



Frederick Water

Financial Report

June 30, 2025

Frederick Water

Contents

Introductory Section

Directory of Principal Officials	i
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Financial Section

Independent Auditor's Report.....	1
-----------------------------------	---

Management's Discussion and Analysis.....	4a
---	----

Basic Financial Statements

Exhibit 1: Statement of Net Position	5
--	---

Exhibit 2: Statement of Revenues, Expenses, and Changes in Net Position	6
---	---

Exhibit 3: Statement of Cash Flows	7
--	---

Notes to Financial Statements.....	9
------------------------------------	---

Required Supplementary Information

Exhibit 4: Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	32
--	----

Exhibit 5: Schedule of Pension Contributions	33
--	----

Exhibit 6: Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios	34
---	----

Exhibit 7: Schedule of Employer's Share of Net OPEB Liability.....	35
--	----

Exhibit 8: Schedule of OPEB Contributions	36
---	----

Notes to Required Supplementary Information.....	37
--	----

Statistical Section

Table 1: Pledged Revenue Coverage	38
---	----

Compliance Section

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
---	----

Summary of Compliance Matters	41
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Introductory Section



Frederick Water
Directory of Principal Officials
June 30, 2025

Directors

Gary Oates – Chairman
Thomas Bottorf – Vice Chairman
William Byers – Secretary/Treasurer

Janet Clarke Henry F. Sliwinski

Executive Director

Eric Lawrence, AICP

Independent Auditors

Brown, Edwards & Company, L.L.P.

Attorneys

McGuireWoods LLP
Whiteford, Taylor & Preston, LLP



Financial Section



Independent Auditor's Report

To the Board of Directors
Frederick Water
Winchester, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Frederick Water (the "Authority"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2025, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information

and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor’s report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Report on Summarized Comparative Information

We have previously audited the Authority’s 2024 financial statements, and our report dated October 22, 2024, expressed an unmodified opinion on those financial statements. The 2024 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2025 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 24, 2025

Management's Discussion and Analysis

Introduction

The Frederick County Sanitation Authority, doing business as **Frederick Water**, was created on August 1, 1967, under the Virginia Water and Waste Authorities Act for the purpose of acquiring, constructing, operating, and maintaining an integrated water supply, distribution, and sewer system for Frederick County. As a public body corporate and politic, Frederick Water performs essential governmental functions to protect public health and welfare.

Frederick Water is empowered to acquire, construct, operate, and maintain water and wastewater systems; to finance its projects through the issuance of revenue bonds; and to establish rates, fees, and charges for its services. Although established by the Frederick County Board of Supervisors, Frederick Water operates independently and is not subject to county fiscal accountability or oversight. The Authority is governed by a five-member Board of Directors appointed by the Board of Supervisors to four-year terms. The Board of Supervisors designates Frederick Water's service areas through the County's Comprehensive Plan and Sewer and Water Service Area (SWSA).

As management of Frederick Water, we present this **Management's Discussion and Analysis (MD&A)** as an overview of the financial activities for the fiscal year ended June 30, 2025.

Overview of Financial Statements

This discussion and analysis serves as an introduction to Frederick Water's basic financial statements. Frederick Water's basic financial statements are comprised of two components: (1) enterprise fund financial statements and (2) notes to the financial statements.

Enterprise fund financial statements. Since Frederick Water engages only in business-type activities, the *enterprise fund financial statements* and *notes* are prepared in a manner similar to a private-sector business. Frederick Water uses the accrual method to account for and report financial transactions. Revenues are recognized as they are earned and expenses are recognized as they are incurred, regardless of the timing of related cash receipts and disbursements. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are measurable and probable are included in the financial statements. The full acquisition costs of all capital assets are included in the Statement of Net Position and are depreciated over their estimated useful life.

The **statement of net position** presents information on Frederick Water's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Equity of Frederick Water is reported as net position. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, reduced by accumulated depreciation and by any outstanding debt, deferred outflows of resources and deferred inflows of resources related to the acquisition, construction or improvement of those assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Frederick Water is improving or deteriorating.

The **statement of revenues, expenses, and changes in fund net position** presents information showing how Frederick Water's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, some of the revenues and expenses that are reported in this statement will only affect cash flows in future fiscal periods (e.g., earned but unused paid time off).

The **statement of cash flows** supplements the above two statements by presenting the changes in cash position as a result of Frederick Water's activities over the last two fiscal years.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Overview of Operations

Frederick Water's operations are influenced by the county's economic activity, which remained strong during fiscal year 2025, though at a reduced pace compared to recent years. During the fiscal year, there were 450 approved water connections, representing a 19.2% decrease from the previous fiscal year, bringing the total number of water customers serviced to over 19,000. Similarly, there were 448 approved sewer connections, a 19.6% decrease from the previous fiscal year, bringing the total number of sewer customers serviced to over 18,500. New connections, while down, remained above Frederick Water's expectations.

Frederick Water continues to invest in infrastructure and capacity to support growth, expand capacity, and advance its long-term goal of water independence. In 2019, Frederick Water secured quarry reservoirs on the southern end of the county, followed by an agreement in 2020 for the acquisition and use of quarry reservoirs on the northern end of the county. Fiscal year 2023, 2024, and 2025 saw significant progress on key infrastructure initiatives, including the Henry F. Sliwinski Water Treatment Plant, East Pit quarry reservoir intake, and supporting pipe infrastructure. Additionally, in 2025, Frederick Water rerouted its Anderson Water Treatment Plant water sources and began operating the Henry F. Sliwinski Water Treatment Plant. Due to the change in the East Pit quarry reservoir water quality since the start of the project, Frederick Water began the design and anticipates the future addition of a secondary treatment facility in fiscal year 2027 to 2028. Fiscal year 2025 also saw significant progress on the Lake Frederick Well Development and Water Treatment Plant and the Diehl Water Treatment Plant upgrade. The completion of the Lake Frederick Well Development and Water Treatment Plant is expected in fiscal year 2026 and will provide 0.5 million gallons per day to our capacity and will largely serve the Lake Frederick community. As well, the Diehl Water Treatment Plant upgrade will be completed in fiscal year 2026.

On the wastewater side, due to compliance challenges at the Crooked Run Wastewater Treatment Plant, Frederick Water began converting the facility into a regional pump station. This project, initiated in fiscal year 2024, includes a pump station and a force main to convey wastewater flows to the Parkins Mill Wastewater Treatment Plant. Substantial progress was made in fiscal year 2025, with completion and decommissioning of the Crooked Run facility anticipated in fiscal year 2026.

Collectively, these initiatives strengthen Frederick Water's self-sufficiency and drought resilience, as well as enhance its position as a regional partner for both water and wastewater services.

Financial Highlights

Frederick Water's overall financial position improved during the fiscal year, with total net position increasing by \$27,369,274 to \$254,307,188 as of June 30, 2025. Total assets and deferred outflows rose by 6.7% or \$22,500,467, while total liabilities and deferred inflows decreased by 4.4% or \$4,868,807, reflecting strong operational results and capital financing management. Of the total net position, \$173,068,650 is invested in capital assets, \$7,956 is restricted net position for the Net OPEB Asset for the Health Insurance Credit (HIC), and \$81,230,582 is unrestricted and remains available to meet ongoing obligations.

Grant revenues increased substantially from \$693,028 in fiscal year 2024 to \$5,444,693 in fiscal year 2025. Frederick Water received two major U. S. Environmental Protection Agency Community Assistance grants totaling \$6.6 million - \$3.6 million for the Lake Frederick Well Development and Water Treatment Plant and \$3.0 million for the Diehl Water Treatment Plant upgrade. During fiscal year 2025, \$5.4 million was recognized as grant revenue from these awards. Additionally, Frederick Water was also awarded a Virginia Drinking Water State Revolving Fund FY2023 Bipartisan Infrastructure Law funding package in the amount of \$250,000 to use for our Lead Service Line (LSL) inventory project. Frederick Water then received 100% principal forgiveness for this loan converting it to a grant. During fiscal year 2025, Frederick Water recorded grant revenue related to the LSL inventory project of \$38,265.

