

HARRISONBURG ELECTRIC COMMISSION
A Component Unit of the City of Harrisonburg, Virginia

FINANCIAL REPORT

June 30, 2016

HARRISONBURG ELECTRIC COMMISSION

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Directory of Principal Officials	i

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3a

Basic Financial Statements

Exhibit 1 Statements of Net Position	5
Exhibit 2 Statements of Revenues, Expenses, and Changes in Fund Net Position	6
Exhibit 3 Statements of Cash Flows	7
Notes to Financial Statements	9

Required Supplementary Information

Schedule of Employer's Share of Net Pension Liability	42
Schedule of Pension Contributions	43
Schedule of Funding Progress – Other Post-Employment Benefits	44
Notes to Required Supplementary Information	45

COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Summary of Compliance Matters	49

INTRODUCTORY SECTION

HARRISONBURG ELECTRIC COMMISSION

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2016

COMMISSIONERS

Bill Culbreth, Chairman
Randy Aikens, Vice Chairman
Daphyne Thomas, Secretary
Thomas Mendez, Treasurer
Kevin Rose

STAFF

Brian D. O'Dell, General Manager
Don M. Bowers, Controller
Cecil Ward, Superintendent of Construction and Operations
J. Scott Dillard, Manager of Metering and Substation Operations
Michael A. Fawley, Manager of Customer Services and Data Processing
Jarrett Clem, Manager of Generation Operations

FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Harrisonburg Electric Commission
Harrisonburg, Virginia

Report on the Financial Statements

We have audited the basic financial statements of the Harrisonburg Electric Commission (the "Commission"), a discretely presented component unit of the City of Harrisonburg, Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2016 and 2015, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 on our consideration of the Commission'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Harrisonburg Electric Commission (Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of The Harrisonburg Electric Commission for the years ended June 30, 2016 and 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of The Commission exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2016 and 2015 by \$79,377,631 and \$80,181,089, respectively. Of this amount, at June 30, 2016 and 2015, \$21,273,518 and \$20,984,477, respectively (Unrestricted Net Position) may be used to meet the Commission's ongoing obligations.
- Income before distributions to the City of Harrisonburg and contributions in aid of construction for the years ended June 30, 2016 and 2015 was \$4,024,231 and \$4,415,898, respectively. \$5,000,000 and \$4,900,000 was distributed to the City of Harrisonburg during 2016 and 2015, respectively. An additional \$172,311 and \$1,093,242 was received as contributions in aid of construction during 2016 and 2015, respectively.
- At June 30, 2016 and 2015, The Harrisonburg Electric Commission had no long-term debt.
- In May of 2016, the City of Harrisonburg sold its Resource Recovery Facility (steam plant) to James Madison University. As a result of this sale, assets at the steam plant owned by the Commission were either transferred in the sale or left severely impaired. Consequently, the Commission wrote down all steam plant assets to a zero value. This write-off was in the amount of \$926,390 and removed the steam plant assets and associated depreciation from the property, plant and equipment listing. Through a sale of the generator and proceeds due from the City as part of the sale, the Commission will receive a total of \$113,000. Accordingly, during fiscal year ending June 30, 2016 the Commission recorded an impairment loss on steam plant assets of \$813,390.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements and accompanying notes. These financial statements are prepared treating the operations of The Harrisonburg Electric Commission as a business type activity. Financial statements for business type activities are prepared on the accrual basis, meaning that all changes in net position are reported as soon as the underlying event causing the change occurs, regardless of when cash is actually received or disbursed. The Statements of Net Position include all assets, deferred outflows of resources, liabilities and deferred inflows of resources of Harrisonburg Electric Commission. The Statements of Revenues, Expenses, and Changes in Fund Net Position take into account all revenues and expenses for Harrisonburg Electric Commission and also present changes in the Commission's Net Position or "equity" balance. The Statements of Cash Flows reflect the actual cash receipts and disbursements for the fiscal periods contained in the report. The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. This discussion and analysis should be read in conjunction with The Harrisonburg Electric Commission's audited financial statements for the years ended June 30, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

COMPARISON WITH PRIOR YEAR

NET POSITION

	June 30,	
	2016	2015
	<u>2016</u>	<u>2015</u>
Total Assets		
Capital Assets, Property and Equipment		
Net of Depreciation	\$ 58,104,113	\$ 59,196,612
Current Assets and Investments	<u>30,619,164</u>	<u>30,785,803</u>
Total Assets	<u>\$ 88,723,277</u>	<u>\$ 89,982,415</u>
Deferred Outflows of Resources	<u>\$ 384,133</u>	<u>\$ 368,891</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 89,107,410</u>	<u>\$ 90,351,306</u>
 Total Net Position		
Net Investment in Capital Assets	\$ 58,104,113	\$ 59,196,612
Unrestricted Net Position	<u>21,273,518</u>	<u>20,984,477</u>
Total Net Position	<u>\$ 79,377,631</u>	<u>\$ 80,181,089</u>
Deferred Inflows of Resources	<u>\$ 291,066</u>	<u>\$ 679,962</u>
 Total Liabilities		
Long Term Liabilities (Postretirement		
benefit obligation)	\$ 3,316,640	\$ 3,144,897
Current Liabilities	<u>6,122,073</u>	<u>6,345,358</u>
Total Liabilities	<u>\$ 9,438,713</u>	<u>\$ 9,490,255</u>
Total Net Position and Liabilities	<u>\$ 89,107,410</u>	<u>\$ 90,351,306</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

