

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

**FINANCIAL REPORT**

**June 30, 2023**

## TABLE OF CONTENTS

Page

### INTRODUCTORY SECTION

Directory of Principal Officials.....	i
---------------------------------------	---

### FINANCIAL SECTION

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4a

#### Basic Financial Statements

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

#### Required Supplementary Information

Schedule of Employer's Share of Net Pension Liability .....	37
Schedule of Pension Contributions.....	38
Schedule of Changes in Net OPEB Liability and Related Ratios – Local Plan.....	39
Schedule of Employer's Share of Net OPEB Liability – Group Life Insurance .....	40
Schedule of OPEB Contributions – Group Life Insurance.....	41
Notes to Required Supplementary Information .....	42

### COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	43
Summary of Compliance Matters .....	45
Schedule of Findings and Responses .....	46

# INTRODUCTORY SECTION

---

# **HARRISONBURG ELECTRIC COMMISSION**

## **DIRECTORY OF PRINCIPAL OFFICIALS**

**June 30, 2023**

### **COMMISSIONERS**

Chris Weaver, Chair  
Mark Hanna, Vice Chair  
Dr. Alex Gabbin, Treasurer  
Dr. Maria Papadakis, Secretary  
Quinton Callahan

### **STAFF**

Brian D. O'Dell, General Manager  
Don M. Bowers, Controller  
James A. Eye, 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.**

## INDEPENDENT AUDITOR'S REPORT

To the Commissioners  
Harrisonburg Electric Commission  
Harrisonburg, Virginia

### Report on the Financial Statements

#### *Opinion*

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2023 and 2022, and the respective 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.

#### *Basis for Opinion*

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

#### *Change in Accounting Principle*

As described in Notes 3, 8 and 13 to the financial statements, in 2023, the Commission adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section is presented for purposes of additional analysis and are 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 October 5, 2023 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  
October 5, 2023



**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

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, 2023 and 2022.

**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 2023 and 2022 by \$100,268,629 and \$100,783,003, respectively. Of the total Net Position, at June 30, 2023 and 2022, \$37,565,139 and \$39,623,845, 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, 2023 and 2022 was \$4,452,579 and \$9,653,551, respectively. \$5,200,000 and \$5,824,500 was distributed to the City of Harrisonburg during fiscal year 2023 and fiscal year 2022, respectively. An additional \$233,047 and \$95,674 was received as contributions in aid of construction during 2023 and 2022, respectively.
- At June 30, 2023 and 2022, 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, 2023 and 2022.

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

COMPARISON WITH PRIOR YEAR

NET POSITION

	<b>June 30,</b>	
	<b>2023</b>	<b>2022</b>
Total Assets		
Capital Assets, Property and Equipment		
Net of Depreciation	\$ 62,720,365	\$ 61,159,158
Current Assets and Investments	<u>52,195,711</u>	<u>51,271,284</u>
Total Assets	<u>\$ 114,916,076</u>	<u>\$ 112,430,442</u>
Deferred Outflows of Resources	<u>\$ 1,149,460</u>	<u>\$ 1,496,183</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 116,065,536</u></u>	<u><u>\$ 113,926,625</u></u>
Total Net Position		
Net Investment in Capital Assets	\$ 62,703,490	\$ 61,159,158
Unrestricted Net Position	<u>37,565,139</u>	<u>39,623,845</u>
Total Net Position	<u>\$ 100,268,629</u>	<u>\$ 100,783,003</u>
Deferred Inflows of Resources	<u>\$ 859,553</u>	<u>\$ 2,244,496</u>
Total Liabilities		
Long Term Liabilities (Subscriptions, Pension and other		
postretirement liability)	\$ 4,692,323	\$ 3,805,297
Current Liabilities	<u>10,245,031</u>	<u>7,093,829</u>
Total Liabilities	<u>\$ 14,937,354</u>	<u>\$ 10,899,126</u>
Total Net Position and Liabilities	<u><u>\$ 116,065,536</u></u>	<u><u>\$ 113,926,625</u></u>

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

COMPARISON WITH PRIOR YEAR

NET POSITION

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Total Assets		
Capital Assets, Property and Equipment		
Net of Depreciation	\$ 61,159,158	\$ 60,068,137
Current Assets and Investments	<u>51,271,284</u>	<u>48,588,090</u>
Total Assets	<u>\$ 112,430,442</u>	<u>\$ 108,656,227</u>
Deferred Outflows of Resources	<u>\$ 1,496,183</u>	<u>\$ 1,461,639</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 113,926,625</u></u>	<u><u>\$ 110,117,866</u></u>
Total Net Position		
Net Investment in Capital Assets	\$ 61,159,158	\$ 60,068,137
Unrestricted Net Position	<u>39,623,845</u>	<u>36,790,141</u>
Total Net Position	<u>\$ 100,783,003</u>	<u>\$ 96,858,278</u>
Deferred Inflows of Resources	<u>\$ 2,244,496</u>	<u>\$ 169,478</u>
Total Liabilities		
Long Term Liabilities (Pension and other		
postretirement liability)	\$ 3,805,297	\$ 6,024,123
Current Liabilities	<u>7,093,829</u>	<u>7,065,987</u>
Total Liabilities	<u>\$ 10,899,126</u>	<u>\$ 13,090,110</u>
Total Net Position and Liabilities	<u><u>\$ 113,926,625</u></u>	<u><u>\$ 110,117,866</u></u>