Frederick Water also continued to manage its \$35.0 million Virginia Water Supply Revolving Fund loan for the Opequon Water Treatment Plan, which includes the Henry F. Sliwinski Water Treatment Plant, a quarry reservoir intake, and related infrastructure. The 20-year loan bears interest at 1.15%. Reimbursements under this loan totaled \$33.1 million at June 30, 2025, with the final reimbursement expected in early fiscal year 2026 following project acceptance and regulatory approval.

Results of Operations

Total revenues for fiscal year 2025 increased by 2.3% or \$1,422,914 from the prior fiscal year. Charges for services saw the largest increase of 10.1% or \$3,634,344 over the prior year. This was driven by an 8% rate adjustment effective July 1, 2024, combined with continued customer growth. Other nonoperating revenues declined by 95.9% or \$1,528,313 compared to the prior year due to one-time escrow proceeds recognized in fiscal year 2024. Capital contributions decreased by 14.9% or \$1,354,942, as lower developer donations were offset by substantial increases in grant funding.

Frederick Water Changes in Net Position

	<u>2025</u>	<u>2024</u>
Revenues:		
Charges for service	\$ 39,581,071	\$ 35,946,727
Capital contributions	7,733,452	9,088,394
Availability Fees	10,694,829	10,532,627
Other operating revenues	612,664	577,676
Investment earnings	4,109,773	3,643,166
Other nonoperating revenues	64,526	1,592,839
Insurance Proceeds	8,028	-
Total revenues	<u>\$ 62,804,343</u>	<u>\$ 61,381,429</u>
Expenses:		
Source of water supply	2,380,598	2,508,725
Water treatment, transmission and distribution	4,175,401	3,756,368
Wastewater collection	1,300,720	1,194,806
Wastewater treatment	4,440,253	4,398,857
Maintenance and operations	1,006,233	950,440
Customer accounting and collections	1,130,096	1,052,089
Engineering and planning	1,751,855	1,452,969
General and administration	3,283,689	3,173,702
Depreciation	13,920,970	11,639,440
Loss on sale of assets	36,150	104,321
Interest expense	1,888,952	2,092,380
Impairment-Loss	120,152	1,767,669
Other nonoperating expenses	-	30,000
Total expense	<u>35,435,069</u>	<u>34,121,766</u>
Increase in net position	27,369,274	27,259,663
Net position beginning of year	<u>226,937,914</u>	<u>199,678,251</u>
Net position end of year	<u>\$ 254,307,188</u>	<u>\$ 226,937,914</u>

Total expenses increased by 3.8% or \$1,313,303 from the prior fiscal year, primarily due to higher depreciation and personnel-related costs. Salaries and benefits increased by 8.1% or \$627,278, reflecting a 6% wage increase (3% merit and 3% cost-of-living), and three new staff positions. Repair and maintenance expenses rose by 20.4% or \$203,427, largely due to the Henry F. Sliwinski Water Treatment Plant which began operating in fiscal year 2025. Software maintenance and support costs also rose sharply, increasing 63.1% or \$151,908 as Frederick Water expanded technology investments for cybersecurity, cloud infrastructure, operational automation and customer and supplier convenience.

Results of Operations (Continued)

Depreciation remained the largest single expense, accounting for 41.7 % of total operating expenses for the fiscal year ended June 30, 2025. Depreciation increased by 19.6% or \$2,281,530, due to the Henry F. Sliwinski Water Treatment plant assets which were placed in service at the end of fiscal year 2024. Frederick Water owns \$413.8 million in fixed assets that are subject to annual depreciation and amortization. Straight line depreciation is used over the life expectancy of the asset which ranges from 3 to 40 years.

Impairment losses on assets for the fiscal year ended June 30, 2025, decreased by 93.2% or \$1,647,517 compared to the prior year, reflecting the one-time write-off in fiscal year 2024 attributable to the abandoned design-build concept initiated in 2017 for the Opequon Creek Intake. In fiscal year 2025, a new initiative was undertaken to analyze operational strategies for the East Pit Quarry Reservoir and Opequon Creek water sources aimed at improving system reliability and drought preparedness.

Capital Contributions and Assets

Frederick Water continued to invest heavily in its infrastructure during fiscal year 2025. During the fiscal year ended June 30, 2025, Frederick Water invested funds in the following initiatives:

- construction of a water treatment plant to treat water from wells in Lake Frederick,
- construction of a break tank, waste ponds, and direct connections from the wells to the plant at the Diehl Water Treatment Plant,
- easement acquisitions and construction for the Crooked Run Force Main and Pump Station project to redirect flows to the Parkins Mill Wastewater Treatment Plant to address chloride violations and comply with the Environmental Protection Agency consent order,
- installation of bypass piping from the east side of the East Pit Quarry Reservoir to the south side of the East Pit Quarry Reservoir where the intake is located,
- design and professional services related to reducing the East Pit Total Dissolved Solids,
- real property acquisition for future wastewater facility,
- installation of a trial Advanced Meter Infrastructure device for collecting consumption, storage, and analysis of water usage data,
- emergency sanitary sewer casing replacement and sewer line rehab at two separate locations,
- service connection costs,
- further clarifier refurbishments and the addition of a second magnetic bearing blower at the Parkins Mill Wastewater Treatment Plant, and
- routine purchases for meters, fire hydrant and gate valve replacements, collection system upgrades, mixers, and pumps and motors for pump station and treatment plant improvements as well as other equipment and vehicle replacements.

These investments demonstrate Frederick Water's continued commitment to sustainable infrastructure, compliance, and long-term capacity planning.

Capital contributions totaled \$7,733,452, including \$2,327,024 in developer-donated assets, a decrease of 72.3% or \$6,068,342 from the extremely favorable prior year level, and \$5,406,428 in federal grant funding, representing an increase of 680% or \$4,713,400. The decrease in developer-donated assets is mainly influenced by the timing of the developers' conveyance of completed infrastructure to Frederick Water.

Assets, Liabilities, and Debt

Total assets and deferred outflows increased by 6.7% or \$22,500,467, while total liabilities and deferred inflows decreased by 4.4% or \$4,878,807. Frederick Water maintained bonded debt of \$36,622,563 and obligations, notes, and leases payable totaling \$52,206,081 as of June 30, 2025. Frederick Water continues to manage its debt prudently, maintaining a strong debt-to-asset ratio and preserving financial capacity for future investment.

Frederick Water Net Position

	<u>2025</u>	<u>2024</u>
Current and other assets	\$ 92,636,685	\$ 89,536,837
Capital assets	<u>265,651,269</u>	<u>246,528,269</u>
Total assets	<u>358,287,954</u>	<u>336,065,106</u>
Deferred outflows of resources	<u>1,297,991</u>	<u>1,020,372</u>
Current liabilities	21,181,369	18,150,150
Long-term liabilities	<u>83,620,498</u>	<u>91,702,809</u>
Total liabilities	<u>104,801,867</u>	<u>109,852,959</u>
Deferred inflows of resources	476,890	294,605
Net position:		
Invested in capital assets, net of related debt	173,068,650	149,508,759
Net OPEB Asset-HIC	7,956	-
Unrestricted	<u>81,230,582</u>	<u>77,429,155</u>
Total net position	<u>\$ 254,307,188</u>	<u>\$ 226,937,914</u>

Requests for Information²⁰

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director at P. O. Box 1877, Winchester, Virginia 22604.



