

FREDERICK WATER

FINANCIAL REPORT

June 30, 2024

FREDERICK WATER
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INTRODUCTORY SECTION

FREDERICK WATER
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2024

DIRECTORS

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

J. Stanley Crockett Henry F. Sliwinski

EXECUTIVE DIRECTOR

Eric Lawrence, AICP

INDEPENDENT AUDITORS

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

ATTORNEYS

McGuireWoods LLP
Whiteford, Taylor & Preston, LLP

FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Frederick Water
Winchester, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Frederick Water (the "Authority"), as of and for the year ended June 30, 2024, 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, 2024, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

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

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

Report on Summarized Comparative Information

We have previously audited the Authority's 2023 financial statements, and our report dated October 18, 2023, expressed an unmodified opinion on those financial statements. The 2023 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, 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 22, 2024 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 22, 2024

MANAGEMENT’S DISCUSSION AND ANALYSIS

Introduction

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

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

As management of Frederick Water, we offer readers of our financial statements this narrative overview and analysis of the financial activities of Frederick Water for the fiscal year ended June 30, 2024.

Overview of Financial Statements

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

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

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

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

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

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

Overview of Operations

Frederick Water's operations are influenced by the county's economic growth, and the recent fiscal year saw significant activity. During this fiscal year, there were 557 approved water connections, representing a 73.0% increase over the previous fiscal year, bringing the total number of water customers serviced to nearly 18,600. Similarly, there were 557 approved sewer connections, a 72.4% increase from the previous fiscal year, bringing the total number of sewer customers serviced to nearly 18,100. New connections far surpassed Frederick Water's expectations. Frederick County experienced its second consecutive year of double-digit growth, with strong growth anticipated to continue in the coming years. In response, Frederick Water is actively enhancing its operations, maintaining and upgrading infrastructure, and expanding water and wastewater treatment capacities to meet rising future demands.

Frederick Water remains committed to achieving water independence by reducing reliance on third party sources. In 2019, Frederick Water secured quarry reservoirs on the southern end of the county, followed by an agreement in 2020 for the acquisition and use of quarry reservoirs on the northern end of the county. Fiscal year 2023 and 2024 saw significant progress on key infrastructure projects, including the Henry F. Sliwinski Water Treatment Plant, East Pit quarry reservoir intake, and supporting pipelines. While the plant was originally expected to be completed and operational during fiscal year 2024, changing water quality has caused delays, necessitating the design and future addition of a secondary treatment method. Frederick Water may begin treating current water sources rerouted from our Anderson Water Treatment Plant during fiscal year 2025, but treatment of water from the East Pit quarry reservoir is anticipated for late fiscal year 2026 or early fiscal year 2027. These initiatives not only strengthen Frederick Water's self-sufficiency and drought resilience, but also position it as a viable regional partner for neighboring localities.

Financial Highlights

Frederick Water's financial position increased by \$27,259,663 for the fiscal year ended June 30, 2024. The assets and deferred outflows exceeded liabilities and deferred inflows by \$226,937,914. Frederick Water had \$149,698,594 invested in capital assets, \$77,239,320 of unrestricted net position available to meet ongoing obligations. Frederick Water's total assets and deferred outflows increased by 4.2% or \$13,438,221, while total liabilities and deferred inflows decreased 11.1% or \$13,821,443.

In 2021, Frederick Water received the Bill of Sale and Affidavit and Waiver of Lien documents related to construction of sewer lines and facilities in accordance with an October 2018 agreement with Graystone Corporation and Stephenson Associates. Frederick Water recorded the associated assets and \$1,500,000 liability, which represented 37.5% of the cost, up to a maximum of \$1,500,000. The cost is reimbursable in quarterly payments equal to 90% of the connections received. The outstanding liability under this agreement was \$274,580 at June 30, 2024, and \$449,269 at June 30, 2023.

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 reservoir intake, and all supporting pipelines. The loan is for a 20-year term with an interest rate of 1.15 %. Total reimbursements under this loan equal \$33,107,649 at June 30, 2024, and June 30, 2023. An interest only payment for this obligation was made in fiscal year 2023 in the amount of \$470,823, including administrative fees. Principal repayment on this obligation began in fiscal year 2024. The final reimbursement under the loan will occur upon Frederick Water's acceptance of the Henry F. Sliwinski Water Treatment Plant from the contractor and Virginia Department of Health's approval.

Financial Highlights (Continued)

Results of Operations

Frederick Water's revenues for the fiscal year ended June 30, 2024, increased 23.4% or \$11,641,926 from the previous fiscal year. Revenue from Availability Fees saw the largest increase of 82.7% or \$4,767,353 over the prior year. This was driven by a 73% increase in connections over the previous fiscal year and exceeded expectations by 49%. There was also a significant rise of 250.1% or \$2,602,472 in Investment Earnings over the prior year. The majority of this increase came from higher interest income, which contributed \$1,494,061. This was due to a rise in the average interest rate earned, which jumped to 4.2% from 2.8% in the previous year. Additionally, favorable changes in the fair market value of investments contributed \$778,106 to the growth in Investment Earnings. Other nonoperating revenues increased by 45.9% or \$501,063 compared to the previous year, mainly from settlement with a developer. Specifically, \$1,572,963 was recorded from escrow funds held under a developer agreement, which were forfeited to Frederick Water as part of a lawsuit settlement. These funds were over and above the \$1,080,532 in revenue recognized in fiscal year 2023 due to a one-time credit related to Parkins Mill debt service from the Frederick-Winchester Service Authority.

