FREDERICK WATER

FINANCIAL REPORT

June 30, 2023

FREDERICK WATER

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INTRODUCTORY SECTION

FREDERICK WATER

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2023

DIRECTORS

Gary Oates – Chairman
Martha Dilg – Vice Chairman
Tom Simon – Secretary/Treasurer

J. Stanley Crockett   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

The Financial Section contains Management's Discussion and Analysis and the Basic Financial Statements

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, 2023, 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, 2023, 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.

Responsibilities of Management for the Financial Statements (Continued)

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 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 analysis and other required supplementary information, as presented 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 2022 financial statements, and our report dated October 31, 2022, expressed an unmodified opinion on those financial statements. The 2022 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, 2022, 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 October 18, 2023 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 18, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Frederick County Sanitation Authority dba Frederick Water is a Virginia corporation created under the Virginia Water and Waste Authorities Act on August 1, 1967, for the purpose of "acquiring, constructing, operating, and maintaining (a) an integrated water supply and distribution system in Frederick County and (b) an integrated sewer system for Frederick County." Frederick Water is a public body, politic and corporate, deemed to be an instrumentality exercising public and essential governmental functions to provide for the public health and welfare.

Frederick Water is empowered: to acquire, construct, operate, and maintain water supply and distribution systems and sewer collection systems; operate wastewater treatment plants; to finance its projects through issuance of revenue bonds; and to fix and prescribe rates, fees, and charges for services rendered. Although Frederick Water was established by the Frederick County Board of Supervisors, the County exercises no oversight responsibility and has no accountability for Frederick Water's fiscal matters. Frederick Water is governed by a five-member board. Each member of the Board is appointed by the Frederick County Board of Supervisors and serves a four-year term. The Board of Supervisors designates where Frederick Water can provide service within the County through the Sewer and Water Service Area (SWSA) in the County's Comprehensive Plan.

As management of Frederick Water, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Frederick Water for the fiscal year ended June 30, 2023.

Overview of Financial Statements

This discussion and analysis is intended 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.

Overview of Financial Statements (Continued)

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 area's economic growth. There were 322 approved water connections during the fiscal year, representing a decrease of 28.9% from the previous fiscal year, bringing the number of water customers serviced to over 18,200. There were 323 approved sewer connections during the fiscal year, representing a decrease of 28.7% from the previous fiscal year, bringing the number of sewer customers serviced to over 17,600. New connections were lower than expected for Frederick Water, although building starts in Frederick County saw double digit growth over the prior year. This growth in the County includes surrounding towns and cities which are not in Frederick Water's service area. Continued growth is expected at moderate levels over the next several years. Frederick Water continues its efforts to improve operations, perform infrastructure maintenance, and provide additional sources of water and wastewater treatment capacity to be prepared for future growth.

Frederick Water continues to focus on achieving water independence to eliminate reliance upon third parties. Frederick Water secured quarries on the southern end of the county in 2019 and entered into an agreement in 2020 for the use and acquisition of quarries on the northern end of the county. Significant progress occurred in fiscal year 2023 on the Henry F. Sliwinski Water Treatment Plant, quarry intake, and supporting pipelines. This plant is expected to be completed and operational during fiscal year 2024. These initiatives also position Frederick Water as a viable regional partner for other localities in the surrounding area.

Financial Highlights

Frederick Water's financial position increased by $20,121,608 for the fiscal year ended June 30, 2023. The assets and deferred outflows exceeded liabilities and deferred inflows by $199,678,251. Frederick Water had $139,510,217 invested in capital assets, $60,168,034 of unrestricted net position available to meet ongoing obligations. Frederick Water's total assets and deferred outflows increased by 5.7% or $17,321,416, while total liabilities and deferred inflows decreased 2.2% or $2,800,192.

In 2021, Frederick Water received the Bill of Sale and Affidavit and Waiver of Lien documents related to construction of sewer lines and facilities in accordance with an October 2018 agreement with Graystone Corporation and Stephenson Associates. Frederick Water recorded the associated assets and $1,500,000 liability, which represented 37.5 % of the cost, up to a maximum of $1,500,000. The cost is reimbursable in quarterly payments equal to 90 % of the connections received. The outstanding liability under this agreement was $449,269 at June 30, 2023, and $631,983 at June 30, 2022.

In 2021, Frederick Water entered into a Virginia Water Supply Revolving Fund loan, with a total obligation of $35 million for the construction of the Opequon Water Treatment Plan. The Opequon Water Treatment Plan includes the Henry F. Sliwinski Water Treatment Plant, a quarry intake, and all supporting pipelines. The loan is for a 20 year term with an interest rate of 1.15 %. Total reimbursements under this loan equal $33,107,649 at June 30, 2023, and $27,334,830 at June 30, 2022. An interest only payment for this obligation was made in fiscal year 2023 in the amount of $470,823, including administrative fees. Principal repayment on this obligation begins in fiscal year 2024.

Financial Highlights (Continued)

Results of Operations

Frederick Water's revenues for the fiscal year ended June 30, 2023, increased 9.9% or $4,470,473 from the previous fiscal year. The largest increase of 10.0% or $3,108,032 over the prior year was attributable to Charges for service revenue. A sewer base fee increase of 20% and consumption rate increases of 8%, effective July 1, 2022, were the largest contributors to the increase in service revenue. Another large increase of 172.9% or $2,469,120 over the prior year was attributable to Investment Earnings. The increase in interest income of $1,292,650 and slowing declines in the fair market value of our investments of $1,464,028 during fiscal year 2023 were the contributors to the increased Investment Earnings. The increase in interest income was primarily attributable to rate hikes instituted by the Federal government in efforts to combat inflation. An increase of 1165.4% or $1,011,091 over the prior year was attributable to Other nonoperating revenues, primarily attributable to an increase of $1,080,532 in revenue recognized from a one-time credit received from the Frederick-Winchester Service Authority related to Parkins Mill debt service. These increases were offset by a significant decrease of 29.1% or $2,368,682 in Availability Fees. This decrease was due to a 28.8% decline in the number of connections received from the prior year.

