FREDERICK WATER

FINANCIAL REPORT

June 30, 2022

FREDERICK WATER

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INTRODUCTORY SECTION

FREDERICK WATER

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2022

DIRECTORS

Gary Oates – Chairman
J. Stanley Crockett – Vice Chairman
Martha Dilg – Secretary/Treasurer

Tom Simon 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

BROWNEDWARDS
certified public accountants

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, 2022, 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, 2022, 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.

Change in Accounting Principle

As described in Note 6 to the financial statements, in 2022, the Authority adopted new accounting guidance, *GASB Statement No. 87, Leases.* Our opinion is not modified with respect to this matter.

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.

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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 opinions 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 opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Report on Comparative Information

We have previously audited the Authority's 2021 financial statements, and our report dated October 13, 2021, expressed an unmodified opinion on those financial statements. The 2021 financial information is provided for comparative purposes only. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2021, 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 31, 2022 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 31, 2022

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.

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 as of June 30, 2022 and June 30, 2021, with the difference reported as *net position*. 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 between fiscal years 2022 and 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, some of the revenues and expenses that are reported in this statement will only affect cash flows in future fiscal periods (e.g., earned but unused paid time off).

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

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

Overview of Operations

Frederick Water's operations are influenced by the area's economic growth. There were 453 new approved water connections during the fiscal year, representing a decrease of 5.6% from the previous fiscal year, bringing the number of water customers serviced to over 17,700. There were 453 new approved sewer connections during the fiscal year, representing a decrease of 5.6% from the previous fiscal year, bringing the number of sewer customers serviced to over 17,200. New connections were better than expected and, while building starts in Frederick County are down slightly from the prior year, growth is expected to continue 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 in order 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 2022 on the Henry F. Sliwinski Water Treatment Plant, quarry intake, and supporting pipelines. This plant is expected to begin operations in early 2023. 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 $17,885,289 for the fiscal year ended June 30, 2022. The assets and deferred outflows exceeded liabilities and deferred inflows by $179,556,643. Frederick Water had $134,874,571 invested in capital assets, $44,057,011 of unrestricted net position available to meet ongoing obligations, and $625,061 of restricted net position for the Net Pension Asset. Frederick Water's total assets and deferred outflows increased by 20.5% or $52,191,578, while total liabilities and deferred inflows increased 37.1% or $34,306,289.

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 percent of the cost, up to a maximum of $1,500,000. The cost is reimbursable in quarterly payments equal to 90 percent of the connections received. The outstanding liability under this agreement was $631,983 at June 30, 2022, and $935,402 at June 30, 2021.

In 2021, Frederick Water billed the City of Winchester for exceedances of biochemical oxygen demand (BOD) capacity during calendar years 2019 and 2020. The Intermunicipal Agreement allocates reserved BOD capacity to each party and provides for compensation should one party exceed its reserved capacity.

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 percent. Total reimbursements under this loan equal $27,334,830 at June 30, 2022, and $3,442,436 at June 30, 2021.

Financial Highlights (Continued)

Results of Operations

Frederick Water's revenues for the fiscal year ended June 30, 2022, decreased 3.2% or $1,475,571 from the previous fiscal year. The largest decrease of 1460% or $1,533,456 below the prior year was attributable to Investment Earnings. A significant decrease in the fair market value of our investments in the amount of $1,500,272 occurred during fiscal year 2022 due to continued market declines amid economic uncertainty. Factors contributing to the uncertainty were the war in Ukraine, slowing economic growth and uncharacteristically high inflation. Another decrease of 87.3% or $592,556 below the prior year was attributable to Nonoperating Revenue, primarily attributable to a decrease of $596,809 in actual 2021 and estimated 2022 revenues related to Frederick Water's BOD capacity used by the City of Winchester compared to the 2019, 2020, and estimated 2021 revenues recorded the prior year. These decreases were offset by an increase of 4.6% or $1,376,839 in Charges for service revenue. This increase was due to our increasing customer base and the reinstatement of penalties and fees which were prohibited during the previous fiscal year under pandemic regulations.