Frederick Water Changes in Net Position

	<u>2024</u>	<u>2023</u>
Revenues:		
Charges for service	\$ 35,946,727	\$ 34,341,430
Capital contributions	8,395,366	6,780,138
Availability Fees	10,532,627	5,765,274
Other operating revenues	1,270,704	716,675
Investment earnings	3,643,166	1,040,693
Other nonoperating revenues	1,592,839	1,091,776
Insurance Proceeds	<u>-</u>	<u>3,516</u>
Total revenues	\$ 61,381,429	\$ 49,739,502
Expenses:		
Source of water supply	2,508,725	854,097
Water treatment, transmission and distribution	3,756,368	3,215,195
Wastewater collection	1,194,806	1,006,129
Wastewater treatment	4,398,857	3,960,969
Maintenance and operations	950,440	1,002,957
Customer accounting and collections	1,052,089	1,010,507
Engineering and planning	1,452,969	1,294,406
General and administration	3,173,702	2,488,153
Depreciation	11,639,440	11,546,715
(Gain) loss on sale of assets	104,321	67,596
Interest expense	2,092,380	2,804,061
Impairment-Loss	1,767,669	364,835
Other nonoperating expenses	<u>30,000</u>	<u>2,274</u>
Total expense	<u>34,121,766</u>	<u>29,617,894</u>
Increase in net position	27,259,663	20,121,609
Net position beginning of year	<u>199,678,251</u>	<u>179,556,643</u>
Net position end of year	<u>\$ 226,937,914</u>	<u>\$ 199,678,251</u>

Results of Operations (Continued)

Frederick Water's expenses for the fiscal year ended June 30, 2024, increased 15.2% or \$4,503,872 from the previous fiscal year.

Source of Water Supply expenses for the fiscal year ended June 30, 2024, experienced a substantial increase rising by 193.7% or \$1,654,628 compared to the prior year. The average gallons of water purchased per day increased by 133% reaching 972,447 gallons. This translates to a total of 11,669,000 gallons purchased during the fiscal year, compared to 5,003,000 gallons in the previous fiscal year when the average was 416,941 gallons per day. The average price per thousand gallons increased to \$7.06 in the current fiscal year, up from \$5.60 in the prior year.

General and administrative expenses for the fiscal year ended June 30, 2024, increased by 27.6% or \$685,548 compared to the prior year. Salaries rose by \$250,123 over the prior year. Of this, \$118,000 was not an actual increase but a reclassification of salaries previously categorized under Water and Wastewater treatment expenses. The largest salary-related increase of \$90,000 was attributed to the addition of a Facilities Manager position to oversee capital projects at the Treatment Plants. Total Pension costs increased by \$234,063 from the prior year. Employee benefit costs increased by \$242,119. Rising health insurance premiums were the primary contributor, adding \$147,699 to this increase. Higher salaries also led to an increase in FICA/Medicare taxes, which contributed an additional \$67,529.

Water treatment, transmission, and distribution expenses for the fiscal year ended June 30, 2024 increased 16.8% or \$541,173 from the prior year. Utilities costs increased by \$212,429 over the prior year. Electric costs attributable to the Henry F. Sliwinski Water Treatment Plant accounted for \$207,889 of the increase. Salaries increased by \$96,958 from the prior year due to a cost of living and annual merit increase awarded in July. Chemical costs increased by \$85,360 with \$81,826 attributable to chemical purchases for the Henry F. Sliwinski Water Treatment Plant. Repair and Maintenance expenses increased by \$81,883 primarily attributable to the purchase of an isolation valve to be installed on our largest customer's water line for \$60,550 above the prior year costs.

Frederick Water's single largest expense is depreciation. Depreciation accounted for 38.6 % of total operating expenses for the fiscal year ended June 30, 2024. Frederick Water owns \$407.5 million in fixed assets that are subject to annual depreciation and amortization. Straight line depreciation is used over the life expectancy of the asset which ranges from 3 to 40 years.

Interest Expense for the fiscal year ended June 30, 2024 decreased 25.4% or \$711,681 from the prior year. There was a decrease in interest expense of \$558,488 from the prior year attributable to lease liabilities. In addition to declining balances contributing to the decrease, fiscal year 2023 included the interest payments under the lease as well as accrued interest on the lease liabilities as there was no accrued interest on the lease liabilities recorded in fiscal year 2022. There was a decrease in interest expense of \$123,874 related 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 declining principal balances.

Impairment losses on assets for the fiscal year ended June 30, 2024 increased \$1,402,834 from the prior year. The Design Build services, Geophysical Survey, and Geotechnical Engineering services related Frederick Water's original plan to use the Opequon Creek as our primary water source for the Henry F. Sliwinski Water Treatment plant was abandoned and costs expensed of \$1,656,887.

Capital Contributions and Assets

This area of Frederick Water's operations had moderate activity during fiscal year 2024.

During the fiscal year ended June 30, 2024, Frederick Water invested funds in the following:

- continued construction on the Opequon Initiative which includes; the Sliwinski Water Treatment Plant, quarry intake and supporting pipelines,
- design and start of construction of a break tank, waste ponds, and direct connections from the wells to the plant at the Diehl Water Treatment Plant,
- design and easement acquisitions for the Crooked Run Force Main and Pump Station project to reroute flows to the Parkins Mill Wastewater Treatment Plant to address chloride violations and comply with the Environmental Protection Agency consent order.,
- service connection costs,
- water main replacement under I-81,
- clarifier refurbishment with rake replacement at the Parkins Mill Wastewater Treatment Plant, and
- routine purchases for meters, fire hydrant and gate valve replacements, mixers, and pumps and motors for pump station and treatment plant improvements as well as other equipment and vehicle replacements.

Capital contributions, representing the value of assets deeded over to Frederick Water by developers, were \$8,395,366 for the fiscal year ended June 30, 2024 and were up 23.8% or \$1,615,228 over the previous year.

Assets and Deferred Outflows of Resources

Frederick Water's total assets and deferred outflows of resources increased during the fiscal year ended June 30, 2024, 4.2% or \$13,438,221.

Liabilities and Deferred Inflows of Resources

Frederick Water's total liabilities and deferred inflows of resources decreased during the fiscal year ended June 30, 2024, 11.1% or \$13,821,443.

Debt

Frederick Water had total bonded debt of \$39,417,896 and obligations, notes, and leases payable of \$57,131,793 as of June 30, 2024.