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

CHANGES IN NET POSITION

	<b>June 30,</b>	
	<b>2023</b>	<b>2022</b>
Operating Revenues		
Power Sales	\$ 74,976,414	\$ 68,165,199
Other	145,564	198,775
	<u>\$ 75,121,978</u>	<u>\$ 63,363,974</u>
Operating Expenses		
Operation and Maintenance	\$ 66,277,588	\$ 54,173,220
Depreciation and Amortization	4,264,070	3,974,808
Payments in Lieu of Taxes	653,875	625,020
	<u>\$ 71,195,533</u>	<u>\$ 58,773,048</u>
Operating Income	\$ 3,926,445	\$ 9,590,926
Non-operating Revenues (Expenses)		
Interest Income, net	526,134	62,625
	<u>\$ 526,134</u>	<u>\$ 62,625</u>
Income Before Distributions and Contributions	\$ 4,452,579	\$ 9,653,551
Distributions to the City of Harrisonburg	(5,200,000)	(5,824,500)
Contributions in Aid of Construction	233,047	95,674
Change in Net Position	<u>\$ (514,374)</u>	<u>\$ 3,924,725</u>

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

CHANGES IN NET POSITION

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
Operating Revenues		
Power Sales	\$ 68,165,199	\$ 57,490,414
Other	198,775	129,473
	<u>\$ 68,363,974</u>	<u>\$ 57,619,887</u>
Operating Expenses		
Operation and Maintenance	\$ 54,173,220	\$ 46,710,058
Depreciation and Amortization	3,974,808	3,709,977
Payments in lieu of taxes	625,020	596,863
	<u>\$ 58,773,048</u>	<u>\$ 51,016,898</u>
Operating Income	\$ 9,590,926	\$ 6,602,989
Non-operating Revenues		
Interest Income, net	62,625	114,890
	<u>\$ 62,625</u>	<u>\$ 114,890</u>
Income Before Distributions and Contributions	\$ 9,653,551	\$ 6,717,879
Distributions to the City of Harrisonburg	(5,824,500)	(6,700,000)
Contributions in Aid of Construction	95,674	446,022
Change in Net Position	<u>\$ 3,924,725</u>	<u>\$ 463,901</u>

OVERALL ANALYSIS

Operating Revenues increased by \$6,758,004 in the fiscal year ended June 30, 2023 as compared to the previous year. kWh sales during the current fiscal year were 3.5% lower than the previous year. The fuel adjustment factor (a power supply expense passed on to customers) averaged 1.4 cents per kWh in Fiscal Year 2022. The Fuel Adjustment Factor increased from 2.264 cents per kWh to 3.364 cents per kWh in October of the current fiscal year. Due to changes in natural gas prices, the fuel adjustment factor was then decreased in April of Fiscal Year 2023 to 1.852 cents per kWh, an average of 2.7 cents per kWh in Fiscal Year 2023. The increase in fuel adjustment charges accounted for the increase in revenues for Fiscal Year 2023.

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

OVERALL ANALYSIS (Continued)

Operating Revenues increased by \$10,674,785 in the fiscal year ended June 30, 2022 as compared to the previous year. kWh sales during the current fiscal year were 2% higher than the previous year. To assist ratepayers in dealing with the COVID pandemic, there was a retail rate decrease during the Fiscal Year 2021 of 2.5%. For Fiscal Year 2022, retail electric rates were restored to the previous levels, effectively creating a 2.5% rate increase compared to Fiscal Year 2021. The fuel adjustment factor (a power supply expense passed on to customers) averaged 0.21 cents per kWh in Fiscal Year 2021. The Fuel Adjustment Factor increased to 1.439 cents per kWh in October of the Fiscal Year 2022. Due to rising natural gas costs, the fuel adjustment factor was increased again in April of Fiscal Year 2022 to 2.264 cents per kWh, an average of 1.4 cents per kWh in Fiscal Year 2022. A combination of the increase in retail rates of 2.5% to remove the rate reduction for COVID assistance and the increase in fuel adjustment charges accounted for the increase in revenues for Fiscal Year 2022.

Operations and Maintenance Costs increased \$12,104,368 or 22% for fiscal year 2023 largely as a result of the increased fuel adjustment factor and the significant payable resulting in the annual power supply true-up. The fuel adjustment (as noted in the increased revenue explanation) increased from \$0.02264 per kWh to \$0.03364 per kWh after three months before decreasing to \$0.01852 per kWh with three months remaining in the fiscal year. Adding to this increase, the annual wholesale power true-up for Calendar Year 2022, recorded during Fiscal Year 2023, was an increase to power costs of \$2,832,603 (an additional increase of \$136,554 from previous years was also recognized as a settlement during Fiscal Year 2023). This true-up reflected an increase in actual wholesale power costs during that period. Allocation of expenses related to the construction of off-shore wind and other renewable generation facilities along with costs associated with the Regional Greenhouse Gas initiative added to the cost of the true-up.

Operations and Maintenance Costs increased \$7,463,162 or 13% for fiscal year 2022 as a result of increased purchased power costs, higher kWh purchases and the increased fuel adjustment factor. Wholesale power costs increased for Fiscal Year 2022 by 4%. kWh sales were 1% greater than the previous year. The fuel adjustment (as noted in the increased revenue explanation) increased from \$0.00439 per kWh to \$0.01439 per kWh after three months and then again increased to \$0.02264 per kWh with three months remaining in the fiscal year. Mitigating these increases, the annual wholesale power true-up for Calendar Year 2021, recorded during Fiscal Year 2022 was a reduction to power costs of \$1,363,674. This true-up, calculated after a formal dispute resolved by the Federal Energy Regulatory Commission reflected a decrease in actual wholesale power costs during that period. Allocation of expenses to retire fossil-fuel generation facilities was not included in the previous period's true-up.