Frederick Water Changes in Net Position

	2022	2021
Revenues:		
Charges for service	$ 31,233,397	$ 29,856,558
Capital contributions	6,829,381	7,238,780
Availability Fees	8,133,956	8,522,824
Other operating revenues	414,163	342,295
Investment earnings	(1,428,426)	105,030
Other nonoperating revenues	86,558	679,113
Total revenues	45,269,029	46,744,600
Expenses:		
Source of water supply	1,301,745	1,340,376
Water transmission and distribution	2,345,598	2,217,385
Wastewater collection	804,672	875,860
Wastewater treatment	3,742,346	3,726,016
Maintenance and operations	1,235,051	1,005,615
Customer accounting and collections	829,860	774,873
Engineering and planning	1,275,703	1,147,306
General and administration	2,077,555	2,966,500
Depreciation	11,574,676	11,152,300
(Gain) loss on sale of assets	(4,899)	147,424
Interest expense	2,144,263	2,394,849
Impairment Loss	855	42,722
Other nonoperating expenses	56,315	47,786
Total expense	27,383,740	27,839,012
Increase in net position	17,885,289	18,905,588
Net position beginning of year (as restated)	161,671,354	142,765,766
Net position end of year	$ 179,556,643	$ 161,671,354

Results of Operations (Continued)

Frederick Water's expenses for the fiscal year ended June 30, 2022, decreased 1.6% or $455,272 from the previous fiscal year.

Maintenance and operations expenses for the fiscal year ended June 30, 2022 increased 22.8% or $229,436 from the prior year. Wages increased $193,221 from the prior year due to a cost of living increase given in April in addition to the annual merit increase awarded each July. Vehicle expenses, which include fuel and repair costs, increased $26,849 from the prior year primarily due to the increase in fuel costs occurring during the year. Regular gasoline rates increased 80% and Diesel rates increased 106% year over year.

General and administrative expenses for the fiscal year ended June 30, 2022, decreased 30.0% or $888,945 from the prior year. Legal and professional services decreased $734,643 from the prior year due to pandemic related delays for litigation with a developer. Total Pension and OPEB costs decreased by $322,035, primarily due to a decrease in the Pension costs of $338,179 from the prior year. These decreases were offset by increased costs of Health Insurance of $53,672 due to increased premiums, FICA/Medicare of $45,872 due to increased wage as a result of a cost of living increase given in April in addition to the annual merit increase awarded each July, and Repair and Maintenance costs of $46,776, which includes replacement flooring for the Administrative offices above costs from the prior year.

Frederick Water's single largest expense is depreciation. Depreciation accounted for 46.0 % of total operating expenses for the fiscal year ended June 30, 2022. Frederick Water owns $338.1 million in fixed assets that are subject to annual depreciation. 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 30,2022 decreased 10.5% or $250,586 from the prior year. There was an increase in interest expense attributable to water infrastructure of $263,505 from the prior year primarily attributable to the accrued interest on the Virginia State Revolving Fund load for the new water treatment plant. There was a decrease in interest expense of $379,405 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 and a 2021 refunding. There was also an increase in bond premium amortization which offsets Interest Expense of $182,182 from the prior year. This decrease to Interest Expense was attributable to adjustments necessary to properly state unamortized bond premium over the remaining term of the debt.

Capital Contributions and Assets

This area of Frederick Water's operations had significant activity during fiscal year 2022.

During the fiscal year ended June 30, 2022, Frederick Water invested funds in the

following:

- completed SCADA improvements at the Parkins Mill facility and began SCADA improvements at multiple pump stations,
- completed design of a filtration plant in the Lake Frederick service area,
- continued upgrade to water mains along Route 277 in Stephens City area,
- continued construction for the Opequon Initiative which includes; a new water treatment plant, quarry intake and supporting pipelines,
- continued design for a water storage tank and direct well connections at our Diehl facility,
- service connection costs, and
- routine purchases for manhole rehabilitation, meters, fire hydrant replacements, muffin monsters, generator, and wet wells for pump station improvements as well as other equipment and vehicle replacements.

Capital contributions, representing the value of assets deeded over to Frederick Water by developers, were $6,829,381 for the fiscal year ended June 30, 2022.

Assets and Deferred Outflows of Resources

Frederick Water's total assets and deferred outflows of resources increased during the fiscal year ended June 30, 2022, 20.5% or $52,191,578.

Liabilities and Deferred Inflows of Resources

Frederick Water's total liabilities and deferred inflows of resources increased during the fiscal year ended June 30, 2022, 37.1 % or $34,306,289.

Debt

Frederick Water had total bonded debt of $38,021,996 and obligations, notes, and leases payable of $70,618,473 as of June 30, 2022.