Frederick Water Changes in Net Position

	2023	2022
Revenues:		
Charges for service	$ 34,341,430	$ 31,233,397
Capital contributions	6,780,138	6,829,381
Availability Fees	5,765,274	8,133,956
Other operating revenues	716,675	414,163
Investment earnings	1,040,693	(1,428,426)
Other nonoperating revenues	1,091,776	80,685
Insurance Proceeds	3,516	5,873
Total revenues	$ 49,739,502	$ 45,269,029
Expenses:		
Source of water supply	854,097	1,301,745
Water treatment, transmission and distribution	3,215,195	2,603,598
Wastewater collection	1,006,129	804,672
Wastewater treatment	3,960,969	3,756,083
Maintenance and operations	1,002,957	1,039,581
Customer accounting and collections	1,010,507	829,860
Engineering and planning	1,294,406	1,275,703
General and administration	2,488,153	2,001,288
Depreciation	11,546,715	11,574,676
(Gain) loss on sale of assets	67,596	(4,899)
Interest expense	2,804,061	2,144,263
Impairment-Loss	364,835	855
Other nonoperating expenses	2,274	56,315
Total expense	29,617,894	27,383,740
Increase in net position	20,121,609	17,885,289
Net position beginning of year	179,556,643	161,671,354
Net position end of year	$ 199,678,251	$ 179,556,643

Results of Operations (Continued)

Frederick Water's expenses for the fiscal year ended June 30, 2023, increased 8.2% or $2,234,154 from the previous fiscal year.

Water treatment, transmission, and distribution expenses for the fiscal year ended June 30, 2023 increased 23.5% or $611,598 from the prior year. Wages increased $198,999 from the prior year due to a full year of the cost of living increase given in April 2022 in addition to the annual merit increase awarded in July. Utilities increased $162,044 from the prior year due to increasing rates from our providers, the addition of the Sliwinski plant intake, and a 15% increase in usage at our Diehl facility corresponding to the increase in Finished Water Produced. Repair and Maintenance expenses increased $99,356 due to South Quarry shaft and pump repairs of $56,761, tank cleaning costs of $33,049, and asphalt patching of $25,135 above the prior year costs.

General and administrative expenses for the fiscal year ended June 30, 2023, increased 24.3% or $486,865 from the prior year. Total Pension costs increased by $229,245 from the prior year. Legal fees increased by $143,052 from the prior year. Legal expenses were incurred of $109,630 over the prior year for continued negotiations with a developer and $36,509 assistance with a pipeline agreement. Health Insurance costs increased $101,883 due to average premium increases of 8.5% over the prior year and an increase in the number of participants.

Frederick Water's single largest expense is depreciation. Depreciation accounted for 43.8 % of total operating expenses for the fiscal year ended June 30, 2023. Frederick Water owns $345.3 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.

Interest Expense for the fiscal year ended June 30,2023 increased 30.8% or $659,798 from the prior year. There was an increase in interest expense of $876,077 from the prior year attributable to lease liabilities. Fiscal year 2023 includes the interest payments under the lease schedules as well as accrued interest on the lease liabilities. There was no accrued interest on the lease liabilities recorded in fiscal year 2022. There was a decrease in interest expense of $241,345 paid to Frederick-Winchester Service Authority for Frederick Water's share of the Opequon Reclamation Facility's debt and 100% of the Parkins Mill facility's debt from the prior year due to decreasing principal balances. There was a decrease in interest expense of $168,516 paid on Frederick Water's revenue bonds due to decreasing principal balances. There was a decrease in bond premium amortization which offsets Interest Expense of $195,298 from the prior year. This increase to Interest Expense was attributable to the maturity of a bond during fiscal year 2023.

Impairment losses on assets for the fiscal year ended June 30, 2023 increased $363,981 from the prior year. The engineering costs for design of a Crooked Run Wastewater Treatment Plant upgrade of $281,894 were expensed due to the expected closure of this plant in the future and planned rerouting to the Parkins Mill Wastewater Treatment Plant. Specific costs incurred for the Opequon Water Treatment Plan of $74,728 were expensed for supplies, project management software costs, design build honorariums and other miscellaneous costs which were determined not to have an estimated life of greater than one year or do not add value to the assets.

Capital Contributions and Assets

This area of Frederick Water's operations had moderate activity during fiscal year 2023. During the fiscal year ended June 30, 2023, Frederick Water invested funds in the following:

- continued construction for the Opequon Initiative which includes; the Sliwinski Water Treatment Plant, quarry intake and supporting pipelines,
- design for a force main and pump station to carry wastewater from the Crooked Run service area to the Parkins Mill Wastewater Treatment Plant,
- upgrades to the Sunnyside pump station,
- South Quarry shaft and pump replacements,
- service connection costs, and
- routine purchases for manhole rehabilitation, meters, fire hydrant and gate valve replacements, generator, and wet wells for pump station improvements as well as other equipment and vehicle replacements.

Capital Contributions and Assets (Continued)

Capital contributions, representing the value of assets deeded over to Frederick Water by developers, were $6,780,138 for the fiscal year ended June 30, 2023.

Assets and Deferred Outflows of Resources

Frederick Water's total assets and deferred outflows of resources increased during the fiscal year ended June 30, 2023, 5.7% or $17,321,416.

Liabilities and Deferred Inflows of Resources

Frederick Water's total liabilities and deferred inflows of resources decreased during the fiscal year ended June 30, 2023, 2.2 % or $2,800,192.

Debt

Frederick Water had total bonded debt of $42,139,903 and obligations, notes, and leases payable of $66,161,062 as of June 30, 2023.

