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

FINANCIAL REPORT

June 30, 2020

HARRISONBURG ELECTRIC COMMISSION

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HARRISONBURG ELECTRIC COMMISSION

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2020

COMMISSIONERS

Daphyne Thomas, Chairman
Hobart P. Bauhan, Vice Chairman
Chris Weaver, Secretary
Dr. Alex Gabbin, Treasurer
Dr. Maria Papadakis

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
Zach Nyce, Manager of Engineering

FINANCIAL SECTION

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

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the 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, 2020 and 2019, 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 audit 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, 2020 and 2019, 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.

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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 17, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 17, 2020

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, 2020 and 2019.

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 2020 and 2019 by $96,394,377 and $94,824,775, respectively. Of the total Net Position, at June 30, 2020 and 2019, $36,596,234 and $33,791,953, 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, 2020 and 2019 was $5,330,449 and $10,167,817, respectively. $5,200,000 was distributed to the City of Harrisonburg during fiscal years 2020 and 2019. An additional $1,439,154 and $1,424,689 was received as contributions in aid of construction during 2020 and 2019, respectively.
- At June 30, 2020 and 2019, The Harrisonburg Electric Commission had no long-term debt.

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, 2020 and 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

COMPARISON WITH PRIOR YEAR

NET POSITION

	June 30, 2020	June 30, 2019
Total Assets		
Capital Assets, Property and Equipment Net of Depreciation	$ 59,798,143	$ 61,032,822
Current Assets and Investments	48,194,905	43,792,550
Total Assets	$ 107,993,048	$ 104,825,372
Deferred Outflows of Resources	$ 867,234	$ 511,894
Total Assets and Deferred Outflows of Resources	$ 108,860,282	$ 105,337,266
Total Net Position		
Net Investment in Capital Assets	$ 59,798,143	$ 61,032,822
Unrestricted Net Position	36,596,234	33,791,953
Total Net Position	$ 96,394,377	$ 94,824,775
Deferred Inflows of Resources	$ 421,429	$ 377,145
Total Liabilities		
Long Term Liabilities (Pension and other postretirement liability)	$ 4,821,776	$ 4,427,921
Current Liabilities	7,222,700	5,707,425
Total Liabilities	$ 12,044,476	$ 10,135,346
Total Net Position and Liabilities	$ 108,860,283	$ 105,337,266

COMPARISON WITH PRIOR YEAR

NET POSITION

	June 30, 2019	June 30, 2018
Total Assets		
Capital Assets, Property and Equipment Net of Depreciation	$ 61,032,822	$ 61,199,458
Current Assets and Investments	43,792,550	37,768,819
Total Assets	$ 104,825,372	$ 98,968,277
Deferred Outflows of Resources	$ 511,894	$ 471,545
Total Assets and Deferred Outflows of Resources	$ 105,337,266	$ 99,439,822
Total Net Position		
Net Investment in Capital Assets	$ 61,032,822	$ 61,199,458
Unrestricted Net Position	33,791,953	27,232,811
Total Net Position	$ 94,824,775	$ 88,432,269
Deferred Inflows of Resources	$ 377,145	$ 557,965
Total Liabilities		
Long Term Liabilities (Pension and other postretirement liability)	$ 4,427,921	$ 4,402,719
Current Liabilities	5,707,425	6,046,869
Total Liabilities	$ 10,135,346	$ 10,449,588
Total Net Position and Liabilities	$ 105,337,266	$ 99,439,822

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CHANGES IN NET POSITION

	June 30, 2020	June 30, 2019
Operating Revenues		
Power Sales	$ 60,763,582	$ 66,819,037
Other	251,872	357,869
	$ 61,015,454	$ 67,176,906
Operating Expenses		
Operation and Maintenance	$ 51,376,202	$ 52,132,883
Depreciation and Amortization	3,973,183	4,540,999
Payments in Lieu of Taxes	583,569	587,214
	$ 55,932,954	$ 57,261,096
Operating Income	$ 5,082,500	$ 9,915,810
Non-operating Revenues (Expenses)		
Interest Income, net	247,949	252,007
	$ 247,949	$ 252,007
Income Before Distributions and Contributions	$ 5,330,449	$ 10,167,817
Distributions to the City of Harrisonburg	(5,200,000)	(5,200,000)
Contributions in Aid of Construction	1,439,154	1,424,689
Change in Net Position	$ 1,569,602	$ 6,392,506

