Frederick-Winchester Service Authority

Financial Report

June 30, 2024

BrownEdwards
certified public accountants

Frederick-Winchester Service Authority

Contents

Introductory Section

Financial Section

Basic Financial Statements

Required Supplementary Information

Other Information

Compliance Section

Introductory Section

Frederick-Winchester Service Authority

Directory of Principal Officials

June 30, 2024

Board of Directors

John A. Willingham, Chairman
Ronald Mislowsky, Vice Chairman
Eric R. Lawrence, Secretary
Corey Sullivan
Gary Oates
Mary Blowe
Perry Eisenach
Patrick Sowers

Executive Director

Candice Perkins

Independent Auditors

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

Financial Section

BROWNEDWARDS
certified public accountants

Independent Auditor's Report

To the Board of Directors
Frederick-Winchester Service Authority
Winchester, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Frederick-Winchester Service Authority (the "Authority"), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2024 and 2023, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 ethical requirements relating to our audits. 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are any 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 audits.
- 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 section and the schedules of capital assets and future debt requirements 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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 the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
December 4, 2024

FREDERICK-WINCHESTER SERVICE AUTHORITY

Management's Discussion and Analysis
Year Ended June 30, 2024

The following Management's Discussion and Analysis (MD&A) of the Frederick-Winchester Service Authority's (FWSA) financial performance provides the reader with an overview to the financial position and activities of the FWSA for the fiscal year ended June 30, 2024.

As an introduction to the FWSA's activities and purpose, the following narrative provides an overview of the organization and the role that the FWSA plays in providing, to the region, an essential environmental service of wastewater treatment and water reclamation.

Introduction – Frederick-Winchester Service Authority's Purpose

The Frederick-Winchester Service Authority was created in 1974 by action taken by the City of Winchester and the County of Frederick, Virginia. The Authority is a public body existing under the provisions of the Virginia Water and Waste Authorities Act that is part of the Code of Virginia (1950) as amended.

At its inception, the Authority had three distinct purposes for its creation. Those purposes were to provide water production, wastewater treatment, and refuse disposal for the City of Winchester and Frederick County. Those purposes were restricted to exclude water distribution, sewage collection, and garbage and refuse collection. The Authority can be viewed to this day as a "wholesaler" of environmental services. Through addendums made to the original resolution that brought the Frederick-Winchester Service Authority into existence, all responsibilities for supplying drinking water have been eliminated.

Although the City of Winchester and the County of Frederick established the Frederick-Winchester Service Authority, they do not exercise any oversight responsibilities. All policy and financial responsibilities lay in the hands of the Board of the Frederick-Winchester Service Authority.

The Board of the Frederick-Winchester Service Authority is made up of nine members. The Common Council of the City of Winchester and the Board of Supervisors of the County of Frederick make appointments to the Board. Presently the City appoints five members and the County three members. The City and County appoint the ninth member jointly.

The Board may exercise all powers granted to it under the provisions of the Virginia Water and Waste Authorities Act. Some of the significant powers are:

1. Adopt, amend or repeal bylaws, rules and regulations
2. Issue revenue bonds of the authority
3. Fix, charge and collect rates, fees and charges
4. Enter into contracts.

Overview of Activities

The Authority's activities are greatly influenced by the growth of the region and the need for additional wastewater treatment capacity to accommodate this growth in an environmentally responsible manner. Through agreements with the City of Winchester and the Frederick County Sanitation Authority, which cover operations of facilities, capital cost recovery and the manner in which the FWSA will provide additional infrastructure, the FWSA serves as the planning agency for wastewater facilities.

To accomplish its set forth purpose, FWSA analyzes capacity needs, undertakes design, and construction of facility improvements and/or expansion to meet needs and regulatory requirements. The FWSA also acquires the financing and sets agreement terms, fees and charges that will provide adequate funds to satisfy debt and operational costs.

Through the foresight of the Frederick-Winchester Service Authority, the City of Winchester and Frederick Water, which is responsible for water and wastewater service for residents, the parties unanimously approved and endorsed undertaking a state-of-the-art Waste to Energy facility. This undertaking progressed to the construction phase starting in May 2014. The facility became fully operational in April 2018. To fuel the Waste to Energy process, this facility began the acceptance of high strength waste, fats, oils and grease wastes along with outside municipal sludge. The receiving capacity for high strength waste was expanded and enhanced in 2021.

The acceptance and treatment of these types of waste brings two benefits to reality. FWSA will have created a new outside revenue stream through tipping fees charged. At present, FWSA has entered long term contracts with a number of local and regional businesses which are on course to bring in over a million dollars in new revenue annually. It is also envisioned that the Waste to Energy Facility will promote economic development for the community and region.

Secondly, the Waste to Energy Project will allow FWSA to treat "green waste" materials outside of the traditional wastewater treatment process. This addition to the Opequon Water Reclamation Facility (OWRF) will allow for the facility to utilize "energy packed" waste to produce electricity and heat energy that will have a significant long-term impact on controlling the operating expense of the treatment facility. These savings will be derived from reduction heating fuel for processing and in electrical purchases from the electric grid with onsite electrical generation.

Financial Analysis – Frederick-Winchester Service Authority

The FWSA Board presents three basic financial statements for the purpose of analyzing the financial position of the FWSA as of June 30, 2024. These are: (1) Statements of Net Position; (2) Statements of Revenues, Expenses and Changes in Net Position; and (3) Statements of Cash Flows.

FWSA's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30. This information is reflected in the Statements of Net Position. It can be seen from the following Summary Statement of Net Position that the FWSA has had a significant investment in facilities and an increase in net position, but a major portion of those assets are restricted and will, for years, be reflected in debt obligations of FWSA.

With an environment for growth in the community, FWSA debt obligations will start to be shared by a broader base of existing and new customers that are connecting to the wastewater systems owned and operated by the City of Winchester and Frederick Water. This is an encouraging sign that will turn excess capacity, built during the Chesapeake Bay Initiative, into productive capacity that will bring revenue to the City and County through impact fees that will recover capital investment in the treatment facilities and start the generation of service fees to offset operational expenditures.

Financial Position: A summary of FWSA's Statements of Net Position for fiscal years 2024, 2023 and 2022 is presented below.

	2024	2023	2022
Current assets	11,006,745	11,453,267	11,448,804
Current restricted assets	7,097,356	6,137,398	6,467,104
Noncurrent assets	70,967,736	77,331,844	83,508,457
Noncurrent restricted assets	9,259,841	9,676,774	9,591,670
Capital assets	110,665,396	114,922,145	119,487,945
Deferred outflows	2,548,848	2,838,024	3,213,654
Total assets and deferred outflows	$ 211,545,922	$ 222,359,452	$ 233,717,634
Current liabilities	7,467,830	7,273,037	6,734,054
Current liabilities payable from current restricted assets	7,026,068	6,912,205	6,818,266
Long-term liabilities	141,458,024	154,267,316	166,575,331
Deferred inflows	1,031,804	1,187,519	1,532,182
Total liabilities and deferred inflows	156,983,726	169,640,077	181,659,833
Net position:			
Net investment in capital assets	35,277,424	33,648,599	32,313,120
Restricted	16,296,975	15,218,950	15,415,409
Unrestricted	2,987,797	3,851,826	4,329,273
Total net position	54,562,196	52,719,375	52,057,802
Total liabilities, deferred inflows and net position	$ 211,545,922	$ 222,359,452	$ 233,717,635

The financial position of the FWSA remains strong and stable as of June 30, 2024. With both biological and flow capacities expanded along with enhancements dictated by regulatory requirements the FWSA has put in place adequate capital assets to address system growth over the next 15 years.