Basic Financial Statements



Frederick Water

Exhibit 1

Statement of Net Position

June 30, 2025

(With Comparative Amounts as of June 30, 2024)

	<u>2025</u>	<u>2024</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 42,684,728	\$ 43,458,812
Investments (Note 2)	40,273,153	37,616,425
Accounts receivable, net (Note 3)	7,738,729	7,294,307
Contract receivable	549,874	-
Prepaid and other assets	294,347	268,782
Inventories	<u>1,087,898</u>	<u>898,511</u>
Total current assets	<u>92,628,729</u>	<u>89,536,837</u>
NONCURRENT ASSETS		
Capital assets:		
Nondepreciable (Note 4)	49,204,857	24,180,386
Depreciable, net (Note 4)	216,446,412	222,347,883
Net OPEB asset (Note 8)	<u>7,956</u>	<u>-</u>
Total noncurrent assets	<u>265,659,225</u>	<u>246,528,269</u>
Total assets	<u>358,287,954</u>	<u>336,065,106</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	176,973	225,140
Deferred outflows related to pensions (Note 7)	1,011,265	694,037
Deferred outflows related to other postemployment benefits (Note 8)	<u>109,753</u>	<u>101,194</u>
Total deferred outflows of resources	<u>1,297,991</u>	<u>1,020,371</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	5,649,368	2,530,946
Contracts payable	-	201,329
Accrued interest	723,650	787,321
Unearned revenue	5,886,627	5,976,849
Current portion of compensated absences (Note 5)	952,524	824,535
Current portion of bonds and other obligations payable (Note 5)	<u>7,969,200</u>	<u>7,829,170</u>
Total current liabilities	<u>21,181,369</u>	<u>18,150,150</u>
NONCURRENT LIABILITIES		
Contracts payable	-	219,212
Customer deposits	1,416,571	1,326,621
Compensated absences (Note 5)	91,309	157,054
Net pension liability (Note 7)	618,322	506,331
Net other postemployment benefit liability (Note 8)	259,675	267,945
Bonds and other obligations payable (Note 5)	<u>81,234,621</u>	<u>89,225,645</u>
Total noncurrent liabilities	<u>83,620,498</u>	<u>91,702,808</u>
Total liabilities	<u>104,801,867</u>	<u>109,852,958</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	415,416	239,389
Deferred inflows related to other postemployment benefits (Note 8)	<u>61,474</u>	<u>55,216</u>
Total deferred inflows of resources	<u>476,890</u>	<u>294,605</u>
NET POSITION		
Net investment in capital assets	173,068,650	149,508,759
Restricted for net OPEB asset	7,956	-
Unrestricted	<u>81,230,582</u>	<u>77,429,155</u>
Total net position	<u>\$ 254,307,188</u>	<u>\$ 226,937,914</u>

Frederick Water
Statement of Revenues, Expenses, and Changes
in Net Position
For the Year Ended June 30, 2025
(With Comparative Amounts for the Year Ended June 30, 2024)

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Charges for services:		
Water service	\$ 17,475,618	\$ 15,821,994
Sewer service	21,534,485	19,482,674
Penalties and surcharges	410,128	412,144
Connection fees	160,840	229,915
Miscellaneous	<u>612,664</u>	<u>577,676</u>
Total operating revenues	<u>40,193,735</u>	<u>36,524,403</u>
OPERATING EXPENSES		
Source of water supply (Note 9)	2,380,598	2,508,725
Water treatment, transmission, and distribution	4,175,401	3,756,368
Wastewater collection	1,300,720	1,194,806
Wastewater treatment	4,440,253	4,398,857
Maintenance and operations	1,006,233	950,440
Customer accounting and collecting	1,130,096	1,052,089
Engineering and planning	1,751,855	1,452,969
General and administrative	3,283,689	3,173,702
Depreciation and amortization (Note 4)	<u>13,920,970</u>	<u>11,639,440</u>
Total operating expenses	<u>33,389,815</u>	<u>30,127,396</u>
Operating income	<u>6,803,920</u>	<u>6,397,007</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	4,109,773	3,643,166
Availability fees	10,694,829	10,532,627
Other nonoperating revenues	64,526	1,592,839
Insurance proceeds	8,028	-
Loss on disposal of capital assets	(36,150)	(104,321)
Interest expense	(1,888,952)	(2,092,380)
Impairment loss	(120,152)	(1,767,669)
Other nonoperating expenses	<u>-</u>	<u>(30,000)</u>
Total nonoperating revenues (expenses), net	<u>12,831,902</u>	<u>11,774,262</u>
Income before capital contributions	19,635,822	18,171,269
CAPITAL CONTRIBUTIONS	<u>7,733,452</u>	<u>9,088,394</u>
Change in net position	27,369,274	27,259,663
NET POSITION AT JULY 1	<u>226,937,914</u>	<u>199,678,251</u>
NET POSITION AT JUNE 30	<u>\$ 254,307,188</u>	<u>\$ 226,937,914</u>

Frederick Water
Statement of Cash Flows
For the Year Ended June 30, 2025
(With Comparative Amounts for the Year Ended June 30, 2024)

Exhibit 3

	2025	2024
OPERATING ACTIVITIES		
Receipts from customers	\$ 39,864,883	\$ 35,473,314
Payments to suppliers	(15,280,441)	(15,494,296)
Payments to employees	(5,056,904)	(4,656,764)
Other operating receipts (payments)	(485,348)	1,586,237
Net cash provided by operating activities	19,042,190	16,908,491
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets and water rights	(22,100,884)	(7,443,560)
Availability fees	10,578,987	10,506,354
Principal payments on long-term liabilities	(7,721,046)	(7,359,582)
Interest payments on long-term obligations	(2,034,404)	(2,358,112)
Insurance proceeds	8,028	-
Net cash used in capital and related financing activities	(21,269,319)	(6,654,900)
INVESTING ACTIVITIES		
Proceeds from investments	10,462,980	14,682,900
Purchases of investments	(12,499,107)	(21,708,684)
Investment earnings	3,489,172	4,099,331
Net cash provided by (used in) investing activities	1,453,045	(2,926,453)
Net increase (decrease) in cash and cash equivalents	(774,084)	7,327,138
CASH AND CASH EQUIVALENTS, beginning at July 1	43,458,812	36,131,674
CASH AND CASH EQUIVALENTS, ending at June 30	\$ 42,684,728	\$ 43,458,812

Frederick Water
Statement of Cash Flows
For the Year Ended June 30, 2025
(With Comparative Amounts for the Year Ended June 30, 2024)

	2025	2024
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,803,920	\$ 6,397,007
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	13,920,970	11,639,440
(Excess) deficit of employer contributions over pension expense	(37,166)	50,790
Excess of employer contributions over other postemployment benefits expense	(10,571)	(11,419)
Other expenses included in operating activities	-	(30,000)
(Increase) decrease in:		
Accounts receivable	(444,422)	(1,172,084)
Prepays and other assets	(25,565)	(45,689)
Inventories	(189,387)	85,552
Contract receivable	(485,348)	1,586,237
Increase (decrease) in:		
Accounts payable and accrued expenses	(247,514)	82,400
Contracts payable	(420,541)	(1,893,613)
Unearned revenue	25,620	17,062
Customer deposits	89,950	103,933
Compensated absences	62,244	98,875
Net cash provided by operating activities	\$ 19,042,190	\$ 16,908,491
NONCASH CAPITAL AND RELATED FINANCING		
Developer contributed capital improvements	\$ 2,327,024	\$ 8,395,366
Impairment loss	\$ 120,152	\$ 1,767,669
Lease asset acquired by a lease liability	\$ -	\$ 5,191
Capital assets acquired through accounts payable	\$ 3,555,771	\$ 189,835

Frederick Water
Notes to Financial Statements
June 30, 2025

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Frederick Water (the “Authority”) is a Virginia Corporation organized under the provisions of the Virginia Water and Waste Authorities Act (Sec. 15.2-5100 *et. seq.* of the *Code of Virginia*, 1950, as amended). The Authority’s purpose is to acquire, construct, operate, and maintain an integrated water and sewer system for Frederick County, Virginia.

The Authority is financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The accounting policies of the Authority conform to generally accepted accounting principles (“GAAP”) as applicable to governments.

Measurement Focus and Basis of Accounting

The Authority’s financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Comparative Information

The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority’s financial statements for the prior year from which the summarized information was derived.

Additionally, during fiscal year 2025, certain reclassifications were made between operating revenue, non-operating revenue, and capital contributions that impacted the classifications as presented in the 2024 columns.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be demand deposits, as well as certificates of deposit and short-term investments with original maturities three months or less from the date of acquisition.

Accounts Receivable

Charges for services are generally determined through bi-monthly billings to customers. Charges for services earned but unbilled are accrued based on the last billing.

Frederick Water
Notes to Financial Statements
June 30, 2025

Accounts receivable are stated net of an allowance for doubtful accounts of \$100,000. Bad debt expense was approximately \$9,976.

Inventories

Inventories are valued at first-in/first-out historical cost.