COMPARISON WITH PRIOR YEAR

NET POSITION

	June 30,	
	2015	2014
	<hr/>	<hr/>
Total Assets		
Capital Assets, Property and Equipment		
Net of Depreciation	\$ 59,196,612	\$ 60,035,503
Current Assets and Investments	<u>30,785,803</u>	<u>29,736,238</u>
Total Assets	<u>\$ 89,982,415</u>	<u>\$ 89,771,741</u>
Deferred Outflows of Resources	<u>\$ 368,891</u>	<u>\$ -</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 90,351,306</u>	<u>\$ 89,771,741</u>
Total Net Position		
Net Investment in Capital Assets	\$ 59,196,612	\$ 60,035,503
Unrestricted Net Position	<u>20,984,477</u>	<u>22,404,468</u>
Total Net Position	<u>\$ 80,181,089</u>	<u>\$ 82,439,971</u>
Deferred Inflows of Resources	<u>\$ 679,962</u>	<u>\$ -</u>
Total Liabilities		
Long Term Liabilities (Postretirement		
benefit obligation)	\$ 3,144,897	\$ 772,172
Current Liabilities	<u>6,345,358</u>	<u>6,559,598</u>
Total Liabilities	<u>\$ 9,490,255</u>	<u>\$ 7,331,770</u>
Total Net Position and Liabilities	<u>\$ 90,351,306</u>	<u>\$ 89,771,741</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CHANGES IN NET POSITION

	June 30,	
	<u>2016</u>	<u>2015</u>
Operating Revenues		
Power Sales	\$ 60,244,411	\$ 66,342,600
Other	<u>357,736</u>	<u>329,880</u>
	<u>\$ 60,602,147</u>	<u>\$ 66,672,480</u>
Operating Expenses		
Operation and Maintenance	\$ 51,618,744	\$ 57,932,395
Depreciation and Amortization	3,752,482	3,944,167
Payments in Lieu of Taxes	<u>473,409</u>	<u>430,533</u>
	<u>\$ 55,844,635</u>	<u>\$ 62,307,095</u>
Operating Income	\$ 4,757,512	\$ 4,365,385
Non-operating Revenues (Expenses)		
Interest Income, net	80,109	50,513
Impairment Loss on Steam Plant Assets	<u>(813,390)</u>	<u>-</u>
	<u>\$ (733,281)</u>	<u>\$ 50,513</u>
Income Before Distributions and Contributions	\$ 4,024,231	\$ 4,415,898
Distributions to the City of Harrisonburg	(5,000,000)	(4,900,000)
Contributions in Aid of Construction	<u>172,311</u>	<u>1,093,242</u>
Change in Net Position	<u>\$ (803,458)</u>	<u>\$ 609,140</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CHANGES IN NET POSITION

	June 30,	
	<u>2015</u>	<u>2014</u>
Operating Revenues		
Power Sales	\$ 66,342,600	\$ 65,281,334
Other	<u>329,880</u>	<u>327,502</u>
	<u>\$ 66,672,480</u>	<u>\$ 65,608,836</u>
Operating Expenses		
Operation and Maintenance	\$ 57,932,395	\$ 56,344,155
Depreciation and Amortization	3,944,167	3,989,363
Payments in lieu of taxes	<u>430,533</u>	<u>374,544</u>
	<u>\$ 62,307,095</u>	<u>\$ 60,708,062</u>
Operating Income	\$ 4,365,385	\$ 4,900,774
Non-operating Revenues		
Interest Income, net	<u>50,513</u>	<u>42,063</u>
Income Before Distributions and Contributions	\$ 4,415,898	\$ 4,942,837
Distributions to the City of Harrisonburg	(4,900,000)	(4,900,000)
Contributions in Aid of Construction	<u>1,093,242</u>	<u>1,050,448</u>
Change in Net Position	<u>\$ 609,140</u>	<u>\$ 1,093,285</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERALL ANALYSIS

Operating Revenues decreased by \$6,070,333 or 9.1% in the fiscal year ended June 30, 2016 as compared to the previous year primarily as a result of a decreased fuel adjustment factor beginning April 2015 with a further decrease in April of 2016. kWh sales during the current fiscal year were also 1% lower than the previous year.