Information presented in the Statements of Revenues, Expenses and Changes in Net Position reflects the result of operations during the fiscal years 2024, 2023 and 2022 as reported. This statement reflects total revenues and total expenses for the fiscal years ending June 30, 2024, 2023 and 2022 and reflects excess or deficiency of revenue over expenses for each year.

Revenues, Expenses and Changes in Net Position: A summary of FWSA's Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2024, 2023 and 2022 is presented below.

	2024	2023	2022
Service fees	$ 13,996,475	$ 13,867,972	$ 12,993,065
Operating expenses	13,359,976	12,730,853	11,388,182
Operating income	$ 636,499	$ 1,137,119	$ 1,604,883
Net non-operating income (expense)	1,206,322	(475,546)	(198,854)
Change in net position	$ 1,842,821	$ 661,573	$ 1,406,029

Operating income is generated by providing wastewater treatment services to the City of Winchester and Frederick Water along with collecting revenues from septage hauler fees and industrial surcharges and High Strength Waste customers. High Strength Waste revenue in FY22 was $1,020,760, FY23 was $1,825,800, and FY24 was $1,382,632. The High Strength Waste revenue for FY24 is significantly lower than FY23 due to the digesters being temporarily removed from operations in March 2024 as a result of contamination and not running again until October 2024.

Although FWSA has been able to contain operating expenses, FWSA will need to continue to evaluate and improve operational efficiencies and techniques to relieve upward pressure on future rates. Concentrated efforts, both internal and with outside engineering support, are under way to evaluate and improve the use and expense of chemicals, the finished water content of sludge and the optimal level of High Strength Waste that affords financial health while protecting the core operation of the OWRF. The Board continues to review rates and the organizational structure to assure our customers that they are being efficiently served.

Questions concerning information provided in this report or requests for additional financial information should be directed to the FWSA's Executive Director at 540-722-3579 or by mail to Frederick-Winchester Service Authority, P.O. Box 43, Winchester, Virginia 22604.

Basic Financial Statements

Frederick-Winchester Service Authority

Statements of Net Position

Exhibit 1

June 30, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted (Note 3)	$ 4,025,446	$ 4,499,786
Investments, restricted (Note 3)	7,037,134	6,087,774
Accounts receivable, net (Note 4)	621,906	757,446
Due from related parties - current portion (Note 7)	6,345,513	6,085,244
Interest receivable, restricted	60,222	49,624
Lease receivable - current portion (Note 8)	7,580	5,441
Prepaid and other assets	6,300	105,350
Total current assets	18,104,101	17,590,665
NONCURRENT ASSETS		
Investments, restricted (Note 3)	9,259,841	9,676,774
Capital assets:		
Nondepreciable (Note 5)	1,184,674	706,512
Depreciable, net (Note 5)	109,480,722	114,215,633
Lease receivable (Note 8)	948,560	956,139
Due from related parties (Note 7)	70,018,176	76,374,705
Security deposit	1,000	1,000
Total noncurrent assets	190,892,973	201,930,763
Total assets	208,997,074	219,521,428
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	2,344,871	2,612,764
Deferred outflows related to pensions (Note 9)	162,024	179,973
Deferred outflows related to other postemployment benefits (Notes 10, 11 and 12)	41,953	45,287
Total deferred outflows of resources	2,548,848	2,838,024
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,116,281	1,181,397
Accrued interest	547,280	595,222
Compensated absenes - current portion	6,036	6,396
Current portion of bonds payable (Note 6)	6,478,788	6,316,983
Unearned revenue - current portion (Note 7)	6,345,513	6,085,244
Total current liabilities	14,493,898	14,185,242
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	54,321	57,559
Net pension liability (Note 9)	207,667	175,018
Net other postemployment benefit liability (Notes 10, 11 and 12)	87,319	90,707
Bonds payable, net of current portion (Note 6)	71,090,541	77,569,327
Unearned revenue (Note 7)	70,018,176	76,374,705
Total noncurrent liabilities	141,458,024	154,267,316
Total liabilities	155,951,922	168,452,558
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 9)	104,170	230,250
Deferred inflows related to other postemployment benefits (Notes 10, 11 and 12)	31,510	35,783
Leases (Note 8)	896,124	921,486
Total deferred inflows of resources	1,031,804	1,187,519
NET POSITION		
Net investment in capital assets	35,277,424	33,648,599
Restricted	16,296,975	15,218,950
Unrestricted	2,987,797	3,851,826
Total net position	**$ 54,562,196**	**$ 52,719,375**

Frederick-Winchester Service Authority

Exhibit 2

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Charges for services:		
Opequon service fees - City of Winchester	6,180,440	$ 5,900,298
Opequon service fees - Frederick Water	5,417,215	5,146,616
Other	2,398,820	2,821,058
Total operating revenues	13,996,475	13,867,972
OPERATING EXPENSES		
Personnel compensation	1,643,703	1,474,049
Fringe benefits	381,623	370,662
Repairs and maintenance	1,556,914	1,336,843
Electric power	639,851	488,354
Insurance	20,232	17,730
Property insurance	99,350	90,087
Landfill fees	1,199,396	1,167,307
Chemicals	1,995,305	1,959,160
Other	256,279	298,212
General and administrative	702,064	657,713
Depreciation (Note 5)	4,865,259	4,870,736
Total operating expenses	13,359,976	12,730,853
Operating income	636,499	1,137,119
NON-OPERATING REVENUES (EXPENSES)		
Parkins Mill service fees, Frederick Water	2,411,540	1,331,008
Interest and investment income	951,293	528,843
Insurance proceeds	14,509	-
Loss on the sale of capital assets	-	(7,646)
Interest expense		
Opequon	(1,947,631)	(2,068,700)
Parkins Mill	(223,389)	(259,051)
Total non-operating revenues (expenses)	1,206,322	(475,546)
Change in net position	1,842,821	661,573
NET POSITION AT JULY 1	52,719,375	52,057,802
NET POSITION AT JUNE 30	**$ 54,562,196**	**$ 52,719,375**

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

Frederick-Winchester Service Authority

Exhibit 3

Statements of Cash Flows

For the Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Receipts from customers	$ 14,106,653	$ 13,764,968
Payments to suppliers	(6,427,521)	(5,567,909)
Payments to employees	(2,280,183)	(2,045,107)
Proceeds from other service charges	2,411,540	1,331,008
Other operating receipts	5,440	5,357
Net cash provided by operating activities	7,815,929	7,488,317
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(444,996)	(312,581)
Principal payments on long-term liabilities	(6,096,261)	(5,931,705)
Interest payments on long-term obligations	(2,171,789)	(2,345,469)
Insurance proceeds	14,509	-
Net cash used in capital and related financing activities	(8,698,537)	(8,589,755)
INVESTING ACTIVITIES		
Purchases of investments	(10,103,316)	(7,389,575)
Interest and investment income received	10,511,584	7,085,841
Net cash provided by (used in) investing activities	408,268	(303,734)
Net decrease in cash and cash equivalents	(474,340)	(1,405,172)
CASH AND CASH EQUIVALENTS, beginning at July 1	4,499,786	5,904,958
CASH AND CASH EQUIVALENTS, ending at June 30	**$ 4,025,446**	**$ 4,499,786**