Capital assets

Capital assets, which are recorded at cost if purchased or constructed, include property, plant, equipment, infrastructure, and contractual rights to long-term assets. Contributed assets, principally water and sewer lines, are recorded at an amount, which approximates the contributor's cost. The costs of major improvements and additions are capitalized. Normal repairs and maintenance are expensed. Any gain or loss on the sale or disposition of capital assets is recognized currently. Projects not in service are carried as construction in progress.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives or lease terms:

Assets	Years of Service
Water source of supply	7-40 years
Water and sewage pumping	5-40 years
Water transmission and distribution	15-40 years
Sewage collection and transmission	5-40 years
General plant	3-40 years
FWSA treatment plant rights	20 years
Water rights lease	6 years

The estimated useful lives of the treatment plant rights and water rights are based on the shorter of useful lives of the underlying assets or management's expectation regarding renewals of the agreements. Failure to renew these agreements may result in a loss of any unamortized cost of the treatment plant rights. Contractual rights for water sources of supply are based on the terms of the underlying agreements.

Lease assets are amortized over the shorter of the lease term or useful life of the underlying asset. In leases where a purchase option is reasonably certain of being exercised, the asset is amortized over the useful life, unless the underlying asset is non-depreciable, in which the lease asset is not amortized.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement which presents financial position reports a separate section for deferred outflows of resources. These items represent a consumption of net assets that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement which presents financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time.

Frederick Water
Notes to Financial Statements
June 30, 2025

The Authority has the following items that qualify for reporting as deferred inflows or outflows:

- Deferred charge on refunding. A deferred loss 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. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets.
- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; these will be applied to the net pension or OPEB liability (asset) in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Changes in proportion and differences between the Authority's contributions and its proportionate share of contributions for OPEB are deferred and amortized over the average expected remaining service lives of all employees provided with group life insurance benefits, and may be reported as a deferred inflow or outflow as appropriate.
- Differences between projected and actual earnings on pension and OPEB plan investments. These differences will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate.

Unearned Revenue

The Authority has entered various agreements to provide availability to water and sewer systems. Fees collected in exchange for these contracts are unearned until the availability is provided.

Compensated Absences

The Authority allows its employees to accumulate personal time off based on years of service. Personal time off hours in excess of the maximum at December 31 is forfeited. Upon termination or retirement, the Authority pays accumulated personal time off subject to the maximum accrual.

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority's Plans and the additions to/deductions from the Authority's Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position is the difference between assets and deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors,

Frederick Water
Notes to Financial Statements
June 30, 2025

or laws or regulations of other governments. In addition, in years where there is a net pension or OPEB asset, net position is restricted for an amount equivalent to the net asset.

Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Level 2 investments are valued using a matrix pricing technique, which is based on the investments' benchmark quoted prices.

Note 2 – Cash and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (“FDIC”) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.20440 et seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and, depending upon that choice, pledge collateral that ranges between 50% and 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

For the purposes of this disclosure, deposits include cash and cash equivalents, as well as nonnegotiable certificates of deposit with original maturities of more than three months.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States of America or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, which include banker’s acceptances, repurchase agreements, and the Virginia Investment Pool (VIP). The VIP is not registered with the SEC, but is overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Authority’s position in the pool is the same as the value of the pool shares.

The Authority’s policy limits investments to instruments specified in Section 26-40 of the *Code of Virginia*.

The Authority holds deposits in the VIP, which consists of the Stable NAV Liquidity Pool and the 1-3 Year High Quality Bond Fund. The bond fund has a Standard and Poor’s pool rating of AA+f/S1. The VIP invests in various security types, including U.S. Treasury notes and U.S. government agency securities, corporate bonds, and commercial paper that are typically rated ‘AA-’ or higher and have an average maturity of approximately one to three years. The ‘AA+f/S1’ rating reflects the high safety level of the invested principal and the fund’s capacity to maintain a stable net asset value. The NAV Pool offers

Frederick Water
Notes to Financial Statements
June 30, 2025

a competitive yield with a stable net asset value, and daily liquidity, which is ideal for managing operating funds. The NAV pool is rated AAAm by Standard and Poor's.

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. As of June 30, 2025, the Authority's investment certificates of deposits were valued using Level 2 inputs.

For the purposes of this disclosure, investments include unrestricted investments and exclude nonnegotiable certificates of deposit with original maturities of more than three months.

The Authority's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Credit Ratings</u>	<u>Weighted-Average Maturity *</u>
Virginia Investment Pool – Bond Fund	\$ 17,594,040	AA+f/S1	1.78
Virginia Investment Pool – NAV Pool	31,890,599	AAAm	0.21
Corporate bonds and notes	242,722	AA+	4.11
Federal agency bonds and notes	4,588,940	AA+	0.26
Total investments	<u>54,316,301</u>		

* Average maturity in years

Cash and cash equivalents	10,070,836
Long-term certificates of deposit	18,570,744
Total deposits	<u>28,641,580</u>
Total deposits and investments	<u><u>\$ 82,957,881</u></u>

Reconciliation of deposits and investments to Exhibit 1:

Cash and cash equivalents	\$ 42,684,728
Investments	40,273,153
	<u><u>\$ 82,957,881</u></u>

Note 3 – Accounts Receivable

Accounts receivable, net of allowance, consisted of the following:

Billed	\$ 3,704,863
Unbilled	3,078,200
Grant Receivable	853,000
Other	102,666
	<u><u>\$ 7,738,729</u></u>

Frederick Water
Notes to Financial Statements
June 30, 2025

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 7,213,966	\$ 5,471,122	\$ -	12,685,088
Land Lease	10,223,314	-	-	10,223,314
Construction in progress	6,743,106	30,939,588	11,386,239	26,296,455
Total capital assets, not being depreciated	<u>24,180,386</u>	<u>36,410,710</u>	<u>11,386,239</u>	<u>49,204,857</u>
Capital assets being depreciated and amortized				
Water source of supply	7,988,592	680,771	-	8,669,363
Water pumping	69,110,725	370,538	55,676	69,425,587
Sewage pumping	9,354,236	296,970	-	9,651,206
Water transmission and distribution	97,743,310	3,862,165	912,962	100,692,513
Sewage collection and transmission	100,148,992	2,176,728	639,848	101,685,872
General plant	9,817,173	717,362	219,345	10,315,190
Water rights lease	627,672	-	-	627,672
FWSA treatment plant rights	112,744,008	-	-	112,744,008
Total capital assets being depreciated and amortized	<u>407,534,708</u>	<u>8,104,534</u>	<u>1,827,831</u>	<u>413,811,411</u>
Less: accumulated depreciation/amortization for:				
Other capital assets	110,694,020	9,058,696	1,742,796	118,009,920
Water rights lease	428,953	105,429	-	534,382
FWSA treatment plant rights	74,063,852	4,756,845	-	78,820,697
Total accumulated depreciation/amortization	<u>185,186,825</u>	<u>13,920,970</u>	<u>1,742,796</u>	<u>197,364,999</u>
Total capital assets being depreciated and amortized, net	<u>222,347,883</u>	<u>(5,816,436)</u>	<u>85,035</u>	<u>216,446,412</u>
Total capital assets, net	<u>\$ 246,528,269</u>	<u>\$ 30,594,274</u>	<u>\$ 11,471,274</u>	<u>265,651,269</u>

Frederick-Winchester Service Authority (FWSA) treatment plant rights

As described in Note 5, the Authority and the FWSA have entered into agreements for the Authority to operate certain wastewater treatment plants of the FWSA. The Authority is not authorized to hold legal title to these assets, and thus, the FWSA holds title to these assets. Through long-term contracts, the risks and benefits of operating and maintaining the assets have been transferred to the Authority and represent intangible capital assets. The Authority is responsible for the debt incurred for these facilities.

During 2008, the FWSA issued debt for the upgrade and expansion of the Parkins Mill Wastewater Treatment Plant. During 2010, this project was completed and the Authority assumed responsibility for the operations of this plant, as well as the related debt service in the approximate amount of \$37,930,000.