Operating Revenues increased by \$1,063,644 or 1.6% in the fiscal year ended June 30, 2015 as compared to the previous year primarily as a result of an increased fuel adjustment factor beginning April 2014. kWh sales during the current fiscal year were also 1% lower than the previous year.

Operations and Maintenance Costs decreased \$6,313,651 in 2016 mostly as a result of lower purchased power costs due to the decreased fuel adjustment factor (mentioned above). Further, kWh purchased were 1% lower than the previous year. The previous year's true-up calculation, netted with a settlement and a retroactive billing adjustment per terms within the power supply agreement, resulted in a net receivable of \$208,535 for the fiscal year ended June 30, 2015. Fiscal year ending June 30, 2016 had a true-up calculation, based on calendar year 2015, resulting in a receivable of \$37,312.

Operations and Maintenance Costs increased \$1,588,240 during 2015 mostly as a result of higher purchased power costs coupled with the increased fuel adjustment factor (mentioned above). Offsetting this increase somewhat, the previous year's true-up for calendar year 2013 resulted in a payable for HEC of \$84,740 during fiscal year ending June 30, 2014. For the calendar year end December 31, 2014 the true-up calculation, netted with a settlement and a retroactive billing adjustment per terms within the power supply agreement, resulted in a net receivable of \$208,535 for the fiscal year ended June 30, 2015.

Depreciation and amortization costs were 5% lower during the year ended June 30, 2016, decreasing by \$191,685. During the year ended June 30, 2015, these costs decreased by \$45,196.

Operating income increased by \$392,127 in the fiscal year ended June 30, 2016. This was largely due to the decreased cost of purchased power, which was approximately 1% lower per kWh than the previous year.

Operating income decreased by \$535,389 in the fiscal year ended June 30, 2015. This was largely due to the increased cost of purchased power, which was approximately 1% higher per kWh than the previous year. These costs were not passed to our retail customers through rate increases, resulting in a decrease in income. The increased fuel adjustment factor contributed to the higher purchased power costs as well.

Net cash provided by operating activities of \$8,930,307 was \$859,612 more than the prior year due largely to the decreased purchased power costs. The total increase in cash and cash equivalents was \$613,602 for the year ended June 30, 2016. Unrestricted net assets increased by \$289,041 during the year ended June 30, 2016 partly due to the adjustments for the decreased net pension liability under the GASB 68 accounting guideline.

Net cash provided by operating activities during 2015 of \$8,070,695 was \$1,290,128 less than the prior year due to the increased purchased power costs. The total increase in cash and cash equivalents was \$1,111,557 for the year ended June 30, 2015. Unrestricted net position decreased by \$1,419,991 during the year ended June 30, 2015.

Financial income increased in 2016 due to higher interest rates being earned. However, despite the improvement, earnings remained relatively low due to low investment yields.

Financial income was consistent in 2015, and remained low as a result of continued low investment yields.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSET ACTIVITY

During the year ended June 30, 2016, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating \$1,646,969 in new Capital Assets and increased Land and Plant under Construction by \$1,568,494. As mentioned above, the write-off of steam plant assets resulted in a reduction to Capital Assets and Land of \$2,193,520. A detailed presentation of the Capital Asset transactions of The Harrisonburg Electric Commission is contained in Note 2 of the Notes to Financial Statements. Financial commitments for future acquisition of Capital Assets are at normal operating levels. HEC has begun the implementation of Advanced Metering Infrastructure (AMI). AMI will replace all of the approximately twenty-one thousand meters throughout the City and will allow for the capability of remote on-demand meter reads, connects and disconnects. Implementation of the AMI project is scheduled to be completed by end of FY 2019, at a cost of approximately \$4 million, \$1 million of which has already been expended.

During the year ended June 30, 2015, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating \$1,689,645 in new Capital Assets and increased Land and Plant under Construction by \$1,117,564. A detailed presentation of the Capital Asset transactions of The Harrisonburg Electric Commission is contained in Note 2 of the Notes to Financial Statements. Financial commitments for future acquisition of Capital Assets are at normal operating levels and are in compliance with the Commission's five year capital plan.

REQUEST FOR INFORMATION

This report is designed to provide a general overview of The Harrisonburg Electric Commission's finances for the readers of the audited financial statements for the year ended June 30, 2016 and 2015. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the management of The Harrisonburg Electric Commission, Harrisonburg, Virginia.