Depreciation and amortization costs were 7% higher during the year ended June 30, 2023, increasing by \$289,262. The increase came largely from increased distribution assets. A jointly owned generator that was offline during much of fiscal year 2022, was returned to service during Fiscal Year 2023. Depreciation and amortization costs were 7% higher during the year ended June 30, 2022, increasing by \$264,831. The increase came largely from increased distribution assets. A jointly owned generator remained offline during much of fiscal year 2022.

Operating income decreased by \$5,664,481 or 59% in the fiscal year ended June 30, 2023. Higher power costs, allocated as part of the annual power supply true-up, was the largest contributor to the decrease. The true-up as a payable was a reversal of the prior year, which saw a reduction of power costs.

Operating income increased by \$2,987,937 or 45% in the fiscal year ended June 30, 2022. Lower power costs, allocated as part of the annual power supply true-up, was the largest contributor to this increase.

**HARRISONBURG ELECTRIC COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2023**

**OVERALL ANALYSIS (Continued)**

Net cash provided by operating activities of \$13,796,832 was \$4,721,761 more than the prior year. The total increase in cash and cash equivalents of \$1,664,030 was \$1,627,476 greater than the prior year. The contribution to the City for Fiscal Year 2023 was \$5,200,000.

Net cash provided by operating activities of \$9,075,071 was \$1,059,926 less than the prior year. The total increase in cash and cash equivalents of \$36,554 was \$14,821 greater than the prior year. This increase happened in spite of an additional \$624,500 Contribution to the City for a solar installation at Bluestone Elementary.

Financial income during fiscal year 2023 was healthy due to increases in interest rates, and significantly increased from the previous year. Financial income during fiscal year 2022 was modest due to low interest rates, and significantly decreased from the previous year. Investment rates rose steadily in the final half of fiscal year 2023 and fueled the increased investment income.

**CAPITAL ASSET ACTIVITY**

During the year ended June 30, 2023, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating \$2,416,448 in new Capital Assets and increased Land and Plant under Construction by \$2,048,871. 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 higher than normal operating levels. This increase is due to the planned construction of a new substation on Reservoir Street. Construction of the Ridgeville substation is underway and completion is expected during Fiscal Year 2024. A detailed presentation of the Construction Commitments of The Harrisonburg Electric Commission is contained in Note 14 of the Notes to Financial Statements.

During the year ended June 30, 2022, The Harrisonburg Electric Commission acquired by purchase or construction and began depreciating \$1,823,495 in new Capital Assets and increased Land and Plant under Construction by \$2,414,713. 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.

**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 years ended June 30, 2023 and 2022. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the management of The Harrisonburg Electric Commission, Harrisonburg, Virginia.

# **BASIC FINANCIAL STATEMENTS**

---



## HARRISONBURG ELECTRIC COMMISSION

## STATEMENTS OF NET POSITION

June 30, 2023 and 2022

	2023	2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 30,023,220	\$ 28,359,190
Accounts receivable:		
Customers, net	5,622,063	6,981,766
Other	131,721	1,553,791
Materials and supplies inventory	3,623,132	3,254,112
Fuel inventory	188,186	242,104
Prepaid items	225,820	380,321
Total current assets	39,814,142	40,771,284
<b>NONCURRENT ASSETS</b>		
Property and equipment (Note 3)		
Electric plant	151,835,028	147,451,459
Subscription right-to-use assets	81,750	-
Less accumulated depreciation and amortization	89,196,413	86,292,301
Total property and equipment	62,720,365	61,159,158
INVESTMENTS (Note 2)	12,381,569	10,500,000
Total assets	114,916,076	112,430,442
<b>DEFERRED OUTFLOWS OF RESOURCES (Notes 4, 5, 6, and 7)</b>	1,149,460	1,496,183
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 10)	8,066,764	4,930,329
Customer deposits	1,132,834	1,184,117
Accrued expenses and other liabilities	840,014	773,329
Utility taxes payable	198,112	206,054
Current portion of subscription liabilities (Note 8)	7,307	-
Total current liabilities	10,245,031	7,093,829
<b>NONCURRENT LIABILITIES</b>		
Net other postemployment benefit liability (Notes 5, 6, and 7)	2,321,162	2,192,209
Net pension liability (Notes 4 and 7)	2,361,593	1,613,088
Long-term portion of subscription liabilities (Note 8)	9,568	-
Total liabilities	14,937,354	10,899,126
<b>DEFERRED INFLOWS OF RESOURCES (Notes 4, 5, 6, and 7)</b>	859,553	2,244,496
<b>NET POSITION</b>		
<b>NET POSITION</b>		
Net investment in capital assets	62,703,490	61,159,158
Unrestricted (Note 9)	37,565,139	39,623,845
Total net position	\$ 100,268,629	\$ 100,783,003

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

## HARRISONBURG ELECTRIC COMMISSION

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

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>		
Power sales	\$ 74,976,414	\$ 68,165,199
Other	145,564	198,775
Total operating revenues	<u>75,121,978</u>	<u>68,363,974</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	66,277,588	54,173,220
Depreciation and amortization	4,264,070	3,974,808
Payments in lieu of taxes	653,875	625,020
Total operating expenses	<u>71,195,533</u>	<u>58,773,048</u>
Operating income	3,926,445	9,590,926
<b>NONOPERATING REVENUES</b>		
Interest income, net	526,134	62,625
Net nonoperating revenues	<u>526,134</u>	<u>62,625</u>
Income before distributions and contributions	4,452,579	9,653,551
Distributions to the City of Harrisonburg (Note 10)	(5,200,000)	(5,824,500)
Contributions in aid of construction	233,047	95,674
(Decrease)/Increase in net position	(514,374)	3,924,725
<b>BEGINNING NET POSITION, JULY 1</b>	<u>100,783,003</u>	<u>96,858,278</u>
<b>ENDING NET POSITION, JUNE 30</b>	<u><u>\$ 100,268,629</u></u>	<u><u>\$ 100,783,003</u></u>