Frederick-Winchester Service Authority

Exhibit 3 (Continued)

Statements of Cash Flows

For the Years Ended June 30, 2024 and 2023

	2024	2023
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 636,499	$ 1,137,119
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,865,259	4,870,736
Excess of employer contributions over pension expense	(75,482)	(38,775)
Excess of employer contributions over other postemployment benefits expense	(4,327)	5,294
Other service charges	2,411,540	1,331,008
(Increase) decrease in:		
Accounts receivable	135,540	(77,642)
Leases receiveable	5,440	5,357
Prepaids and other assets	99,050	(15,263)
Increase (decrease) in:		
Accounts payable	(228,630)	299,925
Compensated absences	(3,598)	(4,080)
Lease related deferred inflows	(25,362)	(25,362)
Net cash provided by operating activities	**$ 7,815,929**	**$ 7,488,317**
NONCASH AND CAPITAL RELATED FINANCING		
Capital assets obtained through accounts payable	**$ 163,514**	**$ -**

Note 1 – Nature of Business and Reporting Entity Nature of Business

The Frederick-Winchester Service Authority (the "Authority") is a Virginia corporation organized and existing under the provisions of the Virginia Water and Sewer Authorities Act, (Sec. 15.2-5100) Code of Virginia, 1950, (as amended). As such, the Authority is in the business to acquire, construct, operate and maintain facilities for providing regional sewage treatment and solid waste disposal services.

Reporting Entity

The Authority is considered a related organization of the City of Winchester (the "City") and the County of Frederick (the "County") for financial reporting purposes. The Authority's Board members are appointed by the respective localities; however, the City and County exercise no oversight responsibility and the Authority's Board approves its own budget and appoints management. The City's and County's accountability for the Authority does not extend beyond making the appointments to the Board. No other entities are included in this report since the Board has no oversight or management control over any other entities.

Note 2 – Summary of Significant Accounting Policies Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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 in connection with the principal ongoing operations. The principal operating revenues are charges to the City of Winchester and Frederick County Sanitation Authority for sales and services. Operating expenses include the costs 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include unrestricted cash on hand, certificates of deposit, and money market funds.

Investments

Investments are reported at fair value, with changes in fair value recognized as unrealized gains or losses. Fair value is determined by reference to quoted market prices.

Customer accounts receivable

Charges for services are determined through monthly billings to customers. As of June 30, 2024 and 2023, accounts receivable are stated net of an allowance for doubtful accounts of $5,800 and $38,000, respectively. Bad debt expense was $(32,200) and $16,000 as of June 30, 2024 and 2023, respectively.

Capital Assets

Capital assets are recorded at cost in the year incurred. The Authority utilizes a capitalization threshold of $5,000 for the recording of capital assets. Normal repairs and maintenance are expensed as incurred. Any gain or loss on the sale or disposition of property is recognized in the current period. Projects not in service are carried as construction in progress. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Structures and improvements	10 - 20 years
Plant expansion	30 - 40 years
Equipment, furniture, and fixtures	5 - 7 years
Master plan	10 years
Vehicles	4 – 7 years

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated absences

Authority employees earn paid time off at a rate of 16 to 22 hours per month, depending on years of service. Benefits or pay is received for unused medical leave upon termination at 25% of its carrying value to a maximum of $5,000 per employee after five years of uninterrupted service or $7,000 per employee after twenty years of uninterrupted service. Accumulated paid time off is paid out at a rate of 50% to 100% depending on years of service with the maximum hours paid being 350 hours.

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial elements related to pension and OPEB plans, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement 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.

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 and 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 in 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.
- Difference 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.
- Lease-related amounts are recognized at the inception of leases in which the Authority is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before commencement of the lease term that related to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner of the term of the lease.

Net position

Net position is the difference between assets and deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to those assets. Restricted net position includes amounts bond principal and interest held by a trustee.

Fair value of measurement

The Authority categorized its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 – Inputs are quoted prices in active markets for identical assets.

Level 2 – These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3 – These are unobservable inputs, such as property valuation or an appraisal.

Note 3 – Deposits and Investments

Deposits

All deposits of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-400 et. seq. of the *Code of Virginia* or covered by the Federal Deposit Insurance Corporation (FDIC). 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.

Investments

The Code of Virginia authorizes the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or Political Subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptance, repurchase agreements and the Commonwealth of Virginia State Non-Arbitrage Program (SNAP). The SNAP is not registered with the SEC but is overseen by the Treasurer of Virginia and the State Treasury Board. The value of the Authority’s position in the pool is the same as the value of the pool shares and is stated at amortized cost in accordance with GASB Statement 79, which approximates fair value.

The Authority categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. As of June 30, 2024 and 2023, the Authority’s investments were valued using Level 1 inputs.

The Authority’s restricted investments as of June 30, 2024 and 2023 consisted of the following:

2024			
Investment Type	**Fair Value**	**Credit Rating**	**Weighted Average Maturity**
U.S. Treasury bonds and notes	$ 16,296,975	N/A	1.00
Total	**$ 16,296,975**		
Reconciliation of Investments			
Investments – restricted, current	$ 7,037,134		
Investments – restricted, non-current	9,259,841		
	$ 16,296,975		

2023

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity
U.S. Treasury bonds and notes	$ 15,476,551	N/A	1.00
Virginia State Non-Arbitrage Program (SNAP)	287,997	AAAm	0.18 years
Total	**$ 15,764,548**		

Reconciliation of Investments	
Investments – restricted, current	$ 6,087,774
Investments – restricted, non-current	9,676,774
	$ 15,764,548

Concentration of Credit Risk

The Authority does not have an investment policy regarding the concentration of credit risk.

Investments which were more than 5% of the Authority's total investments at June 30, 2024 and 2023 were:

	2024	2023
U.S. Treasury bonds and notes	100%	98.17%

Custodial Credit Risk

To protect the Authority against potential fraud, the Authority requires the investment assets of the Authority to be secured through third-party custody and safekeeping procedures.