BASIC FINANCIAL STATEMENTS

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Noncurrent assets		
Property and equipment (Note 2):		
Electric plant	\$ 131,948,380	\$ 130,926,437
Less accumulated depreciation	73,844,267	71,729,825
Total property and equipment	58,104,113	59,196,612
Investments (Note 3)	12,000,000	12,000,000
Total noncurrent assets	70,104,113	71,196,612
Current assets		
Cash and cash equivalents	10,853,218	10,239,616
Accounts receivable:		
Customers	5,276,031	6,367,475
Other	449,487	471,464
Materials and supplies inventory	1,793,595	1,458,801
Fuel inventory	94,182	128,313
Prepaid items	152,651	120,134
Total current assets	18,619,164	18,785,803
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows (Note 4)	384,133	368,891
Total assets and deferred outflows of resources	\$ 89,107,410	\$ 90,351,306
NET POSITION		
Net position		
Net investment in capital assets	\$ 58,104,113	\$ 59,196,612
Unrestricted (Note 6)	21,273,518	20,984,477
Total net position	79,377,631	80,181,089
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual investment earnings on pension plan investments (Note 4)	291,066	679,962
LIABILITIES		
Noncurrent liabilities		
Other postemployment benefit obligation (Note 5)	772,172	772,172
Net pension liability (Note 4)	2,544,468	2,372,725
Total noncurrent liabilities	3,316,640	3,144,897
Current liabilities		
Accounts payable	4,276,855	4,465,030
Customer deposits	1,115,222	1,022,377
Accrued expenses and other liabilities	599,365	725,406
Utility taxes payable	130,631	132,545
Total current liabilities	6,122,073	6,345,358
Total net position, deferred inflows of resources and liabilities	\$ 89,107,410	\$ 90,351,306

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Power sales	\$ 60,244,411	\$ 66,342,600
Other	<u>357,736</u>	<u>329,880</u>
Total operating revenues	<u>60,602,147</u>	<u>66,672,480</u>
OPERATING EXPENSES		
Operation and maintenance	51,618,744	57,932,395
Depreciation and amortization	3,752,482	3,944,167
Payments in lieu of taxes	<u>473,409</u>	<u>430,533</u>
Total operating expenses	<u>55,844,635</u>	<u>62,307,095</u>
Operating income	4,757,512	4,365,385
NONOPERATING REVENUES (EXPENSES)		
Interest income, net	80,109	50,513
Impairment loss on steam plant assets (Note 2)	<u>(813,390)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>(733,281)</u>	<u>50,513</u>
Income before distributions and contributions	4,024,231	4,415,898
Distributions to the City of Harrisonburg	(5,000,000)	(4,900,000)
Contributions in aid of construction	<u>172,311</u>	<u>1,093,242</u>
Increase (decrease) in net position	(803,458)	609,140
BEGINNING NET POSITION, JULY 1	<u>80,181,089</u>	<u>79,571,949</u>
ENDING NET POSITION, JUNE 30	<u><u>\$ 79,377,631</u></u>	<u><u>\$ 80,181,089</u></u>

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Cash received from customers	\$ 61,428,700	\$ 66,606,746
Cash paid to suppliers and employees	(52,501,108)	(58,271,670)
Other cash operating receipts	478,038	163,347
Payments to the City of Harrisonburg in lieu of taxes	(475,323)	(427,728)
Net cash provided by operating activities	<u>8,930,307</u>	<u>8,070,695</u>
NON-CAPITAL FINANCING ACTIVITIES		
Distributions to the City of Harrisonburg	(5,000,000)	(4,900,000)
Net cash used in non-capital financing activities	<u>(5,000,000)</u>	<u>(4,900,000)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(3,491,360)	(3,126,434)
Proceeds from the sale of steam plant assets	38,000	-
Contributions in aid of construction	172,311	1,606,509
Plant removal costs	(92,440)	(60,975)
Net cash used in capital and related financing activities	<u>(3,373,489)</u>	<u>(1,580,900)</u>
INVESTING ACTIVITIES		
Net purchases of investments	-	(500,000)
Interest received	56,784	21,762
Net cash provided by (used in) investing activities	<u>56,784</u>	<u>(478,238)</u>
Net increase in cash and cash equivalents	613,602	1,111,557
CASH AND CASH EQUIVALENTS		
Beginning	10,239,616	9,128,059
Ending	<u>\$ 10,853,218</u>	<u>\$ 10,239,616</u>

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED		
BY OPERATING ACTIVITIES:		
Operating income	\$ 4,757,512	\$ 4,365,385
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,752,482	3,944,167
Pension expense net of employer contributions	(232,395)	(184,226)
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	1,211,746	19,413
Materials and supplies inventory	(334,794)	8,577
Fuel inventory	34,131	51,229
Prepaid items	(32,517)	(1,743)
Increase (decrease) in:		
Accounts payable	(190,748)	(255,144)
Customer deposits	92,845	78,200
Accrued expenses and other liabilities	(126,041)	42,032
Utility taxes payable	(1,914)	2,805
	<u>\$ 8,930,307</u>	<u>\$ 8,070,695</u>
SCHEDULE OF NONCASH CAPITAL ACTIVITY		
Capital assets acquired through accounts payable at year end	<u>\$ 2,671</u>	<u>\$ 98</u>
Impairment loss on steam plant assets (Note 2)	<u>\$ 813,390</u>	<u>\$ -</u>

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies

Nature of business:

The Harrisonburg Electric Commission (the "Commission") provides distribution of electrical energy to the businesses and residents of the City of Harrisonburg, Virginia (the "City"). Electrical energy is purchased indirectly from Dominion Virginia Power through the Virginia Municipal Electric Association (VMEA). The Commission is a component unit of the City but operates independently. As a government agency, the Commission is not subject to income taxation.