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

## HARRISONBURG ELECTRIC COMMISSION

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 76,284,834	\$ 66,967,693
Cash paid to suppliers and employees	(63,393,819)	(57,531,090)
Other cash operating receipts	1,567,634	259,824
Payments to the City of Harrisonburg in lieu of taxes	<u>(661,817)</u>	<u>(621,356)</u>
Net cash provided by operating activities	<u>13,796,832</u>	<u>9,075,071</u>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Distributions to the City of Harrisonburg	<u>(5,200,000)</u>	<u>(5,824,500)</u>
Net cash used in non-capital financing activities	<u>(5,200,000)</u>	<u>(5,824,500)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to plant	(5,474,331)	(4,867,890)
Principal payments on long-term liabilities	(64,875)	-
Contributions in aid of construction	233,047	95,674
Plant removal costs	<u>(271,208)</u>	<u>(197,927)</u>
Net cash used in capital and related financing activities	<u>(5,577,367)</u>	<u>(4,970,143)</u>
<b>INVESTING ACTIVITIES</b>		
Net proceeds from sale of investments	10,000,000	1,500,000
Purchases of investments	(11,847,670)	-
Interest received	<u>492,235</u>	<u>256,126</u>
Net cash provided by (used in) investing activities	<u>(1,355,435)</u>	<u>1,756,126</u>
Net increase in cash and cash equivalents	1,664,030	36,554
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>28,359,190</u>	<u>28,322,636</u>
Ending	<u><u>\$ 30,023,220</u></u>	<u><u>\$ 28,359,190</u></u>

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

## HARRISONBURG ELECTRIC COMMISSION

## STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 3,926,445	\$ 9,590,926
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,264,070	3,974,808
Excess of employer contributions over other postemployment benefits expense	20,822	26,698
Excess of employer contributions over pension expense	(181,584)	(205,050)
<b>Change in assets and liabilities:</b>		
Decrease (increase) in:		
Accounts receivable	2,781,773	(2,585,070)
Materials and supplies inventory	(369,020)	(1,579,963)
Fuel inventory	53,918	(136,786)
Prepaid items	154,501	(38,322)
Increase (decrease) in:		
Accounts payable	3,138,447	(4,295)
Customer deposits	(51,283)	84,939
Accrued expenses and other liabilities	66,685	(56,478)
Utility taxes payable	(7,942)	3,664
	<u>\$ 13,796,832</u>	<u>\$ 9,075,071</u>
<b>SCHEDULE OF NONCASH CAPITAL ACTIVITY</b>		
Capital assets acquired through accounts payable at year end	<u>\$ -</u>	<u>\$ 2,012</u>
Capital assets obtained through subscription-based information technology arrangements	<u>\$ 81,750</u>	<u>\$ -</u>

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

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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.

Intangible assets include subscription right-to-use assets recorded under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, net of accumulated amortization. SBITAs are amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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, 2023 and 2022, approximately \$1,581,000 and \$1,902,000, respectively, is unbilled and included in accounts receivable. Customer account balances over 60 days old are considered delinquent, at which time service is disconnected and the account is placed on nonaccrual status.

The Commission abided by the Commonwealth of Virginia's moratorium on the disconnection of utility accounts in arrears as a response to the COVID-19 pandemic. Beginning in the middle of March 2020 the Commission stopped disconnecting customers for nonpayment of their electric bill. As a result, past due balances have remained present and an estimated allowance for uncollectible accounts of \$150,000 has been accrued as of June 30, 2023 and 2022, respectively.

#### Revenues and expenses

The Commission distinguishes operating revenues and expenses from non-operating 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 which are used internally. Revenue from these services is billed monthly based on contracted amounts and is included in other revenue. During fiscal year 2023, the Commission did not recognize any revenue from these assets.

#### 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.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the 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 assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent an acquisition of net assets that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The 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 proportionate share that will be recognized in the pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or a deferred inflow as appropriate.
- Changes in assumptions that will be recognized in 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.

#### 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.

(Continued)

## HARRISONBURG ELECTRIC COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023

#### 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, 2023 and 2022, approximately 12% and 55% respectively, 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, 2023 and 2022, approximately 88% and 5%, respectively, of the Commission’s investments are with LGIP, which has an S&P credit rating of AAAm. During 2023, the Commission moved substantially all of their investments, other than one certificate of deposit, into the LGIP account.

The Commission’s current investment practice is to invest with LGIP, in certificates of deposit, money markets, or in insured sweep accounts with maturities of less than two years with no more than \$5,000,000 invested in any one financial institution. However, given the security and backing associated with LGIP investments, the Commission increased their holdings with LGIP to \$10,500,000 during 2023.