Restricted amounts

Details on restricted investments in Exhibit 1 are as follows:

	2024	2023
Subsequent fiscal year principal and interest payments	$ 7,037,134	$ 6,087,774
Investments – restricted, current	**$ 7,037,134**	**$ 6,087,774**
Operating reserve	$ -	$ 287,997
Improvement redemption fund	3,265,981	3,111,145
Debt service reserve fund	5,993,860	6,277,632
Investments – restricted, non-current	**$ 9,259,841**	**$ 9,676,774**

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2024 and 2023:

	2024	2023
City of Winchester	$ 296,834	$ 244,411
Frederick Water	190,514	160,084
National Fruit Product Company, Inc.	-	50,070
Merritt Sanitation Service	41,144	67,862
Martin's Pumping Services, Inc.	39,600	-
Houff Corporation	-	42,916
Others	59,614	230,103
	627,706	795,446
Less: allowance for doubtful accounts	(5,800)	(38,000)
Total	**$ 621,906**	**$ 757,446**

Note 5 – Capital Assets

Capital asset activity was as follows for the years ended June 30, 2024 and 2023:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Land	$ 482,405	$ -	$ -	$ 482,405
Construction in progress	224,107	478,162	-	702,269
Total capital assets, not being depreciated	706,512	478,162	-	1,184,674
Capital assets, being depreciated:				
Structures and improvements	205,653,043	-	-	205,653,043
Plant expansion	12,821,184	-	-	12,821,184
Equipment, furniture, and fixtures	753,287	130,348	-	883,635
Master plan	190,735	-	-	190,735
Vehicles	468,403	-	-	468,403
Total capital assets, being depreciated	219,886,652	130,348	-	220,017,000
Less accumulated depreciation	105,671,019	4,865,259	-	110,536,278
Total capital assets being depreciated, net	**$ 114,215,633**	**$ (4,734,911)**	**$ -**	**$ 109,480,722**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Land	$ 482,405	$ -	$ -	$ 482,405
Construction in	-	224,107	-	224,107
Total capital assets, not being depreciated	482,405	224,107	-	706,512
Capital assets, being depreciated				
Structures and improvements	205,653,043	-	-	205,653,043
Plant expansion	12,821,184	-	-	12,821,184
Equipment, furniture, and fixtures	664,813	88,474	-	753,287
Master plan	190,735	-	-	190,735
Vehicles	520,069	-	(51,666)	468,403
Total capital assets, being depreciated	219,849,844	88,474	(51,666)	219,886,652
Less accumulated depreciation	100,844,304	4,870,736	(44,021)	105,671,019
Total capital assets being depreciated, net	**$ 119,005,540**	**$ (4,782,262)**	**$ (7,645)**	**$ 114,215,633**

Depreciation expense was $4,865,259 and $4,870,736 for the years ended June 30, 2024 and 2023, respectively.

Note 6 – Long-Term Obligations

The following is a summary of changes in long-term liabilities for the years ended June 30, 2024 and 2023:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable	$ 82,459,949	$ -	$ 6,096,261	$ 76,363,688	$ 6,281,739
Unamortized bond premiums and discounts, net	1,426,361	-	220,720	1,205,641	197,049
Total long-term liabilities	**$ 83,886,310**	**$ -**	**$ 6,316,981**	**$ 77,569,329**	**$ 6,478,788**

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable	$ 88,391,654	$ -	$ 5,931,705	$ 82,459,949	$ 6,096,261
Unamortized bond premiums and discounts, net	1,669,557	-	243,196	1,426,361	220,722
Total long-term liabilities	**$ 90,061,211**	**$ -**	**$ 6,174,901**	**$ 83,886,310**	**$ 6,316,983**

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

Year Ending June 30,	Principal	Interest	Total
2025	$ 6,281,739	$ 1,917,522	$ 8,199,261
2026	6,468,156	1,731,211	8,199,367
2027	6,640,529	1,569,289	8,209,818
2028	6,783,871	1,440,324	8,224,195
2029	6,923,201	1,297,932	8,221,133
2030-2034	20,797,766	4,606,812	25,404,578
2035-2039	22,468,426	1,633,809	24,102,235
Total	**$ 76,363,688**	**$ 14,196,899**	**$ 90,560,587**

Details of Long-Term Debt

2007 Virginia Resources Authority Sewer System Revenue Bonds (Parity Indebtedness)

In June 2007, the Authority issued a $39,000,000 Virginia Resources Authority Sewer System Revenue for the construction of the expansion of the Parkins Mill Wastewater Treatment Plant, secured by revenue from the Opequon Wastewater Reclamation Facility. The Authority is only responsible for the amount of bond funds actually received. The final funds were fully drawn in fiscal year 2011 resulting in a final issue amount of $37,930,386. In 2014, the bond was refinanced with semiannual installments of $1,246,982, including interest at 2.77%, through September 2029. In 2022, the bond was refinanced with semiannual installments of $1,205,770, including interest at 1.45%, through September 2029. The balance of this bond was $12,629,737 and $14,805,919 at June 30, 2024 and 2023, respectively.

2009 Virginia Resources Authority Sewer System Revenue Bonds (Parity Indebtedness)

In May 2009, the Authority issued a $19,870,089 Virginia Resources Authority Sewer System Revenue bond, due in semiannual installments of $658,400 to $698,000, including interest at 2.65% to 3.35% through March 2031, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used to expand and upgrade the facility. The Authority is only responsible for the amount of funds actually received. In 2022, the bond was refinanced with semiannual installments of $632,418, including interest at 1.55%, through March 2031. The balance of this bond was $8,298,951 and $9,404,030 at June 30, 2024 and 2023, respectively.

2014A Virginia Resources Authority Revenue Bonds (Parity Indebtedness)

In April 2014, the Authority issued a $30,110,000 Taxable Regional Sewer System Bond. This issuance was partially refunded in 2021 with the unrefunded balance due in annual installments of $390,000 to $1,905,000, beginning in October 2017, plus interest payable semiannually ranging from 3.13% and 4.83%, through October 2038, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used for plant upgrades and construction of the Green Waste to Energy Project. The balance of this bond was $14,455,000 and $15,595,000 at June 30, 2024 and 2023, respectively.

2014B Virginia Resources Authority Revenue Bonds (Parity Indebtedness)

In August 2014, the Authority issued a $20,075,000 Taxable Regional Sewer System Bond. This issuance was partially refunded in 2021 with the unrefunded balance due in annual installments of $265,000 to $825,000, beginning in October 2017, plus interest payable semiannually ranging between 3.13% and 5.13%, through October 2038, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used for the construction of the Green Waste to Energy Project. The balance of this bond was $4,400,000 and $5,145,000 at June 30, 2024 and 2023, respectively.

2015A Virginia Resources Authority Revenue Refunding Bonds (Parity Indebtedness)

In May 2015, the Authority issued a $12,270,000 Taxable Regional Sewer System Bond. This issuance was partially refunded in 2021 with the unrefunded balance due in annual installments of $545,000 to $845,000, plus interest payable semiannually ranging between 3.13% and 5.13%, through October 2038, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used to refund a portion of the 2008 Virginia Resources Authority Revenue Bonds. The balance of this bond was $6,415,000 and $7,020,000 at June 30, 2024 and 2023, respectively.

2016B Virginia Resources Authority Revenue Refunding Bonds (Parity Indebtedness)

In August 2016, the Authority issued a $3,760,000 Taxable Regional Sewer System Bond due in annual installments of $5,000 to $575,000, plus interest payable semiannually ranging between 2.71% and 5.13%, through October 2038, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used to refund a portion of the 2008 Virginia Resources Authority Revenue Bonds. The balance of this bond was $3,680,000 and $3,685,000 at June 30, 2024 and 2023, respectively.