Basis of accounting:

The Commission is a governmental entity and follows the accounting and reporting standards established by the Governmental Accounting Standards Board (GASB), except for the presentation of the Statement of Net Position, which is in accordance with the Federal Energy Regulatory Commission's accounting principles. The Commission's financial statements consist of a single enterprise fund, and 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.

Cash, cash equivalents, and investments:

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Investments consist of money market accounts and certificates of deposit with original maturities greater than three months and are carried at original cost which approximates fair value.

Inventories:

Inventories are stated at weighted average cost.

Capital assets:

Additions to and replacement of electric plant are recorded at cost which includes material, labor and overhead. The cost of property replaced, retired, or otherwise disposed of, is deducted from plant accounts and, generally, together with cost of removal less any salvage, is charged to accumulated depreciation.

Depreciation is provided by application of the straight-line and composite methods as further described in Note 2.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Customer accounts receivable and credit policies:

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 20 days from the invoice date. Unpaid accounts receivable over 30 days old incur a penalty of 5%.

Accounts receivable are stated at the amount billed to the customer plus any accrued and unpaid penalties. Charges for services earned but unbilled are accrued based on the last billing. At June 30, 2016 and 2015, approximately \$1,326,000 and \$1,605,000, respectively, is unbilled and included in accounts receivable. Customer account balances over 90 days old are considered delinquent, at which time service is disconnected and the account is placed on nonaccrual status.

The Commission uses the direct write-off method to account for bad debts due to vigorous collection policies. The recorded investment in delinquent trade receivables still accruing interest and those on nonaccrual status are immaterial.

Revenues and expenses:

The Commission distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Commission's principal ongoing operation. The principal operating revenues of the Commission arise from the sale of electric power. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating.

Revenue recognition:

Revenue from power sales is recorded at the time the power is consumed by the customer.

Fiber optic assets and revenue recognition:

These assets consist of a fiber optic distribution system. Revenue from these services is billed monthly based on contracted amounts and is included in other revenue.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated absences:

It is the Commission's policy to accumulate earned but unused vacation and sick pay benefits. The Commission does not pay accumulated sick leave when employees separate from service before retirement. However, upon retirement, the Commission will pay up to \$5,000 of accumulated sick pay for employees at least 50 years old and with at least 10 years of service. Employees can earn vacation annually, depending on years of service and can accumulate up to 60 days of vacation. All vacation pay earned and sick pay required to be paid on retirement is accrued.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Retirement Plan and the additions to/deductions from the Commission'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/Inflows of Resources:

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has two items that qualify for reporting in this category. The first item consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second item represents differences between expected and actual experience in the pension plan. This difference will be recognized in pension expense over a closed five year period.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The Commission has one type of item which is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2. Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated and amortized:				
Land and easements	\$ 3,094,507	\$ -	\$ 4,320	\$ 3,090,187
Plant under construction	3,021,188	3,159,203	1,590,709	4,589,682
	<u>6,115,695</u>	<u>3,159,203</u>	<u>1,595,029</u>	<u>7,679,869</u>
Capital assets being depreciated and amortized:				
Power production	17,925,222	-	2,189,200	15,736,022
Transmission	12,914,121	78,989	192	12,992,918
Distribution	79,196,826	1,470,868	279,206	80,388,488
General and software	8,629,169	357,073	24,339	8,961,903
Fiber optic	2,224,520	43,776	-	2,268,296
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	<u>124,810,742</u>	<u>1,950,706</u>	<u>2,492,937</u>	<u>124,268,511</u>
Less accumulated depreciation and amortization for:				
Power production	16,718,801	284,350	1,267,129	15,736,022
Transmission	5,814,666	371,543	224	6,185,985
Distribution	36,451,243	2,682,378	348,754	38,784,867
General and software	7,642,076	324,382	21,933	7,944,525
Fiber optic	1,182,155	89,829	-	1,271,984
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	<u>71,729,825</u>	<u>3,752,482</u>	<u>1,638,040</u>	<u>73,844,267</u>
Capital assets being depreciated and amortized, net	<u>53,080,917</u>	<u>(1,801,776)</u>	<u>854,897</u>	<u>50,424,244</u>
Total capital assets, net	<u>\$ 59,196,612</u>	<u>\$ 1,357,427</u>	<u>\$ 2,449,926</u>	<u>\$ 58,104,113</u>

