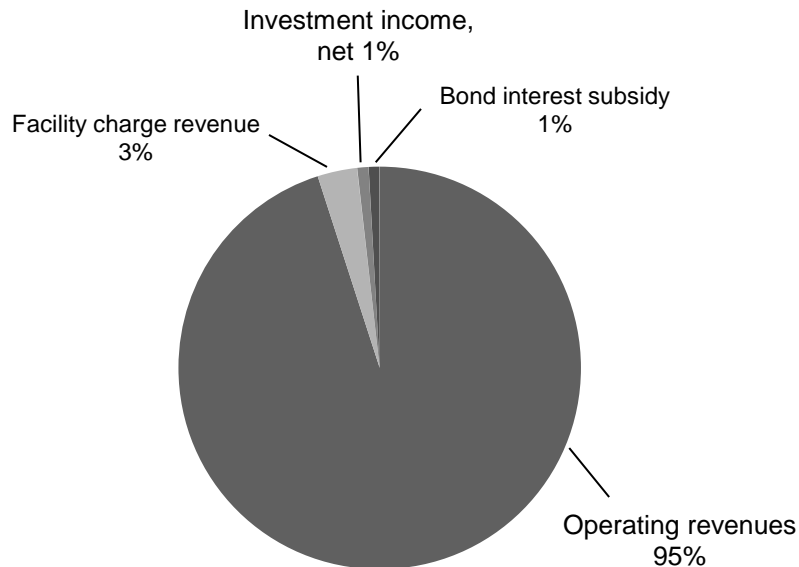
At June 30, 2015 and 2014, HRSD retained \$20.3 million and \$103.6 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and noncurrent investments from 2013 through 2015 are primarily the result of issuing bonds in 2013 and 2014 and using these funds in subsequent fiscal years to fund capital improvements.

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

<b>HRSD's Condensed Statements of Revenues, Expenses and Changes in Net Position</b>					
	(as adjusted)		(as adjusted)		2015 vs. 2014
(in thousands)	2015	2014 (1)	2013 (1)	Dollars	Percent
Operating revenues	\$ 225,561	\$ 215,181	\$ 202,615	\$ 10,380	4.8%
Facility charge revenues	7,428	6,640	5,851	788	11.9%
Investment income, net	1,409	1,450	991	(41)	-2.8%
Bond interest subsidy	2,444	2,364	2,602	80	3.4%
<b>Total revenues</b>	<b>236,842</b>	<b>225,635</b>	<b>212,059</b>	<b>11,207</b>	<b>5.0%</b>
Operating expenses:					
Wastewater treatment	114,137	109,149	86,973	4,988	4.6%
General and administrative	38,678	33,012	31,410	5,666	17.2%
Depreciation and amortization	41,871	42,761	45,414	(890)	-2.1%
<b>Total operating expenses</b>	<b>194,686</b>	<b>184,922</b>	<b>163,797</b>	<b>9,764</b>	<b>5.3%</b>
Nonoperating expenses:					
Disposal of capital assets	-	-	1,649	0	
Bond issuance costs	768	-	658	768	
Interest expense	22,958	25,650	24,330	(2,692)	-10.5%
<b>Total nonoperating expenses</b>	<b>23,726</b>	<b>25,650</b>	<b>26,637</b>	<b>(1,924)</b>	<b>-7.5%</b>
<b>Total expenses</b>	<b>218,412</b>	<b>210,572</b>	<b>190,434</b>	<b>7,840</b>	<b>3.7%</b>
Income before capital contributions	18,430	15,063	21,625	3,367	22.4%
Capital contributions:					
State capital grants and other contributions	19,519	13,888	10,172	5,631	40.5%
Change in net position	37,949	28,951	31,797	8,998	31.1%
Total net position - beginning, as adjusted (1)	518,876	525,996	494,199	(7,120)	-1.4%
<b>Total net position - ending</b>	<b>\$ 556,825</b>	<b>\$ 554,947</b>	<b>\$ 525,996</b>	<b>\$ 1,878</b>	<b>0.3%</b>

(1) As adjusted for the correction of inventory values. See Note 12 of the Notes to Financial Statements.

## Revenues By Source



Operating revenues increased 4.8 percent in 2015 and 6.2 percent in 2014. The majority of these increases are attributable to various rate increases in metered public wastewater services. Facility charge revenues increased \$0.8 million, or 11.9 percent, in 2015 due to an increase in new construction activity across the region after increasing \$0.8 million, or 13.5 percent, in 2014.

Operating expenses increased 5.3 percent in 2015 and increased 0.1 percent in 2014. Increases in 2015 were principally due to a \$9.1 million increase in repairs and maintenance for repairs to collector systems required to maintain the integrity of the sewer and collector systems, and \$1.8 million for personnel services for a retirement incentive, partially offset by a \$1.4 million decrease in materials and supplies expense. Increases in 2014 were principally due to a \$1.2 million increase in personnel services, primarily for merit adjustments, a \$1.4 million increase in repairs and maintenance costs and a \$1.5 million increase in general expenses, partially offset by a \$2.7 million decrease for depreciation and amortization, primarily for lower depreciation costs related to disposal of capital assets in 2013, and a \$1.2 million decrease in utilities expense. Depreciation and amortization expense decreased \$0.9 million in 2015, primarily for continued lower depreciation costs related to disposal of capital assets in 2013, and decreased \$2.7 million in 2014, primarily for lower depreciation costs related to disposal of capital assets in 2013.

In 2015 and 2014, HRSD received \$19.5 million and \$13.9 million, respectively, in capital grants to help finance its capital improvement program.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2015 and 2014, HRSD had approximately \$1.1 billion and \$1.0 billion, respectively, invested in a broad range of capital assets, including wastewater treatment plants, interceptor mains, pump stations, automotive, administrative and maintenance buildings, and office and computer software and equipment. These amounts represent a net increase of \$87.4 million, or 8.6 percent, in 2015 and \$41.9 million, or 4.3 percent, in 2014.

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

### HRSD's Capital Assets

(in thousands)	2015	2014	2013
Land	\$ 12,160	\$ 6,031	\$ 5,850
Treatment plants	446,624	436,007	457,012
Interceptor systems	329,271	286,168	270,404
Buildings	32,758	33,086	33,849
Small community facilities	15,446	16,889	17,445
Office equipment	6,909	8,798	10,180
Automotive	1,501	1,841	2,415
Other equipment	11,484	13,556	14,730
Software and intangible assets	15,817	15,274	18,668
	871,970	817,650	830,553
Construction in progress	229,381	196,308	141,546
<b>Net property, plant and equipment</b>	<b>\$ 1,101,351</b>	<b>\$ 1,013,958</b>	<b>\$ 972,099</b>

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

(in thousands)	2015	2014	2013
Balance at beginning of year	\$ 1,013,958	\$ 972,099	\$ 910,292
Additions	96,191	29,858	106,720
Retirements	(508)	(218)	(5,867)
Depreciation and amortization	(41,871)	(42,761)	(45,414)
Accumulated depreciation retired	508	218	4,218
Net increase in construction in progress	33,073	54,762	2,150
<b>Balance at end of year</b>	<b>\$ 1,101,351</b>	<b>\$ 1,013,958</b>	<b>\$ 972,099</b>

The largest increase in capital assets in the past two years has been in treatment plant construction and interceptor system construction, which includes pipeline replacements, pump station rehabilitations and other improvements to the infrastructure. During 2015, HRSD invested significant funds in improvements to the Atlantic treatment plant, and the James River, York River, and Atlantic interceptor systems. During 2015 and 2014, HRSD invested significant funds in improvements to the Army Base and Virginia Initiative treatment plants and interceptor systems to comply with the Chesapeake Bay Total Maximum Daily Load requirements.

### Long-Term Debt

At June 30, 2015, HRSD had a total of \$708.2 million in revenue bonds outstanding versus \$744 million in 2014, a decrease of 4.8 percent. This decrease is related to payments of \$147.1 million in 2015 on existing senior and subordinate debt, which was partially funded by a new refunding revenue bond in the amount of \$111.3 million.

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

### HRSD's Outstanding Debt

(in thousands)	2015	2014	2013
Senior revenue bonds	\$ 609,005	\$ 634,107	\$ 646,390
Subordinate revenue bonds	99,195	109,850	120,231
<b>Total outstanding debt</b>	<b>\$ 708,200</b>	<b>\$ 743,957</b>	<b>\$ 766,621</b>

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

Ratings Agency	Senior Debt	Subordinate Long-term	Subordinate Short-term
Moody's Investors Service	Aa2	n/a	n/a
Standard & Poor's	AA+	AA	A-1+
Fitch Ratings	AA+	AA	F1+

The development of HRSD's Capital Improvement Program and its related debt programs are governed by revenue Trust Agreements, which require senior and subordinate debt service coverage ratios of 1.2 and 1.0 times annual debt service, respectively. HRSD's Financial Policy and operating and capital improvement plans were developed with the intent to maintain coverage ratios in excess of these requirements. These Trust Agreements require a debt service reserve fund (DSRF); but funding the DSRF is not required if both senior and total debt service coverages are at least 1.35 times annual debt service and a liquidity ratio of 1.35 are also met. These amounts are shown as restricted on the statements of net position as of June 30, 2015 and 2014.

More detailed information regarding HRSD's capital assets and long-term debt are presented in Notes 5 and 8, respectively.

## **ECONOMIC FACTORS AND RATES**

The five-year rolling average billed consumption has decreased over the last three fiscal years from approximately 120 million gallons per day (MGD) to approximately 114 MGD. HRSD's experience, primarily resulting from water conservation efforts throughout the region, is consistent with national trends.

In 2015, wastewater revenues increased as a result of planned rate increases needed, in large part, to fund HRSD's capital improvement program. Facility charge revenues, which are generally dependent on new growth and economic expansion, increased \$0.8 million, or 11.9 percent, in 2015 after increasing \$0.8 million, or 13.5 percent, in 2014. Facility charge revenues comprised only three percent of HRSD's total revenues in both 2015 and 2014.

Wastewater treatment rates for the 2015 fiscal year were increased by approximately 8 percent at the beginning of the year for the vast majority of HRSD customers. The increases are necessary to meet growing capital improvement needs and the increased cost of treatment operations. Facility charges, which provide funding for increased capacity resulting from new growth, were also increased.

It is anticipated that the average residential customer bill will rise by only \$1.92 per month in fiscal year 2016.

## **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 Director of Finance, 1434 Air Rail Avenue, Virginia Beach, Virginia 23455.

**HAMPTON ROADS SANITATION DISTRICT  
STATEMENTS OF NET POSITION  
AS OF JUNE 30, 2015 AND 2014**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

(in thousands)	2015	(As adjusted) 2014
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,825	\$ 37,924
Cash and cash equivalents - Restricted	86,451	82,300
Investments	19,926	-
Investments - Restricted	-	8,600
Accounts receivable, net	38,138	37,437
Accrued interest	237	312
Other current assets	9,794	6,845
<b>TOTAL CURRENT ASSETS</b>	<b>162,371</b>	<b>173,418</b>
<b>NONCURRENT ASSETS</b>		
Cash and cash equivalents - Restricted	-	56,957
Investments	101,649	111,861
Inventory	27,553	25,145
	<u>129,202</u>	<u>193,963</u>
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>		
Land	12,160	6,031
Treatment plants	1,036,055	1,002,898
Interceptor systems	467,277	415,988
Buildings	45,296	45,132
Small community facilities	22,551	22,551
Office equipment	44,364	43,933
Automotive	16,217	16,129
Other equipment	31,976	31,575
Software and intangible assets	27,783	23,759
	<u>1,703,679</u>	<u>1,607,996</u>
Less: Accumulated depreciation and amortization	831,709	790,346
	<u>871,970</u>	<u>817,650</u>
Construction in progress	229,381	196,308
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>1,101,351</b>	<b>1,013,958</b>
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,230,553</b>	<b>1,207,921</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,392,924</b>	<b>\$ 1,381,339</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on debt refunding	12,380	-
Pension contributions subsequent to measurement date	4,207	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>16,587</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,409,511</b>	<b>\$ 1,381,339</b>

(continued)

**HAMPTON ROADS SANITATION DISTRICT  
STATEMENTS OF NET POSITION  
AS OF JUNE 30, 2015 AND 2014**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

(in thousands)	2015	(As adjusted) 2014
<b>CURRENT LIABILITIES</b>		
Trade and contracts payable	\$ 36,277	\$ 28,537
Contract retention	6,165	6,506
Accrued salaries and wages	1,482	1,399
Current portion of bonds payable	31,618	30,137
Variable rate demand bonds	25,000	25,000
Current portion of compensated absences	2,696	2,591
Debt interest payable	9,673	8,780
Other liabilities	5,124	6,879
TOTAL CURRENT LIABILITIES	<u>118,035</u>	<u>109,829</u>
 <b>LONG-TERM LIABILITIES</b>		
Compensated absences	5,008	5,347
Net pension liability	27,464	-
Bonds payable	691,779	711,216
TOTAL LONG-TERM LIABILITIES	<u>724,251</u>	<u>716,563</u>
 TOTAL LIABILITIES	<u>842,286</u>	<u>826,392</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Net difference between projected and actual earnings on pension plan investments	<u>10,400</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,400</u>	<u>-</u>
 <b>NET POSITION</b>		
Net investment in capital assets	385,597	351,191
Restricted for debt service	22,070	24,064
Restricted for debt service reserve fund	44,118	45,207
Unrestricted	<u>105,040</u>	<u>134,485</u>
 TOTAL NET POSITION	<u>556,825</u>	<u>554,947</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	 <u><u>\$ 1,409,511</u></u>	 <u><u>\$ 1,381,339</u></u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2015 and 2014**