Frederick Water Net Position

	<u>2024</u>	<u>2023</u>
Current and other assets	\$ 89,536,837	\$ 74,507,859
Capital assets	<u>246,528,269</u>	<u>248,172,946</u>
Total assets	<u>336,065,106</u>	<u>322,680,805</u>
Deferred outflows of resources	<u>1,020,372</u>	<u>966,452</u>
Current liabilities	18,150,150	19,635,148
Long-term liabilities	<u>91,702,809</u>	<u>103,826,475</u>
Total liabilities	<u>109,852,959</u>	<u>123,461,623</u>
Deferred inflows of resources	294,605	507,384
Net position:		
Invested in capital assets, net of related debt	149,698,594	139,510,217
Unrestricted	<u>77,239,320</u>	<u>60,168,034</u>
Total net position	<u>\$ 226,937,914</u>	<u>\$ 199,678,251</u>

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

FREDERICK WATER
STATEMENT OF NET POSITION
June 30, 2024
(With Comparative Amounts as of June 30, 2023)

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 43,458,812	\$ 36,131,674
Investments (Note 2)	37,616,425	31,046,806
Accounts receivable, net (Note 3)	7,294,307	6,122,223
Prepaid and other assets	268,782	223,093
Inventories	898,511	984,063
Total current assets	89,536,837	74,507,859
NONCURRENT ASSETS		
Capital assets:		
Nondepreciable (Note 4)	24,180,386	77,378,294
Depreciable, net (Note 4)	222,347,883	170,794,652
Total noncurrent assets	246,528,269	248,172,946
Total assets	336,065,106	322,680,805
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	225,140	273,308
Deferred outflows related to pensions (Note 7)	694,037	589,865
Deferred outflows related to other postemployment benefits (Note 8)	101,194	103,279
Total deferred outflows of resources	1,020,371	966,452
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	2,530,946	2,722,054
Contracts payable	201,329	1,781,214
Accrued interest	787,321	971,274
Unearned revenue	5,976,849	5,986,060
Current portion of compensated absences (Note 5)	824,535	706,171
Current portion of bonds and other obligations payable (Note 5)	7,829,170	7,468,373
Total current liabilities	18,150,150	19,635,146
NONCURRENT LIABILITIES		
Contracts payable	219,212	532,940
Customer deposits	1,326,621	1,222,688
Compensated absences (Note 5)	157,054	176,543
Net pension liability (Note 7)	506,331	158,923
Net other postemployment benefit liability (Note 8)	267,945	267,718
Bonds and other obligations payable (Note 5)	89,225,645	101,467,664
Total noncurrent liabilities	91,702,808	103,826,476
Total liabilities	109,852,958	123,461,622
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	239,389	431,835
Deferred inflows related to other postemployment benefits (Note 8)	55,216	75,549
Total deferred inflows of resources	294,605	507,384
NET POSITION		
Net investment in capital assets	149,698,594	139,510,218
Unrestricted	77,239,320	60,168,033
Total net position	\$ 226,937,914	\$ 199,678,251

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

FREDERICK WATER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
For the Year Ended June 30, 2024
(With Comparative Amounts for the Year Ended June 30, 2023)

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Charges for services:		
Water service	\$ 15,821,994	\$ 15,232,302
Sewer service	19,482,674	18,664,234
Penalties and surcharges	412,144	306,069
Connection fees	229,915	138,825
Miscellaneous	1,270,704	716,675
Total operating revenues	<u>37,217,431</u>	<u>35,058,105</u>
OPERATING EXPENSES		
Source of water supply (Note 9)	2,508,725	854,097
Water treatment, transmission, and distribution	3,756,368	3,215,195
Wastewater collection	1,194,806	1,006,129
Wastewater treatment	4,398,857	3,960,969
Maintenance and operations	950,440	1,002,957
Customer accounting and collecting	1,052,089	1,010,507
Engineering and planning	1,452,969	1,294,406
General and administrative	3,173,702	2,488,153
Depreciation and amortization (Note 4)	11,639,440	11,546,715
Total operating expenses	<u>30,127,396</u>	<u>26,379,128</u>
Operating income	<u>7,090,035</u>	<u>8,678,977</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	3,643,166	1,040,693
Availability fees	10,532,627	5,765,274
Other nonoperating revenues	1,592,839	1,091,776
Insurance proceeds	-	3,516
Loss on disposal of capital assets	(104,321)	(67,596)
Interest expense	(2,092,380)	(2,804,061)
Impairment loss	(1,767,669)	(364,835)
Other nonoperating expenses	(30,000)	(2,274)
Total nonoperating revenues (expenses), net	<u>11,774,262</u>	<u>4,662,493</u>
Income before capital contributions	18,864,297	13,341,470
CAPITAL CONTRIBUTIONS	<u>8,395,366</u>	<u>6,780,138</u>
Change in net position	27,259,663	20,121,608
NET POSITION AT JULY 1	<u>199,678,251</u>	<u>179,556,643</u>
NET POSITION AT JUNE 30	<u><u>\$ 226,937,914</u></u>	<u><u>\$ 199,678,251</u></u>

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

FREDERICK WATER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2024
(With Comparative Amounts for the Year Ended June 30, 2023)

	<u>2024</u>	<u>2023</u>
OPERATING ACTIVITIES		
Receipts from customers	\$ 36,166,342	\$ 34,407,217
Payments to suppliers	(15,494,296)	(11,093,432)
Payments to employees	(4,656,764)	(4,577,101)
Other operating receipts	<u>1,586,237</u>	<u>29,642</u>
Net cash provided by operating activities	<u>17,601,519</u>	<u>18,766,326</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets and water rights	(8,136,588)	(10,603,216)
Availability fees	10,506,354	5,710,640
Proceeds from sale of capital assets	-	65,116
Proceeds from issuance of debt	-	5,772,819
Principal payments on long-term liabilities	(7,359,582)	(5,043,873)
Interest payments on long-term obligations	(2,358,112)	(2,643,312)
Insurance proceeds	<u>-</u>	<u>3,516</u>
Net cash used in capital and related financing activities	<u>(7,347,928)</u>	<u>(6,738,310)</u>
INVESTING ACTIVITIES		
Proceeds from investments	14,682,900	18,778,256
Purchases of investments	(21,708,684)	(12,235,000)
Investment earnings	<u>4,099,331</u>	<u>1,362,635</u>
Net cash provided by (used in) investing activities	<u>(2,926,453)</u>	<u>7,905,891</u>
Net increase in cash and cash equivalents	7,327,138	19,933,907
CASH AND CASH EQUIVALENTS, beginning at July 1	<u>36,131,674</u>	<u>16,197,767</u>
CASH AND CASH EQUIVALENTS, ending at June 30	<u><u>\$ 43,458,812</u></u>	<u><u>\$ 36,131,674</u></u>