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated and amortized:				
Land and easements	\$ 3,094,507	\$ -	\$ -	\$ 3,094,507
Plant under construction	<u>1,903,624</u>	<u>2,442,002</u>	<u>1,324,438</u>	<u>3,021,188</u>
	<u>4,998,131</u>	<u>2,442,002</u>	<u>1,324,438</u>	<u>6,115,695</u>
Capital assets being depreciated and amortized:				
Power production	17,919,734	40,488	35,000	17,925,222
Transmission	12,913,694	526	99	12,914,121
Distribution	77,944,515	1,476,646	224,335	79,196,826
General and software	8,221,755	389,429	(17,985)	8,629,169
Fiber optic	2,200,516	24,004	-	2,224,520
Electric plant acquisition adjustments	<u>3,920,884</u>	<u>-</u>	<u>-</u>	<u>3,920,884</u>
	<u>123,121,098</u>	<u>1,931,093</u>	<u>241,449</u>	<u>124,810,742</u>
Less accumulated depreciation and amortization for:				
Power production	16,236,302	517,499	35,000	16,718,801
Transmission	5,443,834	371,111	279	5,814,666
Distribution	34,072,571	2,641,461	262,789	36,451,243
General and software	7,316,714	325,362	-	7,642,076
Fiber optic	1,093,421	88,734	-	1,182,155
Electric plant acquisition adjustments	<u>3,920,884</u>	<u>-</u>	<u>-</u>	<u>3,920,884</u>
	<u>68,083,726</u>	<u>3,944,167</u>	<u>298,068</u>	<u>71,729,825</u>
Capital assets being depreciated and amortized, net	<u>55,037,372</u>	<u>(2,013,074)</u>	<u>(56,619)</u>	<u>53,080,917</u>
Total capital assets, net	<u>\$ 60,035,503</u>	<u>\$ 428,928</u>	<u>\$ 1,267,819</u>	<u>\$ 59,196,612</u>

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2. Capital Assets (Continued)

Depreciation and amortization is calculated under the composite method using the following annual rates:

Power production	3.23%	–	6.67%
Transmission	2.27%	–	3.33%
Distribution	2.27%	–	6.67%
General and software	2.27%	–	14.29%
Fiber optic			4.00%
Electric plant acquisition adjustments			5.00%

These rates were last modified by management in 2012, upon an evaluation of reasonableness of previous rates.

During the year ended June 30, 2016, the Commission recorded an impairment loss on steam plant assets due to the impending sale of the Harrisonburg City steam plant. The impairment loss totaled \$813,390.

Note 3. Deposits and Investments

Deposits:

All deposits of the Commission are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*, or covered by federal depository insurance.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Cash and cash equivalents include cash on hand and deposits. At June 30, 2016 and 2015, the Commission’s investments consisted entirely of money market and certificates of deposit, for which fair value approximated cost and all of which mature in less than one year.

The Commission’s current investment practice is to invest in certificates of deposit with maturities of less than two years with no more than \$5,000,000 invested in any one financial institution.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Commission, (the “Political Subdivision”) are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia and is a multi-employer agent plan. Members earn one month of service credit for each month they are employed and for which they and their employer are paying 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 Commission participates in VRS through the City of Harrisonburg, Virginia (the “City”). The Commission accounts for and reports its participation in the City’s VRS plan by applying the requirements for a cost-sharing multiple employer plan.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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 set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1</p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2</p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Eligible Members</p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members</p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.	A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Creditable Service	Creditable Service	Creditable Service
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	<u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component:</u></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p>
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(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

		<p>Vesting (Continued)</p> <p><u>Defined Contributions Component:</u> (Continued)</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Average Final Compensation	Average Final Compensation	Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	Service Retirement Multiplier	Service Retirement Multiplier
VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	VRS: Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.	<u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.
Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	Sheriffs and regional jail superintendents: Same as Plan 1.	For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Political subdivision hazardous duty employees: Same as Plan 1.	Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable.
		<u>Defined Contribution Component:</u> Not applicable.

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Normal Retirement Age</p> <p>VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age</p> <p>VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age</p> <p><u>Defined Benefit Component:</u></p> <p>VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility</p> <p>VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <p>VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <p><u>Defined Benefit Component:</u></p> <p>VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility	Earliest Reduced Retirement Eligibility	Earliest Unreduced Retirement Eligibility
<p>VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement
<p>The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.</p> <p><u>Eligibility:</u></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1 and Plan 2.</p>

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<p><u>Eligibility:</u> (Continued)</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><u>Exceptions to COLA Effective Dates:</u></p>	<p><u>Exceptions to COLA Effective Dates:</u></p>	<p><u>Exceptions to COLA Effective Dates:</u></p>
<p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. 	<p>Same as Plan 1.</p>	<p>Same as Plan 1 and Plan 2.</p>

(Continued)

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p><u>Exceptions to COLA Effective Dates:</u> (Continued)</p> <ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
<p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's, and thus the Commission's, contractually required contribution rate of covered employee compensation for the years ended June 30, 2016 and 2015 was 12.71% and 12.76%, respectively. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$369,486 and \$368,891 for the years ended June 30, 2016 and 2015, respectively.