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CHANGES IN NET POSITION

	June 30, 2019	June 30, 2018
Operating Revenues		
Power Sales	$ 66,819,037	$ 65,365,634
Other	357,869	320,433
	$ 67,176,906	$ 65,686,067
Operating Expenses		
Operation and Maintenance	$ 52,132,883	$ 49,898,860
Depreciation and Amortization	4,540,999	3,508,674
Payments in lieu of taxes	587,214	557,402
	$ 57,261,096	$ 53,964,936
Operating Income	$ 9,915,810	$ 11,721,131
Non-operating Revenues		
Interest Income, net	252,007	160,860
	$ 252,007	$ 160,860
Income Before Distributions and Contributions	$ 10,167,817	$ 11,881,991
Distributions to the City of Harrisonburg	(5,200,000)	(5,000,000)
Contributions in Aid of Construction	1,424,689	22,586
Change in Net Position	$ 6,392,506	$ 6,904,577

OVERALL ANALYSIS

Operating Revenues decreased by $6,161,452 in the fiscal year ended June 30, 2020 as compared to the previous year. kWh sales during the current fiscal year were 4.5% below the previous year. There was no retail rate increase during the current fiscal year; however the fuel adjustment factor, which had decreased by 32% from 1.19 cents per kWh to 0.81 cents per kWh during April of 2019, contributed to decreased revenues. Additionally, in April of 2020, the fuel adjustment factor further decreased by 82% from 0.81 cents per kWh to 0.15 cents per kWh, driving revenue charges even lower. The COVID-19 pandemic also greatly affected kWh sales and revenue charges in the final quarter of fiscal year 2020. Due to the lockdown, usage patterns changed significantly over the final four months of the fiscal year. kWh sold during this timeframe decreased and also shifted between customer categories. This trend will continue into the beginning of fiscal year 2021.

Operating Revenues increased by $1,490,839 in the fiscal year ended June 30, 2019 as compared to the previous year. kWh sales during the current fiscal year were nearly flat at 0.5% higher than the previous year. There was no retail rate increase during the current fiscal year; however the fuel adjustment factor, which had increased by 44% from 0.83 cents per kWh to 1.19 cents per kWh during April of 2018, was the primary cause of the increased revenues. In April of 2019, the fuel adjustment factor decreased by 32% from 1.19 cents per kWh to 0.81 cents per kWh, reversing this trend for the final three months of fiscal year 2019.

Operations and Maintenance Costs decreased $756,681 or 1% for fiscal year 2020 partly as a result of decreased purchased power costs resulting from the lower fuel adjustment factor combined with kWh purchases that were 4.5% lower than the previous year. This decrease was in spite of a change in the true-up that caused an increase in purchased power costs of $3,722,570 in fiscal year 2020 compared to fiscal year 2019. The annual power supply true-up (based on calendar year 2019 and recorded in fiscal year 2020) resulted in a net increase to purchased power of $1,553,007. The previous year's true-up calculation resulted in a net reduction to purchased power of $2,169,563 for the fiscal year ended June 30, 2019.

Operations and Maintenance Costs increased $2,234,023 or 4.5% in 2019 partly as a result of increased purchased power costs, and partly due to increased transmission and distribution fueled by maintenance projects conducted throughout the year. kWh purchased were 0.3% higher than the previous year. The previous year's true-up calculation resulted in a net reduction to purchased power of $2,169,563 for the fiscal year ended June 30, 2019. However, in fiscal year ending June 30, 2018 the true-up calculation, based on calendar year 2017, resulted in a reduction to purchased power of $2,881,942. This decreased reduction helped to increase purchased power costs in the current year.

Depreciation and amortization costs were nearly 13% lower during the year ended June 30, 2020, decreasing by $567,816. The decreases came in the computer equipment and generation classes of assets. A new, jointly owned generator was offline during much of fiscal year 2020, and was therefore not depreciated. During the year ended June 30, 2019 these costs increased by $1,032,325. Completion of the installation of AMI meters throughout the electrical system was the driving factor for higher depreciation along with the purchase of some new vehicles to replace an aging fleet.

Operating income decreased by $4,833,310 or 48% in the fiscal year ended June 30, 2020. This was mostly caused by the decreased revenue and purchased power true-up conditions cited above.

Operating income decreased by $1,805,321 or 15% in the fiscal year ended June 30, 2019. This was mostly caused by the increased transmission and distribution and depreciation expenses cited above.

Net cash provided by operating activities of $13,328,656 was $1,012,431 less than the prior year. The total increase in cash and cash equivalents was $7,110,120 for the year ended June 30, 2020. Unrestricted net position increased by $2,804,281 during the year ended June 30, 2020.