(in thousands)	2015	(As adjusted) 2014
<b>OPERATING REVENUES</b>		
Wastewater treatment charges	\$ 221,626	\$ 211,538
Miscellaneous	3,935	3,643
<b>TOTAL OPERATING REVENUES</b>	<u>225,561</u>	<u>215,181</u>
<b>OPERATING EXPENSES</b>		
Wastewater treatment	114,137	109,149
General and administrative	38,678	33,012
Depreciation and amortization	41,871	42,761
<b>TOTAL OPERATING EXPENSES</b>	<u>194,686</u>	<u>184,922</u>
<b>OPERATING INCOME</b>	<u>30,875</u>	<u>30,259</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Wastewater facility charges	7,428	6,640
Investment income	1,695	1,872
Bond interest subsidy	2,444	2,364
Bond issuance costs	(768)	-
Change in fair value of investments	(286)	(422)
Interest expense	(22,958)	(25,650)
<b>NET NONOPERATING EXPENSES</b>	<u>(12,445)</u>	<u>(15,196)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	18,430	15,063
<b>CAPITAL CONTRIBUTIONS</b>		
State capital grants	16,519	13,888
Other capital contributions	3,000	-
	<u>19,519</u>	<u>13,888</u>
<b>CHANGE IN NET POSITION</b>	37,949	28,951
<b>TOTAL NET POSITION - Beginning</b>	554,947	525,996
Opening adjustment of net position (Note 12)	<u>(36,071)</u>	<u>-</u>
<b>TOTAL NET POSITION - Ending</b>	<u><u>\$ 556,825</u></u>	<u><u>\$ 554,947</u></u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 and 2014**

(in thousands)	2015	(As adjusted) 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 223,121	\$ 207,543
Other operating revenues	3,935	3,643
Cash payments to suppliers for goods and services	(99,483)	(90,274)
Cash payments to employees for services	(52,578)	(50,126)
Net cash provided by operating activities	<u>74,995</u>	<u>70,786</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Wastewater facility charges	7,428	6,640
Acquisition and construction of property, plant and equipment	(128,752)	(77,687)
Proceeds from debt refunding	135,645	5,356
Bond interest subsidy	2,444	2,364
Refunding of debt principal	(130,810)	-
Principal paid on capital debt	(28,672)	(28,020)
State capital grants	16,779	11,682
Deposit used for capital asset construction	(3,000)	-
Bond issuance costs	(768)	-
Interest paid on capital debt	(28,564)	(27,333)
Net cash used in capital and related financing activities	<u>(158,270)</u>	<u>(106,998)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(121,058)	(111,702)
Sales and maturities of investments	119,658	105,109
Interest and dividends on investments	1,770	2,043
Net cash provided by (used in) investing activities	<u>370</u>	<u>(4,550)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(82,905)	(40,762)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>	177,181	217,943
<b>CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>	<u>\$ 94,276</u>	<u>\$ 177,181</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
(in thousands)		
Operating income	\$ 30,875	\$ 30,259
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	41,871	42,761
Pension adjustments	(2,414)	-
(Increase) decrease in operating assets		
Accounts receivable	(701)	(2,354)
Inventory	(2,408)	(2,138)
Net change in other current assets	(209)	501
Increase in operating liabilities		
Trade and contracts payable	6,887	1,167
Accrued salaries and wages	83	332
Compensated absences	(234)	80
Net change in other liabilities	1,245	178
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 74,995</u>	<u>\$ 70,786</u>
<b>Noncash Capital and Related Financing Activities:</b>		
Amortization of premium	(6,499)	(1,486)

See Accompanying Notes to Financial Statements



**HAMPTON ROADS SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014**

**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 five department directors.

Regulatory Oversight

HRSD's operations are subject to regulations established by the United States Environmental Protection Agency and the Virginia Department of Environmental Quality. HRSD currently meets all of its permit requirements. 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 Suffolk	King and Queen County
City of Hampton	City of Virginia Beach	King William County
City of Newport News	City of Williamsburg	Mathews County
City of Norfolk	Gloucester County	Middlesex County
City of Poquoson	Isle of Wight County	York County
City of Portsmouth	James City 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 Comprehensive Annual 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.

Basis of Accounting

The accompanying financial statements report the financial position and results of operations of HRSD in accordance with U.S. generally accepted accounting principles (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.

#### 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 department, with budgetary controls exercised administratively by management at the department level. The General Manager is authorized to transfer funds among departments without further approval by the Commission. Appropriations lapse at the end of the fiscal year. Transfers to and from the Operating and the Improvement budgets require the approval of the Commission. Unspent Improvement budget items may be spent in subsequent fiscal years if approved by the Commission.

The Capital Budget represents a ten-year plan. Funds for the Capital Budget are adopted 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.

#### 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. Noncurrent restricted cash and cash equivalents are revenue bond proceeds held for the construction of noncurrent assets (see Note 3).

#### Investments

Investments, which consist of U.S. government obligations including agencies, FDIC-guaranteed corporate notes and other corporate notes and bonds, and municipal bonds, are reported at fair value when the original maturity is greater than a year. Investments with an original maturity of one year or less are stated at cost, net of any unamortized premium or discount. HRSD's investment practices are governed by its formal investment policy.

#### 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 market value and consists primarily of operating and maintenance materials..

#### Property, Plant and Equipment

HRSD funds its capital improvement program through the issuance of debt and 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 capitalization threshold is \$5,000. Donated assets are reported at market 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

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. HRSD has two items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is pension contributions to the Virginia Retirement System made subsequent to the measurement date of June 30, 2014. These contributions will be recognized as a reduction of the Net Pension Liability during the year ended June 30, 2016.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of these items, for the net difference between projected and actual earnings on pension plan investments, which is amortized over future years.

### 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 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 Nonoperating Revenues and Expenses Recognition

HRSD distinguishes operating revenues and expenses from nonoperating 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 nonoperating. 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 expensed as employees earn the right to these benefits.

Permanent employees hired prior to January 1, 2014 earn from 15 to 27 days of annual leave per year. The maximum annual leave an employee may accumulate at year-end varies by the years of service, with the maximum being 54 days. An employee has a vested right to their annual leave when earned. These employees also earn eight hours per month of sick leave regardless of the number of years of service. The amount of sick leave that may be accumulated is unlimited. 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. For these employees, long-term disability (LTD) insurance is an optional employee paid benefit that replaces part of their income if the employee suffers a serious illness or injury and can't work for an extended period of time.

Permanent employees hired after January 1, 2014 earn 8 hours of paid time off for each two-week pay period. Employees may use accumulated paid time off for any type of absence from work, subject to supervisor approval. The maximum paid time off an employee may accumulate at year-end is 208 hours. After five years of service with HRSD, an employee has vested rights to 50 percent of their accumulated paid time off at separation. For these employees, HRSD also provides a state mandated long-term disability (LTD) benefit since these employees are not eligible for disability retirement benefits through Virginia Retirement System. 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.

## Pensions

HRSD employees participate in an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System (VRS), which acts as a common investment and administrative agent for political subdivisions in the Commonwealth. 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.

## 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.

## New Accounting Pronouncement

During the fiscal year ended June 30, 2015, HRSD adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of Statement No. 68 is to (a) improve accounting and financial reporting by state and local governments for pensions and to (b) improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68 relating to amounts associated with contributions made to a defined benefit pension plan after the measurement date of the beginning net pension liability. Due to limitations on the information available from the VRS for the prior fiscal year, it was determined to be impractical for HRSD to restate the 2014 financial statements. As a result of the adoption of GASB Statements No. 68 and No. 71, HRSD has made an adjustment to net position as of July 1, 2014 to recognize the cumulative effect of the change in accounting for pensions as further discussed in Note 12.

The financial statements as of and for the year ended June 30, 2014, presented for comparative purposes, reflect the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*.

## **NOTE 3 - DEPOSITS AND INVESTMENTS**

### Deposits

**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, 2015 and 2014, the carrying values of HRSD's deposits were \$73,730,000 and \$73,342,000, respectively, and the bank balances were \$76,335,000 and \$75,397,000, respectively. All of the bank balances at June 30, 2015 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 overnight in money market accounts that are invested in government securities and the Commonwealth of Virginia Local Government Investment Pool (LGIP). As of June 30, 2015 and 2014, HRSD had deposits in Merrill Lynch's FFI Government Fund and Fidelity's Government Money Market Fund that were rated AA+ by Standard & Poor's. The Treasury Board of Virginia provides LGIP oversight. HRSD's investment in the LGIP was rated AA+ by Standard & Poor's. FDIC-guaranteed corporate notes are rated AAA by Standard & Poor's.

## Investments

As of June 30, HRSD had the following investments and maturities:

(in thousands)		<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-3</u>	
<b>June 30, 2015</b>				
U.S. Treasury Securities	\$ 62,655	\$ 5,890	\$ 56,765	
Federal Agency Notes/Bonds	26,702	-	26,702	
Corporate Notes/Bonds	15,282	477	14,805	
Certificates of Deposit	11,651	9,402	2,249	
Commercial Paper	2,446	2,446	-	
Municipal Securities	1,711	1,711	-	
Supranationals	1,128	-	1,128	
<b>Total</b>	<b>\$ 121,575</b>	<b>\$ 19,926</b>	<b>\$ 101,649</b>	
<b>June 30, 2014</b>				
U.S. Treasury Securities	\$ 74,293	\$ -	\$ 74,293	
Federal Agency Notes/Bonds	16,866	-	16,866	
Corporate Notes/Bonds	11,695	-	11,695	
Certificates of Deposit	10,644	3,353	7,291	
Commercial Paper	5,247	5,247	-	
Municipal Securities	1,716	-	1,716	
<b>Total</b>	<b>\$ 120,461</b>	<b>\$ 8,600</b>	<b>\$ 111,861</b>	

*Interest Rate Risk.* In accordance with its investment policy, HRSD manages its exposure to declines in fair values by limiting the weighted average maturity of various portfolios in a manner that meets HRSD's liquidity needs.

*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 for its investments, The Bank of New York Trust Department, as recipient of all investment transactions on a delivery versus pay basis. The Trustee may not be a counterparty to the investment transaction. At June 30, 2015 and 2014, the Trust Department of the Bank of New York held \$121,575,000 and \$120,461,000, respectively, in investments in the Trustee's name for HRSD.

*Credit Risk.* HRSD's Trust Agreement permits HRSD to invest in investment instruments that are authorized by the Commonwealth. HRSD's investment securities using the Standard & Poor's credit quality ratings scale are presented below:

As of June 30, 2015 (in thousands)		Standard & Poor's Credit Rating by Investment Type					
<u>Investments</u>		AAA	AA+	AA	AA-	A-1	Total
US Treasury Securities	\$ -	\$ 62,655	\$ -	\$ -	\$ -	\$ -	\$ 62,655
Federal Agency Notes/Bonds	-	26,702	-	-	-	-	26,702
Corporate Notes/Bonds	3,838	3,207	4,716	3,521	-	-	15,282
Certificates of Deposit	-	-	-	6,750	4,901	-	11,651
Commercial Paper	-	-	-	-	2,446	-	2,446
Municipal Securities	-	1,550	161	-	-	-	1,711
Supranationals	1,128	-	-	-	-	-	1,128
<b>Total Investments</b>	<b>\$ 4,966</b>	<b>\$ 94,114</b>	<b>\$ 4,877</b>	<b>\$ 10,271</b>	<b>\$ 7,347</b>	<b>\$ -</b>	<b>\$ 121,575</b>

As of June 30, 2014

(in thousands)	AA+	AA	AA-	A-1+	A-1	Total
<u>Investments</u>						
US Treasury Securities	\$ 74,293	\$ -	\$ -	\$ -	\$ -	\$ 74,293
Federal Agency Notes/Bonds	16,866	-	-	-	-	16,866
Corporate Notes/Bonds	5,187	4,437	2,071	-	-	11,695
Certificates of Deposit	-	-	2,249	7,543	852	10,644
Commercial Paper	-	-	-	-	5,247	5,247
Municipal Securities	1,553	163	-	-	-	1,716
Total Investments	\$ 97,899	\$ 4,600	\$ 4,320	\$ 7,543	\$ 6,099	\$ 120,461

*Concentration of Credit Risk.* HRSD's investment policy includes a maximum exposure for each individual issuer for its permitted investment categories. U.S. Treasury obligations, however, are not subject to these issuer limits. Federal agency obligations and repurchase agreements are limited to 35 percent per issuer. Corporate notes and negotiable certificates of deposit are limited to 3 percent per issuer. Money market funds and local government investment pools are each limited to 50 percent per issuer. Collateralized bank deposits are limited to 25 percent per issuer. Municipal obligations, commercial paper, and bankers acceptances are limited to 5 percent per issuer.

The change in fair value for the years ended June 30 is calculated as follows:

(in thousands)	2015	2014
Fair value of investments, end of year	\$ 121,575	\$ 120,461
Add: Proceeds of investments sold or maturing during the year	119,658	105,109
Less: Cost of investments purchased during the year	(121,058)	(111,702)
Less: Fair value of investments, beginning of year	(120,461)	(114,290)
Change in fair value of investments	<u>\$ (286)</u>	<u>\$ (422)</u>

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

(in thousands)	2015	2014
Debt service	\$ 22,070	\$ 24,064
Debt service reserve fund	44,118	45,207
Revenue bond construction funds - current	20,263	21,629
Revenue bond construction funds - noncurrent	-	56,957
Total cash, cash equivalents and investments - restricted	<u>\$ 86,451</u>	<u>\$ 147,857</u>

#### NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

(in thousands)	2015	2014
Balance, beginning of year	\$ 1,651	\$ 1,539
Add: Current provision for uncollectible accounts	2,196	1,641
Less: Charge-off of uncollectible accounts	(1,898)	(1,529)
Balance, end of year	<u>\$ 1,949</u>	<u>\$ 1,651</u>

HRSD's collection ratio for the years ended June 30, 2015 and 2014 were 99.1 and 99.3 percent, respectively.

## NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment activity for the years ended June 30 was as follows:

(in thousands)	Balance			Balance			Balance
	<u>6/30/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/15</u>
<b>Non-Depreciable Capital Assets</b>							
Land	\$ 5,850	\$ 181	\$ -	\$ 6,031	\$ 6,129	\$ -	\$ 12,160
Construction in progress	141,546	70,986	(16,224)	196,308	102,436	(69,363)	229,381
<b>Depreciable Capital Assets</b>							
Treatment plants	1,001,276	1,622	-	1,002,898	33,157	-	1,036,055
Interceptor systems	392,404	23,584	-	415,988	51,289	-	467,277
Buildings	44,471	661	-	45,132	164	-	45,296
Small community facilities	22,551	-	-	22,551	-	-	22,551
Office equipment	41,928	2,005	-	43,933	431	-	44,364
Automotive	15,785	562	(218)	16,129	596	(508)	16,217
Other equipment	30,332	1,243	-	31,575	401	-	31,976
Software and intangible assets	23,759	-	-	23,759	4,024	-	27,783
Total	\$ 1,719,902	\$ 100,844	\$ (16,442)	\$ 1,804,304	\$ 198,627	\$ (69,871)	\$ 1,933,060
Less accumulated depreciation and amortization							
Treatment plants	(544,264)	(22,627)	-	(566,891)	(22,540)	-	(589,431)
Interceptor systems	(122,000)	(7,820)	-	(129,820)	(8,186)	-	(138,006)
Buildings	(10,622)	(1,424)	-	(12,046)	(492)	-	(12,538)
Small community facilities	(5,106)	(556)	-	(5,662)	(1,443)	-	(7,105)
Office equipment	(31,748)	(3,387)	-	(35,135)	(2,320)	-	(37,455)
Automotive	(13,370)	(1,136)	218	(14,288)	(936)	508	(14,716)
Other equipment	(15,602)	(2,417)	-	(18,019)	(2,473)	-	(20,492)
Software and intangible assets - amortization	(5,091)	(3,394)	-	(8,485)	(3,481)	-	(11,966)
Total	(747,803)	(42,761)	218	(790,346)	(41,871)	508	(831,709)
Net property, plant and equipment	\$ 972,099	\$ 58,083	\$ (16,224)	\$ 1,013,958	\$ 156,756	\$ (69,363)	\$ 1,101,351

## NOTE 6 - COMPENSATED ABSENCES

The liability for vested annual, sick, paid time off and compensatory leave at June 30 is as follows:

(in thousands)	Balance			Balance			Balance
	<u>6/30/13</u>	<u>Earned</u>	<u>Taken</u>	<u>6/30/14</u>	<u>Earned</u>	<u>Taken</u>	<u>6/30/15</u>
Annual leave	\$ 4,976	\$ 1,618	\$ (1,514)	\$ 5,080	\$ 1,552	\$ (1,791)	\$ 4,841
Sick leave	2,853	927	(945)	2,835	993	(1,141)	2,687
Paid time off	-	31	(8)	23	237	(84)	176
Compensatory leave	29	96	(125)	-	-	-	-
Total	7,858	\$ 2,672	\$ (2,592)	7,938	\$ 2,782	\$ (3,016)	7,704
Less: Current liability	2,389			2,591			2,696
Long-term liability	\$ 5,469			\$ 5,347			\$ 5,008

## NOTE 7 - DEFINED BENEFIT PLANS

### Post-Retirement Health Benefit Plan

#### Plan Description

HRSD provides other post employment benefits (OPEB) for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. HRSD's plan provides two different health and dental benefit plans for eligible retired employees and their beneficiaries (members). Members become eligible for benefits after 15 years of service and when a member qualifies for unreduced retirement benefits from the Virginia Retirement System. Participating beneficiaries may continue coverage under the plan after the death of

the retiree. Medicare-eligible members may participate in a Medicare supplement plan. Members not eligible for Medicare may participate in a high deductible health plan.

#### Funding Policy

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 \$442 to \$460 per month for retiree and dependent coverage. Members not eligible for Medicare contribute \$120 per month for retiree-only coverage and from \$517 to \$535 per month for retiree and dependent coverage. HRSD shares the cost of coverage under the plan with participating retirees by paying the difference between the contributions it requires retirees to make and the annual required contribution (ARC). The current contribution rate is 6 percent of annual covered payroll.

#### Annual OPEB Cost

HRSD's annual OPEB cost is calculated based on an actuarially determined ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Information related to the HRSD's annual OPEB cost, ARC, actual contributions, and changes to the net OPEB obligation is as follows:

Fiscal Year Ended	ARC	Actuarial Adjustment	Annual OPEB Cost	Percentage of Annual ARC Contributed	Net OPEB Obligation
2015	\$ 2,177	\$ -	\$ 2,177	100%	\$ -
2014	\$ 2,244	\$ -	\$ 2,244	100%	\$ -
2013	\$ 2,102	\$ -	\$ 2,102	100%	\$ -

#### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015 was as follows:

(in thousands)

Actuarial accrued liability (AAL)	\$ 42,017
Actuarial value of plan assets	37,008
Unfunded actuarial accrued liability (UAAL)	<u>\$ 5,009</u>
Funded ratio (actuarial value of plan assets/AAL)	88.1%
Annual covered payroll (active plan members)	\$ 47,674
UAAL as a percentage of covered payroll	10.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the possibility of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by HRSD and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.



The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial value of plan assets is equal to market value.

Additional information at June 30, 2015, the date of the most recent valuation, follows:

Actuarial valuation method	Projected unit credit method
Amortization cost method	Level percent of pay, closed
Remaining amortization	10 years
Asset valuation	Smoothed market value with phase-in, using a 5-year smoothing period
Actuarial assumptions:	
Discount Rate	6%
Annual healthcare cost trend	4.7%, increasing to 5.4% after 3 years and 3.2% after 85 years
Assumed rate of inflation	2.5%

## **Defined Benefit Pension Plan**

### **Plan Description**

HRSD employees participate in an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System (VRS). All full-time, salaried permanent employees of HRSD are automatically covered by the Plan upon employment. 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.

VRS administers three different benefit structures for covered employees – Plan 1, Plan 2 and the Hybrid Retirement Plan (HRP). The specific information for each plan is set out 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 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 31, 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

	<u>Number</u>
Inactive Members or Their Beneficiaries Currently Receiving Benefits	287
Inactive Members	
Vested	110
Non-Vested	183
Active Elsewhere in VRS	<u>82</u>
Total Inactive Members	375
Active Members	<u>750</u>
Total	<u><u>1,412</u></u>

#### Contributions

The contribution requirement for active employees is governed by Section 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% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. HRSD's contractually required contribution rate for the year ended June 30, 2015 was 8.96% of covered compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

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. Employer contributions to the pension plan were \$4,207,000 and \$4,114,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

## Net Pension Liability

HRSD's net pension liability as of June 30, 2015 was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

## Actuarial Assumptions

The total pension liability for employees in HRSD's retirement plan was based on an actuarial valuation of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% to 5.35%
Investment rate of return	7%, net of pension plan investment expense, including inflation *
Cost of living adjustments	2.25 – 2.5%

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed return rate for GASB purposes of slightly more than the assumed 7%. However, since the difference was minimal, and a more conservative 7% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Pre-Retirement, RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement, RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post Disablement, RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non-U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non-Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real rate of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

#### Discount Rate

The discount rate used to measure the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that VRS 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. Through the fiscal year ending June 30, 2018 on, participating employers are assumed to contribute 100% 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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	<u>\$ 187,685,622</u>	<u>\$ 147,501,233</u>	<u>\$ 40,184,389</u>
Changes for the year			
Service cost	3,942,732	-	3,942,732
Interest	12,906,739	-	12,906,739
Changes of assumptions	-	-	-
Difference between expected and actual experience	-	-	-
Contributions - Employer	-	4,113,513	(4,113,513)
Contributions - Employee	-	2,267,351	(2,267,351)
Net investment income	-	23,312,851	(23,312,851)
Benefit payments, including refunds of employee contributions	(6,607,274)	(6,607,274)	-
Administrative expense	-	(124,584)	124,584
Other changes	-	1,228	(1,228)
Net changes	<u>10,242,197</u>	<u>22,963,085</u>	<u>(12,720,888)</u>
Balances at June 30, 2015	<u>\$ 197,927,819</u>	<u>\$ 170,464,318</u>	<u>\$ 27,463,501</u>

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

	Decrease (6.00%)	Discount Rate (7.00%)	Increase (8.00%)
Net Pension Liability	\$ 56,632,423	\$ 27,463,501	\$ 3,371,943

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

For the year ended June 30, 2015, HRSD recognized pension expense of \$1,792,631. At June 30, 2015, HRSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	10,400,000
Employer contributions subsequent to the measurement date	4,207,000	-
	<u>\$ 4,207,000</u>	<u>\$ 10,400,000</u>

HRSD's contributions subsequent to the measurement date in the amount of \$4,207,000 are reported as deferred outflows of resources, pension contributions subsequent to measurement date, and will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Deferred inflows of resources in the amount of \$10,400,000 for the net difference between projected and actual earnings on pension plan investments will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 2,600,000
2017	2,600,000
2018	2,600,000
2019	2,600,000
Thereafter	-

#### Annual Pension Cost as related to the fiscal year ended June 30, 2014

Prior to the adoption of GASB Statement No. 68, HRSD reported annual pension costs as determined by an actuarial valuation as of June 30, 2013. For the year ended June 30, 2014, the annual pension cost of \$4,107,000 for VRS was equal to the required and actual contributions.

Fiscal Year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$ 4,107,000	100%	\$ -
6/30/2013	4,075,000	100%	-
6/30/2012	4,580,000	100%	-

The FY14 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return of 7%, (b) projected salary increases ranging from 3.75% to 5.60%, and (c) a cost of living adjustment of 2.5% per year for Plan 1 employees and 2.25% per year for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.5%.

The actuarial value of the HRSD assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The \$47,444,000 unfunded actuarial accrued liability was being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the unfunded actuarial accrued liability was 30 years.

#### **NOTE 8 – LONG-TERM DEBT**

HRSD issues revenue bonds for various capital improvements including but not limited to wastewater treatment plants and interceptor system improvements. In addition to HRSD's publicly issued revenue bonds, HRSD is indebted for bond issues payable to the Virginia Resources Authority (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.

In fiscal year 2015, HRSD issued \$111.3 million in wastewater revenue refunding bonds to provide funds to refund portions of the HRSD Series 2008, 2011, and 2012A wastewater revenue bonds. The refunding resulted in a reduction of total debt service payments of \$14,913,000, created an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$11,144,000 and resulted in a deferred loss on the bond refunding of \$13,596,000, which is being amortized over 15 years.

HRSD has outstanding \$25 million in subordinate variable rate demand bonds to partially finance its capital improvement plan. The bonds may bear interest in either a Weekly Period or a Long-term Period as defined. 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. Therefore, while it is the intention of HRSD to hold the bonds to maturity, the bonds are shown as current obligations for financial statement purposes. Maturities of the principal and interest for these bonds are shown below as if held to maturity. The bonds are subject to optional redemption by HRSD prior to their maturity. Through June 30, 2015, the bonds have been successfully remarketed by the Remarketing Agent. The interest rate for the bonds at June 30, 2015 was 0.04%, and is used to calculate interest maturity amounts shown below.