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

The Commission reported liabilities of \$2,544,468 and \$2,372,725 for its proportionate share of the Collective Net Pension Liability of the City Plan at June 30, 2016 and 2015, respectively. The Collective Net Pension Liability was measured as of June 30 of the preceding fiscal year and the total pension liability used to calculate the Collective Net Pension Liability was determined by an actuarial valuation as of that date. The Commission's proportion of the Collective Net Pension Liability was based on the Commission's actuarially determined employer contributions to the pension plan for the respective years relative to the total of the actuarially determined employer contributions for the City Plan's participating employers.

At June 30, 2016, the Commission's proportion was 10.19% as compared to 10.44% at June 30, 2015.

The Commission recognized pension expense of \$137,091 and \$184,665 for the years ended June 30, 2016 and 2015. There was a change in proportionate share between each year, however, the difference is insignificant and was reflected in current year pension expense.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

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

At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,647	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	291,066
Employer contributions subsequent to the measurement date	369,486	-
Total	<u>\$ 384,133</u>	<u>\$ 291,066</u>

The Commission reported \$369,486 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 year ended June 30, 2016. 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,	Reduction to Pension Expense
2017	\$ (110,218)
2018	(110,218)
2019	(110,218)
2020	54,235
Thereafter	-

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
	Inflation		2.50 %
	* Expected arithmetic nominal return		8.33 %

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed 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 political subdivision using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Commission's proportionate share of City's net pension liability	\$ 4,409,502	\$ 2,544,468	\$ 1,000,393

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 2016 Comprehensive Annual Financial Report (CAFR).

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 5. Other Postemployment Benefits

Plan description:

Other postemployment benefits (OPEB) provided by the Commission include a retiree health insurance premium contribution plan that covers retirees until the retiree reaches 65 years of age or becomes eligible for Medicare. Participants must meet retirement eligibility requirements of the Virginia Retirement System. Full benefits are only paid for employees with 30 years of service; a reduced benefit is paid for those with 15 to 29 years of service. The monthly portion will continue at the same rate being paid for employees prior to retirement. The plan allows retirees under age 65 to remain in the same medical plan as active employees. The plan was established by the Commissioners and any amendments to the plan must be approved by them.

Funding policy:

The Commissioners establish employer contribution rates for plan participants. The Commission has chosen to fund the healthcare benefits on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation:

The annual cost of OPEB is equal to the annual required contribution (ARC) which represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed 30 years.

Pre-funding of OPEB liabilities is not required and the Commission has elected not to pre-fund the OPEB at this time. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not pre-funded. The Commission has recorded a liability of \$772,172 on the statement of net position as of June 30, 2016 and 2015.

Funding status and funding progress:

As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial value of assets was \$-0- resulting in an unfunded actuarial accrued liability (UAAL) of \$1,381,100.

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continued revisions as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 5. Other Postemployment Benefits (Continued)

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the unit credit cost method was used. The actuarial assumptions include a 3.5% investment rate of return and an annual healthcare cost trend rate of 5% in 2015, 6.1% in 2016, 6.7% in 2017, then graded to 4.5% over 54 years, and a payroll growth rate of 3%. The unfunded liability is amortized over a period of 30 years as a level dollar amount.

Note 6. Designations of Net Position

The Commission's management has designated unrestricted net position at June 30 as follows:

	<u>2016</u>	<u>2015</u>
Designations of unrestricted net position for:		
Operations	\$ 550,000	\$ 550,000
Insurance deductibles	500,000	500,000
Emergencies	650,000	650,000
Future capital projects	3,050,000	3,050,000
Rate stabilization	<u>5,300,000</u>	<u>5,300,000</u>
Total designations	10,050,000	10,050,000
Undesignated net position	<u>11,223,518</u>	<u>10,934,477</u>
Total unrestricted net position	<u>\$ 21,273,518</u>	<u>\$ 20,984,477</u>

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7. Related Party Transactions and Contingency

The Commission is a member of the Virginia Municipal Electric Association (VMEA) which is an organization created to purchase electricity from Dominion Virginia Power for resale to its members. A new contract was entered into in 2011, which extends VMEA's purchase agreement with Dominion to 2030. Purchases of electricity through VMEA totaled approximately \$46,750,000 and \$53,042,000 for the years ended June 30, 2016 and 2015, respectively. Of these purchases, approximately \$3,691,000 and \$4,188,000 is included in accounts payable as of June 30, 2016 and 2015, respectively. The Commission's new contract provides for periodic true-ups based on actual costs incurred by Dominion Virginia Power. Such true-ups could result in an increase or reduction of expenses previously recognized. The true-up for 2014 decreased fiscal year 2015 expenses approximately \$293,000. The true-up for 2015 decreased fiscal year 2016 expenses approximately \$37,000. The Commission's policy is to recognize the true-up when known due to a lack of information to estimate such an amount. The true-up calculation generally is proposed approximately six months after the calendar year end, therefore the true-up amount each calendar year may not be recorded until the next fiscal year. As a member of VMEA, the Commission maintains a share of assets located in Northern Virginia. These consist of power production, transmission and distribution assets of approximately \$3,630,000 at both June 30, 2016 and 2015. Amounts are amortized in accordance with rates as stated in Note 2.

