

Central Virginia Electric Cooperative
Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

The Board of Directors
Central Virginia Electric Cooperative
Arrington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Central Virginia Electric Cooperative which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of operations and comprehensive income, equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Virginia Electric Cooperative as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016, on our consideration of Central Virginia Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Allama, Jenkins & Cheatham

Richmond, Virginia
March 18, 2016

Balance Sheets

Central Virginia Electric Cooperative

	December 31,	
	<u>2015</u>	<u>2014</u>
Assets		
Electric plant		
Electric plant	\$ 228,470,153	\$ 216,160,025
Less accumulated provision for depreciation and amortization	<u>70,354,436</u>	<u>67,134,402</u>
	158,115,717	149,025,623
Other property and investments		
Investments in associated organizations	2,256,686	2,233,486
Other	<u>731,090</u>	<u>698,224</u>
	2,987,776	2,931,710
Current assets		
Cash and cash equivalents	2,435,225	2,036,019
Accounts receivable, net	8,187,160	11,320,922
Materials and supplies	2,175,212	2,399,451
Other current assets	<u>235,314</u>	<u>238,280</u>
	13,032,911	15,994,672
Deferred charges	3,673,460	5,334,048
	<u></u>	<u></u>
	<u>\$ 177,809,864</u>	<u>\$ 173,286,053</u>

See Notes to Financial Statements

	December 31,	
	<u>2015</u>	<u>2014</u>
Equities and Liabilities		
Equities		
Patronage capital	\$ 49,819,814	\$ 51,650,566
Other equities	5,616,657	4,347,467
Accumulated other comprehensive loss	<u>(2,257,935)</u>	<u>(1,476,437)</u>
	53,178,536	54,521,596
Noncurrent liabilities		
Long-term debt	106,847,506	102,320,938
Other	<u>2,674,556</u>	<u>1,945,464</u>
	109,522,062	104,266,402
Current liabilities		
Accounts payable	5,448,228	6,083,202
Current portion of long-term debt	4,390,029	2,787,977
Consumer deposits	1,446,258	1,481,935
Other current and accrued liabilities	831,344	1,226,542
Other postretirement benefits - current portion	<u>300,000</u>	<u>300,000</u>
	12,415,859	11,879,656
Deferred credits	<u>2,693,407</u>	<u>2,618,399</u>
	<u>\$ 177,809,864</u>	<u>\$ 173,286,053</u>

Statements of Operations and Comprehensive Income

Central Virginia Electric Cooperative

	Year Ended December 31,	
	2015	2014
Operating revenues	\$ 84,826,745	\$ 83,903,356
Operating expenses		
Cost of power	55,403,052	54,106,062
Transmission	157,544	96,341
Distribution - operation	3,721,409	3,917,184
Distribution - maintenance	5,417,511	5,032,874
Consumer accounts	1,859,106	2,223,111
Customer service and informational	237,012	266,229
Administrative and general	5,891,840	5,562,686
Depreciation and amortization	6,234,168	5,979,477
Interest on long-term debt	4,898,816	4,802,151
Other interest	27,319	27,182
Other deductions	(32,866)	(31,688)
	<u>83,814,911</u>	<u>81,981,609</u>
Operating Margins Before Patronage Allocations	1,011,834	1,921,747
Patronage allocations	<u>120,017</u>	<u>120,390</u>
Net Operating Margins	1,131,851	2,042,137
Nonoperating income		
Interest income	136,562	48,945
Other	3,465	3,446
	<u>140,027</u>	<u>52,391</u>
Net Margins	<u>1,271,878</u>	<u>2,094,528</u>
Statements of Comprehensive Income		
Net Margins	\$ 1,271,878	\$ 2,094,528
Other comprehensive income/(loss)		
Net gain/(loss) during the period	(931,682)	(65,070)
Amortization of net loss	91,516	45,996
Amortization of prior service cost	58,668	58,668
	<u>(781,498)</u>	<u>39,594</u>
Comprehensive Income	<u>\$ 490,380</u>	<u>\$ 2,134,122</u>

See Notes to Financial Statements

Statements of Equities

Central Virginia Electric Cooperative

Years Ended December 31, 2015 and 2014

	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	\$ 51,729,686	\$ 3,755,014	\$ (1,516,031)	\$ 53,968,669
Net margins, as adjusted	2,042,137	52,391		2,094,528
Other comprehensive income			39,594	39,594
Retirement of capital credits	<u>(2,121,257)</u>	<u>540,062</u>	<u></u>	<u>(1,581,195)</u>
Balance, December 31, 2014	51,650,566	4,347,467	(1,476,437)	54,521,596
Net margins	1,131,851	140,027		1,271,878
Other comprehensive loss			(781,498)	(781,498)
Retirement of capital credits	<u>(2,962,603)</u>	<u>1,129,163</u>	<u></u>	<u>(1,833,440)</u>
Balance, December 31, 2015	<u>\$ 49,819,814</u>	<u>\$ 5,616,657</u>	<u>\$ (2,257,935)</u>	<u>\$ 53,178,536</u>