(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, 2024
(With Comparative Amounts for the Year Ended June 30, 2023)

	<u>2024</u>	<u>2023</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 7,090,035	\$ 8,678,977
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	11,639,440	11,546,715
(Excess) deficit of employer contributions over pension expense	50,790	(156,874)
Excess of employer contributions over other postemployment benefits expense	(11,419)	(12,602)
Other nonoperating expenses included in operating activities	(30,000)	(2,274)
(Increase) decrease in:		
Accounts receivable	(1,172,084)	(666,404)
Rebates and settlements	1,586,237	4,642
Prepays and other assets	(45,689)	(13,747)
Inventories	85,552	(264,040)
Contract receivable	-	25,000
Increase (decrease) in:		
Accounts payable and accrued expenses	82,400	(43,630)
Contracts payable	(1,893,613)	(328,675)
Unearned revenue	17,062	(9,244)
Customer deposits	103,933	24,760
Compensated absences	98,875	(16,278)
	<u>\$ 17,601,519</u>	<u>\$ 18,766,326</u>
Net cash provided by operating activities		
NONCASH CAPITAL AND RELATED FINANCING		
Developer contributed capital improvements	<u>\$ 8,395,366</u>	<u>\$ 6,780,138</u>
Impairment loss	<u>\$ 1,767,669</u>	<u>\$ 364,835</u>
Lease asset acquired by a lease liability	<u>\$ 5,191</u>	<u>\$ 12,082</u>
Capital assets acquired through accounts payable	<u>\$ 189,835</u>	<u>\$ 463,343</u>
FWSA credit on debt payments	<u>\$ -</u>	<u>\$ 1,080,532</u>

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

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 1. Summary of Significant Accounting Policies

Reporting entity

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

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

Measurement focus and basis of accounting

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

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

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

Cash and cash equivalents

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

Accounts receivable

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

Accounts receivable are stated net of an allowance for doubtful accounts of \$100,000. Bad debt expense was approximately (\$25,297).

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 1. Summary of Significant Accounting Policies (Continued)

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:

	<u>Years</u>
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.

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows and inflows of resources

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

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

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

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

Unearned revenue

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

Compensated absences

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions and Other Postemployment Benefits (OPEB)

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

Net position

Net position is the difference between assets and deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to those assets.

Estimates

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

Fair value measurement

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

Note 2. Cash and Investments

Deposits

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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

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

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

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. As of June 30, 2024, the Authority’s investment certificates of deposits were valued using Level 2 inputs.

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 2. Cash and Investments (Continued)

Investments (Continued)

The Authority's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Credit Rating</u>	<u>Weighted Average Maturity *</u>
Virginia Investment Pool – Bond Fund	\$ 16,678,335	AA+f/S1	1.78
Virginia Investment Pool – NAV Pool	<u>33,913,909</u>	AAAm	
Total investments	<u><u>\$ 50,592,244</u></u>		

* Average maturity in years

Cash and cash equivalents	\$ 9,544,919
Long-term certificates of deposit	<u>20,938,074</u>
Total deposits	<u>30,482,993</u>
Total deposits and investments	<u><u>\$ 81,075,237</u></u>

Reconciliation of deposits and investments to Exhibit 1:

Cash and cash equivalents	\$ 43,458,812
Investments	<u>37,616,425</u>
	<u><u>\$ 81,075,237</u></u>

Note 3. Accounts Receivable

Accounts receivable consisted of the following:

Billed	\$ 3,635,443
Unbilled	2,882,000
Grant Receivable	693,028
Other	<u>83,836</u>
	<u><u>\$ 7,294,307</u></u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2024, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 6,972,363	\$ 241,603	\$ -	\$ 7,213,966
Land lease	14,620,198	-	4,396,884	10,223,314
Construction in progress	55,785,733	6,010,794	55,053,421	6,743,106
Total capital assets, not being depreciated	77,378,294	6,252,397	59,450,305	24,180,386
Capital assets being depreciated and amortized				
Water source of supply	7,972,755	73,500	57,663	7,988,592
Water pumping	16,799,358	52,458,123	146,756	69,110,725
Sewage pumping	8,778,879	600,357	25,000	9,354,236
Water transmission and distribution	92,302,637	5,720,947	280,274	97,743,310
Sewage collection and transmission	96,330,944	4,158,951	340,903	100,148,992
General plant	9,739,371	286,228	208,426	9,817,173
Water rights lease	622,481	5,191	-	627,672
FWSA treatment plant rights	112,744,008	-	-	112,744,008
Total capital assets being depreciated and amortized	345,290,433	63,303,297	1,059,022	407,534,708
Less accumulated depreciation/ amortization for:				
Other capital assets	104,864,818	6,777,598	948,396	110,694,020
Water rights lease	323,956	104,997	-	428,953
FWSA treatment plant rights	69,307,007	4,756,845	-	74,063,852
Total accumulated depreciation/ amortization	174,495,781	11,639,440	948,396	185,186,825
Total capital assets being depreciated and amortized, net	170,794,652	51,663,857	110,626	222,347,883
Total capital assets, net	<u>\$ 248,172,946</u>	<u>\$ 57,916,254</u>	<u>\$ 59,560,931</u>	<u>\$ 246,528,269</u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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 the debt incurred for these facilities.