Frederick Water Net Position

	2022	2021
Current and other assets	$ 61,145,019	$ 50,147,914
Capital assets	243,967,912	202,436,395
Total assets	305,112,931	252,584,309
Deferred outflows of resources	1,212,911	1,549,955
Current liabilities	19,458,114	16,267,451
Long-term liabilities	105,657,629	75,977,630
Total liabilities	125,115,743	92,245,081
Deferred inflows of resources	1,653,456	217,829
Net position:		
Invested in capital assets, net of related debt	134,874,571	125,445,513
Net pension asset	625,061	0
Unrestricted	44,057,011	36,225,841
Total net position	$ 179,556,643	$ 161,671,354

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, 2022
(With Comparative Amounts as of June 30, 2021)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted (Note 2)	$ 16,197,767	$ 10,130,214
Investments (Note 2)	37,912,003	33,521,100
Accounts receivable, net (Note 3)	5,455,819	5,128,276
Contract receivable (Note 3)	25,000	662,117
Prepaid and other assets	209,346	83,354
Inventories	720,023	622,853
Total current assets	60,519,958	50,147,914
NONCURRENT ASSETS		
Capital assets, net (Note 4)	243,967,912	202,436,395
Net pension asset (Note 7)	625,061	-
Total noncurrent assets	244,592,973	202,436,395
Total assets	305,112,931	252,584,309
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	340,178	558,398
Deferred outflows related to pensions (Note 7)	761,274	894,681
Deferred outflows related to other postemployment benefits (Note 8)	111,459	96,876
Total deferred outflows of resources	1,212,911	1,549,955
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	3,911,824	1,045,874
Contracts payable	1,865,649	1,554,778
Accrued interest	719,417	623,592
Unearned revenue	6,049,938	6,465,710
Current portion of compensated absences (Note 5)	629,295	631,346
Current portion of bonds, notes, and other obligations payable (Note 5)	6,281,991	5,946,151
Total current liabilities	19,458,114	16,267,451
NONCURRENT LIABILITIES		
Contracts payable	777,180	1,295,770
Customer deposits	1,197,928	1,242,168
Compensated absences (Note 5)	269,697	270,577
Net pension liability (Note 7)	-	1,217,712
Net other postemployment benefit liability (Note 8)	261,296	348,274
Other long term liabilities (Note 5)	103,151,528	71,603,129
Total noncurrent liabilities	105,657,629	75,977,630
Total liabilities	125,115,743	92,245,081
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	1,544,101	199,037
Deferred inflows related to other postemployment benefits (Note 8)	109,355	18,792
Total deferred inflows of resources	1,653,456	217,829
NET POSITION		
Net investment in capital assets	134,874,571	125,445,513
Restricted for net pension asset	625,061	-
Unrestricted	44,057,011	36,225,841
Total net position	$ 179,556,643	$ 161,671,354

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, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	2022	2021
OPERATING REVENUES		
Charges for services:		
Water service	$ 14,454,976	$ 13,994,382
Sewer service	16,172,639	15,489,935
Penalties and surcharges	401,057	193,441
Connection fees	204,725	178,800
Miscellaneous	414,163	342,295
Total operating revenues	31,647,560	30,198,853
OPERATING EXPENSES		
Source of water supply (Note 9)	1,301,745	1,340,376
Water transmission and distribution	2,345,598	2,217,385
Wastewater collection	804,672	875,860
Wastewater treatment	3,742,346	3,726,016
Maintenance and operations	1,235,051	1,005,615
Customer accounting and collecting	829,860	774,873
Engineering and planning	1,275,703	1,147,306
General and administrative	2,077,555	2,966,500
Depreciation (Note 4)	11,574,676	11,152,300
Total operating expenses	25,187,206	25,206,231
Operating income	6,460,354	4,992,622
NONOPERATING REVENUES (EXPENSES)		
Investment earnings (losses)	(1,428,426)	105,030
Availability fees	8,133,956	8,522,824
Proceeds from agreements	65,308	662,117
Other nonoperating revenues	15,377	16,831
Insurance proceeds	5,873	165
Gain (loss) on disposal of capital assets	4,899	(147,424)
Interest expense	(2,144,263)	(2,394,849)
Impairment loss	(855)	(42,722)
Other nonoperating expenses	(56,315)	(47,786)
Total nonoperating revenues (expenses), net	4,595,554	6,674,186
Income before capital contributions	11,055,908	11,666,808
CAPITAL CONTRIBUTIONS	6,829,381	7,238,780
Change in net position	17,885,289	18,905,588
NET POSITION AT JULY 1	161,671,354	142,765,766
NET POSITION AT JUNE 30	$ 179,556,643	$ 161,671,354