2021A Virginia Resources Authority Revenue Refunding Bonds (Parity Indebtedness)

In April 2021, the Authority issued a $27,480,000 Taxable Regional Sewer System Bond due in annual installments of $320,000 to $3,295,000, plus interest payable semiannually ranging between 0.19% and 2.37%, through October 2038, secured by revenue from the Opequon Wastewater Reclamation Facility. The debt proceeds were used to refund a portion of the 2014A, 2014B, and 2015A Virginia Resources Authority Revenue Bonds. The balance of this bond was $26,485,000 and $26,805,000 at June 30, 2024 and 2023, respectively.

Prior Defeasance of Debt

The Authority defeased certain outstanding revenue bonds payable in prior years. The proceeds were placed in trust to fund all future debt service payments. Accordingly, the trust 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
Series 2014A	$ 9,585,000	$ -	$ -	$ 9,585,000
Series 2014B	11,845,000	-	-	11,845,000
Series 2015A	3,000,000	-	-	3,000,000
	$ 24,430,000	**$ -**	**$ -**	**$ 24,430,000**

Line of Credit

The Authority had a line of credit in the amount of $5 million. Interest is accrued and payable monthly on the outstanding balance. Interest is calculated at the Daily Simple SOFR plus 2%, with a minimum rate of 3%. The line of credit matured on

February 7, 2023, and was not renewed at this time. As of June 30, 2024, and 2023, there were no amounts outstanding on the line of credit.

Note 7 – Major Customers and Related Party Transactions

The Authority has agreements with the City of Winchester and Frederick Water which provide for the operation of its facilities. The total charges to the Authority by the City amounted to $8,285,069 and $7,647,880 for the years ended June 30, 2024 and 2023, respectively. The Authority owed the City $945,109 and $1,146,182 at June 30, 2024 and 2023, respectively.

The Authority entered into an agreement with the City of Winchester and Frederick Water on September 12, 1983 for the construction of the Opequon Water Reclamation Facility. This agreement provided for the financing, operation and maintenance of the facilities treating sewage delivered by the City and Frederick Water. This agreement was amended on June 22, 1998 and April 17, 2008 to provide for the expansion and upgrade of the Opequon facility to accommodate additional treatment capacity. The amended Intermunicipal Agreement established ownership of the facility treatment capacity and apportioning of the existing and new debt based on ownership. The agreement also established the manner in which operational costs would be recovered from the City and Frederick Water based on the quantity and strength of sewage delivered to the Opequon facility. The agreement also sets forth how debt service costs will be recovered from the City and Frederick Water, which are detailed as follows:

	Principal due From City of Winchester	City's Proportionate Share of Principal due On Debt Service	Principal Due From Frederick Water	Frederick Water's Proportionate Share of Principal Due on Debt Service
Series 2009	$ 2,995,922	36.10%	$ 5,302,970	63.90%
Series 2014A	7,227,500	50.00%	7,227,500	50.00%
Series 2014B	2,200,000	50.00%	2,200,000	50.00%
Series 2015A	2,315,815	36.10%	4,099,185	63.90%
Series 2016B	1,328,480	36.10%	2,351,520	63.90%
Series 2021 (2014A refunded)	5,167,500	50.00%	5,167,500	50.00%
Series 2021 (2014B refunded)	6,372,500	50.00%	6,372,500	50.00%
Series 2021 (2015A refunded)	1,229,205	36.10%	2,175,795	63.90%
Parkins Mill	-	N/A	12,629,797	100.00%
Total due from related parties	**$ 28,836,922**		**$ 47,526,767**	

The balances due from related parties are offset by corresponding unearned revenue which will be recognized as revenue each year in line with debt service payments received from the City and Frederick Water.

Note 8 – Leases

Authority as Lessor

In July 1999, the Authority entered into a lease as lessor with Crown Communication LLC for the use of land at 193 Eddys Lane. The lease expires in October 2039 with renewal periods extending through October 2059, of which management is reasonably certain will be exercised. The value of the lease receivable was $956,140 and $961,580 as of June 30, 2024, and 2023, respectively. The lessee is required to make monthly payments of $1,703 with the payments increasing by 15% every five years. The lease agreement does not have an explicitly stated rate. Therefore, in accordance with GASB 87, *Leases,* the Authority calculated an imputed interest rate of 1.56%. The value of the deferred inflow of resources was $896,124 and $921,486 as of June 30, 2024 and 2023, respectively, and the Authority recognized lease revenue of $25,362 during both fiscal years.

Note 9 – 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 cost-sharing 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 Authority participates in VRS through the City of Winchester, Virginia (the "City"). The Authority accounts for and reports its participation in the City's VRS plan by applying the requirements for a cost-sharing multiple employer plan.

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:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	4
Non-vested inactive members	9
Inactive members active elsewhere in VRS	8
Total inactive members	21
Active members	19
Total covered employees	**52**

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 Authority's contractually required contribution rate for the years ended June 30, 2024 and 2023 was 10.42% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Political Subdivision were $119,469 and $111,453 for the years ended June 30, 2024 and June 30, 2023, respectively.

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

At June 30, 2024 and 2023, the Authority reported liabilities of $207,667 and $175,018, respectively, for its proportionate share of the Collective Net Pension Liability of the City plan. The Collective 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.

At June 30 2024, the Authority's proportion of the City plan was 3.35% as compared to 3.41% at June 30, 2023.

For the years ended June 30, 2024 and 2023, the Authority recognized pension expense of $47,783 and $38,975, respectively. There was a change in proportionate share between each year, however, the difference is insignificant and was reflected in current year pension expense.

At June 30, 2024, the Authority 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	$ 34,962	$ 37,776
Change in assumptions	7,593	-
Net difference between projected and actual earnings on pension plan investments	-	66,394
Employer contributions subsequent to the measurement date	119,469	-
Total	**$ 162,024**	**$ 104,170**

The $119,469 reported as 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	$ (58,731)
2026	(68,243)
2027	63,060
2028	2,299
2029	-
Thereafter	-

At June 30, 2023, the Authority 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	$ 9,310	$ 103,278
Change in assumptions	59,210	-
Net difference between projected and actual earnings on pension plan investments	-	126,972
Employer contributions subsequent to the measurement date	111,453	-
Total	**$ 179,973**	**$ 230,250**

The $111,453 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date was recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2024.

Actuarial Assumptions

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. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various setbacks 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): Updated 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 rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation 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%.

Discount Rate

The discount rates used to measure the total pension liability was 6.75% for the years ended June 30, 2024 and 2023. 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.

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

The following presents the net pension liability of the Authority using the discount rate of 6.75% for the years ended June 30, 2024 and 2023, as well as what the Political Subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Authority's proportionate share of City's net pension liability (asset) at June 30, 2024	$ 893,288	$ 207,667	$ (346,400)

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Authority's proportionate share of City's net pension liability (asset) at June 30, 2023	$ 829,507	$ 175,018	$ (354,438)

Pension Plan Fiduciary Net Position

Detailed information about the City's Fiduciary Net Position in the VRS plan is available in the separately issued City's 2024 and 2023 Annual Comprehensive Financial Reports (ACFRs).

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.

Note 10 – 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 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 is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. The Authority participates in GLI through the City. The Authority accounts for and reports its participation in the City's GLI plan by applying the requirements for a cost-sharing multiple employer 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 provides all the same benefits as the Teacher HIC, except that this plan is considered a multi-employer agent defined benefit plan.