All bonds are secured by the revenues of HRSD and are payable over the duration of that issue. A summary of activity for the years ended June 30 is as follows:

(in thousands)	Balance at 6/30/13	Additions	Deductions	Balance at 6/30/14	Additions	Deductions	Balance at 6/30/2015	Due within One year
Series-2014	\$ -	\$ -	\$ -	\$ -	\$ 111,345	\$ -	\$ 111,345	\$ -
Series-2012 A	130,480	-	(2,205)	128,275	-	(16,360)	111,915	2,385
Series-2012 Subordinate	21,115	-	(6,015)	15,100	-	(6,145)	8,955	4,925
Series-2011FR	43,930	-	(1,480)	42,450	-	(9,905)	32,545	1,320
Series-2011VR	25,000	-	-	25,000	-	-	25,000	25,000
Series-2009A	6,675	-	(3,275)	3,400	-	(3,400)	-	-
Series-2009B	134,725	-	-	134,725	-	-	134,725	3,505
Series-2008	213,170	-	(2,000)	211,170	-	(97,760)	113,410	2,000
Series-2003	13,400	-	(4,295)	9,105	-	(4,460)	4,645	4,645
Virginia Resources Authority								
Senior bonds	104,010	5,356	(4,384)	104,982	-	(4,562)	100,420	4,703
Subordinate bonds	74,116	-	(4,366)	69,750	-	(4,510)	65,240	4,652
	766,621	5,356	(28,020)	743,957	111,345	(147,102)	708,200	53,135
Unamortized bond premiums	23,882	-	(1,486)	22,396	24,300	(6,499)	40,197	3,483
Total Bonds Outstanding	<u>\$ 790,503</u>	<u>\$ 5,356</u>	<u>\$ (29,506)</u>	<u>\$ 766,353</u>	<u>\$ 135,645</u>	<u>\$ (153,601)</u>	<u>\$ 748,397</u>	<u>\$ 56,618</u>

A summary of the senior bonds outstanding at June 30, 2015 is as follows:

(in thousands)	Issue Amount	Principal Outstanding			Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
Series 2014	\$ 111,345	\$ 111,345	\$ -	\$ 111,345	\$ 52,542	0.05	15 years	July 1, 2029
Series 2012A	130,480	111,915	2,385	109,530	90,297	2.00 - 5.00%	30 years	January 1, 2044
Series-2011FR	45,705	32,545	1,320	31,225	19,351	2.00 - 5.00%	30 years	November 1, 2034
Series-2009B	134,725	134,725	3,505	131,220	111,491	3.38 - 5.86%	30 years	November 1, 2039
Series-2008	223,170	113,410	2,000	111,410	102,652	3.00 - 5.00%	30 years	July 1, 2038
Series-2003	55,890	4,645	4,645	-	93	3.34 - 5.00%	12 years	October 1, 2015
VRA - Metering	9,989	8,638	416	8,222	2,592	3.35%	20 years	March 1, 2031
VRA - WTP	5,727	5,001	256	4,745	1,269	2.93%	20 years	September 1, 2031
VRA - NTP	19,395	16,731	810	15,921	4,998	3.35%	20 years	March 1, 2031
VRA - JRTP	13,431	11,488	584	10,904	3,298	3.35%	20 years	March 1, 2031
VRA - ABTP	50,000	46,002	2,050	43,952	13,098	2.93%	20 years	September 1, 2032
VRA - BHTP	7,584	6,629	322	6,307	1,761	2.93%	20 years	September 1, 2031
VRA - ATP	6,318	5,931	265	5,666	1,476	2.31%	20 years	February 1, 2033
Total		<u>\$ 609,005</u>	<u>\$ 18,558</u>	<u>\$ 590,447</u>	<u>\$ 404,918</u>			

Maturities of senior bond principal and interest as of June 30, 2015 are as follows:

(in thousands)	Principal	Interest
June 30,		
2016	\$ 18,558	\$ 28,132
2017	15,279	27,556
2018	18,144	26,985
2019	18,598	26,143
2020	19,353	25,328
2021-2025	109,827	112,495
2026-2030	135,177	84,799
2031-2035	142,769	53,071
2036-2040	110,915	18,331
2041-2045	20,385	2,078
	<u>\$ 609,005</u>	<u>\$ 404,918</u>

A summary of the subordinate revenue bonds outstanding at June 30, 2015 is as follows:

(in thousands)	Issue Amount	Principal Outstanding			Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
		Total	Current	Long-term				
Series-2012	\$ 22,680	\$ 8,955	\$ 4,925	\$ 4,030	\$ 140	0.3% - 1.92%	8 years	October 1, 2020
Disinfection	6,490	2,103	392	1,711	208	3.50%	20 years	March 1, 2020
BH Odor	2,380	964	135	829	122	3.50%	20 years	September 1, 2021
York River Reuse	2,476	1,088	137	951	75	1.70%	20 years	September 1, 2022
AB Aeration	1,759	815	103	712	57	1.70%	20 years	October 1, 2022
Ches-Eliz Off Gas	1,070	507	56	451	84	3.75%	20 years	March 1, 2023
AB Generator	1,235	777	64	713	92	2.00%	20 years	April 1, 2026
Atlantic Expansion	7,340	4,989	370	4,619	681	2.10%	20 years	February 1, 2027
Ches-Eliz Expansion	40,330	27,265	2,018	25,247	3,719	2.10%	20 years	June 1, 2027
Williamsburg PS	1,605	1,126	80	1,046	160	2.10%	20 years	July 1, 2027
York River Expansion	29,683	25,606	1,297	24,309	6,146	3.55%	20 years	March 1, 2031
		74,195	9,577	64,618	11,484			
Series-2011VR	25,000	25,000	25,000	-	269	Variable (0.04% at June 30, 2015)	30 years	November 1, 2041
Total		<u>\$ 99,195</u>	<u>\$ 34,577</u>	<u>\$ 64,618</u>	<u>\$ 11,753</u>			

Maturities of subordinate bond principal and interest as of June 30, 2015 are as follows:

(in thousands)		
June 30,	Principal	Interest
2016	\$ 9,577	\$ 1,619
2017	7,592	1,473
2018	5,183	1,341
2019	5,307	1,217
2020	5,435	1,089
2021-2025	23,904	3,694
2026-2030	15,251	1,166
2031-2035	1,946	90
2036-2040	-	50
2041-2045	25,000	14
	<u>\$ 99,195</u>	<u>\$ 11,753</u>

## NOTE 9 – NET POSITION

### Restricted Portions of Net Position

*Restricted for debt service and restricted for debt service reserve fund.* HRSD's Trust Agreement requires that funds be set aside for its revenue bond debt service and for a debt service reserve fund when certain debt service coverage and liquidity and ratios are not met.

### Unrestricted Portion of 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, 2015 and 2014, \$570,000 and \$8,477,000, respectively, was contained in the unrestricted net position. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2015 and 2014.

*Reserved for Construction.* A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2015 and 2014, \$2,287,000 and \$55,532,000, respectively, was contained in the unrestricted net position.



## NOTE 10 - 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 worker's 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. Certain health claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$250,000. HRSD also maintains an aggregate insurance policy whereby total medical claims costs in excess of 125 percent of expected costs are subject to reimbursement. 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.

Changes in HRSD's claims liability for fiscal years 2013 through 2015 are as follows:

(in thousands)	Beginning of Fiscal Year	Estimated Claims Incurred	Claims Paid	End of Fiscal Year
2013	\$ 2,069	\$ 10,392	\$ (9,862)	\$ 2,599
2014	\$ 2,599	\$ 10,186	\$ (9,914)	\$ 2,871
2015	\$ 2,871	\$ 11,807	\$ (10,362)	\$ 4,316

## NOTE 11 – COMMITMENTS AND CONTINGENCIES

HRSD is party to a federal consent decree with the federal and state governments (the Consent Decree), which requires HRSD to evaluate the wet weather capacity of the regional sewer system, including collection systems owned by 13 of the localities which HRSD serves in the Hampton Roads area. Based upon that evaluation, HRSD, in consultation with the localities, is required to develop a regional wet weather management plan (RWWMP) for submittal to the federal and state environmental agencies for their approval. The recommended plan will include an implementation schedule. The RWWMP will identify the attainable level of wet weather capacity in individual areas of the region and/or on a region-wide basis. The RWWMP will also summarize the major projects and programs that must be implemented in order to achieve the specified level of regional wet weather capacity. It is likely that the RWWMP will call for several hundred million dollars in infrastructure investments across the Hampton Roads region over several decades.

HRSD and the localities believe that addressing wet weather capacity issues from a regional perspective will result in the most affordable and cost-effective approach for ratepayers throughout the region. Toward that end, HRSD and the localities entered into a legally binding Memorandum of Agreement in March of 2014 (the MOA). The MOA commits HRSD to (1) develop the RWWMP in consultation with the localities, (2) fund the approved plan through a regional rate imposed on all regional ratepayers, (3) design and construct the necessary improvements, and (4) assume responsibility for wet weather capacity throughout the region in each area once the RWWMP is implemented. In exchange, the localities have 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 Consent Decree and MOA also contemplate that the localities' obligation to maintain the integrity of their sewer systems to industry standards was embodied in a State administrative order. While HRSD is preparing the RWWMP, the Consent Decree also requires HRSD to implement approximately \$200 million in priority capital system upgrade projects over a nine year period, which are included in the capital improvement and expansion program noted below. Management currently believes that HRSD is on schedule to complete these projects.

HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. At June 30, 2015 HRSD has outstanding commitments for contracts in progress of approximately \$166,629,000.

## NOTE 12 – Change in Accounting Principle and Correction of Inventory Value

HRSD has historically expensed items used for the repair and maintenance of its various assets at the time of purchase. These items have been kept in an inventory system used to record maintenance of assets and track the availability of inventory items. Based on a review HRSD has determined that the proper treatment of these inventory items is to recognize the asset when purchased and expense items as used. Under the guidelines of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, HRSD is treating this adjustment as a correction of an error. The following summarizes the effects of the inventory adjustments on the net position at July 1, 2013 and change in net position as of June 30, 2014:

(in thousands)

Net position previously reported at June 30, 2013	\$ 502,989
Correction to record inventory adjustment	<u>23,007</u>
Net position as of June 30, 2013, as adjusted	<u>525,996</u>
Change in net position previously reported for FY2014	<u>26,813</u>
Correction to record inventory adjustment	<u>2,138</u>
Change in net position as of June 30, 2014, as adjusted	<u>28,951</u>
Net position at June 30, 2014, as adjusted	<u><u>\$ 554,947</u></u>

As discussed in Note 2, HRSD adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective July 1, 2014. HRSD implemented the provisions of GASB Statements No. 68 and No. 71 in fiscal year 2015 by adjusting the July 1, 2014 net position, establishing a pension liability, recording deferred inflows and outflows of resources related to pension activity, and adjusting pension expenses in the accompanying financial statements. The following reflects the adjustment to net position as of July 1, 2014 as a result of implementing GASB Statements No. 68 and No. 71 in FY15:

(in thousands)

Net position as of July 1, 2014, as adjusted	\$ 554,947
Adjustment for net pension liability	(40,184)
Adjustment for pension contributions made in FY2014	<u>4,113</u>
Net position at July 1, 2014, adjusted	<u><u>\$ 518,876</u></u>

## NOTE 13 – Subsequent Event

On October 30, 2015, HRSD closed on a \$90 million credit agreement (the Agreement) that provides interim financing for the capital improvement program. The Agreement will be available through June 30, 2016, with the option for an extension upon mutual agreement. Interest is based on 70 percent of the 1-month London Interbank Offered Rate (LIBOR) rate plus 0.35 percent per annum.

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# Required Supplementary Information

(Unaudited)



**James City County** offers much to area residents and visitors including opportunities to enjoy some of the best outdoor activities in the region.

**Newport News** City Center at Oyster Point is a business district that features retail shops, restaurants and offices as well as residential space centered around the fountain in the heart of the development.

**Williamsburg** Farmers Market, voted one of America's Favorite Markets, attracts residents and visitors alike to Merchants Square to buy locally grown produce from local farmers.

**HAMPTON ROADS SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
JUNE 30, 2015**

The tables below provide detail on the changes in HRSD's Net Pension Liability and Employer Contributions for the Virginia Retirement System Retirement Plan

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

	2014
<b>Total pension liability</b>	
Service cost	\$ 3,942,732
Interest	12,906,739
Benefit payments, including refunds of employee contributions	(6,607,274)
<b>Net change in total pension liability</b>	10,242,197
<b>Total pension liability - beginning</b>	187,685,622
<b>Total pension liability - ending (a)</b>	<u>\$ 197,927,819</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 4,113,513
Contributions - employee	2,267,351
Net investment income	23,312,851
Benefit payments, including refunds of employee contributions	(6,607,274)
Administrative expense	(124,584)
Other	1,228
<b>Net change in plan fiduciary net position</b>	22,963,085
<b>Plan fiduciary net position - beginning</b>	147,501,233
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 170,464,318</u>
<b>Net pension liability - ending (a) - (b)</b>	\$ 27,463,501
<b>Plan fiduciary net position as a percentage of the total pension liability (b)/(a)</b>	86.12%
<b>Covered-employee payroll ( c )</b>	\$ 51,128,220
<b>Net pension liability as a percentage of the covered-employee payroll ((a)-(b))/( c )</b>	53.71%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Actuarially Required Contribution	Contributions in Relation to Actuarially Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
\$ 4,207,444	\$ 4,207,444	\$ -	\$ 51,128,220	8.23%

Unaudited – See accompanying independent auditors' report and notes to required supplementary information

**HAMPTON ROADS SANITATION DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**JUNE 30, 2015**

1. **Changes of benefit terms** - There have been no significant changes to the VRS benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining VRS after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.
2. **Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the retirement system for the four-year period ending June 30, 2012:
  - Update mortality table
  - Decrease in rates of service retirement
  - Decrease in rates of disability retirement
  - Reduce rates of salary increase by 0.25% per year
3. **Actuarially determined contributions assumptions** - The following significant methods and assumptions were used in calculating the actuarially determined contributions for the year ended June 30, 2015:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, Closed
Remaining amortization period	30 Years, beginning June 30, 2013
Asset valuation method	Five-Year Smoothed Market Value
Payroll growth rate	3%
Projected salary increases*	3.50% to 5.35%
Investment rate of return*	7%
Cost-of-living adjustments	
A) Plan 1 Members	2.50%
B) Plan 2 Members	2.25%

\* includes inflation at 2.5%

Unaudited – See accompanying independent auditors' report and notes to required supplementary information

**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULES OF FUNDING PROGRESS**

**SCHEDULE OF FUNDING PROGRESS - OTHER POST-RETIREMENT HEALTH BENEFITS**

The table below provides detail on the funding progress for the Post-Retirement Health Benefit Plan for HRSD

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio Assets as % of AAL (1) / (2)	Annual Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
(in thousands)	(1)	(2)	(3)	(4)	(5)	(6)
6/30/2015	\$37,008	\$42,017	\$5,009	88.1%	\$47,674	10.5%
6/30/2014	\$34,115	\$39,422	\$5,307	86.5%	\$46,096	11.5%
6/30/2013	\$28,030	\$35,552	\$7,522	78.8%	\$45,032	16.7%
6/30/2012	\$24,515	\$32,577	\$8,062	75.3%	\$43,213	18.7%
6/30/2011	\$22,560	\$32,076	\$9,516	70.3%	\$40,553	23.5%

**SCHEDULE OF FUNDING PROGRESS - PENSION**

As of June 30, 2013, the most recent actuarial valuation date related to the June 30, 2014 fiscal year end, the plan was 74.7% funded. The actuarial accrued liability for benefits was \$140,242,000, and the actuarial value of assets was \$187,686,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$47,444,000. The covered payroll (annual payroll of active employees covered by the plan) was \$45,044,000, and the ratio of the UAAL to the covered payroll was 105.3%.