Frederick Water Net Position

	2023	2022
Current and other assets	$ 74,507,859	$ 61,145,019
Capital assets	248,172,946	243,967,912
Total assets	322,680,805	305,112,931
Deferred outflows of resources	966,452	1,212,911
Current liabilities	19,635,148	19,458,114
Long-term liabilities	103,826,475	105,657,629
Total liabilities	123,461,623	125,115,743
Deferred inflows of resources	507,384	1,653,456
Net position:		
Invested in capital assets, net of related debt	139,510,217	134,874,571
Net pension asset	-	625,061
Unrestricted	60,168,034	44,057,011
Total net position	$ 199,678,251	$ 179,556,643

Requests for Information

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

Exhibit 1

FREDERICK WATER
STATEMENT OF NET POSITION
June 30, 2023
(With Comparative Amounts as of June 30, 2022)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted (Note 2)	$ 36,131,674	$ 16,197,767
Investments (Note 2)	31,046,806	37,912,003
Accounts receivable, net (Note 3)	6,122,223	5,455,819
Contract receivable	-	25,000
Prepaid and other assets	223,093	209,346
Inventories	984,063	720,023
Total current assets	74,507,859	60,519,958
NONCURRENT ASSETS		
Capital assets:		
Nondepreciable (Note 4)	77,378,294	71,573,321
Depreciable, net (Note 4)	170,794,652	172,394,591
Net pension asset (Note 7)	-	625,061
Total noncurrent assets	248,172,946	244,592,973
Total assets	322,680,805	305,112,931
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	273,308	340,178
Deferred outflows related to pensions (Note 7)	589,865	761,274
Deferred outflows related to other postemployment benefits (Note 8)	103,279	111,459
Total deferred outflows of resources	966,452	1,212,911
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	2,722,054	3,911,824
Contracts payable	1,781,214	1,865,649
Accrued interest	971,274	719,417
Unearned revenue	5,986,060	6,049,938
Current portion of compensated absences (Note 5)	706,171	629,295
Current portion of bonds and other obligations payable (Note 5)	7,468,373	6,281,991
Total current liabilities	19,635,146	19,458,114
NONCURRENT LIABILITIES		
Contracts payable	532,940	777,180
Customer deposits	1,222,688	1,197,928
Compensated absences (Note 5)	176,543	269,697
Net pension liability (Note 7)	158,923	-
Net other postemployment benefit liability (Note 8)	267,718	261,296
Other long term liabilities (Note 5)	101,467,664	103,151,528
Total noncurrent liabilities	103,826,476	105,657,629
Total liabilities	123,461,622	125,115,743
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	431,835	1,544,101
Deferred inflows related to other postemployment benefits (Note 8)	75,549	109,355
Total deferred inflows of resources	507,384	1,653,456
NET POSITION		
Net investment in capital assets	139,510,217	134,874,571
Restricted for net pension asset	-	625,061
Unrestricted	60,168,034	44,057,011
Total net position	$ 199,678,251	$ 179,556,643

The Notes to Financial Statements are an integral part of this statement.

Exhibit 2

FREDERICK WATER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2023
(With Comparative Amounts for the Year Ended June 30, 2022)

	2023	2022
OPERATING REVENUES		
Charges for services:		
Water service	$ 15,232,302	$ 14,454,976
Sewer service	18,664,234	16,172,639
Penalties and surcharges	306,069	401,057
Connection fees	138,825	204,725
Miscellaneous	716,675	414,163
Total operating revenues	35,058,105	31,647,560
OPERATING EXPENSES		
Source of water supply (Note 9)	854,097	1,301,745
Water treatment, transmission and distribution	3,215,195	2,603,598
Wastewater collection	1,006,129	804,672
Wastewater treatment	3,960,969	3,756,083
Maintenance and operations	1,002,957	1,039,581
Customer accounting and collecting	1,010,507	829,860
Engineering and planning	1,294,406	1,275,703
General and administrative	2,488,153	2,001,288
Depreciation and amortization (Note 4)	11,546,715	11,574,676
Total operating expenses	26,379,128	25,187,206
Operating income	8,678,977	6,460,354
NONOPERATING REVENUES (EXPENSES)		
Investment earnings (losses)	1,040,693	(1,428,426)
Availability fees	5,765,274	8,133,956
Proceeds from agreements	-	65,308
Other nonoperating revenues	1,091,776	15,377
Insurance proceeds	3,516	5,873
Gain (loss) on disposal of capital assets	(67,596)	4,899
Interest expense	(2,804,061)	(2,144,263)
Impairment loss	(364,835)	(855)
Other nonoperating expenses	(2,274)	(56,315)
Total nonoperating revenues (expenses), net	4,662,493	4,595,554
Income before capital contributions	13,341,470	11,055,908
CAPITAL CONTRIBUTIONS	6,780,138	6,829,381
Change in net position	20,121,608	17,885,289
NET POSITION AT JULY 1	179,556,643	161,671,354
NET POSITION AT JUNE 30	$ 199,678,251	$ 179,556,643

The Notes to Financial Statements are an integral part of this statement.

Exhibit 3

FREDERICK WATER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Amounts for the Year Ended June 30, 2022)

	2023	2022
OPERATING ACTIVITIES		
Receipts from customers	$ 34,407,217	$ 31,326,917
Payments to suppliers	(11,093,432)	(8,666,621)
Payments to employees	(4,577,101)	(4,434,979)
Other operating receipts	29,642	717,802
Net cash provided by operating activities	18,766,326	18,943,119
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets and water rights	(10,603,216)	(30,169,798)
Availability fees	5,710,640	7,667,044
Proceeds from sale of capital assets	65,116	6,821
Proceeds from issuance of debt	5,772,819	23,892,394
Principal payments on long-term liabilities	(5,043,873)	(6,275,077)
Interest payments on long-term obligations	(2,643,312)	(2,183,494)
Insurance proceeds	3,516	5,873
Net cash used in capital and related financing activities	(6,738,310)	(7,056,237)
INVESTING ACTIVITIES		
Proceeds from investments	18,778,256	2,787,545
Purchases of investments	(12,235,000)	(8,935,000)
Investment earnings	1,362,634	328,126
Net cash provided by (used in) investing activities	7,905,890	(5,819,329)
Net increase in cash and cash equivalents	19,933,907	6,067,553
CASH AND CASH EQUIVALENTS, beginning at July 1	16,197,767	10,130,214
CASH AND CASH EQUIVALENTS, ending at June 30	$ 36,131,674	$ 16,197,767