During 2008 and 2009, the FWSA issued debt for the upgrade and expansion of the Opequon Water Reclamation Facility. During 2011, this project was completed and the Authority assumed responsibility for a portion of the related debt service in the approximate amount of \$25,230,000. During 2016, the FWSA issued new debt to refund a significant portion of the 2008 issuance. The Authority's responsibility for a portion of the new debt amounted to approximately \$2,400,000.

Frederick Water
Notes to Financial Statements
June 30, 2025

During 2015, the FWSA issued refunding debt to reduce future debt service requirements, and the Authority assumed its responsibility for a portion of the related debt service in the approximate amount of \$7,840,000.

In November 2013, the Authority, along with the FWSA, the County of Frederick, and the City of Winchester, approved the Green Energy Project (the "Project") for the purpose of implementing a series of capacity and efficiency improvements to the Opequon Water Reclamation Facility. To finance this project, the FWSA authorized the issuance of \$53,000,000 in bonds. In late fiscal year 2017, the Project began accepting waste. The Authority has assumed responsibility for a portion of the related debt service in the approximate amount of \$25,092,500.

During 2021, the FWSA issued refunding debt to reduce future debt service requirements, and the Authority assumed its responsibility for a portion of the related debt service in the approximate amount of \$14,231,000. This refunding resulted in an intangible asset to the Authority of \$1,598,670.

Note 5 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Obligations payable – FWSA	\$ 47,526,767	\$ -	\$ 4,499,204	\$ 43,027,563	\$ 4,617,656
Revenue bonds	39,417,897	-	2,795,334	36,622,563	2,874,004
Lease liabilities	9,605,026	-	426,508	9,178,518	347,592
Issuance premiums	505,125	-	129,948	375,177	129,948
	<u>97,054,815</u>	<u>-</u>	<u>7,850,994</u>	<u>89,203,821</u>	<u>7,969,200</u>
Compensated absences	981,589	62,244*	-	1,043,833	952,524
Total long-term liabilities	<u>\$ 98,036,404</u>	<u>\$ 62,244</u>	<u>\$ 7,850,994</u>	<u>\$ 90,247,654</u>	<u>\$ 8,921,724</u>

*Decreases and increases have been netted.

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Obligations Payable – FWSA		Revenue Bonds		Lease Liabilities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 4,617,656	\$ 1,056,861	\$ 2,874,004	\$ 503,881	\$ 347,592	\$ 298,269	\$ 7,839,252	\$ 1,859,011
2027	4,730,133	945,377	2,948,020	431,373	377,887	286,960	8,056,040	1,663,710
2028	4,827,757	850,251	3,012,388	363,640	408,536	274,670	8,248,681	1,488,561
2029	4,923,044	748,080	2,322,115	312,979	440,716	261,428	7,685,875	1,322,487
2030	3,829,824	638,656	1,942,206	282,089	475,279	247,123	6,247,309	1,167,868
2031-2035	10,901,594	2,157,834	10,100,615	1,071,269	2,971,519	978,869	23,973,728	4,207,972
2036-2040	9,197,555	584,715	10,786,423	472,790	4,156,989	422,594	24,140,967	1,480,099
2041-2043	-	-	2,636,792	23,451	-	-	2,636,792	23,451
	<u>\$ 43,027,563</u>	<u>\$ 6,981,774</u>	<u>\$ 36,622,563</u>	<u>\$ 3,461,472</u>	<u>\$ 9,178,518</u>	<u>\$ 2,769,913</u>	<u>\$ 88,828,643</u>	<u>\$ 13,213,159</u>

Frederick Water
Notes to Financial Statements
June 30, 2025

Details of long-term indebtedness are as follows:

	<u>Issue Dates</u>	<u>Maturity Date</u>	<u>Authorized And Issued</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Obligation Payable - FWSA</u>					
2010 FWSA Parkins Mill Expansion	03/01/2010	09/01/2029	\$ 37,930,386	1.65 %	\$ 10,417,500
2011 FWSA Opequon Facility Expansion II	03/01/2009	03/01/2031	12,613,293	1.75	4,584,473
2015 FWSA Refunding Debt	05/28/2015	10/01/2038	7,840,530	3.22-5.13	3,690,225
FWSA Series 2014A	05/07/2014	10/01/2038	15,055,000	2.74-4.83	6,632,500
FWSA Series 2014B	07/29/2014	10/01/2038	10,037,500	3.65-5.13	1,807,500
FWSA Series 2016B	07/27/2016	10/01/2038	2,402,640	2.71-5.13	2,345,130
FWSA 2021 Partial Refunding of Series 2014A	5/26/2021	10/01/2038	5,362,500	0.31-2.81	5,105,000
FWSA 2021 Partial Refunding of Series 2014B	5/26/2021	10/01/2038	6,612,500	0.31- 2.76	6,295,000
FWSA 2021 Partial Refunding of Series 2015A	5/26/2021	10/01/2038	2,255,670	0.31- 2.81	2,150,235
					<u>\$ 43,027,563</u>
<u>Revenue Bonds</u>					
Virginia Water and Sewer Refunding Bonds	05/28/2015	10/01/2027	\$ 6,020,000	3.13-5.13 %	\$ 2,120,000
Virginia Infrastructure Refunding Bonds	11/18/2015	10/01/2028	4,045,000	3.08-5.13	1,515,000
VML/VACO Lease Revenue Refunding Bonds	6/18/2020	2/15/2040	4,001,000	2.72	3,164,171
VRA Virginia Water Supply Revolving Loan	3/1/2021	2/28/2041	33,107,649	1.15	29,823,392
					<u>\$ 36,622,563</u>
<u>Lease Liabilities</u>					
Quarry land lease	7/1/2021	6/30/2120	\$ 14,620,198	3.25%	\$ 9,168,219
Lease for equipment	9/1/2020	8/31/2025	7,241	4.50	269
Lease for equipment	11/15/2022	11/15/2027	6,546	4.43	3,345
Lease for equipment	12/6/2022	12/6/2027	5,536	4.43	2,921
Lease for equipment	12/11/2023	3/14/2029	5,451	2.06	3,764
					<u>\$ 9,178,518</u>

See Note 6 for additional details regarding the obligation for water rights and quarry land lease information.

Prior defeasance of debt

In prior years, the Authority defeased certain outstanding revenue bonds payable. The proceeds were placed in trust to fund all future debt service payments. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2025, the following bonds are considered defeased:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
VPFP Series 2005C	\$ 2,105,000	\$ -	\$ 380,000	\$ 1,725,000
VPFP Series 2007B	2,885,000	-	670,000	2,215,000
2010 Recovery Zone	3,320,000	-	155,000	3,165,000
	<u>\$ 8,310,000</u>	<u>\$ -</u>	<u>\$ 1,205,000</u>	<u>\$ 7,105,000</u>

FWSA obligations

The Authority and the FWSA have entered into multiple agreements for the Authority to operate certain wastewater treatment facilities owned by the FWSA (See Note 4).

Frederick Water
Notes to Financial Statements
June 30, 2025

Note 6 – Leases

Right of use (“ROU”) asset information can be found in Note 4, and the corresponding liabilities and maturity schedules are provided in Note 5. The Authority uses its estimated incremental borrowing rate as the discount rate unless an interest rate is explicitly stated in the lease. Details of the significant leases are described below.

Authority as Lessee

During 2020, the Authority entered into an agreement with an entity to lease quarry reservoirs, land on which the James T. Anderson Water Treatment Plant is located, various wells, and land associated with a water tank, collectively referred to as the “Northern Lease.” The initial term of the agreement is for a period of six years commencing May 1, 2020, and expiring April 30, 2026, with annual rent of \$110,000 per year. The agreement can be extended for an additional six years with a starting lease rate of \$130,000, increasing annually at a rate of 3%. For purposes of discounting future payments, a 3.75% discount rate was used. The Authority has recorded a water rights lease asset related to the initial term of the agreement and a corresponding lease liability. Subsequent to year-end, the Authority has been in negotiations to purchase the related Northern Lease easement; however, no agreement had been reached as of the date of this report.