See Notes to Financial Statements

Statements of Cash Flows

Central Virginia Electric Cooperative

	Year Ended December 31,	
	2015	2014
Cash Flows from Operating Activities		
Cash received from members	\$ 87,960,507	\$ 84,473,372
Cash paid to suppliers and employees	(72,028,025)	(70,317,041)
Interest paid	(4,926,135)	(4,829,333)
Interest received	45,383	48,945
Net Cash Provided by Operating Activities	11,051,730	9,375,943
Cash Flows from Investing Activities		
Investments in utility plant	(14,439,715)	(12,933,251)
Plant removal costs	(1,191,439)	(732,881)
Contributions in aid of construction	490,550	589,539
Proceeds from the sale of plant	40,581	50,176
Proceeds from retirement of investments in CTC's	3,586	3,316
Net Cash Used by Investing Activities	(15,096,437)	(13,023,101)
Cash Flows from Financing Activities		
Capital credits received from suppliers	93,231	87,332
Capital credits paid to members	(1,833,440)	(1,581,195)
Loan proceeds	8,850,000	7,000,000
Loan payments	(2,630,201)	(3,064,687)
Deposits received from consumers, net	(35,677)	(68,298)
Advance payments to RUS cushion of credit		(84,073)
Net Cash Provided by Financing Activities	4,443,913	2,289,079
Net Increase (Decrease) in Cash and Cash Equivalents	399,206	(1,358,079)
Cash and cash equivalents - beginning of year	2,036,019	3,394,098
Cash and Cash Equivalents - End of Year	\$ 2,435,225	\$ 2,036,019
Schedule of Non-Cash Financing Activity		
Refinance of long-term debt	\$ 32,108,337	\$

See Notes to Financial Statements

	Year Ended December 31,	
	2015	2014
Net margins	\$ 1,271,878	\$ 2,094,528
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization charged to operations	6,234,168	5,979,477
Noncash capital credit allocations	(120,017)	(106,953)
Increase in cash surrender value of life insurance	(32,866)	(31,688)
Interest earned on RUS cushion of credit	(91,179)	(13,437)
(Increase) decrease in:		
Accounts receivable	3,133,762	570,016
Other current assets	2,966	37,754
Deferred charges	1,660,588	509,381
Increase (decrease) in:		
Accounts payable	(634,974)	531,018
Other current and accrued liabilities	(395,198)	213,793
Deferred credits	75,008	(187,177)
Other noncurrent liabilities	(52,406)	(220,769)
Net Cash Provided by Operating Activities	<u>\$ 11,051,730</u>	<u>\$ 9,375,943</u>

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note A - Significant Accounting Policies

Nature of Operations

Central Virginia Electric Cooperative (the "Cooperative") is a member-owned, not-for-profit cooperative organized to provide electric service to its members. The Cooperative's main office is located in Arrington, Virginia and the service area extends through portions of the counties of Albemarle, Amherst, Appomattox, Augusta, Buckingham, Campbell, Cumberland, Fluvanna, Goochland, Greene, Louisa, Nelson, Orange, Prince Edward and the towns of Appomattox, Gordonsville and Scottsville.

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations.

The system of accounts of the Cooperative is maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

Accounting Estimates

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

Electric Plant

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts. When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expenses and other accounts.

Cash and Cash Equivalents

The Cooperative considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note A - Significant Accounting Policies - Continued

Depreciation

Provision for depreciation has been made by application of the straight-line method to the original cost, by groups of depreciable properties in service. Current depreciation rates, which are estimated to amortize the cost of plant over the service lives, were as follows:

Production plant	4.00%
Transmission plant	2.75%
Distribution plant	1.80% - 10.00%
General plant	2.34% - 33.33%

Materials and Supplies

Inventories of the Cooperative consisted of materials and supplies and are generally used for construction, operation and maintenance work and are not for resale. They are valued at the lower of moving average unit cost or market.

Revenue Recognition and Accounts Receivable

The Cooperative records electric revenues as energy is delivered to consumers.

The billing rate schedules of the Cooperative contain provisions to either increase or decrease the consumers' billings from the base level billing schedules dependent upon the wholesale power cost from the supplier of electric energy purchased for resale.