Similar to GLI, the Authority participates in HIC through the City. The Authority accounts for and reports its participation in the City's HIC plan by applying the requirements for a cost-sharing multiple employer plan.

Contributions

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

Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:		*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:		1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2024 Contribution		$7,214
June 30, 2023 Contribution		$6,535

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.

General Employee Health Insurance Credit Program

Governed by:		*Code of Virginia* 51.1-1400 and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly.
Total rate:		.07% of covered employee compensation.
June 30, 2024 Contribution		$935
June 30, 2023 Contribution		$847

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	**General Employee Health Insurance Credit Program**
June 30, 2024 proportionate share of City's liability	$61,733	$7,843
June 30, 2023 proportionate share of City's liability	$58,578	$7,788
June 30, 2023 proportion of City Plan	3.59%	4.55%
June 30, 2022 proportion of City Plan	3.58%	4.55%
June 30, 2024 expense	$3,555	$1,137
June 30, 2023 expense	$56,275	$3,906

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.

At June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,166	$ 1,874
Change in assumptions	1,320	4,277
Net difference between projected and actual earnings on OPEB plan investments	-	2,481
Change in proportion	4,215	745
Employer contributions subsequent to the measurement date	7,214	-
Total	**$ 18,915**	**$ 9,377**

General Employee Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 204	$ 2,402
Change in assumptions	5,362	110
Net difference between projected and actual earnings on OPEB plan investments	-	255
Employer contributions subsequent to the measurement date	935	-
Total	**$ 6,501**	**$ 2,767**

Frederick-Winchester Service Authority

Notes to Financial Statements

June 30, 2024

At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,639	$ 2,350
Change in assumptions	2,185	5,706
Net difference between projected and actual earnings on OPEB plan investments	-	3,660
Change in proportion	1,875	1,214
Employer contributions subsequent to the measurement date	6,535	-
Total	**$ 15,234**	**$ 12,930**

General Employee Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 248	$ 2,718
Change in assumptions	6,410	230
Net difference between projected and actual earnings on OPEB plan investments	-	675
Employer contributions subsequent to the measurement date	847	-
Total	**$ 7,505**	**$ 3,623**

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 will be recognized in OPEB expense in future reporting periods as follows:

	GLI Insurance Program	General Employee HIC Credit Program
Year Ending June 30,	**Effect on OPEB Expense**	**Effect on OPEB Expense**
2025	$ 518	$ (14)
2026	(1,870)	(89)
2027	1,616	933
2028	880	785
2029	1,180	882
Thereafter	-	302

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:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
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 in Note 9.

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 (asset)	$	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.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 9.

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability at June 30, 2024	$ 91,508	$ 61,733	$ 37,660
GLI Net OPEB liability at June 30, 2023	$ 85,238	$ 58,578	$ 37,033
General Employee HIC net OPEB liability at June 30, 2024	$ 12,088	$ 7,843	$ 4,313
General Employee HIC net OPEB liability at June 30, 2023	$ 11,941	$ 7,788	$ 4,314

OPEB Plan Fiduciary Net Position

Detailed information about the City's Fiduciary Net Position in the VRS plan is available in the separately issued City's 2024 and 2023 Annual Comprehensive Financial Reports (ACFRs).

OPEB Plan Data

Information about the various VRS OPEB plan fiduciary net position is 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.

Note 11 – Other Postemployment Benefits Liability – Local Plan

Plan Description and Benefits Provided

The Authority participates in the City's retiree healthcare plan. The City administers a multi-employer cost-sharing defined healthcare plan (the "Retiree Health Plan"). Participating employers include the City, the Authority, the Winchester Parking Authority, and the Northwestern Juvenile Detention Center Commission. The plan provides healthcare insurance for eligible retirees and coverage ceases at age 65. Retirees under age 65 have the option of choosing three medical plans including a prescription program for retail and a mail order program. Retirees can continue the same medical coverage they had (including dependent coverage) as active employees. The plan was established under the authority of the City of Winchester's Council. Management of the plan is vested in the City's OPEB Finance Board, which is comprised of the City's CFO, Treasurer, and a citizen representative. Benefits are not available to employees hired after July 1, 2017.

Employees Covered by Benefit Terms

Information regarding covered employees is available in the City's separately issued 2024 Annual Comprehensive Financial Report (ACFR).

Contributions

Contribution requirements are established by City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually.

Net OPEB Liability

At June 30, 2024 and 2023, the Authority reported a liability of $17,743 and $24,341, respectively, for its proportionate share of the collective net OPEB liability. The collective net OPEB Liabilities were measured as of June 30, 2024 and 2023, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actual valuation as of January 1, 2024, rolled forward to June 30, 2024 and 2023. The Authority's proportion of the collective net OPEB liability was based on a projection of the Authority's long-term share of contributions of the OPEB plan relative to the projected contributions of all participating employers. At June 30, 2024 and 2023, the Authority's proportionate share of the City's OPEB plan was 0.61% and 0.96%, respectively.

Actuarial Assumptions and Other Inputs

In the January 1, 2024, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 6.50% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the plan's investments calculated based on the funded level of the plan at the valuation date.

The following additional simplifying assumptions were made:

Coverage Status and Age of Spouse – Actual coverage status is used; employees with individual coverage are assumed to elect individual coverage in retirement; those with spouse/family coverage assumed to continue this coverage at retirement. For participants where it was not provided and for future retirees, females are assumed to be 3 years younger than male spouses.

Election Rate – 90% of actives currently enrolled in the City's health care plan will continue in the plan upon retiring or becoming disabled.

Demographic Assumptions – Demographic assumptions mirror those used for the pension plan, with adjustments made for actual experience of City employees. All employees are assumed to participate in the Virginia Retirement System.

Economic Assumptions – The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in October 2010 and updated in 2021. The following assumptions were used as input variables into this model:

Rate of Inflation	2.60%
Rate of Growth in Real Income / GNP per capita	1.40%
Excess Medical Growth	0.90%
Expected Health Share of GDP in 2033	19.00%
Health Share of GDP Resistance Point	17.00%
Year for Limiting Cost Growth to GDP Growth	2075

Payroll is assumed to increase at 2.50% per annum. This assumption is used to determine the level percentage of payroll amortization factor. Inflation is assumed to be 2.50% per annum.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB investments was determined using an economic building block approach that projects economic and corporate profit growth and takes into consideration the fundamental factors driving long-term real economic growth, the expectation for inflation of 2.60%, productivity, and labor force growth.

Asset Class (Strategy)	**Target Allocation**	**Capital Market Assumptions**	**Expected Long-Term Return (Net of Inflation)**
Domestic Equity	39.00%	7.55%	5.05%
International Developed Equity	15.00	7.06	4.56
International Emerging Markets Equity	6.00	7.43	4.93
Core Fixed	40.00	4.70	2.20
Total	100.00%		
Inflation			**2.50%**

Discount Rate

The discount rate used to measure the net OPEB liability was 6.50% as of June 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease (5.50%)	Current Discount Rate (6.50%)	1.00% Increase (7.50%)
Authority's proportionate share of City's net OPEB liability at June 30, 2024	$ 23,027	$ 17,743	$ 13,015

	1.00% Decrease (5.50%)	Current Discount Rate (6.50%)	1.00% Increase (7.50%)
Authority's proportionate share of City's net OPEB liability at June 30, 2023	$ 31,715	$ 24,341	$ 17,663

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease (3.04%)	Current Healthcare Cost Trend Rates (4.04%)	1.00% Increase (5.04%)
Authority's proportionate share of City's net OPEB liability at June 30, 2024	$ 12,246	$ 17,743	$ 24,066

	1.00% Decrease (2.94%)	Current Healthcare Cost Trend Rates (3.94%)	1.00% Increase (4.94%)
Authority's proportionate share of City's net OPEB liability at June 30, 2023	$ 15,336	$ 24,341	$ 34,886

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

For the years ended June 30, 2024 and 2023, the Authority recognized OPEB expense of $2,784 and $5,277, respectively.