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, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	2022	2021
OPERATING ACTIVITIES		
Receipts from customers	$ 31,326,917	$ 30,146,893
Payments to suppliers	(8,666,621)	(9,874,383)
Payments to employees	(4,434,979)	(3,549,474)
Other operating receipts	717,802	-
Net cash provided by operating activities	18,943,119	16,723,036
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets and water rights	(30,169,798)	(16,096,879)
Availability fees	7,667,044	8,591,791
Proceeds from sale of capital assets	6,821	26,467
Proceeds from issuance of debt	23,892,394	3,442,436
Principal payments on long-term liabilities	(6,275,077)	(5,466,924)
Interest payments on long-term obligations	(2,183,494)	(2,584,532)
Insurance proceeds	5,873	165
Net cash used in capital and related financing activities	(7,056,237)	(12,087,476)
INVESTING ACTIVITIES		
Proceeds from investments	2,787,545	8,694,791
Purchases of investments	(8,935,000)	(12,725,324)
Investment earnings	328,126	390,727
Net cash used in investing activities	(5,819,329)	(3,639,806)
Net increase in cash and cash equivalents	6,067,553	995,754
CASH AND CASH EQUIVALENTS, beginning at July 1	10,130,214	9,134,460
CASH AND CASH EQUIVALENTS, ending at June 30	$ 16,197,767	$ 10,130,214

(Continued)

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

FREDERICK WATER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Amounts for the Year Ended June 30, 2021)

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 6,460,354	$ 4,992,622
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,574,676	11,152,300
Excess of employer contributions over pension expense	(364,302)	(7,777)
Excess of employer contributions over other postemployment benefits expense	(10,998)	(7,137)
Other nonoperating expenses included in operating activities	(56,315)	(47,786)
(Increase) decrease in:		
Accounts receivable	(327,543)	16,695
Contracts receivable	80,685	-
Prepaids and other assets	(125,992)	103,275
Inventories	(97,170)	(80,236)
Contract receivable	637,117	-
Increase (decrease) in:		
Accounts payable and accrued expenses	1,376,357	(1,531,037)
Contracts payable	(207,719)	2,266,704
Unearned revenue	51,140	-
Customer deposits	(44,240)	(68,655)
Compensated absences	(2,931)	(65,932)
Net cash provided by operating activities	$ 18,943,119	$ 16,723,036
NONCASH CAPITAL AND RELATED FINANCING		
Developer contributed capital improvements	$ 6,829,381	$ 7,238,780
Impairment loss	$ 855	$ -
Debt incurred for acquisition of capital assets	$ -	$ 7,241
Lease asset acquired by a lease liability	$ 14,620,198	$ -
Capital assets acquired through accounts payable	$ 1,609,482	$ 119,889
Intangibles acquired through debt refunding	$ -	$ 1,598,670

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 $75,000. Bad debt expense was approximately $700.

(Continued)

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)

<u>Deferred outflows and inflows of resources</u>

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.

<u>Unearned revenue</u>

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.

<u>Compensated absences</u>

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. Restricted net position includes amounts for the net pension asset.

Estimates

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

Fair value measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by 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, 2022, the Authority's investments in corporate bonds and notes 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.

(Continued)

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	$ 23,018,186	AA+f/S1	1.795
Virginia Investment Pool – NAV Pool	6,507,675	AAAm	
Total investments	$ 29,525,861		

* Average maturity in years

Cash and cash equivalents	$ 9,690,091
Long-term certificates of deposit	14,893,818
Total deposits	24,583,909
Total deposits and investments	$ 54,109,770

Reconciliation of deposits and investments to Exhibit 1:

Cash and cash equivalents, unrestricted	$ 16,197,767
Investments	37,912,003
	$ 54,109,770

Note 3. Accounts Receivable

Accounts receivable consisted of the following:

Billed	$ 2,841,063
Unbilled	2,586,600
Contracts receivable	25,000
Other	28,156
	$ 5,480,819