Net cash provided by operating activities of $14,341,087 was $157,374 less than the prior year. The total increase in cash and cash equivalents was $6,360,832 for the year ended June 30, 2019. Unrestricted net position increased by $6,559,142 during the year ended June 30, 2019.

Financial income remained flat over 2020 due to stagnant interest rates. Investment rates, which fell sharply in the final months of fiscal year 2020, remain modest. Financial income increased in 2019 due to higher interest rates being earned.

CAPITAL ASSET ACTIVITY

During the year ended June 30, 2020, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating $2,369,401 in new Capital Assets and decreased Land and Plant under Construction by $247,567. A detailed presentation of the Capital Asset transactions of The Harrisonburg Electric Commission is contained in Note 3 of the Notes to Financial Statements. Financial commitments for future acquisition of Capital Assets are at normal operating levels.

During the year ended June 30, 2019, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating $3,428,122 in new Capital Assets and decreased Land and Plant under Construction by $1,504,741. A detailed presentation of the Capital Asset transactions of The Harrisonburg Electric Commission is contained in Note 3 of the Notes to Financial Statements. Financial commitments for future acquisition of Capital Assets are at normal operating levels. HEC completed the installation of Advanced Metering Infrastructure (AMI) throughout the service area. AMI replaced 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.

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, 2020 and 2019. 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

EXHIBIT 1

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF NET POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 28,300,903	$ 21,190,783
Accounts receivable:		
Customers, net	4,853,208	6,196,294
Other	747,278	2,196,531
Materials and supplies inventory	2,005,873	1,839,258
Fuel inventory	70,367	151,291
Prepaid items	217,276	218,393
Total current assets	36,194,905	31,792,550
Noncurrent assets		
Property and equipment (Note 3):		
Electric plant	141,011,717	138,889,883
Less accumulated depreciation	81,213,574	77,857,061
Total property and equipment	59,798,143	61,032,822
Investments (Note 2)	12,000,000	12,000,000
Total assets	107,993,048	104,825,372
DEFERRED OUTFLOWS OF RESOURCES (Notes 4, 5, 6, and 7)	867,234	511,894
LIABILITIES		
Current liabilities		
Accounts payable (Note 9)	5,084,715	3,711,181
Customer deposits	1,152,861	1,132,532
Accrued expenses and other liabilities	786,208	661,081
Utility taxes payable	198,916	202,631
Total current liabilities	7,222,700	5,707,425
Noncurrent liabilities		
Net other postemployment benefit liability (Notes 5, 6, and 7)	2,107,187	2,203,413
Net pension liability (Notes 4 and 7)	2,714,589	2,224,508
Total liabilities	12,044,476	10,135,346
DEFERRED INFLOWS OF RESOURCES (Notes 4, 5, 6, and 7)	421,429	377,145
NET POSITION		
Net position		
Net investment in capital assets	59,798,143	61,032,822
Unrestricted (Note 8)	36,596,234	33,791,953
Total net position	$ 96,394,377	$ 94,824,775

The Notes to Financial Statements are an integral part of these statements.

EXHIBIT 2

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Power sales	$ 60,763,582	$ 66,819,037
Other	251,872	357,869
Total operating revenues	61,015,454	67,176,906
OPERATING EXPENSES		
Operation and maintenance	51,376,202	52,132,883
Depreciation and amortization	3,973,183	4,540,999
Payments in lieu of taxes	583,569	587,214
Total operating expenses	55,932,954	57,261,096
Operating income	5,082,500	9,915,810
NONOPERATING REVENUES		
Interest income, net	247,949	252,007
Net nonoperating revenues	247,949	252,007
Income before distributions and contributions	5,330,449	10,167,817
Distributions to the City of Harrisonburg (Note 9)	(5,200,000)	(5,200,000)
Contributions in aid of construction	1,439,153	1,424,689
Increase in net position	1,569,602	6,392,506
BEGINNING NET POSITION, JULY 1	94,824,775	88,432,269
ENDING NET POSITION, JUNE 30	$ 96,394,377	$ 94,824,775

The Notes to Financial Statements are an integral part of these statements.