The following schedule of funding progress (unaudited required supplementary information) presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

The amounts shown below are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to date. This measure is the actuarial present value of credited projected benefits and is intended to help assess the VRS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is independent of the funding method used to determine contributions to the VRS.

	Valuation date		
	2013	June 30, 2012	2011
Actuarial value of assets	\$ 187,686	\$ 183,384	\$ 174,448
Actuarial accrued liability	140,242	133,331	132,919
Amount underfunded	<u>\$ 47,444</u>	<u>\$ 50,053</u>	<u>\$ 41,529</u>
Funded ratio	74.7%	72.7%	76.2%
Annual covered payroll	\$ 45,044	\$ 42,166	\$ 40,462
Amount underfunded	105.3%	118.7%	102.6%

Unaudited – See accompanying independent auditors' report and notes to required supplementary information

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# Statistical Section

(Unaudited)



**Gloucester County** Historic Courthouse, home of the Daffodil Festival, combines history and beauty.

**Hampton** Located on the mouth of the Chesapeake Bay, Hampton is graced with miles of shoreline and breathtaking water views. Residents and businesses alike choose to call this beautiful city home.

**Poquoson** It was the water that brought the first settlers to Poquoson. The name of the city is a Native American word which roughly translates to "great marsh."

**York County** Yorktown is most remembered as the site where British General Lord Cornwallis surrendered to American and French forces under the command of General George Washington, bringing an end to the last major battle of the American Revolutionary War. But even before the struggle for independence, the town was a bustling and prosperous 18th century seaport, having been established by the 1691 Act of Ports. Yorktown also witnessed major Civil War activity. Its fortifications held off a Union army attack during the Peninsula Campaign of 1862.

## **HAMPTON ROADS SANITATION DISTRICT STATISTICAL SECTION (UNAUDITED)**

This section of Hampton Roads Sanitation District's comprehensive annual 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.

<b>Contents</b>	<b>Page</b>
<b>Demographic and Economic Information</b>	
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.	45
<b>Financial Trends</b>	
These schedules contain trend information to help the reader understand how HRSD's financial performance and well-being have changed over time.	46-48
<b>Debt Capacity</b>	
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.	49
<b>Revenue Capacity</b>	
These schedules contain information to help the reader assess the factors affecting HRSD's ability to generate revenue from rate payers.	50-51 54-56
<b>Operating Information</b>	
These schedules contain information about the HRSD's operations and resources to help the reader understand how the HRSD's financial information relates to the services HRSD provides and the activities it performs.	52-53 57

Unaudited – See accompanying independent auditors' report

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

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**HAMPTON ROADS SANITATION DISTRICT  
DEMOGRAPHIC AND OTHER MISCELLANEOUS STATISTICS  
JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Date of Incorporation - 1940										
Area in Square Miles	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118
Present Service Area in Square Miles	672	672	672	672	672	672	672	672	672	672
Treatment Plants (Major)	9	9	9	9	9	9	9	9	9	9
Plant Capacity (Millions of Gallons per Day)	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Army Base Plant, Norfolk	54.0	54.0	54.0	54.0	54.0	54.0	36.0	36.0	36.0	36.0
Atlantic Plant, Virginia Beach	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Boat Harbor Plant, Newport News	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Chesapeake-Elizabeth Plant, Virginia Beach	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
James River Plant, Newport News	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Nansemond Plant, Suffolk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Virginia Initiative Plant, Norfolk	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Williamsburg Plant, James City County	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
York River Plant, York County	248.5	248.5	248.5	248.5	248.5	248.5	230.5	230.5	230.5	230.5
Total Treatment Plants (Major) Capacity	4	4	4	5	5	4	4	4	3	3
Small Communities Treatment Plants	0.025	0.03	0.03	0.03	0.03	-	-	-	-	-
Central Middlesex, Middlesex County	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
King William Plant, King William County	-	-	-	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Mathews Plant, Mathews County (1)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Urbanna Plant, Middlesex County	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
West Point Plant, King William County	0.825	0.83	0.83	0.93	0.93	0.90	0.90	0.90	0.80	0.80
Total Small Communities Treatment Plants Capacity	532	531	531	532	528	483	483	514	512	512
Miles of Interceptor Systems (2)	83	83	83	83	82	81	82	82	81	79
Interceptor Pump Stations	33	33	29	29	29	25	20	20	20	20
Small Communities Pump Stations (2)	2	2	2	2	2	2	2	2	2	2
Maintenance Facilities	465	462	460	458	457	455	452	442	461	457
Number of Service Connections (in thousands) (3)	152	154	158	147	144	171	151	146	163	158
Daily Average Treatment in Millions of Gallons										
Bond Ratings										
Moody's Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa3	Aa3	Aa3	Aa3
Standard & Poor's	AA+	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA	AA
Subordinate Long-term	AA	AA+	AA+	AA+	-	-	-	-	-	-
Subordinate Short-term	A-1+	A-1+	A-1+	A-1+	-	-	-	-	-	-
Senior	AA+	AA+	AA+	AA+	AA+	AA+	AA	AA	-	-
Subordinate Long-term	AA	AA	AA	AA	-	-	-	-	-	-
Subordinate Short-term	F1+	F1+	F1+	F1+	-	-	-	-	-	-

(1) The Mathews Treatment Plant has been closed. Wastewater from the area is now handled by the York River Treatment Plant.

(2) HRSD conducted evaluations of the system during the years ended June 30, 2009 and 2011 and revised the miles of pipes and the number of small community pump stations.

(3) HRSD installed a new customer billing system during the year ended June 30, 2008. As part of the implementation, certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.

**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES,  
NET POSITION BY COMPONENT AND  
DEBT SERVICE EXPENDITURES  
LAST TEN FISCAL YEARS**

(in thousands)	2015	(adjusted) 2014	(adjusted) 2013	(adjusted) 2012
<b>OPERATING REVENUES</b>				
Wastewater treatment charges	\$ 221,626	\$ 211,538	\$ 199,318	\$ 194,817
Miscellaneous	3,935	3,643	3,297	2,996
<b>TOTAL OPERATING REVENUES</b>	<u>225,561</u>	<u>215,181</u>	<u>202,615</u>	<u>197,813</u>
<b>OPERATING EXPENSES</b>				
Wastewater treatment	114,137	109,149	86,973	110,783
General and administrative	38,678	33,012	31,410	31,163
Depreciation	41,871	42,761	45,414	41,250
<b>TOTAL OPERATING EXPENSES</b>	<u>194,686</u>	<u>184,922</u>	<u>163,797</u>	<u>183,196</u>
<b>OPERATING INCOME (LOSS)</b>	30,875	30,259	38,818	14,617
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Wastewater facility charges	7,428	6,640	5,851	6,276
Investment income	1,695	1,872	1,705	1,681
Bond interest subsidy	2,444	2,364	2,602	2,602
Bond issuance costs	(768)	-	(658)	(2,206)
Change in fair value of investments	(286)	(422)	(714)	(224)
Disposal of capital assets	-	-	(1,649)	-
Interest expense	(22,958)	(25,650)	(24,330)	(22,760)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<u>(12,445)</u>	<u>(15,196)</u>	<u>(17,193)</u>	<u>(14,631)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	18,430	15,063	21,625	(14)
<b>CAPITAL CONTRIBUTIONS</b>				
State capital grants	16,519	13,888	10,172	14,806
Other capital contributions	3,000	-	-	-
<b>CHANGE IN NET POSITION</b>	<u>\$ 37,949</u>	<u>\$ 28,951</u>	<u>\$ 31,797</u>	<u>\$ 14,792</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 385,597	\$ 351,191	\$ 337,342	\$ 348,407
Restricted for debt service	22,070	24,064	23,843	15,736
Restricted for debt service reserve fund	44,118	45,207	-	-
Unrestricted	105,040	134,485	164,811	130,056
<b>TOTAL NET POSITION</b>	<u>\$ 556,825</u>	<u>\$ 554,947</u>	<u>\$ 525,996</u>	<u>\$ 494,199</u>
<b>DEBT SERVICE EXPENDITURES</b>				
Senior debt	\$ 43,842	\$ 47,331	\$ 37,574	\$ 33,023
Subordinate debt	\$ 13,091	\$ 14,112	\$ 11,243	\$ 13,694
 Senior debt Coverage	 1.90	 1.76	 2.48	 1.94
Total debt Coverage	1.46	1.36	1.91	1.37

**Notes:**

2013 - HRSD implemented GASB Statement 65 effective July 1, 2012, which requires expensing bond issuance costs in the year incurred.

2013 - HRSD adjusted the financial records to include inventory assets.

2015 - HRSD implemented GASB Statements 68 and 71 effective July 1, 2014, which requires recording pension liability.

**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES,  
NET POSITION BY COMPONENT AND  
DEBT SERVICE EXPENDITURES  
LAST TEN FISCAL YEARS**

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 183,526	\$ 167,807	\$ 156,642	\$ 129,583	\$ 118,423	\$ 106,208
3,890	3,645	3,088	2,623	3,558	3,419
<u>187,416</u>	<u>171,452</u>	<u>159,730</u>	<u>132,206</u>	<u>121,981</u>	<u>109,627</u>
103,225	98,022	86,850	72,034	68,930	67,496
28,622	29,435	28,853	31,756	26,070	21,820
36,191	30,441	28,414	27,282	24,958	24,509
<u>168,038</u>	<u>157,898</u>	<u>144,117</u>	<u>131,072</u>	<u>119,958</u>	<u>113,825</u>
19,378	13,554	15,613	1,134	2,023	(4,198)
5,083	5,754	5,086	8,339	9,645	10,526
1,699	1,541	3,998	3,999	3,363	2,896
2,602	1,655	-	-	-	-
-	-	-	-	-	-
(19)	40	162	656	994	(868)
-	-	-	-	-	-
<u>(20,516)</u>	<u>(19,973)</u>	<u>(15,263)</u>	<u>(5,867)</u>	<u>(4,630)</u>	<u>(4,518)</u>
<u>(11,151)</u>	<u>(10,983)</u>	<u>(6,017)</u>	<u>7,127</u>	<u>9,372</u>	<u>8,036</u>
8,227	2,571	9,596	8,261	11,395	3,838
16,097	41,606	16,678	-	-	-
-	-	-	-	-	-
<u>\$ 24,324</u>	<u>\$ 44,177</u>	<u>\$ 26,274</u>	<u>\$ 8,261</u>	<u>\$ 11,395</u>	<u>\$ 3,838</u>
\$ 351,618	\$ 348,572	\$ 319,594	\$ 301,760	\$ 314,708	\$ 282,177
14,896	12,253	7,542	7,377	6,247	7,817
-	-	-	-	-	-
110,688	92,053	81,565	73,290	53,211	72,777
<u>\$ 477,202</u>	<u>\$ 452,878</u>	<u>\$ 408,701</u>	<u>\$ 382,427</u>	<u>\$ 374,166</u>	<u>\$ 362,771</u>
\$ 28,257	\$ 21,081	\$ 17,453	\$ 4,699	\$ 8,609	\$ 8,720
\$ 10,640	\$ 10,695	\$ 10,694	\$ 11,992	\$ 8,000	\$ 7,500
2.30	2.51	3.05	8.81	4.76	3.77
1.67	1.67	1.89	2.48	2.47	2.03

**HAMPTON ROADS SANITATION DISTRICT  
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES  
FOR OPERATIONS - LAST TEN FISCAL YEARS**

(in thousands)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Personal Services	\$ 52,357	\$ 50,538	\$ 49,361	\$ 47,319	\$ 44,284	\$ 42,529	\$ 40,840	\$ 37,333	\$ 36,228	\$ 32,045
Fringe Benefits	18,249	20,170	20,039	17,800	17,692	15,217	12,410	12,573	11,106	8,430
Repairs and Maintenance	31,451	22,320	23,075	26,057	21,234	23,445	14,176	10,704	11,101	13,036
Materials and Supplies	4,343	5,764	5,700	6,143	8,381	6,284	5,715	5,965	5,224	5,153
Transportation	1,297	1,417	1,376	1,319	1,196	1,009	972	965	802	855
Utilities	10,503	11,126	12,295	12,027	11,026	10,755	13,218	11,601	10,457	10,782
Chemicals	7,119	7,752	7,892	8,587	8,084	7,571	8,342	8,032	7,077	6,721
Contractual Services	15,127	14,222	13,993	12,312	11,118	10,333	8,642	9,064	7,828	7,108
Miscellaneous	2,880	1,274	1,172	1,324	1,148	1,049	1,028	897	720	642
General (1)	9,489	7,578	6,487	6,852	7,684	9,265	10,360	6,656	4,457	4,544
Subtotal, Expense before Depreciation	152,815	142,161	141,390	139,740	131,847	127,457	115,703	103,790	95,000	89,316
Depreciation	41,871	42,761	45,414	41,250	36,191	30,441	28,414	27,282	24,958	24,509
Total Operating Expenses	\$ 194,686	\$ 184,922	\$ 186,804	\$ 180,990	\$ 168,038	\$ 157,898	\$ 144,117	\$ 131,072	\$ 119,958	\$ 113,825

(1) Includes bad debt expense

**HAMPTON ROADS SANITATION DISTRICT  
RATIOS OF OUTSTANDING DEBT BY TYPE  
JUNE 30, 2015**

As of June 30,	No. Of Service Connections	(in thousands)			Debt Per Service Connection
		Senior Revenue Bonds	Subordinate Revenue Bonds	Total Outstanding Debt	
2015	465,000	\$ 649,202	\$ 99,195	\$ 748,397	\$ 1,609
2014	462,000	656,503	109,850	766,353	1,659
2013	460,000	670,272	120,231	790,503	1,718
2012	458,000	510,951	128,335	639,286	1,396
2011	457,000	450,335	110,661	560,996	1,228
2010	455,000	395,215	152,103	547,318	1,203
2009	452,000	250,165	109,971	360,136	797
2008	442,000 *	255,635	104,269	359,904	814
2007	461,000	35,855	107,803	143,658	312
2006	457,000	43,015	101,435	144,450	316

\* During the year ended June 30, 2008, HRSD installed a new customer billing system. As part of the implementation certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.