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 6,836,387	$ 10,549	$ -	$ 6,846,936
Land lease	-	14,620,198	-	14,620,198
Construction in progress	20,259,260	31,806,865	1,959,938	50,106,187
Total capital assets, not being depreciated	27,095,647	46,437,612	1,959,938	71,573,321
Capital assets being depreciated and amortized				
Water source of supply	7,893,887	-	-	7,893,887
Water pumping	16,607,531	117,837	3,123	16,722,245
Sewage pumping	5,132,828	1,229,105	4,226	6,357,707
Water transmission and distribution	86,499,348	3,659,285	640,754	89,517,879
Sewage collection and transmission	90,329,071	3,301,891	9,060	93,621,902
General plant	10,998,558	322,324	722,197	10,598,685
Water rights lease	610,400	-	-	610,400
FWSA treatment plant rights	112,744,008	-	-	112,744,008
Total capital assets being Depreciated and amortized	330,815,631	8,630,442	1,379,360	338,066,713
Less accumulated depreciation/ amortization for:				
Other capital assets	96,175,048	6,366,159	1,377,437	101,163,770
Water rights lease	118,488	101,975	-	220,463
FWSA treatment plant rights	59,181,347	5,106,542	-	64,287,889
Total accumulated Depreciation/ amortization	155,474,883	11,574,676	1,377,437	165,672,122
Total capital assets being Depreciated and amortized, net	175,340,748	(2,944,234)	(1,923)	172,394,591
Total capital assets, net	$ 202,436,395	$ 43,493,378	$ (1,961,861)	$ 243,967,912

(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 for a portion of 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	$ 60,256,104	$ -	$ 4,075,123	$ 56,180,981	$ 4,188,110
Revenue bonds	15,729,374	23,892,394	1,599,772	38,021,996	1,654,912
Lease liabilities	417,476	14,620,198	600,182	14,437,492	194,163
Issuance premiums	1,146,326	-	353,276	793,050	244,806
	77,549,280	38,512,592	6,628,353	109,433,519	6,281,991
Compensated absences	901,923	633,943	636,874	898,992	629,295
Total long-term liabilities	$ 78,451,203	$ 39,146,535	$ 7,265,227	$ 110,332,511	$ 6,911,286

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
2023	$ 4,274,037	$ 1,406,753	$ 1,654,912	$ 399,314	$ 194,163	$ 470,788	$ 6,123,112	$ 2,276,855
2024	4,380,177	1,295,246	1,089,292	332,837	254,766	463,950	5,724,235	2,092,033
2025	4,499,204	1,179,417	1,143,791	279,486	322,640	455,138	5,965,635	1,914,041
2026	4,617,656	1,056,861	1,203,413	224,515	288,185	444,135	6,109,254	1,725,511
2027	4,730,133	945,377	1,258,162	167,924	370,479	434,776	6,358,774	1,548,077
2028-2032	18,241,898	3,284,311	2,491,722	384,091	3,397,768	1,927,483	24,131,388	5,595,885
2033-2037	10,704,160	1,543,937	1,106,541	191,797	5,406,639	1,233,887	17,217,340	2,969,621
2038-2040	4,733,716	151,287	739,333	36,897	4,202,852	278,921	9,675,901	467,105
	$ 56,180,981	$ 10,863,189	$ 10,687,166	$ 2,016,861	$ 14,437,492	$ 5,709,078	$ 81,305,639	$ 18,589,128

During 2021, the Authority 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 loan is for a 20 year period with an interest rate of 1.15%. Interest will accrue during construction and will be due in April 2023. Repayments will begin in October 2023. The total draw on the debt as of June 30, 2022 was $27,334,830, which is not included in maturity schedule above.

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 %	$ 16,946,633
2011 FWSA Opequon Facility Expansion II	03/01/2009	03/01/2031	12,613,293	1.75	6,703,123
2015 FWSA Refunding Debt	05/28/2015	10/01/2038	7,840,530	3.22-5.13	4,856,400
FWSA Series 2014A	05/07/2014	10/01/2038	15,055,000	2.74-4.83	8,342,500
FWSA Series 2014B	07/29/2014	10/01/2038	10,037,500	3.65-5.13	2,927,500
FWSA Series 2016B	07/27/2016	10/01/2038	2,402,640	2.71-5.13	2,357,910
FWSA 2021 Partial Refunding of Series 2014A	5/26/2021	10/1/2038	5,362,500	0.31-2.81	5,292,500
FWSA 2021 Partial Refunding of Series 2014B	5/26/2021	10/1/2038	6,612,500	0.31- 2.76	6,527,500
FWSA 2021 Partial Refunding of Series 2015A	5/26/2021	10/1/2038	2,255,670	0.31- 2.81	2,226,915
					$ 56,180,981
Revenue Bonds					
Virginia Infrastructure Revenue Bonds	11/14/2010	10/01/2022	$ 5,460,000	3.10-5.10	$ 610,000
Virginia Water and Sewer Refunding Bonds	05/28/2015	10/01/2027	6,020,000	3.13-5.13	3,950,000
Virginia Infrastructure Refunding Bonds	11/18/2015	10/01/2028	4,045,000	3.08-5.13	2,470,000
VML/VACO Lease Revenue Refunding Bonds	6/18/2020	2/15/2040	4,001,000	2.72	3,657,166
VRA Virginia Water Supply Revolving Loan	3/1/2021	2/28/2041	27,334,830	1.15	27,334,830
					$ 38,021,996
Lease liabilities					
Quarry land lease	7/1/2021	6/30/2120	14,620,198	3.25 %	14,120,198
Water rights agreement	06/09/2020	05/05/2025	603,159	3.75	306,714
Lease for equipment	11/01/2017	02/01/2023	8,450	4.89	901
Lease for equipment	02/01/2019	05/01/2024	6,000	4.62	2,163
Lease for equipment	12/01/2019	02/01/2025	5,245	4.69	2,742
Lease for equipment	9/1/2020	8/31/2025	7,241	4.50	4,774
					$ 14,437,492