EXHIBIT 3

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES		
Cash received from customers	$ 62,126,997	$ 67,339,643
Cash paid to suppliers and employees	(49,862,592)	(52,866,701)
Other cash operating receipts	1,651,535	455,302
Payments to the City of Harrisonburg in lieu of taxes	(587,284)	(587,157)
Net cash provided by operating activities	13,328,656	14,341,087
NON-CAPITAL FINANCING ACTIVITIES		
Distributions to the City of Harrisonburg	(5,200,000)	(5,200,000)
Net cash used in non-capital financing activities	(5,200,000)	(5,200,000)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(2,624,854)	(4,243,394)
Contributions in aid of construction	1,439,153	1,424,689
Plant removal costs	(130,374)	(112,666)
Net cash used in capital and related financing activities	(1,316,075)	(2,931,371)
INVESTING ACTIVITIES		
Interest received	297,539	151,116
Net cash provided by investing activities	297,539	151,116
Net increase in cash and cash equivalents	7,110,120	6,360,832
CASH AND CASH EQUIVALENTS		
Beginning	21,190,783	14,829,951
Ending	$ 28,300,903	$ 21,190,783

The Notes to Financial Statements are an integral part of these statements.

EXHIBIT 3

HARRISONBURG ELECTRIC COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2020 and 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 5,082,500	$ 9,915,810
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,973,183	4,540,999
Excess of employer contributions over other postemployment benefits expense	17,222	31,426
Excess of employer contributions over pension expense	65,577	(227,393)
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	2,742,749	587,989
Materials and supplies inventory	(166,615)	(82,686)
Fuel inventory	80,924	(20,906)
Prepaid items	1,117	(46,404)
Increase (decrease) in:		
Accounts payable	1,390,258	(399,226)
Customer deposits	20,329	30,052
Accrued expenses and other liabilities	125,127	11,369
Utility taxes payable	(3,715)	57
Net cash provided by operating activities	$ 13,328,656	$ 14,341,087
SCHEDULE OF NONCASH CAPITAL ACTIVITY		
Capital assets acquired through accounts payable at year end	$ 21,633	$ 38,357

The Notes to Financial Statements are an integral part of these statements.

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). 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 3.

(Continued)

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 billings subsequent to year end. At June 30, 2020 and 2019, approximately $920,000 and $1,609,000, 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 has chosen to abide by the Commonwealth of Virginia's moratorium on the disconnection of utility accounts in arrears as a response to the COVID-19 pandemic even though this law does not apply to municipalities. Beginning in the middle of March, 2020 the Commission stopped disconnecting customers for nonpayment of their electric bill. As a result, past due balances were higher than the prior year and an estimated allowance for uncollectible accounts of $150,000 has been accrued as of June 30, 2020. Pending legislation in the General Assembly, which may apply to municipalities, will determine when the Commission can resume disconnections for non-payment as well as the repayment schedules offered to those customers who are in arrears. Normally, the Commission uses the direct write-off method to account for bad debts due to vigorous collection policies. As such, the recorded investment in delinquent trade receivables still accruing interest and those on nonaccrual status were immaterial as of June 30, 2019.

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.

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 and Other Postemployment Benefits (OPEB):

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

Deferred outflows/inflows of resources:

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

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent 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 the following items that qualify for reporting as deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors and changes in assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportion. This difference will be recognize in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.

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.

Note 2. 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). LGIP consists of pooled investment funds, is overseen by the Treasurer of Virginia and the State Treasury Board, and is not registered with the SEC. The fair value of the Commission's position in the pool is the same as the value of the pool shares and is reported within the guidelines of GASB Statement No. 79.

Cash and cash equivalents include cash on hand and deposits. At June 30, 2020 and 2019, approximately 59% and 75% of the Commission's investments consisted of money market and certificates of deposit, for which fair value approximated cost and all of which mature in less than one year. These investments 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.

As of June 30, 2020 and 2019, approximately 41% and 25%, respectively, of the Commission's investments are with LGIP, which has an S&P credit rating of AAAm.

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

(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated and amortized:				
Land and easements	$ 3,090,187	$ -	$ -	$ 3,090,187
Plant under construction	3,491,926	2,177,655	2,425,222	3,244,359
	6,582,113	2,177,655	2,425,222	6,334,546
Capital assets being depreciated and amortized:				
Power production	16,627,409	49,904	-	16,677,313
Transmission	13,596,173	905	3,286	13,593,792
Distribution	84,985,702	2,001,650	424,580	86,562,772
General and software	10,890,944	1,064,467	319,659	11,635,752
Fiber optic	2,286,658	-	-	2,286,658
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	132,307,770	3,116,926	747,525	134,677,171
Less accumulated depreciation and amortization for:				
Power production	16,260,290	417,023	-	16,677,313
Transmission	7,111,494	380,876	4,883	7,487,487
Distribution	40,670,620	2,669,637	404,534	42,935,723
General and software	8,348,955	378,181	171,253	8,555,883
Fiber optic	1,544,818	91,466	-	1,636,284
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	77,857,061	3,973,183	580,670	81,213,574
Capital assets being depreciated and amortized, net	54,450,709	(820,257)	166,855	53,463,597
Total capital assets, net	$ 61,032,822	$ 1,357,398	$ 2,592,077	$ 59,798,143