At June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,157	$ 2,508
Change in assumptions	5,650	8,751
Change in proportion	2,167	8,107
Net difference between projected and actual earnings on OPEB plan investments	1,563	-
Total	**$ 16,537**	**$ 19,366**

At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,090	$ 46
Change in assumptions	-	17,630
Change in proportion	3,159	1,554
Net difference between projected and actual earnings on OPEB plan investments	3,299	-
Total	**$ 22,548**	**$ 19,230**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Effect on OPEB Expense
2025	$ 686
2026	726
2027	(1,554)
2028	(1,473)
2029	(615)
Thereafter	(599)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan is available in the separately issued City of Winchester Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 City of Winchester Annual Report may be downloaded from the City's website at https://www.winchesterva.gov/finance/budget, or by writing to the City's CFO at 15 N. Cameron St. Winchester, VA 22601.

Note 12 – Summary of Other Postemployment Benefits

	2024	2023
Deferred outflows of resources – OPEB		
Differences between expected and actual experience		
VRS – Group Life Insurance	$ 6,166	$ 4,639
VRS – Health Insurance Credit	204	248
Local plan	7,157	16,090
Changes of proportion		
VRS – Group Life Insurance	4,215	1,875
Local plan	2,167	3,159
Employer contributions subsequent to the measurement date		
VRS – Group Life Insurance	7,214	6,535
VRS – Health Insurance Credit	935	847
Change in assumptions		
VRS – Group Life Insurance	1,320	2,185
VRS – Health Insurance Credit	5,362	6,410
Local plan	5,650	-
Net difference between projected and actual earnings on plan investments		
Local plan	1,563	3,299
Total deferred outflow of resources - OPEB	**$ 41,953**	**$ 45,287**
Net OPEB liability		
VRS – Group Life Insurance	$ 61,733	$ 58,578
VRS – Health Insurance Credit	7,843	7,788
Local plan	17,743	24,341
Total net OPEB liability	**$ 87,319**	**$ 90,707**
Deferred inflows of resources - OPEB		
Difference between expected and actual experience		
VRS – Group Life Insurance	$ 1,874	$ 2,350
VRS – Health Insurance Credit	2,402	2,718
Local plan	2,508	46
Net different between projected and actual earnings on plan investments		
VRS – Group Life Insurance	2,481	3,660
VRS – Health Insurance Credit	255	675
Change in assumptions		
VRS – Group Life Insurance	4,277	5,706
VRS – Health Insurance Credit	110	230
Local plan	8,751	17,630
Changes of proportion		
VRS – Group Life Insurance	745	1,214
Local plan	8,107	1,554
Total deferred inflow of resources - OPEB	**$ 31,510**	**$ 35,783**
OPEB expense		
VRS – Group Life Insurance	3,555	56,275
VRS – Health Insurance Credit	1,137	3,906
Local plan	2,784	5,277
Total OPEB expense	**$ 7,476**	**$ 65,458**

Note 13 – 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 contracts with private insurance carriers to provide against the risk of loss from property damage and related liability coverages. The Authority's risk of loss is generally limited to settlements in excess of insured coverages and policy deductibles. There have been no settlements in excess of insurance coverages in the last three years.

Note 14 – Commitments and Contingencies

Construction Commitments

The Authority has an active construction project related to the Supervisory Control and Data Acquisition (SCADA) upgrade at the Opequon Water Reclamation Facility (OWRF). At year end, commitments with contractors were as follows:

	Total Contracts	Total Payments	Future Amounts to be Expended
OWRF-SCADA upgrade	$ 506,356	$ 457,253	$ 49,103

Note 15 – Subsequent Events

The Authority has evaluated all subsequent events through December 4, 2024, the date the financial statements were available to be issued.

Note 16 – New Accounting Standards

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.

Required Supplementary Information

Frederick-Winchester Service Authority

Required Supplementary Information
Schedule of Employer's Proportionate Share of Net Pension Liability
June 30, 2024

Entity Fiscal Year Ended June 30	Employer's Proportion of the City's Net Pension Liability	Employer's Proportionate Share of the City's Net Pension Liability	Employer's Covered Payroll	Employer's Proportionate Share of the City's Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2024	3.35%	$ 207,667	$ 1,210,043	17.16%	95.63%
2023	3.41%	175,018	1,269,000	13.79%	96.17%
2022	3.26%	1,098	1,268,264	0.09%	99.97%
2021	3.39%	667,766	1,294,549	51.58%	84.06%
2020	2.95%	360,968	1,273,663	28.34%	89.42%
2019	4.28%	339,407	1,180,078	28.76%	92.52%
2018	4.41%	403,156	1,281,165	31.47%	90.99%
2017	4.33%	631,880	1,221,609	51.73%	85.03%
2016	4.69%	471,163	1,281,165	36.78%	87.92%

Schedule is intended to show information for 10 years. Since 2015 is 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 measurement period, which is the twelve months prior to the Authority's fiscal year.

Frederick-Winchester Service Authority

Required Supplementary Informatin
Schedule of Pension Contributions
June 30, 2024

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	$ 119,469	$ 119,469	$ -	$ 1,335,826	8.94%
2023	111,453	111,453	-	1,210,043	9.21%
2022	112,602	112,602	-	1,269,000	8.87%
2021	113,339	113,339	-	1,268,264	8.94%
2020	106,906	106,906	-	1,294,549	8.26%
2019	97,207	97,207	-	1,273,663	7.63%
2018	96,443	96,443	-	1,180,078	8.17%
2017	98,201	98,201	-	1,281,165	7.66%
2016	126,469	126,469	-	1,221,609	10.35%

Schedule is intended to show information for 10 years. Since 2016 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

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

Frederick-Winchester Service Authority

Required Supplementary Information
Schedule of Employer's Share of Net OPEB Liability
June 30, 2024