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

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

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)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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	\$ 51,906,944	\$ -	\$ 4,380,177	\$ 47,526,767	\$ 4,499,204
Revenue bonds	42,139,903	-	2,722,006	39,417,897	2,773,510
Lease liabilities	14,254,118	5,191	4,654,283	9,605,026	426,508
Issuance premiums	635,072	-	129,947	505,125	129,948
	<u>108,936,037</u>	<u>5,191</u>	<u>11,886,413</u>	<u>97,054,815</u>	<u>7,829,170</u>
Compensated absences	<u>882,714</u>	<u>723,085</u>	<u>624,210</u>	<u>981,589</u>	<u>824,535</u>
Total long-term liabilities	<u>\$ 109,818,751</u>	<u>\$ 728,276</u>	<u>\$ 12,510,623</u>	<u>\$ 98,036,404</u>	<u>\$ 8,653,705</u>

During fiscal year 2024, there was a lease remeasurement, which decreased the related liability by \$4,396,884. This is included in the decreases above. See further discussion in Note 6.

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

Fiscal Year	Obligations Payable – FWSA		Revenue Bonds		Lease Liabilities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 4,499,204	\$ 1,179,417	\$ 2,773,510	\$ 658,538	\$ 426,508	\$ 312,667	\$ 7,699,222	\$ 2,150,622
2026	4,617,656	1,056,861	2,851,928	584,771	347,592	298,269	7,817,176	1,939,901
2027	4,730,133	945,377	2,925,689	509,167	377,887	286,960	8,033,709	1,741,504
2028	4,827,757	850,251	2,989,800	438,302	408,434	274,670	8,225,991	1,563,223
2029	4,923,044	748,080	2,299,266	384,473	440,716	261,428	7,663,026	1,393,981
2030-2034	12,591,308	2,486,917	9,851,203	1,494,157	2,766,546	1,068,782	25,209,057	5,049,856
2035-2039	11,337,665	894,288	10,519,898	820,036	3,896,952	549,244	25,754,515	2,263,568
2040-2044	-	-	5,206,603	163,261	940,391	30,661	6,146,994	193,922
	<u>\$ 47,526,767</u>	<u>\$ 8,161,191</u>	<u>\$ 39,417,897</u>	<u>\$ 5,052,705</u>	<u>\$ 9,605,026</u>	<u>\$ 3,082,681</u>	<u>\$ 96,549,690</u>	<u>\$ 16,296,577</u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 5. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Obligations Payable – FWSA</u>					
2010 FWSA Parkins Mill Expansion	03/01/2010	09/01/2029	\$ 37,930,386	1.65 %	\$ 12,629,737
2011 FWSA Opequon Facility Expansion II	03/01/2009	03/01/2031	12,613,293	1.75	5,303,030
2015 FWSA Refunding Debt	05/28/2015	10/01/2038	7,840,530	3.22-5.13	4,099,185
FWSA Series 2014A	05/07/2014	10/01/2038	15,055,000	2.74-4.83	7,227,500
FWSA Series 2014B	07/29/2014	10/01/2038	10,037,500	3.65-5.13	2,200,000
FWSA Series 2016B	07/27/2016	10/01/2038	2,402,640	2.71-5.13	2,351,520
FWSA 2021 Partial Refunding of Series 2014A	5/26/2021	10/1/2038	5,362,500	0.31-2.81	5,167,500
FWSA 2021 Partial Refunding of Series 2014B	5/26/2021	10/1/2038	6,612,500	0.31- 2.76	6,372,500
FWSA 2021 Partial Refunding of Series 2015A	5/26/2021	10/1/2038	2,255,670	0.31- 2.81	2,175,795
					<u>\$ 47,526,767</u>
<u>Revenue Bonds</u>					
Virginia Water and Sewer Refunding Bonds	05/28/2015	10/01/2027	\$ 6,020,000	3.13-5.13 %	\$ 2,760,000
Virginia Infrastructure Refunding Bonds	11/18/2015	10/01/2028	4,045,000	3.08-5.13	1,850,000
VML/VACO Lease Revenue Refunding Bonds	6/18/2020	2/15/2040	4,001,000	2.72	3,332,961
VRA Virginia Water Supply Revolving Loan	3/1/2021	2/28/2041	33,107,649	1.15	31,474,936
					<u>\$ 39,417,897</u>
<u>Lease liabilities</u>					
Quarry land lease	7/1/2021	6/30/2120	\$ 14,620,198	3.25 %	\$ 9,483,166
Water rights lease	06/09/2020	05/05/2025	603,159	3.75	106,024
Lease for equipment	12/01/2019	02/01/2025	5,245	4.69	648
Lease for equipment	9/1/2020	8/31/2025	7,241	4.50	1,838
Lease for equipment	11/15/2022	11/15/2027	6,546	4.43	4,627
Lease for equipment	12/6/2022	12/6/2027	5,536	4.43	4,003
Lease for equipment	12/11/2023	3/14/2029	5,451	2.06	4,720
					<u>\$ 9,605,026</u>

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2024, the following bonds are considered defeased:

	Beginning Balance	Increases	Decreases	Ending Balance
VPFP Series 2005C	\$ 2,465,000	\$ -	\$ 360,000	\$ 2,105,000
VPFP Series 2007B	3,525,000	-	640,000	2,885,000
2010 Recovery Zone	3,470,000	-	150,000	3,320,000
	<u>\$ 9,460,000</u>	<u>\$ -</u>	<u>\$ 1,150,000</u>	<u>\$ 8,310,000</u>

FWSA obligations

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

Note 6. Leases

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

Authority as Lessee

During 2020, the Authority entered into a new agreement with an entity to lease quarry reservoirs, land on which the James T. Anderson Water Treatment Plant is located, various wells, and land associated with a water tank, collectively referred to as the "Northern Lease." The initial term of the agreement is for a period of six years commencing May 1, 2020, and expiring April 30, 2026, with annual rent of \$110,000 per year. The agreement can be extended for an additional six years with a starting lease rate of \$130,000, increasing annually at a rate of 3%. For purposes of discounting future payments, a 3.75% discount rate was used. The Authority has recorded a water rights lease asset related to the initial term of the agreement and a corresponding lease liability.