(Continued)



# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2023 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated and amortized:				
Land and easements	\$ 3,644,042	\$ 1,823,012	\$ -	\$ 5,467,054
Plant under construction	4,633,666	4,890,756	4,664,897	4,859,525
	<u>8,277,708</u>	<u>6,713,768</u>	<u>4,664,897</u>	<u>10,326,579</u>
Capital and intangible assets being depreciated and amortized:				
Power production	16,677,313	249,134	242,863	16,683,584
Transmission	13,733,918	33,396	4,127	13,763,187
Distribution	89,788,531	2,692,240	844,466	91,636,305
General and software	12,730,558	451,384	-	13,181,942
Fiber optic	2,322,547	-	-	2,322,547
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
Subscription right-to-use assets	-	81,750	-	81,750
	<u>139,173,751</u>	<u>3,507,904</u>	<u>1,091,456</u>	<u>141,590,199</u>
Less accumulated depreciation and amortization for:				
Power production	16,677,313	29,794	242,864	16,464,243
Transmission	8,059,284	377,687	6,407	8,430,564
Distribution	46,529,854	3,068,346	1,110,687	48,487,513
General and software	9,283,549	682,787	-	9,966,336
Fiber optic	1,821,417	92,901	-	1,914,318
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
Subscription right-to-use assets	-	12,555	-	12,555
	<u>86,292,301</u>	<u>4,264,070</u>	<u>1,359,958</u>	<u>89,196,413</u>
Capital assets being depreciated and amortized, net	<u>52,881,450</u>	<u>(756,166)</u>	<u>(268,502)</u>	<u>52,393,786</u>
Total capital and intangible assets, net	<u>\$ 61,159,158</u>	<u>\$ 5,957,602</u>	<u>\$ 4,396,395</u>	<u>\$ 62,720,365</u>

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 3. Capital Assets (Continued)

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated and amortized:				
Land and easements	\$ 3,644,042	\$ -	\$ -	\$ 3,644,042
Plant under construction	2,218,953	4,117,890	1,703,177	4,633,666
	<u>5,862,995</u>	<u>4,117,890</u>	<u>1,703,177</u>	<u>8,277,708</u>
Capital assets being depreciated and amortized:				
Power production	16,677,313	-	-	16,677,313
Transmission	13,735,698	1,865	3,645	13,733,918
Distribution	88,333,194	1,931,169	475,832	89,788,531
General and software	12,372,082	601,424	242,948	12,730,558
Fiber optic	2,311,085	11,462	-	2,322,547
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	<u>137,350,256</u>	<u>2,545,920</u>	<u>722,425</u>	<u>139,173,751</u>
Less accumulated depreciation and amortization for:				
Power production	16,677,313	-	-	16,677,313
Transmission	7,686,145	378,315	5,176	8,059,284
Distribution	44,192,176	2,917,175	579,497	46,529,854
General and software	8,939,909	586,588	242,948	9,283,549
Fiber optic	1,728,687	92,730	-	1,821,417
Electric plant acquisition adjustments	3,920,884	-	-	3,920,884
	<u>83,145,114</u>	<u>3,974,808</u>	<u>827,621</u>	<u>86,292,301</u>
Capital assets being depreciated and amortized, net	<u>54,205,142</u>	<u>(1,428,888)</u>	<u>(105,196)</u>	<u>52,881,450</u>
Total capital assets, net	<u>\$ 60,068,137</u>	<u>\$ 2,689,002</u>	<u>\$ 1,597,981</u>	<u>\$ 61,159,158</u>

(Continued)

## HARRISONBURG ELECTRIC COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023

#### 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 2021, 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>.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 4. Defined Benefit Pension Plan (Continued)

#### Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>28</u>
Inactive members:	
Vested inactive members	7
Non-vested inactive members	12
Inactive members active elsewhere in VRS	<u>13</u>
Total inactive members	<u>32</u>
Active members	<u>43</u>
Total covered employees	<u><u>103</u></u>

#### 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, 2023 and 2022 was 14.09% and 12.29%, respectively. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$487,547 and \$414,578 for the years ended June 30, 2023 and 2022, respectively.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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 \$2,361,593 and \$1,613,088 for its proportionate share of the Collective Net Pension Liability of the City plan at June 30, 2023 and 2022, 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, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021 rolled forward to the measurement date of June 30, 2022.

At June 30, 2022, the Commission's proportion of the City plan was 9.38% as compared to 9.93% at June 30, 2021.

The Commission recognized pension expense of \$305,963 and \$209,528 for the years ended June 30, 2023 and 2022, 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, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 73,136	\$ 167,479
Changes of assumptions	299,181	-
Net difference between projected and actual earnings on pension plan investments	-	456,723
Employer contributions subsequent to the measurement date	<u>487,547</u>	<u>-</u>
Total	<u><u>\$ 859,864</u></u>	<u><u>\$ 624,202</u></u>

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 4. Defined Benefit Pension Plan (Continued)

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

The Commission reported \$487,547 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Increase (Decrease) to Pension Expense</u>
2024	(4,245)
2025	(128,948)
2026	(335,023)
2027	216,331
2028	-
Thereafter	-

At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 179,164	\$ 77,602
Changes of assumptions	618,343	-
Net difference between projected and actual earnings on pension plan investments	-	1,828,910
Employer contributions subsequent to the measurement date	<u>414,578</u>	<u>-</u>
Total	<u>\$ 1,212,085</u>	<u>\$ 1,906,512</u>

The Commission reported \$414,578 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, 2023.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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, 2021, 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, 2022.

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

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 4. Defined Benefit Pension Plan (Continued)

#### Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.83 %

\* The above allocation provides for a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

(Continued)



# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 4. Defined Benefit Pension Plan (Continued)

#### Discount Rate

The discount rates used to measure the total pension liability was 6.75% for the years ended June 30, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. From July 1, 2022 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% for the years ended June 30, 2023 and 2022, 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:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Commission's proportionate share of City's net pension liability at June 30, 2023	<u>\$ 4,853,047</u>	<u>\$ 2,361,593</u>	<u>\$ 338,431</u>
	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Commission's proportionate share of City's net pension liability (asset) at June 30, 2022	<u>\$ 4,165,501</u>	<u>\$ 1,613,088</u>	<u>\$ (478,765)</u>

#### 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 2023 and 2022 Annual Comprehensive Financial Reports (ACFRs).

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-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, 2021 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries	3
Active plan members	44
	<u>47</u>