**HAMPTON ROADS SANITATION DISTRICT  
RATE SCHEDULE  
WASTEWATER TREATMENT CHARGES  
LAST TEN FISCAL YEARS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Residential - Metered</u>										
Per CCF * (single step)	\$ 3.83	\$ 3.55	\$ 3.29	\$ 3.05	\$ 2.82	\$ 2.52	-	-	-	-
First 30 CCF* per 30-day period	-	-	-	-	-	-	\$ 2.28	\$ 1.98	\$ 1.72	\$ 1.52
In excess of 30 CCF* per 30-day period	-	-	-	-	-	-	2.06	1.79	1.55	1.37
Minimum Charges										
Per day	0.25	0.25	0.25	0.25	0.25	0.25	-	-	-	-
2 CCF* or less per 30-day period	-	-	-	-	-	-	6.50	5.65	4.91	4.34
<u>Residential - Unmetered per 30-day period</u>										
Flat rate accounts	26.32	26.32	26.32	24.40	22.56	20.16	-	-	-	-
First toilet	-	-	-	-	-	-	10.25	8.91	7.74	6.84
Second toilet	-	-	-	-	-	-	6.83	5.94	5.16	4.56
Additional, each	-	-	-	-	-	-	3.42	2.97	2.58	2.28
<u>Non-Residential - Special Category</u>										
Biochemical Oxygen Demand (BOD)										
Excess over 250 mg/liter										
Per mg/liter per CCF	0.000612	0.001558	0.002451	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	-	46.77	39.71	35.39	31.95	27.71	24.05	22.50
Total Suspended Solids (TSS)										
Excess over 250 mg/liter										
Per mg/liter per CCF	0.000417	0.001244	0.001865	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	-	36.70	34.73	30.25	28.54	24.82	22.51	20.30
Total Phosphorus (TP)										
Excess over 6 mg/liter										
Per mg/liter per CCF	0.004344	0.011714	0.012790	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	-	300.57	300.57	293.41	283.10	252.52	239.83	210.59
Total Kjeldahl Nitrogen (TKN)										
Excess over 35 mg/liter										
Per mg/liter per CCF	0.000756	0.001752	0.002085	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	-	74.51	63.39	61.88	59.73	53.96	28.54	24.37
Unusual wastes not covered by this schedule may be assigned a special rate.										
<u>Septic Tank Waste</u>										
Per gallon	0.1267	0.1258	0.1146	-	-	-	-	-	-	-
Per each 500 gallons or part thereof	-	-	-	48.57	44.46	38.51	35.84	31.21	28.05	25.45

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

Note: Rates can be adjusted by the Commission.

**HAMPTON ROADS SANITATION DISTRICT  
RATE SCHEDULE  
WASTEWATER FACILITY CHARGES  
LAST TEN FISCAL YEARS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Residential	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,715	\$ 1,715	\$ 1,655	\$ 1,607	\$ 1,540	\$ 1,465
Commercial/Industrial										
Volume based facility charges										
5/8" Meter	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,895	\$ 1,715	\$ 1,715	\$ 1,655	\$ 1,607	\$ 1,540	\$ 1,465
3/4" Meter	4,830	4,830	4,510	2,885	2,605	2,605	2,515	2,443	2,340	2,230
1" Meter	8,170	8,170	7,630	5,370	4,850	4,850	4,685	4,548	4,350	4,150
1 1/2" Meter	17,260	17,260	16,130	13,035	11,780	11,780	11,365	11,040	10,565	10,065
2" Meter	29,420	29,420	27,490	24,420	22,065	22,065	21,290	20,681	19,785	18,855
3" Meter	63,600	62,270	58,180	59,140	53,440	53,440	51,565	50,088	47,920	45,670
4" Meter	115,580	106,060	99,110	110,860	100,175	100,175	96,660	93,892	89,830	85,605
6" Meter	268,250	224,650	209,920	268,675	242,780	242,780	234,260	227,556	217,710	207,470
8" Meter	487,510	382,670	357,580	503,350	454,835	454,835	438,875	426,315	407,870	388,685
10" Meter	774,860	587,820	540,610	819,310	740,340	740,340	714,355	693,915	663,890	632,665
12" Meter	1,131,490	-	-	-	-	-	-	-	-	-
14" Meter	1,558,360	-	-	-	-	-	-	-	-	-
16" Meter	2,056,330	-	-	-	-	-	-	-	-	-
Strength based facility charges (per permitted pound)										
Biochemical Oxygen Demand (BOD) Excess over 250 mg/liter	\$ 728	\$ 987	\$ 928	-	-	-	-	-	-	-
Total Suspended Solids (TSS) Excess over 250 mg/liter	424	624	587	-	-	-	-	-	-	-
Total Phosphorus (TP) Excess over 6 mg/liter	8,420	5,846	5,502	-	-	-	-	-	-	-
Total Kjeldahl Nitrogen (TKN) Excess over 35 mg/liter	3,812	1,313	1,235	-	-	-	-	-	-	-

Note - One charge per connection.

**HAMPTON ROADS SANITATION DISTRICT  
TREATMENT PLANT OPERATING SUMMARY  
LAST TEN FISCAL YEARS  
(Average Quantity per Day)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>District Total</b>										
Flow (MGD)	152.2	154.0	157.9	147.1	144.4	170.9	151.4	146.3	163.3	157.5
Influent (1,000 lbs.)										
BOD	286.0	288.6	274.4	254.6	273.1	275.2	300.9	332.1	346.3	357.3
TSS	198.6	204.7	198.1	200.3	205.9	210.7	203.6	211.3	224.0	225.0
TP	8.6	6.8	6.6	6.7	7.0	7.4	7.8	6.7	7.2	6.7
TKN	45.8	47.9	48.9	48.3	49.8	48.2	49.0	51.4	-	-
Effluent (1,000 lbs.)										
BOD	9.9	9.6	9.3	7.5	9.3	11.5	8.7	9.2	10.9	9.6
TSS	8.9	9.1	9.3	10.5	9.2	13.1	10.5	10.8	11.5	11.0
TP	1.0	1.1	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.2
TKN	9.8	11.2	12.0	10.1	12.3	14.9	13.3	11.2	-	-
<b>Army Base Plant</b>										
Flow (MGD)	9.9	10.7	11.8	10.2	10.0	12.6	10.4	9.7	11.3	11.3
Influent (1,000 lbs.)										
BOD	16.4	19.0	18.5	17.4	16.9	17.0	18.1	18.9	19.5	21.7
TSS	12.5	14.2	14.4	13.7	12.9	13.5	12.9	13.0	13.8	14.4
TP	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
TKN	2.9	3.5	3.7	3.5	3.2	3.2	3.1	3.4	-	-
Effluent (1,000 lbs.)										
BOD	0.8	0.8	0.8	0.9	0.8	1.0	0.8	1.0	0.9	0.8
TSS	0.6	0.8	0.9	0.8	1.0	1.1	0.8	1.1	0.9	0.9
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	2.1	2.6	2.8	2.5	2.3	2.3	2.3	2.4	-	-
<b>Atlantic Plant</b>										
Flow (MGD)	30.9	25.7	26.7	29.0	29.7	30.4	26.6	26.3	29.4	30.2
Influent (1,000 lbs.)										
BOD	66.6	52.7	51.3	56.0	58.6	55.1	52.0	55.7	58.2	61.6
TSS	42.9	37.3	36.4	43.8	46.9	43.3	40.2	41.7	46.3	47.1
TP	1.5	1.3	1.3	1.5	1.8	1.8	1.9	-	-	-
TKN	11.4	10.4	10.5	11.7	12.3	11.3	10.5	10.7	-	-
Effluent (1,000 lbs.)										
BOD	3.0	2.2	2.6	2.0	3.0	2.3	1.8	1.9	2.0	2.2
TSS	2.4	2.0	1.9	1.8	2.0	2.9	2.2	2.0	2.1	2.7
<b>Boat Harbor Plant</b>										
Flow (MGD)	14.4	14.9	15.5	13.6	12.6	16.7	13.0	11.6	14.6	13.7
Influent (1,000 lbs.)										
BOD	20.0	19.2	19.3	19.9	19.4	19.9	19.9	19.6	21.4	23.6
TSS	16.3	16.7	16.0	16.9	15.6	17.5	15.2	14.6	17.3	17.4
TP	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6
TKN	3.6	3.7	3.7	3.7	3.8	3.7	3.6	3.6	-	-
Effluent (1,000 lbs.)										
BOD	0.7	0.7	0.7	0.6	0.6	1.1	0.6	0.9	1.5	1.3
TSS	0.6	0.8	0.8	0.9	0.7	1.3	0.7	0.7	1.2	0.8
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	2.2	2.4	2.9	3.0	2.8	2.8	2.6	2.3	-	-
<b>Chesapeake-Elizabeth Plant</b>										
Flow (MGD)	16.3	19.1	18.4	15.2	16.3	20.1	19.5	18.7	15.6	16.8
Influent (1,000 lbs.)										
BOD	30.2	38.7	32.1	24.8	30.1	32.7	36.0	38.3	30.8	35.0
TSS	22.9	26.6	25.1	21.0	22.6	26.9	27.1	27.5	21.5	23.4
TP	2.7	0.8	0.8	0.7	0.7	0.8	0.9	1.0	0.7	0.9
TKN	5.1	6.7	6.4	5.4	6.1	6.2	6.9	7.2	-	-
Effluent (1,000 lbs.)										
BOD	2.0	2.5	2.2	1.5	1.8	2.2	2.1	2.0	1.9	1.7
TSS	1.8	1.9	2.1	1.8	1.9	2.2	2.2	2.1	1.7	2.1
TP	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
TKN	3.6	4.5	4.2	3.2	3.9	3.9	4.2	3.8	-	-

**HAMPTON ROADS SANITATION DISTRICT  
TREATMENT PLANT OPERATING SUMMARY  
LAST TEN FISCAL YEARS  
(Average Quantity per Day)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>James River Plant</b>										
Flow (MGD)	12.7	13.6	14.3	12.9	12.2	14.9	12.3	12.7	15.1	12.5
Influent (1,000 lbs.)										
BOD	25.7	27.5	25.5	25.3	26.2	24.7	23.0	25.4	30.8	28.7
TSS	18.0	19.4	19.2	19.0	19.8	19.9	17.6	19.6	21.1	19.0
TP	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
TKN	4.0	4.2	4.4	4.4	4.4	4.3	4.2	4.2	-	-
Effluent (1,000 lbs.)										
BOD	0.3	0.5	0.7	0.7	0.9	1.2	0.8	1.1	1.2	0.7
TSS	0.4	0.6	0.8	0.8	0.9	1.8	1.4	1.5	1.4	0.9
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
TKN	0.4	0.2	0.6	0.5	2.3	2.6	1.2	1.0	-	-
<b>Nansemond Plant</b>										
Flow (MGD)	16.6	16.9	17.1	16.2	15.9	18.0	17.1	17.2	18.7	17.9
Influent (1,000 lbs.)										
BOD	28.5	29.0	27.0	23.7	27.9	30.2	31.6	32.3	36.7	38.0
TSS	21.9	23.1	22.9	22.6	22.6	24.5	23.1	24.5	27.1	25.5
TP	1.1	1.1	1.1	1.0	1.0	1.1	1.1	1.3	1.7	1.3
TKN	5.6	5.8	5.9	6.0	6.1	6.0	6.2	6.4	-	-
Effluent (1,000 lbs.)										
BOD	0.8	0.9	0.6	0.6	0.8	1.2	0.7	0.6	0.8	0.7
TSS	0.9	1.1	0.8	0.9	1.1	1.3	1.0	1.4	1.5	1.2
TP	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
TKN	0.6	0.5	0.3	0.3	0.5	2.3	1.3	0.3	-	-
<b>Virginia Initiative Plant</b>										
Flow (MGD)	30.5	30.7	31.9	29.8	28.5	35.7	29.9	25.4	31.2	29.2
Influent (1,000 lbs.)										
BOD	47.5	45.8	45.8	42.3	42.8	43.0	46.9	47.2	50.3	48.5
TSS	30.2	30.6	31.6	32.3	31.8	31.7	31.1	27.3	31.6	32.0
TP	1.1	1.2	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.3
TKN	7.1	7.4	7.5	7.6	7.3	7.2	7.5	7.1	-	-
Effluent (1,000 lbs.)										
BOD	1.9	1.4	0.9	0.8	0.7	1.7	1.3	1.2	1.8	1.2
TSS	1.6	1.7	1.4	1.5	1.1	1.7	1.5	1.2	1.7	1.1
TP	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1
TKN	0.8	0.6	0.5	0.5	0.4	0.8	1.5	1.1	-	-
<b>Williamsburg Plant</b>										
Flow (MGD)	8.4	9.2	8.9	9.1	8.6	10.0	12.0	14.4	15.1	14.5
Influent (1,000 lbs.)										
BOD	34.7	40.4	37.7	33.5	37.5	37.9	59.9	79.0	80.8	80.1
TSS	16.2	19.9	16.8	16.7	19.0	19.6	23.4	30.6	28.8	28.3
TP	0.5	0.6	0.5	0.5	0.6	0.6	0.8	1.0	1.0	0.9
TKN	3.2	3.3	3.3	3.4	3.5	3.5	4.3	5.2	-	-
Effluent (1,000 lbs.)										
BOD	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.3
TSS	0.3	0.3	0.4	0.6	0.3	0.4	0.3	0.5	0.5	0.6
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
TKN	0.1	0.2	0.3	0.2	0.2	0.2	0.3	0.2	-	-
<b>York River Plant</b>										
Flow (MGD)	12.6	13.2	13.3	11.2	10.8	12.5	10.7	10.2	12.3	11.4
Influent (1,000 lbs.)										
BOD	18.2	17.9	17.2	13.3	15.5	16.3	15.5	15.8	17.8	20.1
TSS	16.9	16.4	15.7	14.1	14.3	14.0	12.6	12.4	16.5	17.9
TP	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
TKN	3.5	3.6	3.5	3.2	3.6	3.3	3.3	3.7	-	-
Effluent (1,000 lbs.)										
BOD	0.4	0.4	0.5	0.2	0.5	0.4	0.4	0.3	0.4	0.7
TSS	0.2	0.1	0.2	0.1	0.3	0.5	0.5	0.4	0.5	0.7
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	0.3	0.3	0.4	0.1	0.1	0.2	0.3	0.1	-	-