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2022 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>23</u>
Inactive members:	
Vested inactive members	7
Non-vested inactive members	14
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	24
Active members	<u>83</u>
Total covered employees	<u><u>130</u></u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2024 was 4.63% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$276,402 and \$247,963 for the years ended June 30, 2024 and 2023, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Political Subdivisions, the net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2022, rolled forward to the measurement date of June 30, 2023.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2022, 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, 2023.

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, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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 %	6.14 %	2.09 %
Fixed Income	15.00	2.56	0.38
Credit Strategies	14.00	5.60	0.78
Real Assets	14.00	5.02	0.70
Private Equity	16.00	9.17	1.47
MAPS – Multi-Asset Public Strategies	4.00	4.50	0.18
PIP – Private Investment Partnership	2.00	7.18	0.14
Cash	1.00	1.20	0.01
Total	100.00 %		5.75 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		8.25 %

- * The above allocation provides for a one-year return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 7. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, Political Subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2022 actuarial valuations, whichever was greater. From July 1, 2023 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2022	\$ 13,742,474	\$ 13,583,551	\$ 158,923
Changes for the year:			
Service cost	427,842	-	427,842
Interest	932,835	-	932,835
Benefit Changes:			
Differences between expected and actual experience	344,989	-	344,989
Contributions – employer	-	247,945	(247,945)
Contributions – employee	-	238,774	(238,774)
Net investment income	-	879,969	(879,969)
Benefit payments, including refunds of employee contributions	(701,088)	(701,088)	-
Administrative expenses	-	(8,782)	8,782
Other changes	-	352	(352)
Net changes	1,004,578	657,170	347,408
Balances at June 30, 2023	\$ 14,747,052	\$ 14,240,721	\$ 506,331

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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 was calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision's net pension liability (asset)	\$ 2,446,888	\$ 506,331	\$ (1,101,164)

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

For the year ended June 30, 2024, the Political Subdivision recognized pension expense of \$327,174. At June 30, 2024, 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	\$ 316,256	\$ 32,770
Changes of assumptions	101,379	-
Net difference between projected and actual earnings on pension plan investments	-	206,619
Employer contributions subsequent to the measurement date	276,402	-
Total	<u>\$ 694,037</u>	<u>\$ 239,389</u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 7. Defined Benefit Pension Plan (Continued)

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

The \$276,402 reported deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Effect on Pension Expense
2025	\$ 31,780
2026	(158,258)
2027	266,061
2028	38,663
2029	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2023 Annual Report. A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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-defined benefit plan. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

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

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2023 actuarial valuation, the following employees were covered by the benefit terms of the General Employee Health Insurance Credit Program:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>14</u>
Active members	<u>86</u>
Total covered employees	<u><u>100</u></u>

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2021. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>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.</i>
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, 2024 Contribution	\$32,265
June 30, 2023 Contribution	\$28,010

In June 2023, the Commonwealth made a special contribution of approximately \$10.1 million to the Group Life Insurance plan. This special payment was authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I, as amended by Chapter 769, 2023 Acts of Assembly Reconvened Session.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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

Contributions (Continued)

General Employee Health Insurance Credit Program

Governed by:	<i>Code of Virginia 51.1-1400 and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly.</i>
Total rate:	0.09% of covered compensation.
June 30, 2024 Contribution	\$5,378
June 30, 2023 Contribution	\$4,664

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

The net OPEB liabilities were measured as of June 30, 2023, and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2022, and rolled forward to the measurement date of June 30, 2023. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2023, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2024 proportionate share of liability	\$264,089
June 30, 2023 proportion	0.02202%
June 30, 2022 proportion	0.02169%
June 30, 2024 expense	\$22,797

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.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2022	\$ 106,649	\$ 100,100	\$ 6,549
Changes for the year:			
Service cost	2,307	-	2,307
Interest	7,190	-	7,190
Benefit Changes:			
Differences between expected and actual experience	(1,523)	-	(1,523)
Assumption changes	-	-	-
Contributions – employer	-	4,664	(4,664)
Net investment income	-	6,102	(6,102)
Benefit payments, including refunds of employee contributions	(4,862)	(4,862)	-
Administrative expenses	-	(149)	149
Other Changes:	-	50	(50)
Net changes	3,112	5,805	(2,693)
Balances at June 30, 2023	\$ 109,761	\$ 105,905	\$ 3,856

In addition, for the year ended June 30, 2023, the Authority recognized OPEB income of \$940 related to the General Employee Health Insurance Credit Program.

(Continued)

FREDERICK WATER

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

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, 2024, 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	\$ 26,376	\$ 8,016
Changes of assumptions	5,645	18,297
Net difference between projected and actual earnings on OPEB plan investments	-	10,613
Changes in proportionate share	26,857	288
Employer contributions subsequent to the measurement date	32,265	-
Total	<u>\$ 91,143</u>	<u>\$ 37,214</u>

At June 30, 2024, 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	\$ 3,623	\$ 10,318
Changes of assumptions	1,050	6,821
Net difference between projected and actual earnings on OPEB plan investments	-	863
Employer contributions subsequent to the measurement date	5,378	-
Total	<u>\$ 10,051</u>	<u>\$ 18,002</u>

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, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB expense in future reporting periods as follows:

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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
2025	\$ 6,652
2026	(3,574)
2027	11,555
2028	3,739
2029	3,292
Thereafter	-

General Employee Health Insurance Credit Program

Year Ending June 30,	Reduction to OPEB Expense
2025	\$ (3,503)
2026	(4,582)
2027	(1,886)
2028	(3,113)
2029	(245)
Thereafter	-

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2022, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2023:

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2023, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,907,052
Plan fiduciary net position	\$ 2,707,739
Employers' net OPEB liability	\$ 1,199,313
Plan fiduciary net position as a percentage of total OPEB liability	69.30%

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.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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:

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

- * The above allocation provides for a one-year return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including inflation of 2.50%.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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, 2023, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 113% of the actuarially determined contribution rate for GLI and 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2023 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	<u>\$ 391,462</u>	<u>\$ 264,089</u>	<u>\$ 161,107</u>
General Employee HIC Net OPEB Liability (asset)	<u>\$ 15,854</u>	<u>\$ 3,856</u>	<u>\$ (6,318)</u>