(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated and amortized:				
Land and easements	$ 3,090,187	$ -	$ -	$ 3,090,187
Plant under construction	4,996,667	3,621,803	5,126,544	3,491,926
	8,086,854	3,621,803	5,126,544	6,582,113
Capital assets being depreciated and amortized:				
Power production	15,736,022	891,387	-	16,627,409
Transmission	13,202,008	399,409	5,244	13,596,173
Distribution	83,424,791	3,865,390	2,304,479	84,985,702
General and software	10,327,647	820,474	257,177	10,890,944
Fiber optic	2,268,296	18,362	-	2,286,658
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	128,879,648	5,995,022	2,566,900	132,307,770
Less accumulated depreciation and amortization for:				
Power production	15,736,022	524,268	-	16,260,290
Transmission	6,738,968	378,878	6,352	7,111,494
Distribution	39,701,389	3,160,898	2,191,667	40,670,620
General and software	8,216,333	385,585	252,963	8,348,955
Fiber optic	1,453,448	91,370	-	1,544,818
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	75,767,044	4,540,999	2,450,982	77,857,061
Capital assets being depreciated and amortized, net	53,112,604	1,454,023	115,918	54,450,709
Total capital assets, net	$ 61,199,458	$ 5,075,826	$ 5,242,462	$ 61,032,822

Note 3. 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.

Note 4. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Commission, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The 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.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at:

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

Note 4. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	25
Inactive members:	
Vested inactive members	6
Non-vested inactive members	9
Inactive members active elsewhere in VRS	13
Total inactive members	28
Active members	44
Total covered employees	97

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's, and thus the Commission's, contractually required contribution rate of covered employee compensation for the years ended June 30, 2020 and 2019 was 10.96% for both years. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 $354,592, $347,023, and $350,713 for the years ended June 30, 2020 and 2019 and 2018, respectively.

Note 4. Defined Benefit Pension Plan (Continued)

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

The Commission reported liabilities of $2,714,589 and $2,224,508 for its proportionate share of the Collective Net Pension Liability of the City plan at June 30, 2020 and 2019, respectively. The Collective Net Pension Liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

At June 30, 2019, the Commission's proportion of the City plan was 9.84% as compared to 9.93% at June 30, 2018.

The Commission recognized pension expense of $420,169 and $119,630 for the years ended June 30, 2020 and 2019, respectively. There was a change in proportionate share between each year, however, the difference is insignificant and was reflected in current year pension expense.

At June 30, 2020, the Commission 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	$ 67,104	$ 84,886
Changes of assumptions	357,523	30,582
Net difference between projected and actual earnings on pension plan investments	-	117,517
Employer contributions subsequent to the measurement date	354,592	-
Total	$ 779,219	$ 232,985

Note 4. Defined Benefit Pension Plan (Continued)

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

The Commission reported $354,592 as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date which will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2021. 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,	Increase to Pension Expense
2021	$ 64,975
2022	94
2023	119,314
2024	7,259
2025	-
Thereafter	-

At June 30, 2019, the Commission 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	$ 93,815	$ 154,710
Changes of assumptions	-	55,738
Net difference between projected and actual earnings on pension plan investments	-	108,660
Employer contributions subsequent to the measurement date	347,023	-
Total	$ 440,838	$ 319,108

The Commission reported $347,023 as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date was recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020.

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, 2018, 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, 2019.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

*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 rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year of age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00 %		5.13 %
		Inflation	2.50 %
		*Expected arithmetic nominal return	7.63 %

* The above allocation provides for a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund allocation.

Note 4. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rates used to measure the total pension liability was 6.75% and 7.00% for the years ending June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Commission using the discount rate of 6.75% and 7.00% for the years ending June 30, 2020 and 2019, 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 or one percentage point higher than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Commission's proportionate share of City's net pension liability at June 30, 2020	$ 4,898,661	$ 2,714,589	$ 978,803

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Commission's proportionate share of City's net pension liability at June 30, 2019	$ 4,242,881	$ 2,224,508	$ 553,856

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 2020 and 2019 Comprehensive Annual Financial Reports (CAFRs).