(Continued)

FREDERICK WATER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Amounts for the Year Ended June 30, 2022)

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 8,678,977	$ 6,460,354
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	11,546,715	11,574,676
Excess of employer contributions over pension expense	(156,873)	(364,302)
Excess of employer contributions over other postemployment benefits expense	(12,602)	(10,998)
Other nonoperating expenses included in operating activities	(2,274)	(56,315)
(Increase) decrease in:		
Accounts receivable	(666,404)	(327,543)
Proceeds from agreement receivable	-	80,685
Grants and rebates	4,642	-
Prepaids and other assets	(13,747)	(125,992)
Inventories	(264,040)	(97,170)
Contract receivable	25,000	637,117
Increase (decrease) in:		
Accounts payable and accrued expenses	(43,630)	1,376,357
Contracts payable	(328,675)	(207,719)
Unearned revenue	(9,244)	51,140
Customer deposits	24,760	(44,240)
Compensated absences	(16,278)	(2,931)
Net cash provided by operating activities	$ 18,766,326	$ 18,943,119
NONCASH CAPITAL AND RELATED FINANCING		
Developer contributed capital improvements	$ 6,780,138	$ 6,829,381
Impairment loss	$ 364,835	$ 855
Lease asset acquired by a lease liability	$ 12,082	$ 14,620,198
Capital assets acquired through accounts payable	$ 463,343	$ 1,609,482
FWSA credit on debt payments	$ 1,080,532	$ -

The Notes to Financial Statements are an integral part of this statement.

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 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.

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

Accounts receivable are stated net of an allowance for doubtful accounts of $135,000. Bad debt expense was approximately $68,920.

Note 1. Summary of Significant Accounting Policies (Continued)

Contracts Receivable

In 2008, the City of Winchester, County of Frederick, Frederick-Winchester Service Authority, and the Authority amended an agreement which supported an upgrade at the Opequon Water Reclamation Facility. This agreement allocated biochemical oxygen demand ("BOD") between the City and the Authority, established bond repayment obligations reflective of the share of BOD allocation, and provided provisions for compensating the other party should BOD capacity exceedance require use of the other party's BOD capacity. Per the agreement, the City must compensate the Authority for the use of the Authority's BOD capacity during years the City exceeds its BOD capacity.

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:

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

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.

Leased 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 leased asset is not amortized.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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; these will be applied to the net pension or OPEB liability 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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 generally accepted accounting principles. 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.

(Continued)

Note 2. Cash and Investments (Continued)

Deposits (Continued)

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 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 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 generally accepted accounting principles. As of June 30, 2023, the Authority's investments 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.

Note 2. Cash and Investments (Continued)

Investments (Continued)

The Authority's investments consisted of the following:

Investment Type	Fair Value	S&P Credit Rating	Weighted Average Maturity *
Virginia Investment Pool – Bond Fund	$ 15,973,614	AA+f/S1	1.83
Virginia Investment Pool – NAV Pool	22,021,937	AAAm	
Total investments	$ 37,995,551		

* Average maturity in years

Cash and cash equivalents	$ 14,109,737
Long-term certificates of deposit	15,073,192
Total deposits	29,182,929
Total deposits and investments	$ 67,178,480

Reconciliation of deposits and investments to Exhibit 1:

Cash and cash equivalents, unrestricted	$ 36,131,674
Investments	31,046,806
	$ 67,178,480

Note 3. Accounts Receivable

Accounts receivable consisted of the following:

Billed	$ 3,373,609
Unbilled	2,710,500
Other	38,114
	$ 6,122,223

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 6,846,936	$ 125,427	$ -	$ 6,972,363
Land lease	14,620,198	-	-	14,620,198
Construction in progress	50,106,187	9,237,121	3,557,575	55,785,733
Total capital assets, not being depreciated	71,573,321	9,362,548	3,557,575	77,378,294
Capital assets being depreciated and amortized				
Water source of supply	7,893,887	126,127	47,259	7,972,755
Water pumping	16,722,245	139,620	62,507	16,799,358
Sewage pumping	6,357,707	2,422,290	1,118	8,778,879
Water transmission and distribution	89,517,879	4,171,427	1,386,669	92,302,637
Sewage collection and transmission	93,621,902	2,833,218	124,176	96,330,944
General plant	10,598,685	373,186	1,232,500	9,739,371
Water rights lease	610,400	12,081	-	622,481
FWSA treatment plant rights	112,744,008	-	-	112,744,008
Total capital assets being Depreciated and amortized	338,066,713	10,077,949	2,854,229	345,290,433
Less accumulated depreciation/ amortization for:				
Other capital assets	101,163,770	6,422,455	2,721,407	104,864,818
Water rights lease	220,463	103,493	-	323,956
FWSA treatment plant rights	64,287,889	5,019,118	-	69,307,007
Total accumulated Depreciation/ amortization	165,672,122	11,545,066	2,721,407	174,495,781
Total capital assets being Depreciated and amortized, net	172,394,591	(1,467,117)	132,822	170,794,652
Total capital assets, net	$ 243,967,912	$ 7,895,431	$ 3,690,397	$ 248,172,946

(Continued)

Note 4. Capital Assets (Continued)

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 the debt incurred for these facilities.

During 2007, a developer contributed a $4,500,000 wastewater treatment plant to the FWSA. Based on a 2001 agreement between the FWSA and the Authority, the Authority operates this plant, resulting in additional treatment plant rights. Ninety-five percent of availability fees collected for use of capacity for this system will be paid to the developer until certain capacity thresholds are met or 15 years after conveyance. This obligation ended March 13, 2022. The Authority's liability to the developer is reflected in the Statement of Net Position as part of contracts payable.

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.

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.