During 2022, the Authority entered an agreement to lease land, which includes quarry reservoirs, referred to as the “Southern Lease.” The term began July 1, 2021, for a period of 99 years or until the Authority purchases the land. Payments in year one start at \$500,000 and will increase in years two through ten by 10% each year. Lease payments will then increase by 3% per year when: the related properties are rezoned or the beginning of the eleventh year, whichever occurs first. Lease payments will decrease to \$1 per year no later than December 31, 2039. For purposes of discounting future payments of this lease, a 3.25% discount rate was used. The lease was recorded at inception to assume the rate increase of 3% would occur in year 11. During 2024, the applicable land was rezoned and triggered a remeasurement, thus decreasing the liability by \$4,396,884.

Note 7 – Defined Benefit Pension Plan

Plan Description

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

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- <https://www.varetire.org/retirement-plans/defined-benefit/plan1/>
- <https://www.varetire.org/retirement-plans/defined-benefit/plan2/>
- <https://www.varetire.org/retirement-plans/hybrid/>

Frederick Water
Notes to Financial Statements
June 30, 2025

Employees Covered by Benefit Terms

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

	Numbers
Inactive members or their beneficiaries currently receiving benefits	25
Inactive members:	
Vested inactive members	9
Non-vested inactive members	19
Inactive members active elsewhere in VRS	2
Total inactive members	30
Active Members	89
Total covered employees	144

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to Political Subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Political Subdivision’s contractually required contribution rate for the year ended June 30, 2025 was 5.86% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$378,765 and \$276,402 for the years ended June 30, 2025 and 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$31,554 for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$34,181 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$3,146,055 for the year ended June 30, 2025.

Net Pension Liability

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

Frederick Water
Notes to Financial Statements
June 30, 2025

Actuarial Assumptions – General Employees

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

Inflation	2.50%
General Employees – Salary increases, including Inflation	3.50 – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2020 Improvement Scale with various set backs or set forwards for both males and females.

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

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjusted retirement rates to better-fit experience; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rate; no change to salary scale; no change to line of duty disability; and no change to discount rate.

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 future 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 weighing the expected future real rates of return by the target asset allocation

Frederick Water
Notes to Financial Statements
June 30, 2025

percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

- * The above allocation provides for a one-year return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024, on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rate. 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.

Frederick Water
Notes to Financial Statements
June 30, 2025

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2023	\$ 14,747,052	\$ 14,240,721	\$ 506,331
Changes for the year:			
Service cost	490,577	-	490,577
Interest	1,006,912	-	1,006,912
Benefit changes:			
Differences between expected and actual experience	537,993	-	537,993
Contributions – employer	-	276,671	(276,671)
Contributions – employee	-	271,618	(271,618)
Net investment income	-	1,383,820	(1,383,820)
Benefit payments, including refunds of employee contributions	(640,840)	(640,840)	-
Administrative expenses	-	(8,915)	8,915
Other changes	-	297	(297)
Net Changes	1,394,642	1,282,651	111,991
Balances at June 30, 2024	<u>\$ 16,141,694</u>	<u>\$ 15,523,372</u>	<u>\$ 618,322</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision’s net pension liability (asset)	<u>\$ 2,682,433</u>	<u>\$ 618,322</u>	<u>\$ (1,070,333)</u>

Frederick Water
Notes to Financial Statements
June 30, 2025

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

For the year ended June 30, 2025, the Political Subdivision recognized pension expense of \$349,824. At June 30, 2025, the Political Subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 606,738	\$ 19,229
Changes of assumptions	25,762	-
Net difference between projected and actual earnings on pension plan investments	-	396,187
Employer contributions subsequent to the measurement date	378,765	-
Total	\$ 1,011,265	\$ 415,416

The \$378,765 reported deferred outflows of resources related to pensions resulting from the political subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Effect on Pension Expense
2026	\$ (116,868)
2027	307,451
2028	80,053
2029	(53,552)
2030	-
Thereafter	-

Pension Plan Data

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

Note 8 – Other Postemployment Benefits Liability (Asset) – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Authority also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Frederick Water
Notes to Financial Statements
June 30, 2025

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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

Specific information for the GLI is available at <https://www.varetire.org/benefits-and-programs/benefits/life-insurance/>.

The GLI plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple-employer, cost-sharing plan.

General Employee Health Insurance Credit Program

The General Employee Health Insurance Credit Program (HIC) is available for all full-time, salaried employees of local government entities other than Teachers. The General Employee HIC is considered a multi-employer agent-defined benefit plan. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Specific information about the HIC is available at: <https://www.varetire.org/retirees/insurance/healthinscredit/index.html>

As of June 30, 2024, actuarial valuation, the following employees were covered by the benefit terms of the General Employee Health Insurance Credit Program:

	Numbers
Inactive members or their beneficiaries currently receiving benefits	15
Active members	90
Total covered employees	105

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2023. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability, with the exception of GLI, which was also

Frederick Water
Notes to Financial Statements
June 30, 2025

combined with employee contributions. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.18% of covered employee compensation. Rate allocated 60/40; 0.71% employee and 0.47% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2025 Contribution	\$30,399
June 30, 2024 Contribution	\$32,265

General Employee Health Insurance Credit Program

Governed by:	<i>Code of Virginia</i> 51.1-1402E and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	0.05% of covered employee compensation.
June 30, 2025 Contribution	\$3,232
June 30, 2024 Contribution	\$5,378

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2024, and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2024, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2025 proportionate share of liability	\$259,675
June 30, 2024 proportion	0.02327%
June 30, 2023 proportion	0.02202%
June 30, 2025 expense	\$17,489

Frederick Water
Notes to Financial Statements
June 30, 2025

General Employee Health Insurance Credit Program

Changes in net OPEB liability (asset) of the General Employee Health Insurance Credit Program were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) – (b)
Balances at June 30, 2023	\$ 109,761	\$ 105,905	\$ 3,856
Changes for the year:			
Service cost	2,410	-	2,410
Interest	7,396	-	7,396
Benefit changes:			
Differences between expected and actual experience	(6,405)	-	(6,405)
Assumption changes	-	-	-
Contributions – employer	-	5,378	(5,378)
Net investment income	-	9,973	(9,973)
Benefit payments, including refunds of employee contributions	(5,191)	(5,191)	-
Administrative expenses	-	(139)	139
Other changes	-	1	(1)
Net changes	(1,790)	10,022	(11,812)
Balance at June 30, 2024	<u>\$ 107,971</u>	<u>\$ 115,927</u>	<u>\$ (7,956)</u>

In addition, for the year ended June 30, 2024, the Authority recognized OPEB income of \$2,384 related to the General Employee Health Insurance Credit Program.

At June 30, 2025, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,957	\$ 6,343
Changes of assumptions	1,480	12,869
Net difference between projected and actual earnings on OPEB plan investments	-	21,888
Changes in proportionate share	30,998	308
Employer contributions subsequent to the measurement date	30,399	-
Total	<u>\$ 103,834</u>	<u>\$ 41,408</u>

Frederick Water
Notes to Financial Statements
June 30, 2025

At June 30, 2025, the Political Subdivision reported deferred outflows of resources and deferred inflows of resources related to the General Employee Health Insurance Credit Program OPEB from the following sources:

General Employee Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,134	\$ 12,775
Changes of assumptions	553	5,036
Net difference between projected and actual earnings on OPEB plan investments	-	2,255
Employer contributions subsequent to the measurement date	3,232	-
Total	\$ 5,919	\$ 20,066

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB expense in future reporting periods as follows:

Group Life Insurance Program

Year Ending June 30,	Effect on OPEB Expense
2026	\$ (1,464)
2027	14,532
2028	6,495
2029	6,163
2030	6,301
Thereafter	-

General Employee Health Insurance Credit Program

Year Ending June 30,	Effect on OPEB Expense
2026	\$ (6,256)
2027	(3,560)
2028	(4,787)
2029	(1,921)
2030	(855)
Thereafter	-

Frederick Water
Notes to Financial Statements
June 30, 2025

Actuarial Assumptions and Other Inputs

The total OPEB liability (asset) was determined using the following assumptions based on an actuarial valuation date of June 30, 2023, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.25%
• Ages 65 and older	6.50 – 4.25%
Investment rate of return, net of expenses, Including inflation	GLI & HIC: 6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 7.