(Continued)

Note 4. Defined Benefit Pension Plan (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 5. Other Postemployment Benefits Liability – Local Plan

Plan Description and Benefits Provided

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.

Employees Covered by Benefit Terms

As of the July 1, 2019 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	Number
Inactive employees or beneficiaries	4
Active plan members	43
	47

Total OPEB Liability

The Commission's total OPEB liability of $1,848,637 was measured as of June 30, 2020 and was determined based on an actuarial valuation performed as of July 1, 2019. As of June 30, 2019, the Commission's total OPEB liability of $1,963,087 was measured as of June 30, 2019 and was determined based on an actuarial valuation performed as of July 1, 2017.

Note 5. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases, including inflation	3.5 - 5.35%
Healthcare cost trend rates	5.40% - 4.00% over 54 years

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

Changes in the Total OPEB Liability

Balance at June 30, 2019	$ 1,963,087
Changes for the year:	
Service cost	48,310
Interest	69,356
Difference between expected and actual experience	(162,086)
Assumption or other input changes	(9,919)
Benefit payments	(60,111)
Net changes	98,211
Balance at June 30, 2020	$ 1,848,637

Note 5. Other Postemployment Benefits Liability – Local Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in Discount Rate

The discount rates used to measure the total OPEB liability was 2.21% and 3.50% for the years ending June 30, 2020 and 2019, respectively. The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1.00% Decrease (1.21%)	Current Discount Rate (2.21%)	1.00% Increase (3.21%)
Total OPEB liability at June 30, 2020	$ 1,959,888	$ 1,848,637	$ 1,735,005

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Total OPEB liability at June 30, 2019	$ 2,102,896	$ 1,963,087	$ 1,826,863

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

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

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
Total OPEB liability at June 30, 2020	$ 1,649,634	$ 1,848,637	$ 2,076,635
Total OPEB liability at June 30, 2019	$ 1,742,324	$ 1,963,087	$ 2,217,429

(Continued)

Note 5. Other Postemployment Benefits Liability – Local Plan (Continued)

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

For the years ended June 30, 2020 and 2019, the Commission recognized OPEB expense of $91,035 and $117,880, respectively. At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 32,432	$ 36,040
Differences between expected and actual experience	-	135,943
	$ 32,432	$ 171,983

For the year ended June 30, 2019, the Commission recognized OPEB expense of $117,880. At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 41,698	$ 35,875
	$ 41,698	$ 35,875

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

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

Year Ending June 30,	(Reduction) to OPEB Expense
2021	$ (26,631)
2022	(26,631)
2023	(26,631)
2024	(26,368)
2025	(27,743)
Thereafter	(5,547)

(Continued)

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Commission also participates in one cost-sharing other postemployment benefit plan, described as follows.

Plan Description

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

The Commission participates in GLI through the City of Harrisonburg, Virginia (the "City). The Commission accounts for and reports its participation in the City's GLI plan by applying the requirements for a cost-sharing multiple employer plan.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Both of these plans are considered multiple employer, cost sharing plans.

(Continued)

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2020 Contribution	$16,961
June 30, 2019 Contribution	$16,595
June 30, 2018 Contribution	$15,918

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

The net OPEB liabilities were measured as of June 30, 2019 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2020 proportionate share of City liability	$258,550
June 30, 2019 proportionate share of City liability	$240,326
June 30, 2019 proportion of City Plan	9.97%
June 30, 2018 proportion of City Plan	10.06%
June 30, 2020 expense	$3,259
June 30, 2019 expense	$(338)

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

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

At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,195	$ 3,354
Changes of assumptions	16,323	7,796
Net difference between projected and actual earnings on OPEB plan investments	-	5,311
Changes in proportion	5,104	-
Employer contributions subsequent to the measurement date	16,961	-
Total	$ 55,583	$ 16,461

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 11,774	$ 4,353
Changes of assumptions	-	9,993
Net difference between projected and actual earnings on OPEB plan investments	-	7,816
Changes in proportion	989	-
Employer contributions subsequent to the measurement date	16,595	-
Total	$ 29,358	$ 22,162

(Continued)

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The deferred outflows of resources related to OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,	Increase to OPEB Expense
2021	$ 1,929
2022	1,930
2023	4,179
2024	6,196
2025	6,179
Thereafter	1,748

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Teachers	3.5 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation*	6.75%

* 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 rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 4.