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2023 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

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	\$ 26,376
VRS- General Employee Health Insurance Credit Program	3,623
Changes in proportion	
VRS- Group Life Insurance	26,857
Employer contributions subsequent to the measurement date	
VRS- Group Life Insurance	32,265
VRS- General Employee Health Insurance Credit Program	5,378
Changes of assumptions	
VRS- Group Life Insurance	5,645
VRS- General Employee Health Insurance Credit Program	1,050
Total deferred outflows of resources - OPEB	<u>\$ 101,194</u>
Net OPEB liability	
VRS- Group Life Insurance	\$ 264,089
VRS- General Employee Health Insurance Credit Program	3,856
Total net OPEB liability	<u>\$ 267,945</u>
Deferred inflows of resources - OPEB	
Differences between expected and actual experience	
VRS- Group Life Insurance	\$ 8,016
VRS- General Employee Health Insurance Credit Program	10,318
Changes in proportion	
VRS- Group Life Insurance	288
Net difference between projected and actual earnings on plan investments	
VRS- Group Life Insurance	10,613
VRS- General Employee Health Insurance Credit Program	863
Changes of assumptions	
VRS- Group Life Insurance	18,297
VRS- General Employee Health Insurance Credit Program	6,821
Total deferred inflows of resources – OPEB	<u>\$ 55,216</u>
OPEB Expense	
VRS- Group Life Insurance	\$ 22,797
VRS- General Employee Health Insurance Credit Program	(940)
Total OPEB Expense	<u>\$ 21,857</u>

(Continued)

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 9. Water Contracts

The Authority obtains water from the City of Winchester under a 1971 contract most recently amended in 2002. The amended contract expires April 30, 2042, and includes rate adjustments, subject to certain limitations. Purchases amounted to \$2,508,725 for 2024.

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.

FREDERICK WATER
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

Note 11. Commitments and Contingencies (Continued)

Construction commitments

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

	<u>Total Contracts</u>	<u>Total Payments</u>	<u>Future Amounts to be Expended</u>
OWSP- Water Treatment Plant- Pipeline	\$ 32,114,285	\$ 30,504,058	\$ 1,610,227
OWSP- Quarry Intake	12,664,519	12,540,531	123,988
Diehl Water Treatment Plant Modifications	4,448,724	693,028	3,755,696
Lake Frederick Well Treatment	<u>4,698,000</u>	<u>-</u>	<u>4,698,000</u>
Total	\$ <u>53,925,528</u>	\$ <u>43,737,617</u>	\$ <u>10,187,911</u>

Note 12. New Accounting Standards

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

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

In December 2023, the GASB issued **Statement No. 102**, *Certain Risk Disclosures*. This statement defines and requires governments to disclose the risks related to concentrations of inflows or outflows of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024.

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

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

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**REQUIRED
SUPPLEMENTARY INFORMATION**

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2024

	2023	2022	2021	2020	Plan Year Ended June 30,		2017	2016	2015	2014
					2019	2018				
Total Pension Liability										
Service cost	\$ 427,842	\$ 378,874	\$ 370,969	\$ 349,576	\$ 326,178	\$ 317,218	\$ 318,484	\$ 294,234	\$ 287,609	\$ 286,002
Interest on total pension liability	932,835	889,404	795,535	748,260	709,818	680,160	675,153	651,099	643,148	610,394
Difference between expected and actual experience	344,989	(59,852)	60,150	136,443	106,510	(125,527)	(282,765)	(159,986)	(383,245)	-
Changes of assumptions	-	-	304,262	-	305,557	-	(196,240)	-	-	-
Benefit payments, including refunds of employee contributions	(701,088)	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Net change in total pension liability	1,004,578	681,547	1,019,516	677,869	998,500	425,083	75,201	341,338	123,672	463,263
Total pension liability – beginning	13,742,474	13,060,927	12,041,411	11,363,542	10,365,042	9,939,959	9,864,758	9,523,420	9,399,748	8,936,485
Total pension liability – ending	14,747,052	13,742,474	13,060,927	12,041,411	11,363,542	10,365,042	9,939,959	9,864,758	9,523,420	9,399,748
Plan Fiduciary Net Position										
Contributions – employer	247,945	230,189	209,822	170,565	166,328	221,893	211,875	281,381	267,322	277,708
Contributions – employee	238,774	220,532	200,548	186,671	178,102	171,738	161,565	150,593	143,454	138,417
Net investment income	879,969	(18,130)	2,970,330	204,952	685,645	710,922	1,053,419	151,265	374,931	1,112,963
Benefit payments, including refunds of employee contributions	(701,088)	(526,879)	(511,400)	(556,410)	(449,563)	(446,768)	(439,431)	(444,009)	(423,840)	(433,133)
Administrative expenses	(8,782)	(8,468)	(7,292)	(7,034)	(6,721)	(6,065)	(6,035)	(5,224)	(5,062)	(5,963)
Other	352	319	281	(244)	(432)	(636)	(938)	(63)	(77)	58
Net change in plan fiduciary net position	657,170	(102,437)	2,862,289	(1,500)	573,359	651,084	980,455	133,943	356,728	1,090,050
Plan fiduciary net position – beginning	13,583,551	13,685,988	10,823,699	10,825,199	10,251,840	9,600,756	8,620,301	8,486,358	8,129,630	7,039,580
Plan fiduciary net position – ending	14,240,721	13,583,551	13,685,988	10,823,699	10,825,199	10,251,840	9,600,756	8,620,301	8,486,358	8,129,630
Net pension liability (asset) – ending	\$ 506,331	\$ 158,923	\$ (625,061)	\$ 1,217,712	\$ 538,343	\$ 113,202	\$ 339,203	\$ 1,244,457	\$ 1,037,062	\$ 1,270,118
Plan fiduciary net position as a percentage of total pension liability (asset)	97%	99%	105%	90%	95%	99%	97%	87%	89%	86%
Covered payroll	\$ 5,182,754	\$ 4,681,370	\$ 4,232,488	\$ 3,918,606	\$ 3,736,155	\$ 3,581,847	\$ 3,322,990	\$ 3,068,409	\$ 2,891,892	\$ 2,780,545
Net pension liability (asset) as a percentage of covered payroll	10%	3%	-15%	31%	14%	3%	10%	41%	36%	46%