Net OPEB Liabilities

The net OPEB liabilities represent each program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB liability	\$ 4,196,055
Plan fiduciary net position	\$ 3,080,133
Employers’ net OPEB liability	\$ 1,115,922
Plan fiduciary net position as a percentage of total OPEB liability	73.41%

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

Long-Term Expected Rate of Return

Group Life Insurance and Health Insurance Credit Programs

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

Frederick Water
Notes to Financial Statements
June 30, 2025

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

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

* The above allocation provides for a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including inflation of 2.50%.

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance 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, 2024, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 113% of the actuarially determined contribution rate for GLI and 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2024 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability (asset).

Frederick Water
Notes to Financial Statements
June 30, 2025

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liabilities of the Authority, as well as what the Authority's net OPEB liabilities would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI net OPEB liability	\$ 403,828	\$ 259,675	\$ 143,218
General employee HIC net OPEB liability (asset)	\$ 3,808	\$ (7,956)	\$ (17,917)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2024 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Summary of Other Postemployment Benefit Elements

Deferred outflows of resources - OPEB		
Differences between expected and actual experience		
VRS - Group Life Insurance		\$ 40,957
VRS - General Employee Health Insurance Credit Program		2,134
Changes in proportion		
VRS - Group Life Insurance		30,998
Employer contributions subsequent to the measurement date		
VRS - Group Life Insurance		30,399
VRS - General Employee Health Insurance Credit Program		3,232
Changes in assumptions		
VRS - Group Life Insurance		1,480
VRS - General Employee Health Insurance Credit Program		553
Total deferred outflows of resources - OPEB		<u>\$ 109,753</u>
Net OPEB liability (asset)		
VRS - Group Life Insurance		\$ 259,675
VRS - General Employee Health Insurance Credit Program		(7,956)
Total net OPEB liability		<u>\$ 251,719</u>
Deferred inflows of resources - OPEB		
Differences between expected and actual experience		
VRS - Group Life Insurance		\$ 6,343
VRS - General Employee Health Insurance Credit Program		12,775
Changes in proportion		
VRS - Group Life Insurance		308
Net difference between projected and actual earning on plan investments		
VRS - Group Life Insurance		21,888
VRS - General Employee Health Insurance Credit Program		2,255
Changes in assumptions		

Frederick Water
Notes to Financial Statements
June 30, 2025

VRS – Group Life Insurance	12,869
VRS - General Employee Health Insurance Credit Program	5,036
Total deferred inflows of resources - OPEB	\$ 61,474
<hr/>	
OPEB expense (income)	
VRS - Group Life Insurance	\$ 17,489
VRS – General Employee Health Insurance Credit Program	(2,384)
Total OPEB expense	\$ 15,105

Note 9 – Water Contracts

The Authority obtains water from the City of Winchester under a 1971 contract most recently amended in 2002. The amended contract expires April 30, 2042, and includes rate adjustments, subject to certain limitations. Purchases amounted to \$2,380,598 for 2025.

Note 10 – Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other localities in the Virginia Association of Counties Liability Pool, a public entity risk pool for its coverage of general liability, auto insurance, and workers’ compensation. Each member of this risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays the contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims, and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in the past four years and there have not been any significant reductions in coverage from the previous year.

Note 11 – Commitments and Contingencies

Availability agreements

The Authority has entered various agreements to provide availability to water and sewer systems. Fees collected in exchange for these contracts are unearned until the availability is provided.

Federal and state-assisted programs

The Authority has received proceeds from a federal grant program. Periodic audits of this grant are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes any required refunds will be immaterial. Based on past experience, no provision has been made in the accompanying financial statements for the refund of grant monies.

Frederick Water
Notes to Financial Statements
June 30, 2025

Construction commitments

The Authority has active construction projects related to various items. At year-end, commitments with contractors on the projects are as follows:

	Total Contracts	Total Payments	Future Amounts to be Expended
OWSP – Water Treatment Plant - Pipeline	\$ 32,114,285	\$ 31,714,284	\$ 400,001
OWSP – Quarry Income	12,664,519	12,640,531	23,988
Diehl Water Treatment Plan Modification	4,448,724	3,996,682	452,042
Lake Frederick Well Treatment	4,698,000	3,099,456	1,598,544
Crooked Run and Double PS's and FM's	19,772,205	13,362,289	6,409,916
Total	\$ 73,697,733	\$ 64,813,242	\$ 8,884,491

Note 12 – New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements, which are not yet effective.

In April 2024, the GASB issued **Statement No. 103**, Financial Reporting Model Improvements. This statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability as well as addresses certain application issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

In September 2024, the GASB issued **Statement No. 104**, *Disclosure of Certain Capital Assets*. This statement requires certain information regarding capital assets to be presented by major class. Certain types of capital assets are to be disclosed separately in the capital assets note disclosures required by Statement No. 34. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.



Required Supplementary Information

Required Supplementary Information
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
 June 30, 2025

	2024	2023	2022	2021	Plan Year Ended June 30,		2018	2017	2016	2015
					2020	2019				
Total Pension Liability										
Service cost	\$ 490,577	\$ 427,842	\$ 378,874	\$ 370,969	\$ 349,576	\$ 326,178	\$ 317,218	\$ 318,484	\$ 294,234	\$ 287,609
Interest on total pension liability	1,006,912	932,835	889,404	795,535	748,260	709,818	680,160	675,153	651,099	643,148
Difference between expected and actual experience	537,993	344,989	(59,852)	60,150	136,443	106,510	(125,527)	(282,765)	(159,986)	(383,245)
Changes of assumptions	-	-	-	304,262	-	305,557	-	(196,240)	-	-
Benefit payments, including refunds of employee contributions	(640,840)	(701,088)	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)
Net change in total pension liability	1,394,642	1,004,578	681,547	1,019,516	677,869	998,500	425,083	75,201	341,338	123,672
Total pension liability – beginning	14,747,052	13,742,474	13,060,927	12,041,411	11,363,542	10,365,042	9,939,959	9,864,758	9,523,420	9,399,748
Total pension liability – ending	16,141,694	14,747,052	13,742,474	13,060,927	12,041,411	11,363,542	10,365,042	9,939,959	9,864,758	9,523,420
Plan Fiduciary Net Position										
Contributions – employer	276,671	247,945	230,189	209,822	170,565	166,328	221,893	211,875	281,381	267,322
Contributions – employee	271,618	238,774	220,532	200,548	186,671	178,102	171,738	161,565	150,593	143,454
Net investment income	1,383,820	879,969	(18,130)	2,970,330	204,952	685,645	710,922	1,053,419	151,265	374,931
Benefit payments, including refunds of employee contributions	(640,840)	(701,088)	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)
Administrative expenses	(8,915)	(8,782)	(8,468)	(7,292)	(7,034)	(6,721)	(6,065)	(6,035)	(5,224)	(5,062)
Other	297	352	319	281	(244)	(432)	(636)	(938)	(63)	(77)
Net change in plan fiduciary net position	1,282,651	657,170	(102,437)	2,862,289	(1,500)	573,359	651,084	980,455	133,943	356,728
Plan fiduciary net position – beginning	14,240,721	13,583,551	13,685,988	10,823,699	10,825,199	10,251,840	9,600,756	8,620,301	8,486,358	8,129,630
Plan fiduciary net position – ending	15,523,372	14,240,721	13,583,551	13,685,988	10,823,699	10,825,199	10,251,840	9,600,756	8,620,301	8,486,358
Net pension liability (asset) – ending	\$ 618,322	\$ 506,331	\$ 158,923	\$ (625,061)	\$ 1,217,712	\$ 538,343	\$ 113,202	\$ 339,203	\$ 1,244,457	\$ 1,037,062
Plan fiduciary net position as a percentage of total pension liability (asset)	96%	97%	99%	105%	90%	95%	99%	97%	87%	89%
Covered payroll	\$ 5,969,217	\$ 5,182,754	\$ 4,681,370	\$ 4,232,488	\$ 3,918,606	\$ 3,736,155	\$ 3,581,847	\$ 3,322,990	\$ 3,068,409	\$ 2,891,892
Net pension liability (asset) as a percentage of covered payroll	10%	10%	3%	-15%	31%	14%	3%	10%	41%	36%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2015 was presented in the entity's fiscal year 2016 financial report.