Plan Fiscal Year Ended June 30	Employer's Proportion of the City's Net OPEB Liability	Employer's Proportionate Share of the City's Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the City's Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
City of Winchester Local Plan					
2024	0.61%	$ 17,743	$ 1,523,531	1.16%	68.70%
2023	0.96%	24,341	1,348,523	1.81%	70.17%
2022	0.96%	26,741	1,269,000	2.11%	66.54%
2021	0.84%	24,538	1,268,264	1.93%	68.70%
2020	0.84%	35,381	1,294,549	2.73%	52.74%
2019	0.99%	29,822	1,273,663	2.34%	58.03%
2018	0.83%	22,429	1,281,165	1.75%	56.55%
Virginia Retirement System - Group Life Insurance - General Employees					
2023	3.59%	$ 61,733	$ 1,210,043	5.10%	69.30%
2022	3.58%	58,578	1,269,000	4.62%	67.21%
2021	3.42%	53,348	1,268,264	4.21%	67.45%
2020	3.64%	81,017	1,294,549	6.26%	52.64%
2019	3.22%	71,674	1,273,663	5.63%	52.00%
2018	4.46%	89,049	1,180,078	7.55%	51.22%
2017	4.45%	89,033	1,281,165	6.95%	48.86%
Virginia Retirement System - General Employees Health Insurance Credit					
2023	4.55%	$ 7,843	$ 1,210,043	0.65%	77.21%
2022	4.55%	7,788	1,269,000	0.61%	76.82%
2021	4.45%	726	1,268,264	0.06%	96.91%
2020	4.54%	4,159	1,294,549	0.32%	83.60%
2019	4.05%	3,788	1,273,663	0.30%	83.38%
2018	5.55%	7,182	1,180,078	0.61%	77.30%
2017	5.59%	8,712	1,281,165	0.68%	72.89%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year- e.g. plan year 2017 information was presented in the entity's fiscal year 2018 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.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

Frederick-Winchester Service Authority

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
Virginia Retirement System - Group Life Insurance - General Employees					
2024	$ 7,214	$ 7,214	$ -	$ 1,335,826	0.54%
2023	6,535	6,535	-	1,210,043	0.54%
2022	14,742	14,742	-	1,269,000	1.16%
2021	14,825	14,825	-	1,268,264	1.17%
2020	15,555	15,555	-	1,294,549	1.20%
2019	14,167	14,167	-	1,273,663	1.11%
2018	13,176	13,176	-	1,281,165	1.03%

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
Virginia Retirement System - Health Insurance Credit - General Employees					
2024	935	$ 935	$ -	$ 1,335,826	0.07%
2023	847	847	-	1,210,043	0.07%
2022	1,072	1,072	-	1,269,000	0.08%
2021	989	989	-	1,268,264	0.08%
2020	1,080	1,080	-	1,294,549	0.08%
2019	1,427	1,427	-	1,273,663	0.11%
2018	1,449	1,449	-	1,281,165	0.11%

Entity Fiscal Year Ended June 30	Actuarially Required Contribution	Contributions in Relation to Actuarially Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
City of Winchester Local Plan					
2024	$ 421	$ -	$ 421	$ 1,523,531	0.00%
2023	960	-	960	1,348,523	0.00%
2022	4,061	-	4,061	1,269,000	0.00%
2021	3,511	3,511	-	1,268,264	0.28%
2020	2,663	2,663	-	1,294,549	0.21%
2019	3,901	3,901	-	1,273,663	0.31%
2018	29,134	29,134	-	1,281,165	2.27%

Schedule is intended to show information for 10 years. Since 2018 is 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 entity's fiscal year - i.e., the covered payroll on which required contributions were based for the same year.

Frederick-Winchester Service Authority

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 (the "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 Improvement Scale MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

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

Other Information

Frederick-Winchester Service Authority

Supplementary Information
Schedule of Capital Assets
June 30, 2024 and 2023

	June 30, 2024				
	Opequon	Parkins Mill	Stephens Run	Crooked Run	Total
Land	$ 442,943	$ 31,000	$ 8,462	$ -	$ 482,405
Construction in progress	702,269	-	-	-	702,269
Structures and improvements	142,207,752	58,268,272	677,019	4,500,000	205,653,043
Equipment	883,635	-	-	-	883,635
Vehicles	468,403	-	-	-	468,403
Master plan	190,735	-	-	-	190,735
Plant expansion - design costs and construction	12,821,184	-	-	-	12,821,184
Total	157,716,921	58,299,272	685,481	4,500,000	221,201,674
Accumulated depreciation	(74,421,412)	(33,612,847)	(677,019)	(3,825,000)	(110,536,278)
Net capital assets	$ 83,295,509	$ 24,686,425	$ 8,462	$ 675,000	$ 110,665,396

	June 30, 2023				
	Opequon	Parkins Mill	Stephens Run	Crooked Run	Total
Land	$ 442,943	$ 31,000	$ 8,462	$ -	$ 482,405
Construction in progress	224,107	-	-	-	224,107
Structures and improvements	142,207,752	58,268,272	677,019	4,500,000	205,653,043
Equipment	753,287	-	-	-	753,287
Vehicles	468,403	-	-	-	468,403
Master plan	190,735	-	-	-	190,735
Plant expansion - design costs and construction	12,821,184	-	-	-	12,821,184
Total	157,108,411	58,299,272	685,481	4,500,000	220,593,164
Accumulated depreciation	(69,459,251)	(31,934,749)	(677,019)	(3,600,000)	(105,671,019)
Net capital assets	$ 87,649,160	$ 26,364,523	$ 8,462	$ 900,000	$ 114,922,145

Frederick-Winchester Service Authority

Supplementary Information
Schedule of Future Debt Requirements
June 30, 2024

Fiscal Year Ending June 30	Principal			
	Opequon	Parkins Mill	Energy Project	Total
2025	$ 2,094,502	$ 2,212,237	$ 1,975,000	$ 6,281,739
2026	2,144,266	2,248,890	2,075,000	6,468,156
2027	3,699,380	2,286,149	655,000	6,640,529
2028	3,774,845	2,324,026	685,000	6,783,871
2029	2,845,670	2,362,531	1,715,000	6,923,201
2030-2034	12,421,862	1,195,904	7,180,000	20,797,766
2035-2039	17,898,426	-	4,570,000	22,468,426
	$ 44,878,951	$ 12,629,737	$ 18,855,000	$ 76,363,688

Fiscal Year Ending June 30	Interest			
	Opequon	Parkins Mill	Energy Project	Total
2025	$ 1,082,243	$ 175,145	$ 660,134	$ 1,917,522
2026	1,028,273	142,935	560,003	1,731,211
2027	962,575	110,192	496,522	1,569,289
2028	889,784	76,906	473,634	1,440,324
2029	818,730	43,068	436,134	1,297,932
2030-2034	3,239,567	8,670	1,358,575	4,606,812
2035-2039	1,224,846	-	408,963	1,633,809
	$ 9,246,018	$ 556,916	$ 4,393,965	$ 14,196,899

Compliance Section

BROWNEDWARDS
certified public accountants

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

To the Board of Directors
Frederick-Winchester Service Authority
Winchester, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Frederick-Winchester Service Authority (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 dated December 4, 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 charge 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **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 or 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters 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 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
December 4, 2024

Frederick-Winchester Service Authority

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
Conflict of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

Frederick-Winchester Service Authority

Summary Schedule of Prior Audit Findings

June 30, 2024

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2023-001: Segregation of Duties

Condition:

Due to the limited size of the staff at the Authority, a proper separation of certain accounting functions cannot be established and maintained.

Recommendation:

We recommend continued Board involvement and oversight as well as added scrutiny when reviewing financial statements, check registers, and other financial data provided to the Board.

Current Status:

Reduced to a control deficiency in 2024 since the Authority implemented additional mitigating controls, such as Board review of all customers and vendors.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

None.