#### Total OPEB Liability

The Commission's total OPEB liability of \$2,145,041 was measured as of June 30, 2023 and was determined based on an actuarial valuation performed as of July 1, 2021. As of June 30, 2022, the Commission's total OPEB liability of \$2,008,004 was measured as of June 30, 2022 and was determined based on an actuarial valuation performed as of July 1, 2021.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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	6.00% - 3.90% over 54 years

The actuarial assumptions used in the July 1, 2021 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, 2022	<u>\$ 2,008,004</u>
Changes for the year:	
Service cost	48,274
Interest	71,506
Changes of assumptions	90,527
Benefit payments	<u>(73,270)</u>
Net changes	<u>137,037</u>
Balance at June 30, 2023	<u><u>\$ 2,145,041</u></u>

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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 3.65% and 3.54% for the years ending June 30, 2023 and 2022, 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:

	<u>1.00% Decrease (2.65%)</u>	<u>Current Discount Rate (3.65%)</u>	<u>1.00% Increase (4.65%)</u>
Total OPEB liability at June 30, 2023	\$ 2,289,231	\$ 2,145,041	\$ 2,007,714
	<u>1.00% Decrease (2.54%)</u>	<u>Current Discount Rate (3.54%)</u>	<u>1.00% Increase (4.54%)</u>
Total OPEB liability at June 30, 2022	\$ 2,150,820	\$ 2,008,004	\$ 1,872,214

#### 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:

	<u>1.00% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1.00% Increase</u>
Total OPEB liability at June 30, 2023	\$ 1,937,359	\$ 2,145,041	\$ 2,380,324
Total OPEB liability at June 30, 2022	\$ 1,818,841	\$ 2,008,004	\$ 2,222,234

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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, 2023 and 2022, the Commission recognized OPEB expense of \$123,490 and \$90,371, respectively. At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ 78,629	\$ 136,934
Differences between expected and actual experience	169,766	57,514
	<u>\$ 248,395</u>	<u>\$ 194,448</u>

At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ 17,286	\$ 180,940
Differences between expected and actual experience	214,441	83,657
	<u>\$ 231,727</u>	<u>\$ 264,597</u>

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

<b>Year Ended June 30,</b>	<b>Increase to OPEB Expense</b>
2024	3,973
2025	2,598
2026	23,948
2027	23,428
2018	-
Thereafter	-

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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.

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

#### Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2023 Contribution	\$18,685
June 30, 2022 Contribution	\$18,073

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

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

The net OPEB liabilities were measured as of June 30, 2022 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. 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, 2022 relative to the total of the actuarially determined employer contributions for all participating employers.

#### Group Life Insurance Program

June 30, 2023 proportionate share of City liability	\$176,121
June 30, 2022 proportionate share of City liability	\$184,205
June 30, 2022 proportion of City Plan	9.85%
June 30, 2021 proportion of City Plan	10.02%
June 30, 2023 expense	\$(5,860)
June 30, 2022 expense	\$2,183

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

#### Group Life Insurance Program

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 13,947	\$ 7,065
Changes of assumptions	6,569	17,155
Net difference between projected and actual earnings on OPEB plan investments	-	11,005
Changes in proportion	2,000	5,678
Employer contributions subsequent to the measurement date	18,685	-
	<hr/>	<hr/>
Total	\$ 41,201	\$ 40,903

At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 21,009	\$ 1,404
Changes of assumptions	10,155	25,203
Net difference between projected and actual earnings on OPEB plan investments	-	43,966
Changes in proportion	3,134	2,814
Employer contributions subsequent to the measurement date	18,073	-
	<hr/>	<hr/>
Total	\$ 52,371	\$ 73,387

(Continued)



# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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 Fiscal Year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

#### Group Life Insurance Program

<u>Year Ended June 30,</u>	<u>Increase (Decrease) to OPEB Expense</u>
2024	(3,338)
2025	(3,356)
2026	(9,930)
2027	259
2028	(2,022)
Thereafter	-

#### Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

Inflation	2.50%
Salary increases, including inflation:	
• Locality- general employees	3.50 – 5.35%
• Teachers	3.50 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
Investment rate of return, net of expenses, including inflation	6.75%

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

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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 the measurement date of June 30, 2022, net OPEB liability amounts are as follows (amounts expressed in thousands):

	<b>Group Life Insurance Program</b>
Total OPEB Liability	\$ 3,672,085
Plan fiduciary net position	2,467,989
Employers' net OPEB liability	\$ 1,204,096
Plan fiduciary net position as a percentage of total OPEB liability	67.21%

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% for the years ending June 30, 2023 and 2022, 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, 2022, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### 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:

	<b>1.00% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1.00% Increase (7.75%)</b>
GLI Net OPEB liability at June 30, 2023	\$ 256,276	\$ 176,121	\$ 111,344
	<b>1.00% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1.00% Increase (7.75%)</b>
GLI Net OPEB liability at June 30, 2022	\$ 269,130	\$ 184,205	\$ 115,624

#### OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

### Note 7. Summary of Pension and Other Postemployment Benefit Elements

	<u>2023</u>	<u>2022</u>
Deferred outflows of resources – Pensions		
Differences between expected and actual experience		
VRS Retirement Plan	\$ 73,136	\$ 179,164
Changes of assumptions		
VRS Retirement Plan	299,181	618,343
Employer contributions subsequent to the measurement date		
VRS Retirement Plan	487,547	414,578
Total deferred outflow of resources – Pensions	<u>\$ 859,864</u>	<u>\$ 1,212,085</u>
Deferred outflows of resources – OPEB		
Differences between expected and actual experience		
VRS – Group Life Insurance	\$ 13,947	\$ 21,009
Local plan	169,766	214,441
Changes of proportion		
VRS – Group Life Insurance	2,000	3,134
Employer contributions subsequent to the measurement date		
VRS – Group Life Insurance	18,685	18,073
Change in assumptions		
Local Plan	78,629	17,286
VRS – Group Life Insurance	6,569	10,155
Total deferred outflow of resources – OPEB	<u>\$ 289,596</u>	<u>\$ 284,098</u>
Total deferred outflow of resources	<u>\$ 1,149,460</u>	<u>\$ 1,496,183</u>
Net OPEB liability		
Local Plan	\$ 2,145,041	\$ 2,008,004
VRS – Group Life Insurance	176,121	184,205
Total net OPEB liability	<u>\$ 2,321,162</u>	<u>\$ 2,192,209</u>
Net Pension liability		
VRS Retirement Plan	\$ 2,361,593	\$ 1,613,088
Total Pension liability	<u>\$ 2,361,593</u>	<u>\$ 1,613,088</u>
Deferred inflows of resources – Pensions		
Differences between expected and actual experience		
VRS Retirement Plan	\$ 167,479	\$ 77,602
Net difference between projected and actual earnings on plan investments		
VRS Retirement Plan	456,723	1,828,910
Total deferred inflow of resources – Pensions	<u>\$ 624,202</u>	<u>\$ 1,906,512</u>

(Continued)

# HARRISONBURG ELECTRIC COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

	<u>2023</u>	<u>2022</u>
Deferred inflows of resources – OPEB		
Differences between expected and actual experience		
Local Plan	\$ 57,514	\$ 83,657
VRS – Group Life Insurance	7,065	1,404
Changes of assumptions		
Local Plan	136,934	180,940
VRS – Group Life Insurance	17,155	25,203
Net difference between projected and actual earnings on plan investments		
VRS – Group Life Insurance	11,005	43,966
Change in proportion		
VRS – Group Life Insurance	5,678	2,814
Total deferred inflow of resources – OPEB	<u>\$ 235,351</u>	<u>\$ 337,984</u>
Total deferred inflows of resources	<u>\$ 859,553</u>	<u>\$ 2,244,496</u>
Pension expense		
VRS Retirement Plan	<u>\$ 305,963</u>	<u>\$ 209,528</u>
OPEB expense		
Local Plan	123,490	90,371
VRS – Group Life Insurance	<u>(5,860)</u>	<u>2,183</u>
Total OPEB expense	<u>\$ 117,630</u>	<u>\$ 92,554</u>
Total pension and OPEB expense	<u>\$ 423,593</u>	<u>\$ 302,082</u>

### Note 8. Long-Term Debt

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

	<b>Subscription Liabilities</b>	
	<b>Principal</b>	<b>Interest</b>
2024	\$ 7,307	\$ 493
2025	7,579	221
2026	<u>1,989</u>	<u>12</u>
	<u>\$ 16,875</u>	<u>\$ 726</u>

(Continued)

## HARRISONBURG ELECTRIC COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023

#### Note 9. Designations of Net Position

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

	2023	2022
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	27,515,139	29,573,845
Total unrestricted net position	<u>\$ 37,565,139</u>	<u>\$ 39,623,845</u>

#### Note 10. 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 Energy 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 \$59,000,000 and \$48,000,000 for the years ended June 30, 2023 and 2022, respectively. Of these purchases, approximately \$4,840,000 and \$4,470,000 is included in accounts payable as of June 30, 2023 and 2022, respectively. The Commission's contract provides for periodic true-ups based on actual costs incurred by Dominion Energy. Such true-ups could result in an increase or reduction of expenses previously recognized. The true-up for 2022 increased fiscal year 2023 expenses approximately \$2,830,000. The true-up for 2021 decreased fiscal year 2022 expenses approximately \$1,400,000. 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 for 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, 2023 and 2022. Amounts are amortized in accordance with rates as stated in Note 3.

Distributions of \$5,200,000 and \$5,824,500 were made to the City of Harrisonburg for the years ended June 30, 2023 and 2022. Electricity billed to the City and its divisions is charged at a standard municipal rate and totaled approximately \$2,651,200 and \$2,411,900 for the years ended June 30, 2023 and 2022, respectively.

#### Note 11. Concentration

The Commission's charges to James Madison University are approximately 14.20% of total revenue for both 2023 and 2022, and trade receivables from which totaled approximately \$732,000 and \$887,000 as of June 30, 2023 and 2022, respectively.

(Continued)

## HARRISONBURG ELECTRIC COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023

#### **Note 12. 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 2023 and 2022, the Commission contributed \$340,358 and \$191,482, 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 ACFR 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 13. Subscription-Based Information Technology Arrangements (SBITAs)**

In 2023, the Commission implemented the guidance of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This new standard requires reporting an intangible right-to-use asset and subscription liability for IT contracts.

The Commission has SBITAs for various software platforms for periods expiring between September 2025 and March 2026. The Commission uses its estimated incremental borrowing rate of 3.65% as the discount rate as none of the subscription arrangements have an explicitly stated interest rate. The value of the right-to-use subscription asset and related accumulated amortization as of year-end are disclosed in Note 3. The related debt as well as principal and interest requirements to maturity are disclosed in Note 8.