**Required Supplementary Information
Schedule of Pension Contributions
June 30, 2025**

Entity Fiscal Year Ended June 30,	Contractually Determined Contribution	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2025	\$ 378,765	\$ 378,765	\$ -	\$ 6,463,560	5.86 %
2024	276,402	276,402	-	5,969,217	4.63
2023	247,963	247,963	-	5,182,754	4.78
2022	228,168	228,168	-	4,681,370	4.87
2021	209,822	209,822	-	4,232,488	4.96
2020	170,565	170,565	-	3,918,606	4.35
2019	166,328	166,328	-	3,736,155	4.45
2018	221,893	221,893	-	3,581,847	6.19
2017	211,875	211,875	-	3,322,990	6.38
2016	281,381	281,381	-	3,068,409	9.17

The covered payroll amounts above are for the Authority’s fiscal year - i.e., the covered payroll on which required contributions were based for the same year.

Required Supplementary Information
Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios
June 30, 2025

VRS Health Insurance Credit – General Employees	Plan Year Ended June 30,						
	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability							
Service cost	\$ 2,410	\$ 2,307	\$ 3,204	\$ 2,804	\$ 2,632	\$ 2,523	\$ 2,546
Interest on total OPEB liability	7,396	7,190	8,064	7,068	7,298	7,012	6,546
Difference between expected and actual experience	(6,405)	(1,523)	(8,328)	5,979	(8,249)	839	3,032
Changes of assumptions	-	-	(10,040)	752	-	2,535	-
Benefit payments	(5,191)	(4,862)	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)
Net change in total OPEB liability (asset)	(1,790)	3,112	(12,141)	11,562	(3,450)	8,094	6,022
Total OPEB liability – beginning	109,761	106,649	118,790	107,228	110,678	102,584	96,562
Total OPEB liability – ending	107,971	109,761	106,649	118,790	107,228	110,678	102,584
Plan Fiduciary Net Position							
Contributions – employer	5,378	4,664	6,634	5,925	5,485	5,230	5,014
Net investment income	9,973	6,102	67	20,342	1,504	4,559	4,746
Benefit payments	(5,191)	(4,862)	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)
Administrative expenses	(139)	(149)	(177)	(244)	(147)	(100)	(111)
Other	1	50	934	-	(1)	(6)	(343)
Net change in plan fiduciary net position	10,022	5,805	2,417	20,982	1,710	4,868	3,204
Plan fiduciary net position – beginning	105,905	100,100	97,683	76,701	74,991	70,123	66,919
Plan fiduciary net position – ending	115,927	105,905	100,100	97,683	76,701	74,991	70,123
Net OPEB liability (asset) – ending	\$ (7,956)	\$ 3,856	\$ 6,549	\$ 21,107	\$ 30,527	\$ 35,687	\$ 32,461
Plan fiduciary net position as a percentage of total OPEB liability	107%	96%	94%	82%	72%	68%	68%
Covered payroll	\$ 5,975,110	\$ 5,187,065	\$ 4,717,320	\$ 4,260,211	\$ 3,918,606	\$ 3,739,485	\$ 3,581,847
Net OPEB liability (asset) as a percentage of covered payroll	-0.1%	0.1%	0.1%	0.5%	0.8%	1.0%	0.9%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2018 was presented in the entity's fiscal year 2019 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

Required Supplementary Information
Schedule of Employer's Share of Net OPEB Liability
 June 30, 2025

Plan Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Group Life Insurance – General Employees					
2024	0.02327 %	\$ 259,675	\$ 5,975,110	4.35 %	73.41 %
2023	0.02202	264,089	5,187,065	5.09	69.30
2022	0.02169	261,169	4,717,320	5.54	67.21
2021	0.02063	240,189	4,260,211	5.64	67.45
2020	0.01904	317,747	3,918,606	8.11	52.00
2019	0.01908	310,482	3,739,485	8.30	52.00
2018	0.01884	287,000	3,581,847	8.01	51.22
2017	0.01805	272,000	3,322,990	8.19	48.86

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – e.g., plan year 2018 information was presented in the entity's fiscal year 2019 financial report.

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

**Required Supplementary Information
Schedule of OPEB Contributions
June 30, 2025**

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
VRS Health Insurance Credit – General Employees					
2025	\$ 3,232	\$ 3,232	\$ -	\$ 6,463,560	0.05 %
2024	5,378	5,378	-	5,975,110	0.09
2023	4,664	4,664	-	5,187,065	0.09
2022	6,554	6,554	-	4,717,320	0.14
2021	5,925	5,925	-	4,260,211	0.14
2020	5,485	5,485	-	3,918,606	0.14
2019	5,230	5,230	-	3,739,485	0.14
2018	5,014	5,014	-	3,581,847	0.14
VRS Group Life Insurance – General Employees					
2025	\$ 30,399	\$ 30,399	\$ -	\$ 6,467,849	0.47 %
2024	32,265	32,265	-	5,975,110	0.54
2023	28,010	28,010	-	5,187,065	0.54
2022	25,474	25,474	-	4,717,320	0.54
2021	23,005	23,005	-	4,260,211	0.54
2020	20,304	20,304	-	3,918,606	0.52
2019	19,445	19,445	-	3,739,485	0.52
2018	18,626	18,626	-	3,581,847	0.52

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the Authority's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

Frederick Water
Notes to Required Supplementary Information
June 30, 2025

Note 1 – Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2 – Changes of Assumptions

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

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.
- Applicable to: Pension and GLI and HIC OPEB.

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service.
- No change to disability rates.
- No changes to salary scale.
- No change to line of duty rates.
- No change to discount rate.
- Applicable to: Pension and GLI and HIC OPEB.



Statistical Section

The statistical section of the Authority’s financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures, and required supplementary information say about the Authority’s overall financial health. This information has not been audited by the independent auditor.

Contents

Debt Capacity Table 1

This schedule presents information to help the reader assess the affordability of the Authority’s current level of outstanding debt and the Authority’s ability to issue additional debt in the future.

Sources: Unless otherwise noted, the information in these schedules is derived from the Financial Report for the relevant year.



Frederick Water

Table 1

Pledged-Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Gross Revenues	Less: Operating Expenses	Net Available Revenues For Debt	Debt Service including FWSA		Coverage
				Principal	Interest	
2016	\$ 25,456,411	\$ 12,811,269	\$ 12,645,142	\$ 5,054,891	\$ 2,667,292	1.64
2017	27,283,489	14,459,824	12,823,665	6,822,919	2,790,391	1.33
2018	32,388,528	16,415,262	15,973,266	4,807,438	3,171,744	2.00
2019	37,893,167	15,173,829	22,719,338	5,088,646	3,007,911	2.81
2020	39,044,340	15,978,975	23,065,365	5,525,701	2,837,485	2.76
2021	39,505,820	14,053,931	25,451,889	5,466,924	2,584,532	3.16
2022	39,872,973	13,612,530	26,260,443	6,275,077	2,183,494	3.10
2023	42,959,364	14,832,413	28,126,951	6,124,405	(2) 2,643,312	3.21
2024	52,293,035	18,487,956	33,805,079	7,359,582	(1) 2,358,112	3.48
2025	55,070,891	19,468,845	35,602,046	7,721,046	2,034,403	3.65

Details regarding Frederick Water’s outstanding debt can be found in the notes to the financial statements. Gross revenues include operating and nonoperating revenues. Operating expenses do not include depreciation or amortization.

(1) During FY2024, the principal excluded the lease remeasurement of \$4,396,884.

(2) During FY2023, a credit from Frederick-Winchester Service Authority was received and applied toward debt payments of \$1,080,532.



Compliance Section





Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Frederick Water
Winchester, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for the Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Frederick Water (the "Authority"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 24, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses and significant deficiencies may exist that have not been identified.**



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 24, 2025

Frederick Water
Summary of Compliance Matters
June 30, 2025

As more fully described in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Authority’s compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Cash and Investment Laws
- Conflicts of Interest Act
- Local Retirement Systems
- Debt Provisions
- Procurement Laws
- Uniform Disposition of Unclaimed Property Act