Note - HRSD implemented a surcharge for Total Kjeldahl Nitrogen (TKN) on July 1, 2007.

**HAMPTON ROADS SANITATION DISTRICT  
TEN LARGEST CUSTOMERS  
CURRENT YEAR AND NINE YEARS AGO**  
(in thousands)

<u>Customer</u>	<u>Type</u>	<u>2015</u>		<u>2006</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
U.S. Navy - Norfolk Naval Base	Military Facility	\$ 4,614	2.1%	\$ 1,857	1.7%
Smithfield Foods	Meat Processor	3,281	1.5%	2,036	1.9%
Anheuser - Busch, Inc.	Brewery	3,240	1.5%	5,512	5.2%
Norfolk Naval Shipyard	Military Ship Repair	1,843	0.8%	-	-
City of Norfolk	Municipality	1,792	0.8%	1,072	1.0%
Norfolk Redevelopment & Housing Authority	Housing Authority	1,614	0.7%	589	0.6%
Joint Expeditionary Base Little Creek - Fort Story (formerly U.S. Navy - Little Creek Amphibious Base)	Military Facility	1,606	0.7%	715	0.7%
Huntington Ingalls Industries (formerly Northrop Grumman Newport News/ Newport News Shipbuilding and Drydock)	Shipbuilding	1,288	0.6%	477	0.4%
City of Virginia Beach	Municipality	1,164	0.5%	-	-
Sentara Healthcare	Health Care Network	1,076	0.5%	-	-
U.S. Air Force - Langley	Military Facility	-	-	560	0.5%
PEPSI-Cola Bottling	Bottling Facility	-	-	349	0.3%
Marva Maid Dairy	Manufacturer - Dairy Products	-	-	346	0.3%
Total		<u>\$ 21,518</u>	<u>9.7%</u>	<u>\$ 13,513</u>	<u>12.6%</u>

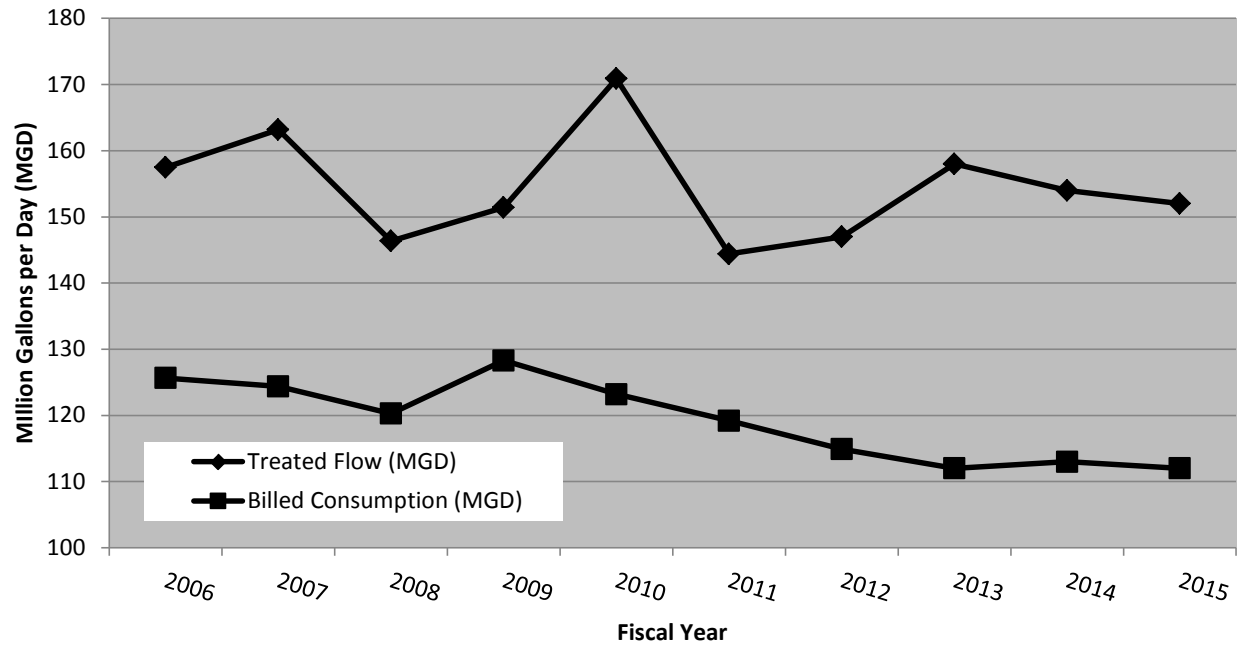
**HAMPTON ROADS SANITATION DISTRICT  
TEN LARGEST EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>Type</u>	<u>2015</u>			<u>2006</u>		
		<u>Number of Employees</u>	<u>Rank</u>	<u>Percent of Regional Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percent of Regional Employment</u>
Naval Station Norfolk	Military Facility	64,384	1	7.1%	65,000	1	7.4%
Huntington Ingalls Industries	Shipbuilding and repair	24,000	2	2.6%	20,500	2	2.3%
Joint Base Langley-Eustis	Military Facility	21,332	3	2.4%	19,198	3	2.2%
Sentara Healthcare	Health care network	20,000	4	2.2%	15,000	5	1.7%
Naval Air Station Oceana	Military Facility	16,408	5	1.8%	16,961	4	1.9%
Joint Expeditionary Base Little Creek - Fort Story	Military Facility	15,666	4	1.7%	9,241	7	1.0%
Norfolk Naval Shipyard	Shipbuilding and repair	10,488	7	1.2%	7,600	8	0.9%
Virginia Beach Public Schools	Public schools	10,000	8	1.1%	10,515	6	1.2%
Riverside Health System	Health care network	7,050	9	0.8%	6,428	9	0.7%
Norfolk City Public Schools	Public schools	6,527	10	0.7%	5,599	10	0.6%
Total		<u>131,471</u>		<u>14.5%</u>	<u>111,042</u>		<u>12.6%</u>

Sources:

Hampton Roads Economic Development Alliance  
Hampton Roads Statistical Digest  
Confirmation with employers

**HAMPTON ROADS SANITATION DISTRICT  
COMPARISON OF TREATED FLOW TO BILLED FLOW  
LAST TEN FISCAL YEARS**



Year ended June 30,	Treated Flow (MGD)	Billed Consumption (MGD)
2006	158	126
2007	163	124
2008	146	120
2009	151	128
2010	171	123
2011	144	119
2012	147	115
2013	158	112
2014	154	113
2015	152	112

**HAMPTON ROADS SANITATION DISTRICT**  
**NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY**  
**LAST TEN FISCAL YEARS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>General Management</u>										
General Manager	4	4	4	5	5	5	5	5	5	5
Human Resources	10	10	10	10	11	11	10	7	7	6
	<u>14</u>	<u>14</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>16</u>	<u>15</u>	<u>12</u>	<u>12</u>	<u>11</u>
<u>Finance &amp; Administration</u>										
Accounting & Finance	10	10	10	10	10	10	10	10	10	10
Customer Information Service	69	69	68	69	69	69	63	61	58	59
Procurement	9	9	9	7	7	8	8	8	7	7
Support Staff	3	3	3	3	3	3	3	2	3	3
Total Finance & Administration	<u>91</u>	<u>91</u>	<u>90</u>	<u>89</u>	<u>89</u>	<u>90</u>	<u>84</u>	<u>81</u>	<u>78</u>	<u>79</u>
<u>Information Services</u>										
Information Technology	39	35	35	33	33	33	21	21	21	16
Support Staff	1	1	1	2	2	2	3	3	3	2
Total Information Services	<u>40</u>	<u>36</u>	<u>36</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>24</u>	<u>24</u>	<u>24</u>	<u>18</u>
<u>Operations</u>										
Army Base Treatment Plant	32	32	32	32	32	32	32	32	32	33
Atlantic Base Treatment Plant	33	33	33	32	32	32	33	33	33	33
Boat Harbor Treatment Plant	33	33	33	33	33	34	34	34	34	34
Ches.-Eliz. Treatment Plant	32	32	32	32	32	32	32	32	32	32
Interceptor System Maintenance	120	120	120	121	122	122	106	93	89	89
James River Treatment Plant	21	21	21	21	21	21	21	21	21	21
Maintenance Shops	86	86	86	86	86	86	81	78	78	76
Nansemond Treatment Plant	31	31	31	30	30	30	30	30	30	30
Virginia Initiative Plant	31	31	31	31	31	31	31	31	31	31
Williamsburg Treatment Plant	29	29	29	31	31	31	31	34	34	34
York River Treatment Plant	23	23	23	23	23	23	23	23	23	23
Middle Peninsula Division	17	17	17	17	17	15	15	15	13	12
Support Staff	25	25	25	24	24	24	24	30	30	37
Total - Operations	<u>513</u>	<u>513</u>	<u>513</u>	<u>513</u>	<u>514</u>	<u>513</u>	<u>493</u>	<u>486</u>	<u>480</u>	<u>485</u>
<u>Engineering</u>										
Design and Construction	21	19	19	17	15	15	15	14	14	14
Support Staff	14	14	14	14	14	14	14	13	13	3
Total - Engineering	<u>35</u>	<u>33</u>	<u>33</u>	<u>31</u>	<u>29</u>	<u>29</u>	<u>29</u>	<u>27</u>	<u>27</u>	<u>17</u>
<u>Water Quality</u>										
Industrial Waste (P3)	25	24	24	24	24	24	24	24	24	24
Technical Services	25	23	21	21	21	20	20	20	20	20
Laboratory	40	38	38	38	38	38	38	38	38	37
Support Staff	6	6	6	3	3	3	3	3	3	3
Total - Water Quality	<u>96</u>	<u>91</u>	<u>89</u>	<u>86</u>	<u>86</u>	<u>85</u>	<u>85</u>	<u>85</u>	<u>85</u>	<u>84</u>
<u>Total Employees</u>	<u>789</u>	<u>778</u>	<u>775</u>	<u>769</u>	<u>769</u>	<u>768</u>	<u>730</u>	<u>715</u>	<u>706</u>	<u>694</u>



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# Other Supplemental Section

(Unaudited)



**King and Queen County**, formed in 1691 from New Kent, was named for King William, III and Queen Mary. The Walkerton Bridge spans the Mattaponi River and the adjacent pier provides a spot for enjoying the natural beauty of the area.

**King William County** St. John's Church, dating from 1734, has been beautifully restored through an effort of over 80 years by the St. John's Church Restoration Association.

**Mathews County** Historic New Point Comfort Lighthouse, the lonely sentinel at the southern tip of Mathews County, traces its history from the earliest days of the United States. First lighted in 1805, it has survived war, hurricanes, abandonment and the eroding grasp of the

sea. It stands as a reminder of the nation's first efforts to establish commerce during the presidency of Thomas Jefferson.

**Middlesex County** is home to Deltaville, the "Boating Capitol of the Chesapeake;" the Town of Urbanna and the official State Oyster Festival; and the restored Buyboat the F.D. Crocket, now on the register of historic places and viewable at the Deltaville Maritime Museum. Middlesex is also the home of the most decorated member of the Marine Corps, General Chesty Puller, and his resting place. He is celebrated everyday through the Middlesex Museum in Saluda and is also honored yearly by a Marine Corps run through Saluda to his resting place at Christ Church.