(Continued)

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	$ 56,180,981	$ -	$ 4,274,037	$ 51,906,944	$ 4,380,177
Revenue bonds	38,021,996	5,772,819	1,654,912	42,139,903	2,701,321
Lease liabilities	14,437,492	12,082	195,456	14,254,118	256,927
Issuance premiums	793,050	-	157,978	635,072	129,948
	109,433,519	5,784,901	6,282,383	108,936,037	7,468,373
Compensated absences	898,992	529,820	546,098	882,714	706,171
Total long-term liabilities	$ 110,332,511	$ 6,314,721	$ 6,828,481	$ 109,818,751	$ 8,174,544

During 2023, Frederick-Winchester Service Authority provided a credit toward the Authority's debt payments of $1,080,532. This decreased the Authority's debt payments and is recognized as other non-operating revenue.

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

	Obligations Payable – FWSA		Revenue Bonds		Lease Liabilities		Totals	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 4,380,177	$ 1,295,246	$ 2,701,321	$ 729,579	$ 256,927	$ 464,391	$ 7,338,425	$ 2,489,216
2025	4,499,204	1,179,417	2,774,359	657,689	325,004	455,478	7,598,567	2,292,584
2026	4,617,656	1,056,861	2,852,733	583,967	290,655	444,368	7,761,044	2,085,196
2027	4,730,133	945,377	2,926,449	508,408	373,061	434,897	8,029,643	1,888,682
2028	4,827,757	850,251	2,990,513	437,589	464,257	422,753	8,282,527	1,710,593
2029-2033	15,439,106	2,863,738	10,131,147	1,629,291	3,873,188	1,817,055	29,443,441	6,310,084
2034-2038	11,008,620	1,227,309	10,383,623	957,456	5,781,571	1,058,171	27,173,814	3,242,936
2039-2043	2,404,291	38,237	7,379,758	270,743	2,889,455	142,328	12,673,504	451,308
	$ 51,906,944	$ 9,456,436	$ 42,139,903	$ 5,774,722	$ 14,254,118	$ 5,239,441	$ 108,300,965	$ 20,470,599

Note 5. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
Obligations Payable – FWSA					
2010 FWSA Parkins Mill Expansion	03/01/2010	09/01/2029	$ 37,930,386	1.65 %	$ 14,805,919
2011 FWSA Opequon Facility Expansion II	03/01/2009	03/01/2031	12,613,293	1.75	6,009,175
2015 FWSA Refunding Debt	05/28/2015	10/01/2038	7,840,530	3.22-5.13	4,485,780
FWSA Series 2014A	05/07/2014	10/01/2038	15,055,000	2.74-4.83	7,797,500
FWSA Series 2014B	07/29/2014	10/01/2038	10,037,500	3.65-5.13	2,572,500
FWSA Series 2016B	07/27/2016	10/01/2038	2,402,640	2.71-5.13	2,354,715
FWSA 2021 Partial Refunding of Series 2014A	5/26/2021	10/1/2038	5,362,500	0.31-2.81	5,230,000
FWSA 2021 Partial Refunding of Series 2014B	5/26/2021	10/1/2038	6,612,500	0.31- 2.76	6,450,000
FWSA 2021 Partial Refunding of Series 2015A	5/26/2021	10/1/2038	2,255,670	0.31- 2.81	2,201,355
					$ 51,906,944
Revenue Bonds					
Virginia Water and Sewer Refunding Bonds	05/28/2015	10/01/2027	$ 6,020,000	3.13-5.13 %	$ 3,370,000
Virginia Infrastructure Refunding Bonds	11/18/2015	10/01/2028	4,045,000	3.08-5.13	2,165,000
VML/VACO Lease Revenue Refunding Bonds	6/18/2020	2/15/2040	4,001,000	2.72	3,497,257
VRA Virginia Water Supply Revolving Loan	3/1/2021	2/28/2041	33,107,649	1.15	33,107,649
					$ 42,139,903
Lease liabilities					
Quarry land lease	7/1/2021	6/30/2120	14,620,198	3.25 %	$ 14,029,104
Water rights agreement	06/09/2020	05/05/2025	603,159	3.75	208,216
Lease for equipment	02/01/2019	05/01/2024	6,000	4.62	949
Lease for equipment	12/01/2019	02/01/2025	5,245	4.69	1,720
Lease for equipment	9/1/2020	8/31/2025	7,241	4.50	3,338
Lease for equipment	11/15/2022	11/15/2027	6,546	4.43	5,755
Lease for equipment	12/6/2022	12/6/2027	5,536	4.43	5,036
					$ 14,254,118

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

Note 5. Long-Term Liabilities (Continued)

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, 2023, the following bonds are considered defeased:

	Beginning Balance	Increases	Decreases	Ending Balance
VPFP Series 2005C	$ 2,810,000	$ -	$ 345,000	$ 2,465,000
VPFP Series 2007B	4,135,000	-	610,000	3,525,000
2010 Recovery Zone	3,615,000	-	145,000	3,470,000
	$ 10,560,000	$ -	$ 1,100,000	$ 9,460,000

FWSA obligations

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

Note 6. Leases

During 2022, the Authority implemented the guidance of GASB Statement No. 87, *Leases*, for accounting and reporting leases that had previously been reported as operating and capital leases. The right of use asset information can be found in Note 4, and the corresponding liabilities and maturity schedules are provided in Note 5. Details of the significant leases are described below.

Authority as Lessee

During 2020, the Authority entered into a new agreement with an entity to lease quarry pits, 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.

During 2022, the Authority implemented a new agreement to lease land which includes quarry pits, 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 10 by 10% each year. Starting in the eleventh year, the lease payments will increase 3% per year. 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 Authority has recorded a land lease asset and a corresponding lease liability.

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/members/benefits/defined-benefit/plan1.asp,
- https://www.varetire.org/members/benefits/defined-benefit/plan2.asp,
- https://www.varetirement.org/hybrid.html.

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	6
Non-vested inactive members	14
Inactive members active elsewhere in VRS	3
Total inactive members	23
Active members	79
Total covered employees	125

Note 7. Defined Benefit Pension Plan (Continued)

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, 2023 was 5.56% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 $247,963 and $228,168 for the years ended June 30, 2023 and 2022, respectively.