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,390,238
Plan fiduciary net position	$ 1,762,972
Employers' net OPEB liability (asset)	$ 1,627,266
Plan fiduciary net position as a percentage of total OPEB liability	52.00%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 4.

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75% and 7.00% for the years ending June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 6. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability at June 30, 2020	$ 339,664	$ 258,550	$ 192,770

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability at June 30, 2019	$ 314,136	$ 240,326	$ 180,467

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at https://www.varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 7. Summary of Pension and Other Postemployment Benefit Elements

	2020	2019
Deferred outflows of resources - Pensions		
Differences between expected and actual experience		
VRS Retirement Plan	$ 67,104	$ 93,815
Changes of assumptions		
VRS Retirement Plan	357,523	-
Employer contributions subsequent to the measurement date		
VRS Retirement Plan	354,592	347,023
Total deferred outflow of resources - Pensions	$ 779,219	$ 440,838
Deferred outflows of resources - OPEB		
Differences between expected and actual experience		
VRS- Group Life Insurance	$ 17,195	$ 11,774
Changes in proportion		
VRS- Group Life Insurance	5,104	989
Employer contributions subsequent to the measurement date		
VRS- Group Life Insurance	16,961	16,595
Changes of assumptions		
Local Plan	32,432	41,698
VRS- Group Life Insurance	16,323	-
Total deferred outflow of resources - OPEB	$ 88,015	$ 71,056
Total deferred outflows of resources	$ 867,234	$ 511,894
Net OPEB liability		
Local Plan	$ 1,848,637	$ 1,963,087
VRS- Group Life Insurance	258,550	240,326
Total net OPEB liability	$ 2,107,187	$ 2,203,413
Net Pension liability		
VRS Retirement Plan	2,714,589	2,224,508
Total Pension liability	$ 2,714,589	$ 2,224,508
Deferred inflows of resources - Pensions		
Differences between expected and actual experience		
VRS Retirement Plan	$ 84,886	$ 154,710
Changes of assumptions		
VRS Retirement Plan	30,582	55,738
Net difference between projected and actual earnings on plan investments		
VRS Retirement Plan	117,517	108,660
Total deferred inflow of resources – Pensions	$ 232,985	$ 319,108

(Continued)

Note 7. Summary of Pension and Other Postemployment Benefit Elements (Continued)

Deferred inflows of resources - OPEB				
Differences between expected and actual experience				
Local Plan	$	135,943	$	-
VRS- Group Life Insurance		3,354		4,353
Changes of assumptions				
Local Plan		36,040		35,875
VRS- Group Life Insurance		7,796		9,993
Net difference between projected and actual earnings on plan investments				
VRS- Group Life Insurance		5,311		7,816
Total deferred inflow of resources - OPEB	$	188,444	$	58,037
Total deferred inflows of resources	$	421,429	$	377,145
Pension Expense				
VRS Retirement Plan	$	420,169	$	119,630
OPEB Expense				
Local Plan		91,035		117,880
VRS- Group Life Insurance		3,259		(338)
Total OPEB Expense	$	94,294	$	117,542
Total pension and OPEB expense	$	514,463	$	237,172

Note 8. Designations of Net Position

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

	2020	2019
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	5,300,000	5,300,000
Total designations	10,050,000	10,050,000
Undesignated net position	26,546,234	23,741,953
Total unrestricted net position	$ 36,596,234	$ 33,791,953

Note 9. 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 $45,000,000 and $47,000,000 for the years ended June 30, 2020 and 2019, respectively. Of these purchases, approximately $3,800,000 and $3,046,000 is included in accounts payable as of June 30, 2020 and 2019, respectively. The Commission's 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 2018 decreased fiscal year 2019 expenses approximately $2,170,000. The true-up for 2019 increased fiscal year 2020 expenses approximately $1,553,000. 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, 2020 and 2019. Amounts are amortized in accordance with rates as stated in Note 3.

Distributions of $5,200,000 were made to the City of Harrisonburg for the years ended June 30, 2020 and 2019. Electricity billed to the City and its divisions is charged at a standard municipal rate and totaled approximately $2,133,000 and $2,430,000 for the years ended June 30, 2020 and 2019, respectively.

(Continued)

Note 10. Concentration

The Commission's charges to James Madison University are approximately 13% of total revenue for both 2020 and 2019, and trade receivables from which totaled approximately $611,000 and $693,000 as of June 30, 2020 and 2019, respectively.