**HAMPTON ROADS SANITATION DISTRICT  
SUMMARY OF PRIMARY BONDED DEBT SERVICE  
JUNE 30, 2015**

(in thousands)

As of June 30,	Senior Bonds			Subordinate Bonds	Total Debt
	Principal	Interest	Debt Service	Debt Service	Service
2016	\$ 18,558	28,132	46,690	11,196	57,886
2017	15,279	27,556	42,835	9,065	51,900
2018	18,144	26,985	45,129	6,524	51,653
2019	18,598	26,143	44,741	6,524	51,265
2020	19,353	25,328	44,681	6,524	51,205
2021	20,147	24,467	44,614	6,037	50,651
2022	20,991	23,557	44,548	5,659	50,207
2023	21,951	22,519	44,470	5,440	49,910
2024	22,876	21,511	44,387	5,231	49,618
2025	23,862	20,441	44,303	5,231	49,534
2026	24,884	19,313	44,197	5,231	49,428
2027	25,856	18,247	44,103	5,152	49,255
2028	26,970	17,031	44,001	2,045	46,046
2029	28,145	15,750	43,895	1,994	45,889
2030	29,322	14,458	43,780	1,995	45,775
2031	30,420	13,362	43,782	1,996	45,778
2032	28,774	11,982	40,756	10	40,766
2033	28,020	10,615	38,635	10	38,645
2034	27,260	9,268	36,528	10	36,538
2035	28,295	7,844	36,139	10	36,149
2036	26,595	6,436	33,031	10	33,041
2037	27,840	5,038	32,878	10	32,888
2038	29,155	3,575	32,730	10	32,740
2039	14,595	2,044	16,639	10	16,649
2040	12,730	1,238	13,968	10	13,978
2041	4,800	815	5,615	10	5,625
2042	4,995	623	5,618	25,004	30,622
2043	5,190	424	5,614	-	5,614
2044	5,400	216	5,616	-	5,616
Totals	<u>\$ 609,005</u>	<u>\$ 404,918</u>	<u>\$ 1,013,923</u>	<u>\$ 110,948</u>	<u>\$ 1,124,871</u>

**HAMPTON ROADS SANITATION DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(in thousands)	Budgeted Amounts		Actual	Variance	Percent
	Original	Final	Amounts	with final Budget (over) under	Variance
OPERATING BUDGET EXPENSES					
General Management	\$ 2,358	\$ 5,181	\$ 4,358	\$ 823	15.9%
Finance & Administration	11,799	11,749	10,505	1,244	10.6%
Information Services	10,166	10,199	9,000	1,199	11.8%
Operations	80,329	79,774	72,990	6,784	8.5%
Engineering	4,491	4,491	4,103	388	8.6%
Water Quality	11,521	11,571	10,919	652	5.6%
General	5,546	6,046	7,293	(1,247)	-20.6%
Debt Service	60,387	60,387	57,437	2,950	4.9%
TOTAL	186,597	189,398	176,605	12,793	6.8%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	2,569	11,880	7,227	4,653	39.2%
Improvements	8,529	6,152	1,882	4,270	69.4%
	11,098	18,032	9,109	8,923	49.5%
TOTAL	\$ 197,695	\$ 207,430	185,714	\$ 21,716	10.5%
Add:					
Prior Year Major Repairs and Replacements carried over to current year					
Prior Year Improvements carried over to current year					
Unbudgeted Depreciation			41,871		
Unbudgeted Bad Debt Expense			2,196		
Capital Improvement Program items expensed			24,224		
Less:					
Capitalized items Major Repairs and Replacements					
Capitalized items Improvements			1,882		
Debt Service			57,437		
TOTAL OPERATING EXPENSES			\$ 194,686		

See Accompanying Notes to Budgetary Comparison Schedule

**HAMPTON ROADS SANITATION DISTRICT  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2015**

**BUDGETARY HIGHLIGHTS**

HRSD's Commission adopts an Annual Budget consisting of an Operating Budget and an Improvement Budget. The Operating Budget as adopted for FY-15 was \$186,596,661 and contains all day-to-day operating expenses including personnel costs, fringe benefits, material and supplies, electricity, chemicals, insurance, contractual services and other miscellaneous expenses. There were several modifications to the Operating Budget during the year to reflect changes in spending patterns. The Improvement Budget as adopted for FY-15 was \$11,097,833 and contains all major purchases of new equipment, replacement vehicles and major repairs and replacements. The Improvement Budget was modified several times during the year. Transfers totaling \$6,934,427 for software upgrades, treatment plant automation, and equipment replacements resulted in a final budget of \$18,032,260. All adjustments to the Annual Budget were approved from surplus fund balances or from transfers within or among departments.

**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 of Section 3.12 of the Master Trust Indenture, dated December 1, 1993, and the Trust Agreement, dated March 1, 2008. 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 department completes its Operating and Improvement Budgets by March 1 for the General Manager's review.

The HRSD Commission appoints a Finance Committee consist of two Commissioners. The two 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, Improvement, 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 publically advertised four consecutive weeks before they can take effect.

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

The 2008 Trust Agreement requires Primary Debt Coverage of 1.20, and 1.00 for any subordinate debt. The HRSD Commission has a policy of providing senior revenue and total revenue bonded debt service coverage ratios of not less than 1.5 and 1.4 times annual debt service, respectively.

**Budget Accounting**

The Annual Budget is prepared on a basis of accounting 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. The FY-15 Annual Budget consists of three parts: an operating budget that covers day-to-day operations; an improvement budget that is project oriented for major repairs and includes all replacement of equipment above \$5,000; and a capital budget that identifies all major capital project requirements over the next ten years. All operating budget amounts lapse at year-end. Specific improvement budget items may be carried over to subsequent years with the approval of the General Manager. The Commission annually adopts only the first year of the capital budget. HRSD's Commission separately approves all contracts that are awarded under the capital budget.

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**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
DEBT SERVICE FOR OPERATIONS - ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(In thousands)	Actual	Amended Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
<b>OPERATING REVENUE</b>				
Wastewater treatment charges	\$ 221,626	\$ 214,050	\$ 7,576	4%
Miscellaneous	3,935	2,150	1,785	83%
<b>TOTAL REVENUES</b>	<u>225,561</u>	<u>216,200</u>	<u>9,361</u>	4%
<b>CURRENT EXPENDITURES</b>				
General Management	4,358	5,181	823	16%
Finance & Administration	10,505	11,749	1,244	11%
Information Services	9,000	10,199	1,199	12%
Operations	72,990	79,774	6,784	9%
Engineering	4,103	4,491	388	9%
Water Quality	10,919	11,571	652	6%
Major Repairs & Replacements	9,109	18,032	8,923	0%
General	7,293	6,046	(1,247)	(21%)
<b>TOTAL CURRENT EXPENDITURES</b>	<u>128,277</u>	<u>147,043</u>	<u>18,766</u>	13%
<b>EXCESS OF OPERATING REVENUES OVER EXPENDITURES</b>	<u>97,284</u>	<u>69,157</u>	<u>28,127</u>	41%
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Wastewater facility charges	6,640	5,500	1,140	21%
Investment income	1,674	1,200	474	40%
Bond interest subsidy	2,364	2,400	(36)	(2%)
Other income	-	1,310	(1,310)	(100%)
<b>TOTAL NONOPERATING REVENUE</b>	<u>10,678</u>	<u>10,410</u>	<u>268</u>	3%
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	107,962	79,567	28,395	36%
<b>CAPITAL CONTRIBUTIONS</b>				
State capital grants	16,519	-	16,519	100%
Other capital contributions	3,000	-	3,000	100%
<b>AMOUNT AVAILABLE FOR DEBT</b>	127,481	79,567	47,914	60%
<b>DEBT EXPENDITURES</b>				
Principal & Interest	57,437	60,387	2,950	5%
<b>TOTAL DEBT EXPENDITURES</b>	<u>57,437</u>	<u>60,387</u>	<u>2,950</u>	5%
<b>AMOUNT AVAILABLE TO REINVEST</b>	<u>\$ 70,044</u>	<u>\$ 19,180</u>	<u>\$ 50,864</u>	265%

**HAMPTON ROADS SANITATION DISTRICT  
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES  
FOR OPERATIONS - ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(in thousands)	General Management	Finance & Administration	Information Services	Operations
Personal Services	\$ 1,761	\$ 5,318	\$ 2,847	\$ 33,157
Fringe Benefits	535	1,920	854	11,912
Materials and Supplies	57	63	1,163	2,014
Transportation	49	80	28	928
Utilities	0	187	1,213	9,103
Chemicals	0	0	0	7,119
Contractual Services	171	2,842	2,821	8,199
Miscellaneous	1,785	95	74	558
General	0	0	0	0
	<u>\$ 4,358</u>	<u>\$ 10,505</u>	<u>\$ 9,000</u>	<u>\$ 72,990</u>

Debt Expenditures

Total Departmental and Debt Expenditures



**HAMPTON ROADS SANITATION DISTRICT  
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES  
FOR OPERATIONS - ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Engineering	Water Quality	General	Totals	Percent of Total	FY-2015 Budget	Variance Favorable/ (Unfavorable)
\$ 2,828	\$ 6,446	\$ 0	\$ 52,357	29	\$ 52,427	\$ 70
880	2,148	0	18,249	10	22,384	4,135
22	1,024	0	4,343	2	5,263	920
45	167	0	1,297	1	1,392	95
0	0	0	10,503	6	11,956	1,453
0	0	0	7,119	4	8,885	1,766
257	837	0	15,127	9	16,625	1,498
71	297	0	2,880	2	4,033	1,153
0	0	7,293	7,293	4	6,046	(1,247)
<u>\$ 4,103</u>	<u>\$ 10,919</u>	<u>\$ 7,293</u>	<u>119,168</u>	<u>67</u>	<u>129,011</u>	<u>9,843</u>
			57,437	33	60,387	2,950
			<u>\$ 176,605</u>	<u>100</u>	<u>\$ 189,398</u>	<u>\$ 12,793</u>

**HAMPTON ROADS SANITATION DISTRICT  
DEPARTMENTAL SUMMARY OF EXPENDITURES  
ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(In thousands)	Actual	Amended Budget	Variance Favorable/ (Unfavorable)
<b>GENERAL MANAGEMENT</b>			
Personal Services	\$ 1,761	\$ 1,745	\$ (16)
Fringe Benefits	535	655	120
Materials and Supplies	57	72	15
Transportation	49	53	4
Utilities			
Chemicals			
Contractual Services	171	192	21
Miscellaneous	1,785	2,464	679
	<u>4,358</u>	<u>5,181</u>	<u>823</u>
<b>FINANCE &amp; ADMINISTRATION</b>			
Personal Services	5,318	5,429	111
Fringe Benefits	1,920	2,401	481
Materials and Supplies	63	118	55
Transportation	80	104	24
Utilities	187	145	(42)
Chemicals			
Contractual Services	2,842	3,320	478
Miscellaneous	95	232	137
	<u>10,505</u>	<u>11,749</u>	<u>1,244</u>
<b>INFORMATION SERVICES</b>			
Personal Services	2,847	3,346	499
Fringe Benefits	854	1,268	414
Materials and Supplies	1,163	636	(527)
Transportation	28	54	26
Utilities	1,213	1,525	312
Chemicals			
Contractual Services	2,821	3,246	425
Miscellaneous	74	124	50
	<u>9,000</u>	<u>10,199</u>	<u>1,199</u>
<b>OPERATIONS</b>			
Personal Services	33,157	32,366	(791)
Fringe Benefits	11,912	14,239	2,327
Materials and Supplies	2,014	3,412	1,398
Transportation	928	961	33
Utilities	9,103	10,286	1,183
Chemicals	7,119	8,885	1,766
Contractual Services	8,199	8,897	698
Miscellaneous	558	728	170
	<u>72,990</u>	<u>79,774</u>	<u>6,784</u>

**HAMPTON ROADS SANITATION DISTRICT  
DEPARTMENTAL SUMMARY OF EXPENDITURES  
ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(In thousands)	Actual	Amended Budget	Variance Favorable/ (Unfavorable)
<b>ENGINEERING</b>			
Personal Services	2,828	2,982	154
Fringe Benefits	880	1,136	256
Materials and Supplies	22	25	3
Transportation	45	54	9
Utilities			
Chemicals			
Contractual Services	257	223	(34)
Miscellaneous	71	71	0
	<u>4,103</u>	<u>4,491</u>	<u>388</u>
<b>WATER QUALITY</b>			
Personal Services	6,446	6,559	113
Fringe Benefits	2,148	2,685	537
Materials and Supplies	1,024	1,000	(24)
Transportation	167	166	(1)
Chemicals			
Contractual Services			
Contractual Services	837	747	(90)
Miscellaneous	297	414	117
	<u>10,919</u>	<u>11,571</u>	<u>652</u>
<b>GENERAL</b>			
Personal Services	891	(600)	(1,491)
Fringe Benefits	501	564	73
Materials and Supplies	29	60	31
Utilities	510	535	25
Contractual Services	1,487	1,362	(125)
Apprentice Program	250	181	(69)
Insurance	2,526	2,713	187
District Memberships	437	386	(50)
Miscellaneous	662	845	183
	<u>7,293</u>	<u>6,046</u>	<u>(1,236)</u>
<b>TOTAL DEPARTMENTAL EXPENDITURES</b>	<u><u>\$ 119,168</u></u>	<u><u>\$ 129,011</u></u>	<u><u>\$ 3,070</u></u>

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**HRSD's service area** has grown since its creation in 1940 to include 17 cities and counties in southeast Virginia. We thank our local partners for their permission to use the photos in this document, which highlights a few of the many attractions that make our coastal region special.



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