Net Pension Liability (Asset)

The net pension liability (asset) 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 (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2021 rolled forward to the measurement date of June 30, 2022.

Note 7. Defined Benefit Pension Plan (Continued)

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, 2021, 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, 2022.

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 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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; 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.

Note 7. Defined Benefit Pension Plan (Continued)

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
		Inflation	2.50 %
		*Expected arithmetic nominal return	7.83 %

* The above allocation provides for a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%

Note 7. Defined Benefit Pension Plan (Continued)

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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. From July 1, 2022 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2021	$ 13,060,927	$ 13,685,988	$ (625,061)
Changes for the year:			
Service cost	378,874	-	378,874
Interest	889,404	-	889,404
Benefit Changes:			
Differences between expected and actual experience	(59,852)	-	(59,852)
Assumption changes	-	-	-
Contributions – employer	-	230,189	(230,189)
Contributions – employee	-	220,532	(220,532)
Net investment income	-	(18,130)	18,130
Benefit payments, including refunds of employee contributions	(526,879)	(526,879)	-
Administrative expenses	-	(8,468)	8,468
Other changes	-	319	(319)
Net changes	681,547	(102,437)	783,984
Balances at June 30, 2022	$ 13,742,474	$ 13,583,551	$ 158,923

Note 7. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability 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 were 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)	$ 1,943,923	$ 158,923	$ (1,283,270)

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

For the year ended June 30, 2023, the political subdivision recognized pension expense of $93,111. At June 30, 2023, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 110,985	$ 50,203
Changes of assumptions	230,917	-
Net difference between projected and actual earnings on pension plan investments	-	381,632
Employer contributions subsequent to the measurement date	247,963	-
Total	$ 589,865	$ 431,835

Note 7. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $247,963 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, 2024. 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 Ended June 30,	Increase (Reduction) to Pension Expense
2024	$ 22,280
2025	(52,152)
2026	(242,190)
2027	182,129
2028	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2022-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 – 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.

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/members/benefits/life-insurance/basic-group-life-insurance.asp

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 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.asp

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

Plan Descriptions (Continued)

General Employee Health Insurance Credit Program (Continued)

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the General Employee Health Insurance Credit Program:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Active members	79
Total covered employees	91

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2021. 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. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 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:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2023 Contribution	$28,010
June 30, 2022 Contribution	$25,474

In June 2022, the Commonwealth made a special contribution of approximately $30.4 million to the Group Life Insurance plan. This special payment was authorize by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

(Continued)

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

Contributions (Continued)

General Employee Health Insurance Credit Program

Governed by:	*Code of Virginia* 51.1-1402(E) and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly.
Total rate:	0.09% of covered compensation.
June 30, 2023 Contribution	$4,664
June 30, 2022 Contribution	$6,554

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

The net OPEB liabilities were measured as of June 30, 2022 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. 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, 2022 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2022 proportionate share of liability	$261,169
June 30, 2022 proportion	0.02063%
June 30, 2021 proportion	0.02169%
June 30, 2022 expense	$19,989

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

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

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

General Employee Health Insurance Credit Program

Changes in net OPEB liability 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 (a) – (b)
Balances at June 30, 2021	$ 118,790	$ 97,683	$ 21,107
Changes for the year:			
Service cost	3,204	-	3,204
Interest	8,064	-	8,064
Benefit Changes:			
Differences between expected and actual experience	(8,328)	-	(8,328)
Assumption changes	(10,040)	-	(10,040)
Contributions – employer	-	6,634	(6,634)
Net investment income	-	67	(67)
Benefit payments, including refunds of employee contributions	(5,041)	(5,041)	-
Administrative expenses	-	(177)	177
Other Changes:	-	934	(934)
Net changes	(12,141)	2,417	(14,558)
Balances at June 30, 2022	$ 106,649	$ 100,100	$ 6,549

In addition, for the year ended June 30, 2022, the Authority recognized OPEB expense of $163 related to the General Employee Health Insurance Credit Program.

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

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

At June 30, 2023, 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	$ 20,681	$ 10,477
Changes of assumptions	9,741	25,439
Net difference between projected and actual earnings on OPEB plan investments	-	16,319
Changes in proportionate share	33,462	353
Employer contributions subsequent to the measurement date	28,010	-
Total	$ 91,894	$ 52,588

At June 30, 2023, 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	$ 5,174	$ 11,633
Changes of assumptions	1,547	9,027
Net difference between projected and actual earnings on OPEB plan investments	-	2,301
Employer contributions subsequent to the measurement date	4,664	-
Total	$ 11,385	$ 22,961

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 in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB expense in future reporting periods as follows:

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

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

Group Life Insurance Program

Year Ended June 30,	Increase (Reduction) to OPEB Expense
2024	$ 5,711
2025	3,454
2026	(6,637)
2027	8,263
2028	505
Thereafter	-

General Employee Health Insurance Credit Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2024	$ (3,650)
2025	(3,364)
2026	(4,443)
2027	(1,747)
2028	(2,974)
Thereafter	(62)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

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

Actuarial Assumptions and Other Inputs (Continued)

Inflation	2.50%
Salary increases, including inflation:	
• Locality- general employees	3.50 – 5.35%
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, 2022, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,672,085
Plan fiduciary net position	$ 2,467,989
Employers' net OPEB liability (asset)	$ 1,204,096
Plan fiduciary net position as a percentage of total OPEB liability	67.21%

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.

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

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 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	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.83 %

* The above allocation provides for a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including inflation of 2.50%.

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

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, 2022, 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. From July 1, 2020 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 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 OPEB liability.