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, 2022, the following bonds are considered defeased:

	Beginning Balance	Increases	Decreases	Ending Balance
VPFP Series 2005C	$ 3,140,000	$ -	$ 330,000	$ 2,810,000
VPFP Series 2007B	4,715,000	-	580,000	4,135,000
2010 Recovery Zone	3,755,000	-	140,000	3,615,000
	$ 11,610,000	$ -	$ 1,050,000	$ 10,560,000

FWSA obligations

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

Note 6. Leases

During 2022, the Authority implemented the guidance of GASBS 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, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	24
Inactive members:	
Vested inactive members	5
Non-vested inactive members	13
Inactive members active elsewhere in VRS	3
Total inactive members	21
Active members	74
Total covered employees	119

(Continued)

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, 2022 was 5.56% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 $228,168 and $209,822 for the years ended June 30, 2022 and 2021, 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, 2021. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2020 rolled forward to the measurement date of June 30, 2021.

(Continued)

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, 2020, 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, 2021.

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, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, 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 %	5.00 %	1.70 %
Fixed Income	15.00	0.57	0.09
Credit Strategies	14.00	4.49	0.63
Real Assets	14.00	4.76	0.67
Private Equity	14.00	9.94	1.39
MAPS – Multi-Asset Public Strategies	6.00	3.29	0.20
PIP – Private Investment Partnership	3.00	6.84	0.21
Total	100.00 %		4.89 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.39 %

* The above allocation provides for a one-year return of 7.39%. 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 6.94%, 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, 2021, 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, 2017 actuarial valuations, whichever is greater. From July 1, 2021 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, 2020	$ 12,041,411	$ 10,823,699	$ 1,217,712
Changes for the year:			
Service cost	370,969	-	370,969
Interest	795,535	-	795,535
Differences between expected and actual experience	60,150	-	60,150
Assumption changes	304,262	-	304,262
Contributions – employer	-	209,822	(209,822)
Contributions – employee	-	200,548	(200,548)
Net investment income	-	2,970,330	(2,970,330)
Benefit payments, including refunds of employee contributions	(511,400)	(511,400)	-
Administrative expenses	-	(7,292)	7,292
Other changes	-	281	(281)
Net changes	1,019,516	2,862,289	(1,842,773)
Balances at June 30, 2021	$ 13,060,927	$ 13,685,988	$ (625,061)

(Continued)

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)	$ 999,410	$ (625,061)	$ (1,969,268)

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

For the year ended June 30, 2022, the political subdivision recognized pension income of $136,134. At June 30, 2022, 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	$ 172,651	$ 49,164
Changes of assumptions	360,455	14,535
Net difference between projected and actual earnings on pension plan investments	-	1,480,402
Employer contributions subsequent to the measurement date	228,168	-
Total	$ 761,274	$ 1,544,101

Note 7. Defined Benefit Pension Plan (Continued)

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

The $228,168 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 year ending June 30, 2023. 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
2023	$ (216,102)
2024	(151,997)
2025	(226,429)
2026	(416,467)
2027	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2021 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-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, 2020 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	74
Total covered employees	86

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2020 (General Employee HIC Program) and June 30, 2019 (GLI). 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, 2022 Contribution	$25,474
June 30, 2021 Contribution	$23,005