Note 11. Risk Management

The Commission is a component unit of the City which is a member of the Virginia Risk Sharing Association (VRSA) for vehicles, property, inland marine, EDP, flood, general liability, workmans' compensation, boiler and machinery. Each VRSA 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 2020 and 2019, the Commission contributed $177,614 and $150,271, respectively. This reserve fund is used to pay claims and awards, as well as expenses incurred by VRSA. In the event of a loss deficit and depletion of all available excess reserves, VRSA 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.

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.

Note 12. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95**, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2019.

(Continued)

Note 12. New Accounting Standards (Continued)

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after June 15, 2021.

In March 2018, the GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information disclosed in the notes to government financial statements related to debt. The requirements of this Statement are effective for fiscal years beginning after June 15, 2019.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2020. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests*, an amendment of GASB Statements No. 14 and No. 61 in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the Component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

(Continued)

Note 12. New Accounting Standards (Continued)

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

In January 2020, the GASB issued **Statement No. 92**, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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

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

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

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

Note 13. COVID-19 Impact

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Commission's operations are heavily dependent on the ability to collect bills, assess fees, and access the capital markets. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed areas in which the Commission received revenue during fiscal year 2020. As such, their financial condition and liquidity could be negatively impacted for the fiscal years 2020 and 2021.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Commission's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Commission is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020 and 2021.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISONBURG ELECTRIC COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
June 30, 2020

Year Ended June 30	Employer's Proportion of the City's Net Pension Liability (Asset)	Employer's Proportionate Share of the City's Net Pension Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the City's Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	9.85%	$ 2,714,589	$ 3,167,004	85.71%	83.20%
2019	9.93%	2,224,508	3,037,732	73.23%	85.36%
2018	10.04%	2,298,130	2,938,498	78.21%	84.32%
2017	10.02%	3,230,691	2,906,731	111.15%	77.60%
2016	10.19%	2,544,468	2,893,013	87.95%	81.59%
2015	10.44%	2,372,725	2,841,393	83.51%	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.

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

HARRISONBURG ELECTRIC COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2020

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 354,592	$ 354,592	$ -	$ 3,235,681	10.96%
2019	347,023	347,023	-	3,167,004	10.96%
2018	350,713	350,713	-	3,037,729	11.55%
2017	340,992	340,992	-	2,938,498	11.60%
2016	369,486	369,486	-	2,906,731	12.71%
2015	368,891	368,891	-	2,893,013	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.

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

HARRISONBURG ELECTRIC COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - LOCAL PLAN
June 30, 2020

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 48,310	$ 44,218	46,357
Interest on total OPEB liability	69,356	72,550	66,256
Difference between expected and actual experience	(162,086)	-	-
Changes of assumptions	(9,919)	50,964	(52,183)
Benefit payments	(60,111)	(69,521)	(83,710)
Net change in total OPEB liability	(114,450)	98,211	(23,280)
Total OPEB liability - beginning	1,963,087	1,864,876	1,888,156
Total OPEB liability - ending	$ 1,848,637	$ 1,963,087	$ 1,864,876
Covered payroll	$ 3,204,074	$ 2,977,161	$ 2,977,161
Net OPEB liability as a percentage of covered payroll	58%	66%	63%

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

HARRISONBURG ELECTRIC COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY - GROUP LIFE INSURANCE
June 30, 2020

Plan Fiscal Year Ended June 30	Employer's Proportion of the City's Net OPEB Liability (Asset)	Employer's Proportionate Share of the City's Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the City's Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2019	9.97%	$ 258,550	$ 3,167,004	8.16%	52.00%
2018	10.06%	240,326	3,037,732	7.91%	51.22%
2017	10.04%	239,713	2,938,498	8.16%	48.86%

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

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

HARRISONBURG ELECTRIC COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS - GROUP LIFE INSURANCE
June 30, 2020

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2020	$ 16,961	$ 16,961	$ -	$ 3,235,681	0.52%
2019	16,595	16,595	-	3,167,004	0.52%
2018	15,918	15,918	-	3,037,732	0.52%

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

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

HARRISONBURG ELECTRIC COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020

Note 1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates at older ages and extended final retirement age from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates from 14% to 20%
- Decrease discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

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

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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

To the 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, 2020, 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 17, 2020.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 17, 2020

HARRISONBURG ELECTRIC COMMISSION
SUMMARY OF COMPLIANCE MATTERS
June 30, 2020

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