Sensitivity of the Net OPEB Liability 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 were 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	$ 380,031	$ 261,169	$ 165,112
General Employee HIC Net OPEB Liability (asset)	$ 17,527	$ 6,549	$ (2,795)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2022-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 – Virginia Retirement System Plans (Continued)

Summary of Other Postemployment Benefit Elements

Deferred outflows of resources - OPEB		
Differences between expected and actual experience		
VRS- Group Life Insurance	$	20,681
VRS- General Employee Health Insurance Credit Program		5,174
Changes in proportion		
VRS- Group Life Insurance		33,462
Employer contributions subsequent to the measurement date		
VRS- Group Life Insurance		28,010
VRS- General Employee Health Insurance Credit Program		4,664
Changes of assumptions		
VRS- Group Life Insurance		9,741
VRS- General Employee Health Insurance Credit Program		1,547
Total deferred outflows of resources - OPEB	$	103,279
Net OPEB liability		
VRS- Group Life Insurance	$	261,169
VRS- General Employee Health Insurance Credit Program		6,549
Total net OPEB liability	$	267,718
Deferred inflows of resources - OPEB		
Differences between expected and actual experience		
VRS- Group Life Insurance	$	10,477
VRS- General Employee Health Insurance Credit Program		11,633
Changes in proportion		
VRS- Group Life Insurance		353
Net difference between projected and actual earnings on plan investments		
VRS- Group Life Insurance		16,319
VRS- General Employee Health Insurance Credit Program		2,301
Changes of assumptions		
VRS- Group Life Insurance		25,439
VRS- General Employee Health Insurance Credit Program		9,027
Total deferred inflows of resources – OPEB	$	75,549
OPEB Expense		
VRS- Group Life Insurance	$	19,989
VRS- General Employee Health Insurance Credit Program		163
Total OPEB Expense	$	20,152

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 $854,097 for 2023.

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 three 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.

Note 11. Commitments and Contingencies (Continued)

Grant in aid construction agreement

In accordance with an October 2018 agreement, in exchange for Graystone Corporation and Stephenson Associates completing construction of a sewer facility, the Authority is required to contribute 37.5% of the cost of the facility, with a cap of $1,500,000. As the Authority collects sewer availability fees for new connections using these facilities, it will reimburse Graystone with quarterly payments of 90% of the connection payments received. Payments are to not exceed the Authority's contribution, and will cease after ten years and three months from completion of the facility. The Bill of Sale and Affidavit and Waiver of Lien documents related to this agreement were received October 5, 2020, and were executed by the Board on October 20, 2020. The Authority took legal possession of its portion of the improvements totaling $1,500,000 and has recorded an asset for this amount. The remaining liability at June 30, 2023 amounts to $449,269 which is included in contracts payable on the Statement of Net Position.

Litigation

The Authority is the defendant in a lawsuit relating to a claim with the developer seeking reimbursement for the costs of a water line upgrade it performed, as well as challenging the methodology the Authority uses to derive its availability fees. A partial summary judgment was reached dismissing the claims challenging the methodology the Authority uses to derive its availability fees. The Authority filed counterclaims against the developer which resulted in the developer being in agreement with the Authority however, no formal agreement has been signed as of the date of this report.

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	$ 32,057,983	$ 29,535,114	$ 2,522,869
OWSP- Quarry Intake	12,664,519	11,872,165	792,354
Total	$ 44,722,502	$ 41,407,279	$ 3,315,223

Note 12. Reclassifications

During 2023, certain reclassifications were made between expense lines. Both 2023 and 2022 reclassifications are reflected on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

Note 13. New Accounting Standards

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

In April 2022, the GASB issued **Statement No. 99**, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued **Statement No. 100**, Accounting Changes and Error Corrections. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

In June 2022, the GASB issued **Statement No. 101**, Compensated Absences. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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

REQUIRED SUPPLEMENTARY INFORMATION

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2023

	Plan Year Ended June 30,								
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability									
Service cost	$ 378,874	$ 370,969	$ 349,576	$ 326,178	$ 317,218	$ 318,484	$ 294,234	$ 287,609	$ 286,002
Interest on total pension liability	889,404	795,535	748,260	709,818	680,160	675,153	651,099	643,148	610,394
Difference between expected and actual experience	(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	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Net change in total pension liability	681,547	1,019,516	677,869	998,500	425,083	75,201	341,338	123,672	463,263
Total pension liability – beginning	13,060,927	12,041,411	11,363,542	10,365,042	9,939,959	9,864,758	9,523,420	9,399,748	8,936,485
Total pension liability – ending	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
Plan Fiduciary Net Position									
Contributions – employer	230,189	209,822	170,565	166,328	221,893	211,875	281,381	267,322	277,708
Contributions – employee	220,532	200,548	186,671	178,102	171,738	161,565	150,593	143,454	138,417
Net investment income	(18,130)	2,970,330	204,952	685,645	710,922	1,053,419	151,265	374,931	1,112,963
Benefit payments, including refunds of employee contributions	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Administrative expenses	(8,468)	(7,292)	(7,034)	(6,721)	(6,065)	(6,035)	(5,224)	(5,062)	(5,963)
Other	319	281	(244)	(432)	(636)	(938)	(63)	(77)	58
Net change in plan fiduciary net position	(102,437)	2,862,289	(1,500)	573,359	651,084	980,455	133,943	356,728	1,090,050
Plan fiduciary net position – beginning	13,685,988	10,823,699	10,825,199	10,251,840	9,600,756	8,620,301	8,486,358	8,129,630	7,039,580
Plan fiduciary net position – ending	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
Net pension liability (asset) – ending	$ 158,923	$ (625,061)	$ 1,217,712	$ 538,343	$ 113,202	$ 339,203	$ 1,244,457	$ 1,037,062	$ 1,270,118
Plan fiduciary net position as a percentage of total pension liability (asset)	99%	105%	90%	95%	99%	97%	87%	89%	86%
Covered payroll	$4,681,370	$ 4,232,488	$ 3,918,606	$ 3,736,155	$ 3,581,847	$ 3,322,990	$ 3,068,409	$ 2,891,892	$ 2,780,545
Net pension liability (asset) as a percentage of covered payroll	3%	-15%	31%	14%	3%	10%	41%	36%	46%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required supplementary Information are an integral part of this schedule.

Exhibit 5

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2023

Entity Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
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
2015	267,322	267,322	-	2,891,892	9.24

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. 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.

The Notes to Required Supplementary Information are an integral part of this schedule.