Distributions of \$5,000,000 and \$4,900,000 were made to the City of Harrisonburg for the years ended June 30, 2016 and 2015, respectively. Electricity billed to the City and its divisions is charged at a standard municipal rate and totaled approximately \$2,367,000 and \$2,686,000 for the years ended June 30, 2016 and 2015, respectively.

Note 8. Concentration

The Commission's charges to James Madison University comprise approximately 13% of total revenue, trade receivables from which totaled approximately \$585,000 and \$671,000 as of June 30, 2016 and 2015, respectively.

Note 9. Risk Management

The Commission is a component unit of the City which is a member of the Virginia Municipal League Group Self-Insurance Association (VML) for vehicles, property, inland marine, EDP, flood, general liability, workmans' compensation, boiler and machinery. Each VML member jointly and severally agrees to assume, pay and discharge any liability. The City and its component units make contributions and assessments into a designated cash reserve fund. In 2016 and 2015, the Commission contributed \$191,642 and \$208,843, respectively. This reserve fund is used to pay claims and awards, as well as expenses incurred by VML. In the event of a loss deficit and depletion of all available excess reserves, VML may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. However, since the inception of this insurance association, no additional assessments have been required. There has been no reduction in insurance coverage from coverage in the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 9. Risk Management (Continued)

The City is self-insured for health insurance purposes and reports these activities in its Health Insurance Fund. This fund serves the City, the Harrisonburg School Board, the Harrisonburg-Rockingham Community Services Board, Harrisonburg-Rockingham Regional Sewer Authority, Harrisonburg Redevelopment and Housing Authority, and the Massanutten Regional Library, in addition to the Commission. This fund accounts for the health insurance activities of the aforementioned entities but does not constitute a transfer of risk from the City.

The City records an estimated liability for incurred health care claims. Claims liabilities are based on estimates of the ultimate cost of reported claims, related claim adjustment expenses and an estimate for claims incurred but not reported (IBNR) based on historical experience. Anthem Blue Cross and Blue Shield does not provide separate information for component units. Accordingly, such information is not available for the Commission; however, this information for the City, which includes the Commission, is reported in the City's Comprehensive Annual Financial Report and that report may be obtained in writing to the City of Harrisonburg, Finance Department, City Municipal Building, 345 South Main Street, Harrisonburg, Virginia 22801.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. New Accounting Standards

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

HARRISONBURG ELECTRIC COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. New Accounting Standards (Continued)

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISONBURG ELECTRIC COMMISSION

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY**

June 30, 2016

Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	10.19%	\$ 2,544,468	\$ 2,892,926	87.95%	81.59%
2015	10.44%	\$ 2,372,725	\$ 2,953,530	80.34%	82.38%

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.

HARRISONBURG ELECTRIC COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2016

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 369,486	\$ 369,486	\$ -	\$ 2,906,731	12.71%
2015	\$ 368,891	\$ 368,891	\$ -	\$ 2,892,926	12.76%

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.

HARRISONBURG ELECTRIC COMMISSION

SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS

June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 1,381,100	\$ 1,381,100	0.00%	\$ 2,992,600	46.15%
July 1, 2012	\$ -	\$ 1,304,300	\$ 1,304,300	0.00%	\$ 2,775,500	46.99%
July 1, 2010	\$ -	\$ 772,172	\$ 772,172	0.00%	\$ 2,798,787	27.59%
July 1, 2009	\$ -	\$ 755,941	\$ 755,941	0.00%	\$ 2,688,337	28.10%

HARRISONBURG ELECTRIC COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2015 are minimal.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

COMPLIANCE SECTION

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

To the Commissioners
Harrisonburg Electric Commission
Harrisonburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the basic financial statements of the Harrisonburg Electric Commission (the "Commission"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 22, 2016.

Internal Control over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance 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 or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 22, 2016

HARRISONBURG ELECTRIC COMMISSION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2016

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 Commission's compliance with certain provisions of laws, regulations, contracts, and grants shown below:

STATE COMPLIANCE MATTERS

Code of Virginia:

Cash and Investment Laws

Conflicts of Interest Act

Debt Provisions

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act