(Continued)

## HARRISONBURG ELECTRIC COMMISSION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2023

#### Note 14. Construction Commitments

The Commission has an active construction project related to a new substation. At year end, commitments with contractors were as follows:

	<u>Total Contracts</u>	<u>Total Payments</u>	<u>Future Amounts to be Expended</u>
Ridgeville Substation	\$ 3,309,703	\$ 1,464,457	\$ 1,845,246

#### Note 15. New Accounting Standards

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

In April 2022, the GASB issued **Statement No. 99, *Omnibus 2022***. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued **Statement No. 100, *Accounting Changes and Error Corrections***. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

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



**REQUIRED  
SUPPLEMENTARY INFORMATION**

---

**HARRISONBURG ELECTRIC COMMISSION**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
June 30, 2023**

<b>Entity Fiscal Year Ended June 30</b>	<b>Employer's Proportion of the City's Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the City's Net Pension Liability (Asset)</b>	<b>Employer's Covered Payroll</b>	<b>Employer's Proportionate Share of the City's Net Pension Liability (Asset) as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2023	9.38%	\$ 2,361,593	\$ 3,373,849	70.00%	86.86%
2022	9.93%	1,613,088	3,349,686	48.16%	91.28%
2021	10.19%	3,861,998	3,235,681	119.36%	78.22%
2020	9.85%	2,714,589	3,167,004	85.71%	83.20%
2019	9.93%	2,224,508	3,037,729	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, 2023**

<b>Entity Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
2023	\$ 487,547	\$ 487,547	\$ -	\$ 3,460,050	14.09%
2022	414,578	414,578	-	3,373,849	12.29%
2021	416,738	416,738	-	3,349,686	12.44%
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, 2023

	Plan Year					
	2023	2022	2021	2020	2019	2018
<b>Total OPEB Liability</b>						
Service cost	\$ 48,274	\$ 63,835	\$ 61,094	\$ 48,310	\$ 44,218	\$ 46,357
Interest on total OPEB liability	71,506	41,686	41,470	69,356	72,550	66,256
Difference between expected and actual experience	-	259,116	-	(162,086)	-	-
Changes of assumptions	90,527	(198,660)	5,502	(9,919)	50,964	(52,183)
Benefit payments	(73,270)	(47,783)	(66,893)	(60,111)	(69,521)	(83,710)
Net change in total OPEB liability	137,037	118,194	41,173	(114,450)	98,211	(23,280)
<b>Total OPEB liability - beginning</b>	<u>2,008,004</u>	<u>1,889,810</u>	<u>1,848,637</u>	<u>1,963,087</u>	<u>1,864,876</u>	<u>1,888,156</u>
<b>Total OPEB liability - ending</b>	<u>\$ 2,145,041</u>	<u>\$ 2,008,004</u>	<u>\$ 1,889,810</u>	<u>\$ 1,848,637</u>	<u>\$ 1,963,087</u>	<u>\$ 1,864,876</u>
Covered payroll	<u>\$ 3,438,670</u>	<u>\$ 3,438,670</u>	<u>\$ 3,560,000</u>	<u>\$ 3,204,074</u>	<u>\$ 2,977,161</u>	<u>\$ 2,977,161</u>
Net OPEB liability as a percentage of covered payroll	<u>62%</u>	<u>58%</u>	<u>53%</u>	<u>58%</u>	<u>66%</u>	<u>63%</u>

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, 2023**

<b>Plan Fiscal Year Ended June 30</b>	<b>Employer's Proportion of the City's Net OPEB Liability (Asset)</b>	<b>Employer's Proportionate Share of the City's Net OPEB Liability (Asset)</b>	<b>Employer's Covered Payroll</b>	<b>Employer's Proportionate Share of the City's Net OPEB Liability (Asset) as a Percentage of its Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>
<b>Virginia Retirement System - Group Life Insurance - General Employees</b>					
2022	9.85%	\$ 176,121	\$ 3,373,849	5.22%	67.21%
2021	10.02%	184,205	3,349,686	5.50%	67.45%
2020	9.81%	272,315	3,235,681	8.42%	52.64%
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.

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

# HARRISONBURG ELECTRIC COMMISSION

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF OPEB CONTRIBUTIONS - GROUP LIFE INSURANCE June 30, 2023

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
<b>Virginia Retirement System - Group Life Insurance - General Employees</b>					
2023	\$ 18,685	\$ 18,685	-	\$ 3,460,050	0.54%
2022	18,073	18,073	-	3,373,849	0.54%
2021	17,954	17,954	-	3,349,686	0.54%
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, 2023

#### 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, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

##### Largest 10 – Non-Hazardous Duty:

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

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

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

## COMPLIANCE SECTION

---





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

To the Commissioners  
Harrisonburg Electric Commission  
Harrisonburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the basic financial statements of the Harrisonburg Electric Commission (the "Commission"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 5, 2023.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.**

## Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 2023-001.**

## Commission's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Commission's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 5, 2023

## **HARRISONBURG ELECTRIC COMMISSION**

### **SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2023**

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

## **HARRISONBURG ELECTRIC COMMISSION**

### **SCHEDULE OF FINDINGS AND RESPONSES**

**June 30, 2023**

#### **A. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

#### **B. FINDINGS – COMMONWEALTH OF VIRGINIA**

##### **2023-001: Virginia Public Procurement Act**

###### *Condition:*

During 2023, the Commission procured various goods and services related to the construction of a new substation. During our testing, we noted one contract did not have adequate documentation to satisfy sole-source procurement. In discussions with management, the justification for using sole-source procurement appears reasonable. However, the Act requires the Commission to issue a written notice and have a determination in writing that only one source was practicably available. This is consistent with §2.2-4303(E) of the Virginia Public Procurement Act of the Code of Virginia.

###### *Recommendation:*

We recommend following purchasing and procurement guidelines set for by the Code of Virginia, Chapter 43, Virginia Public Procurement Act (the “Act”). In addition, we recommend that management and purchasing agents remain familiar with the Act.

###### *Views of Responsible Officials and Planned Corrective Action:*

Management agrees with the finding and will continue to be mindful of procurement requirements.