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2023

	Plan Year Ended June 30,					
VRS Health Insurance Credit – General Employees	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Total OPEB Liability						
Service cost	$ 3,204	$ 2,804	$ 2,632	$ 2,523	$ 2,546	$ 2,588
Interest on total OPEB liability	8,064	7,068	7,298	7,012	6,546	6,514
Difference between expected and actual experience	(8,328)	5,979	(8,249)	839	3,032	-
Changes of assumptions	(10,040)	752	-	2,535	-	(3,883)
Benefit payments	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)	(3,422)
Net change in total OPEB liability	(12,141)	11,562	(3,450)	8,094	6,022	1,797
Total OPEB liability – beginning	118,790	107,228	110,678	102,584	96,562	94,765
Total OPEB liability – ending	106,649	118,790	107,228	110,678	102,584	96,562
Plan Fiduciary Net Position						
Contributions – employer	6,634	5,925	5,485	5,230	5,014	4,652
Net investment income	67	20,342	1,504	4,559	4,746	6,878
Benefit payments	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)	(3,422)
Administrative expenses	(177)	(244)	(147)	(100)	(111)	(114)
Other	934	-	(1)	(6)	(343)	343
Net change in plan fiduciary net position	2,417	20,982	1,710	4,868	3,204	8,337
Plan fiduciary net position – beginning	97,683	76,701	74,991	70,123	66,919	58,582
Plan fiduciary net position – ending	100,100	97,683	76,701	74,991	70,123	66,919
Net OPEB liability – ending	$ 6,549	$ 21,107	$ 30,527	$ 35,687	$ 32,461	$ 29,643
Plan fiduciary net position as a percentage of total OPEB liability	94%	82%	72%	68%	68%	69%
Covered payroll	$ 4,717,320	$ 4,260,211	$ 3,918,606	$ 3,739,485	$ 3,581,847	$ 3,322,990
Net OPEB liability as a percentage of covered payroll	0.1%	0.5%	0.8%	1.0%	0.9%	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.

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2023

Plan Year Ended June 30,	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) 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					
2022	0.02063 %	$ 261,169	$ 4,717,320	5.54 %	67.21 %
2021	0.02169	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.

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2023

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										
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										
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.

The Notes to Required Supplementary Information are an integral part of this schedule.

FREDERICK WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023

Note 1. Changes of Benefit Terms

<u>Pension</u>

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

<u>Other Postemployment Benefits (OPEB)</u>

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, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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 Scape 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.
- 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 Scape 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.
- 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

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

FREDERICK WATER
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years

Table 1

Fiscal Year		Gross Revenues		Less: Operating Expenses		Net Available Revenues For Debt	Debt Service including FWSA					Coverage
								Principal			Interest	
2014	$	22,089,931	$	10,333,119	$	11,756,812	$	5,200,070		$	3,186,630	1.40
2015		23,370,533		11,437,995		11,932,538		5,431,404			2,942,253	1.43
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	(1)		2,643,312	3.21

Details regarding Frederick Water's outstanding debt can be found in the notes to the financial statements. Gross revenues include operating revenues, interest and investment earnings and availability fees. Operating expenses do not include depreciation or amortization.

(1) During 2023, a credit from Frederick-Winchester Service Authority was received and applied toward debt payments of $1,080,532. See Note 6 for more information.

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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 auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Frederick Water (the "Authority"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon date October 18, 2023.

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 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.**

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 determination of financial statement. 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 Authority'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
October 18, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Frederick Water
Winchester, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Compliance for the Major Federal Program

We have audited Frederick Water's (the "Authority") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2023. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal documentation of the Authority's compliance with the compliance requirements referred to above.

Report on Compliance for Each Major Federal Program (Continued)

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Authority's compliance the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risk of material noncompliance, 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 Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. **Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 18, 2023

FREDERICK WATER

SUMMARY OF COMPLIANCE MATTERS
June 30, 2023

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 laws, regulations, contracts, and grants shown below:

STATE COMPLIANCE MATTERS

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

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal program selected for testing.

FREDERICK WATER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statement.
2. **No significant deficiencies** relating to the audit of the financial statements were reported 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses **an unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

Name of Program	Assistance Listing #
Drinking Water State Revolving Fund Cluster:	
Capitalization Grants for Drinking Water State Revolving Funds	66.468

8. The threshold for distinguishing Type A and B programs was $750,000.
9. The Authority was determined to be a **low-risk auditee**.

(Continued)

FREDERICK WATER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

B. FINDINGS – FINANCIAL STATEMENT AUDIT –NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT-NONE

D. FINDING – COMMONWEALTH OF VIRGINIA – NONE

Frederick Water

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Cluster Amounts	Federal Expenditures
Environmental Protection Agency			
Pass Through Payments:			
Commonwealth of Virginia:			
Virginia Resources Authority:			
Drinking Water State Revolving Fund Cluster			
Capitalization Grants for Drinking Water State Revolving Fund Loan	66.468	$ 6,203,597	
			$ 6,203,597
Total Environmental Protection Agency			$ 6,203,597
Total Expenditures of Federal Awards			$ 6,203,597

See the notes to the SEFA

FREDERICK WATER

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2023

I. Basis of Presentation

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of Frederick Water (the "Authority") and is presented on the modified accrual basis of accounting, as described in Note 1 to the Authority's basic financial statement. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

II. De Minimus Indirect Cost Rate

The entity did not elect to use the 10 percent de minimis indirect cost rate.

III. Virginia Revolving Loan Fund (ALN 66.468)

During 2021, the Authority received approval for a federally funded loan through the Virginia Revolving Loan fund in the amount of $35,000,000. The amount outstanding as of June 30, 2023 is $33,107,649.

IV. Prior Year Expense Recapture (ALN 66.468)

At the inception of the related project, management determined that federal funding would be used for plant expenses only, and would later recapture intake related expenses only if all funding was not used. During fiscal year 2023, it was determined that some intake expenses would need to be claimed. This resulted in $1,884,889 of prior year expenses claimed and reported on the FY23 SEFA.