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:	0.14% of covered compensation.
June 30, 2022 Contribution	$6,554
June 30, 2021 Contribution	$5,925

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

The net OPEB liabilities were measured as of June 30, 2021 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. 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, 2021 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	$240,189
June 30, 2021 proportion	0.02063%
June 30, 2020 proportion	0.01904%
June 30, 2022 expense	$18,661

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, 2020	$ 107,228	$ 76,701	$ 30,527
Changes for the year:			
Service cost	2,804	-	2,804
Interest	7,068	-	7,068
Differences between expected and actual experience	5,979	-	5,979
Assumption changes	752	-	752
Contributions – employer	-	5,925	(5,925)
Net investment income	-	20,342	(20,342)
Benefit payments, including refunds of employee contributions	(5,041)	(5,041)	-
Administrative expenses	-	(244)	244
Net changes	11,562	20,982	(9,420)
Balances at June 30, 2021	$ 118,790	$ 97,683	$ 21,107

In addition, for the year ended June 30, 2021, the Authority recognized OPEB expense of $2,427 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, 2022, 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	$ 27,394	$ 1,830
Changes of assumptions	13,242	32,863
Net difference between projected and actual earnings on OPEB plan investments	-	57,328
Changes in proportionate share	30,026	412
Employer contributions subsequent to the measurement date	25,474	-
Total	$ 96,136	$ 92,433

At June 30, 2022, 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	$ 6,725	$ 5,875
Changes of assumptions	2,044	1,193
Net difference between projected and actual earnings on OPEB plan investments	-	9,854
Employer contributions subsequent to the measurement date	6,554	-
Total	$ 15,323	$ 16,922

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, 2023. 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
2023	$ (3,011)
2024	(1,706)
2025	(3,969)
2026	(13,624)
2027	539
Thereafter	-

General Employee Health Insurance Credit Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2023	$ (1,945)
2024	(1,920)
2025	(1,634)
2026	(2,713)
2027	(18)
Thereafter	77

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

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, 2021, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,577,346
Plan fiduciary net position	$ 2,413,074
Employers' net OPEB liability (asset)	$ 1,164,272
Plan fiduciary net position as a percentage of total OPEB liability	67.45%

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 %	5.00 %	1.70 %
Fixed Income	15.00	0.57	0.09
Credit Strategies	14.00	4.49	0.63
Real Assets	14.00	4.76	0.67
Private Equity	14.00	9.94	1.39
MAPS – Multi-Asset Public Strategies	6.00	3.29	0.20
PIP – Private Investment Partnership	3.00	6.84	0.21
Total	100.00 %		4.89 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.39 %

* The above allocation provides for a one-year return of 7.39%. 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 6.94%, 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 40^{th} 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, 2020, 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	$ 350,925	$ 240,189	$ 150,765
General Employee HIC Net OPEB Liability	$ 33,442	$ 21,107	$ 10,617

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2021 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2021 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-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	$	27,394
VRS- General Employee Health Insurance Credit Program		6,725
Changes in proportion		
VRS- Group Life Insurance		30,026
Employer contributions subsequent to the measurement date		
VRS- Group Life Insurance		25,474
VRS- General Employee Health Insurance Credit Program		6,554
Changes of assumptions		
VRS- Group Life Insurance		13,242
VRS- General Employee Health Insurance Credit Program		2,044
Total deferred outflows of resources - OPEB	$	111,459
Net OPEB liability		
VRS- Group Life Insurance	$	240,189
VRS- General Employee Health Insurance Credit Program		21,107
Total net OPEB liability	$	261,296
Deferred inflows of resources - OPEB		
Differences between expected and actual experience		
VRS- Group Life Insurance	$	1,830
VRS- General Employee Health Insurance Credit Program		5,875
Changes in proportion		
VRS- Group Life Insurance		412
Net difference between projected and actual earnings on plan investments		
VRS- Group Life Insurance		57,328
VRS- General Employee Health Insurance Credit Program		9,854
Changes of assumptions		
VRS- Group Life Insurance		32,863
VRS- General Employee Health Insurance Credit Program		1,193
Total deferred inflows of resources – OPEB	$	109,355
OPEB Expense		
VRS- Group Life Insurance	$	18,661
VRS- General Employee Health Insurance Credit Program		2,427
Total OPEB Expense	$	21,088

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 $1,301,745 for 2022.

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, 2022 amounts to $631,983 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 has filed counterclaims against the developer. The developer's claim relating to the installation of the water line upgrade, and the Authority's counterclaims have been set for trial beginning on April 10, 2023. Management and legal counsel are of the opinion that an outcome of the case cannot be reasonably determined.