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

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

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2024

Entity Fiscal Year Ended June 30,	Contractually Determined Contribution	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$ 276,402	\$ 276,402	\$ -	\$ 5,969,217	4.63 %
2023	247,963	247,963	-	5,182,754	4.78
2022	228,168	228,168	-	4,681,370	4.87
2021	209,822	209,822	-	4,232,488	4.96
2020	170,565	170,565	-	3,918,606	4.35
2019	166,328	166,328	-	3,736,155	4.45
2018	221,893	221,893	-	3,581,847	6.19
2017	211,875	211,875	-	3,322,990	6.38
2016	281,381	281,381	-	3,068,409	9.17
2015	267,322	267,322	-	2,891,892	9.24

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, 2024

VRS Health Insurance Credit – General Employees	Plan Year Ended June 30,						
	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	\$ 2,307	\$ 3,204	\$ 2,804	\$ 2,632	\$ 2,523	\$ 2,546	\$ 2,588
Interest on total OPEB liability	7,190	8,064	7,068	7,298	7,012	6,546	6,514
Difference between expected and actual experience	(1,523)	(8,328)	5,979	(8,249)	839	3,032	-
Changes of assumptions	-	(10,040)	752	-	2,535	-	(3,883)
Benefit payments	(4,862)	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)	(3,422)
Net change in total OPEB liability	3,112	(12,141)	11,562	(3,450)	8,094	6,022	1,797
Total OPEB liability – beginning	106,649	118,790	107,228	110,678	102,584	96,562	94,765
Total OPEB liability – ending	109,761	106,649	118,790	107,228	110,678	102,584	96,562
Plan Fiduciary Net Position							
Contributions – employer	4,664	6,634	5,925	5,485	5,230	5,014	4,652
Net investment income	6,102	67	20,342	1,504	4,559	4,746	6,878
Benefit payments	(4,862)	(5,041)	(5,041)	(5,131)	(4,815)	(6,102)	(3,422)
Administrative expenses	(149)	(177)	(244)	(147)	(100)	(111)	(114)
Other	50	934	-	(1)	(6)	(343)	343
Net change in plan fiduciary net position	5,805	2,417	20,982	1,710	4,868	3,204	8,337
Plan fiduciary net position – beginning	100,100	97,683	76,701	74,991	70,123	66,919	58,582
Plan fiduciary net position – ending	105,905	100,100	97,683	76,701	74,991	70,123	66,919
Net OPEB liability – ending	\$ 3,856	\$ 6,549	\$ 21,107	\$ 30,527	\$ 35,687	\$ 32,461	\$ 29,643
Plan fiduciary net position as a percentage of total OPEB liability	96%	94%	82%	72%	68%	68%	69%
Covered payroll	\$ 5,187,065	\$ 4,717,320	\$ 4,260,211	\$ 3,918,606	\$ 3,739,485	\$ 3,581,847	\$ 3,322,990
Net OPEB liability as a percentage of covered payroll	0.1%	0.1%	0.5%	0.8%	1.0%	0.9%	0.9%

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

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

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2024

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

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

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

FREDERICK WATER

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2024

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					
2024	\$ 5,378	\$ 5,378	\$ -	\$ 5,975,110	0.09 %
2023	4,664	4,664	-	5,187,065	0.09
2022	6,554	6,554	-	4,717,320	0.14
2021	5,925	5,925	-	4,260,211	0.14
2020	5,485	5,485	-	3,918,606	0.14
2019	5,230	5,230	-	3,739,485	0.14
2018	5,014	5,014	-	3,581,847	0.14
VRS Group Life Insurance – General Employees					
2024	\$ 32,265	\$ 32,265	\$ -	\$ 5,975,110	0.54 %
2023	28,010	28,010	-	5,187,065	0.54
2022	25,474	25,474	-	4,717,320	0.54
2021	23,005	23,005	-	4,260,211	0.54
2020	20,304	20,304	-	3,918,606	0.52
2019	19,445	19,445	-	3,739,485	0.52
2018	18,626	18,626	-	3,581,847	0.52

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

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

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

FREDERICK WATER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2024

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, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

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

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

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

STATISTICAL SECTION

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

Contents

Debt Capacity

Table 1

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

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

**FREDERICK WATER
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years**

Table 1

Fiscal Year	Gross Revenues	Less: Operating Expenses	Net Available Revenues For Debt	Debt Service including FWSA		Coverage
				Principal	Interest	
2015	\$ 23,370,533	\$ 11,437,995	\$ 11,932,538	\$ 5,431,404	\$ 2,942,253	1.43
2016	25,456,411	12,811,269	12,645,142	5,054,891	2,667,292	1.64
2017	27,283,489	14,459,824	12,823,665	6,822,919	2,790,391	1.33
2018	32,388,528	16,415,262	15,973,266	4,807,438	3,171,744	2.00
2019	37,893,167	15,173,829	22,719,338	5,088,646	3,007,911	2.81
2020	39,044,340	15,978,975	23,065,365	5,525,701	2,837,485	2.76
2021	39,505,820	14,053,931	25,451,889	5,466,924	2,584,532	3.16
2022	39,872,973	13,612,530	26,260,443	6,275,077	2,183,494	3.10
2023	42,959,364	14,832,413	28,126,951	6,124,405 (2)	2,643,312	3.21
2024	52,986,063	18,487,956	34,498,107	7,359,582 (1)	2,358,112	3.55

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

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

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

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COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Frederick Water
Winchester, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Frederick Water (the "Authority"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon date October 22, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 22, 2024

FREDERICK WATER
SUMMARY OF COMPLIANCE MATTERS
June 30, 2024

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