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	$ 31,967,598	$ 24,631,126	$ 7,336,472
OWSP- Quarry Intake	12,664,519	10,946,927	1,717,592
Muffin Monster Installation Stephenson Regional PS	70,844	67,302	3,542
Muffin Monster Installation Route 50W PS	84,744	-	84,744
Total	$ 44,787,705	$ 35,645,355	$ 9,142,350

Note 12. New Accounting Standards

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

In May 2019, the GASB issued **Statement No. 91**, *Conduit Debt Obligation*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

The GASB issued **Statement No. 99,** *Omnibus 2022,* during 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 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.

The GASB issued **Statement No. 100,** *Accounting Changes and Error Corrections,* during 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. 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.

The GASB issued **Statement No. 101,** *Compensated Absences,* during 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

REQUIRED
SUPPLEMENTARY INFORMATION

Exhibit 4

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2022

	Plan Year Ended June 30,							
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability								
Service cost	$ 370,969	$ 349,576	$ 326,178	$ 317,218	$ 318,484	$ 294,234	$ 287,609	$ 286,002
Interest on total pension liability	795,535	748,260	709,818	680,160	675,153	651,099	643,148	610,394
Difference between expected and actual experience	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	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Net change in total pension liability	1,019,516	677,869	998,500	425,083	75,201	341,338	123,672	463,263
Total pension liability – beginning	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	13,060,927	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	209,822	170,565	166,328	221,893	211,875	281,381	267,322	277,708
Contributions – employee	200,548	186,671	178,102	171,738	161,565	150,593	143,454	138,417
Net investment income	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	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Administrative expenses	(7,292)	(7,034)	(6,721)	(6,065)	(6,035)	(5,224)	(5,062)	(5,963)
Other	281	(244)	(432)	(636)	(938)	(63)	(77)	58
Net change in plan fiduciary net position	2,862,289	(1,500)	573,359	651,084	980,455	133,943	356,728	1,090,050
Plan fiduciary net position – beginning	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	13,685,988	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	$ (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)	105%	90%	95%	99%	97%	87%	89%	86%
Covered payroll	$ 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	-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.

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2022

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
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.

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2022

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

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, 2022

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					
2021	0.02063 %	$ 240,189	$ 4,260,211	5.64 %	67.45 %
2020	0.01904	317,747	3,918,606	8.11	52.00
2019	0.01908	310,482	3,739,485	8.30	52.00
2018	0.01884	287,000	3,581,847	8.01	51.22
2017	0.01805	272,000	3,322,990	8.19	48.86

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

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

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2022

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					
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					
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.

Note 1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2020, 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 and service through 9 years of service.
- 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 and service through 9 years of service.
- 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 Principal	Debt Service including FWSA Interest	Coverage
2013	$ 21,512,426	$ 9,079,261	$ 12,433,165	$ 5,906,181	$ 3,480,449	1.32
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

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.

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 *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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 31, 2022.

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 may exist that have not been identified.**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 31, 2022

BROWN EDWARDS
certified public accountants

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, 2022. 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, 2022.

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 31, 2022

FREDERICK WATER

SUMMARY OF COMPLIANCE MATTERS
June 30, 2022

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, 2022

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 programs were 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 programs 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 #
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 **not** determined to be a **low-risk auditee**.

(Continued)

FREDERICK WATER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

B. FINDINGS – FINANCIAL STATEMENT AUDIT –NONE

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

D. FINDING – COMMONWEALTH OF VIRGINIA – NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2022

2021-001: Capitalization Grants for Drinking Water State Revolving Loan, AL# 66.468, Procurement Policies and Procedures

Condition:

The Authority does not have complete, written procurement policies that are in compliance with the standards required by the Uniform Guidance (2 CFR Part 200).

Recommendation:

Management should draft and implement written procurement procedures to align with the Uniform Guidance requirements for all purchases to be made with Federal Funds.

Current Status:

No longer applicable.

Frederick Water

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

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:			
Capitalization Grants for Drinking Water State Revolving Fund Loan	66.468	$ 19,104,519	
			$ 19,104,519
Total Environmental Protection Agency			$ 19,104,519
Total Expenditures of Federal Awards			$ 19,104,519

See the notes to the Schedule of Expenditures of Federal Awards

FREDERICK WATER

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2022

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, 2022 is $27,334,830.