The Cooperative provides for uncollectible accounts based on a percentage of sales which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

Income Taxes

The Cooperative has been granted exemption from income taxes under Internal Revenue Service Code Section 501(c) (12) of the Internal Revenue Code. The Cooperative evaluates the components of the annual test for compliance to maintain its filing status as a tax exempt entity. In accordance with Accounting Standards Codification ASC Topic 740 for "uncertain tax positions", the Cooperative had determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service. Tax years ending on or after December 31, 2012 remain subject to examination by federal and state taxing authorities.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note A - Significant Accounting Policies - Continued

Regulatory Assets and Liabilities

The Cooperative currently complies with accounting guidance set forth by the ASC Topic 980 regarding accounting for the effect of certain types of regulation. This guidance allows a regulated cooperative to record certain costs or credits that have been or are expected to be allowed in the rate making process in a period different from the period in which the costs would be charged to expense or income by a non-regulated enterprise. Accordingly, the Cooperative records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities.

Subsequent Events

Subsequent events have been evaluated through March 18, 2016, which is the date the financial statements were available to be issued.

Advertising Costs

The Cooperative expenses advertising costs as incurred.

Investments

Investments in associated organizations and other investments are recorded at cost.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note B - Electric Plant

Listed below were the major classes of electric plant:

	December 31,	
	2015	2014
Distribution plant	\$ 180,910,467	\$ 171,244,062
General plant	23,106,340	22,025,430
Transmission plant	14,256,930	14,256,930
Intangible plant	2,126,286	2,126,286
Production plant	663,204	663,204
Electric plant in service	221,063,227	210,315,912
Construction work in progress	7,406,926	5,844,113
	<u>\$ 228,470,153</u>	<u>\$ 216,160,025</u>

The Cooperative followed the guidance as set forth in the ASC Topic 410, Asset Retirement and Environmental Obligations in determining it had no legal asset retirement obligations for the years ended December 31, 2015 and 2014. Regarding non-legal retirement obligations, the Cooperative follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note C - Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2015	2014
Patronage Capital:		
National Rural Utilities Cooperative Finance Corporation (CFC)	\$ 714,355	\$ 682,149
CoBank	172,566	172,630
Other	207,077	212,433
	<u>1,093,998</u>	<u>1,067,212</u>
Capital Term Certificates (CTC's):		
SCTC's	854,193	854,193
LCTC's	210,600	210,600
ZCTC's	69,424	73,010
	<u>1,134,217</u>	<u>1,137,803</u>
Other:		
CFC member capital certificates	25,000	25,000
Membership fees	3,471	3,471
	<u>28,471</u>	<u>28,471</u>
	<u>\$ 2,256,686</u>	<u>\$ 2,233,486</u>

The CTC's are unsecured and subordinated. The SCTC's and LCTC's bear interest at an annual rate of 3.0%. The ZCTC's are non-interest bearing. The CTC's are required to be maintained under the note agreement with CFC and are similar to compensating bank balances.

The CFC member capital certificates are unsecured and subordinated and bear interest at an annual rate of 5.0% payable semiannually.

Note D - Concentrations of Credit Risk

The Cooperative places its cash on deposit with financial institutions located in the United States of America, which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance coverage for up to \$250,000 of cash held by the Cooperative in each separate FDIC insured bank and savings institution. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2015, the Cooperative had approximately \$1,912,000 of deposits that exceed the insured limits.

Concentrations of credit risk with respect to consumer accounts receivable and unbilled revenue generally are limited due to the large number of consumers comprising the customer base.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note E - Accounts Receivable

Accounts receivable consisted of the following:

	December 31,	
	2015	2014
Consumer accounts	\$ 4,853,389	\$ 7,143,355
Unbilled revenue	3,461,110	4,134,384
Other	140,813	323,513
	<u>8,455,312</u>	<u>11,601,252</u>
Less provision for uncollectible accounts	<u>268,152</u>	<u>280,330</u>
	<u>\$ 8,187,160</u>	<u>\$ 11,320,922</u>

Note F - Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2015	2014
Pension prior service cost	\$ 2,628,863	\$ 3,004,415
Deferred power costs	830,981	1,449,562
Other	169,525	171,376
Preliminary survey	44,091	11,978
Amp Ohio development and consulting		696,717
	<u>\$ 3,673,460</u>	<u>\$ 5,334,048</u>

Note G - Patronage Capital

Patronage capital consisted of the following:

	December 31,	
	2015	2014
Assigned	\$ 48,687,963	\$ 49,608,429
Assignable	<u>1,131,851</u>	<u>2,042,137</u>
	<u>\$ 49,819,814</u>	<u>\$ 51,650,566</u>

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note G - Patronage Capital - Continued

Under provisions of the long-term debt agreement and Title 7 of the Code of Federal Regulations (Part 1717.617), the Cooperative may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets, and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year, unless a waiver is approved by RUS. Total equities and margins amounted to approximately 30% and 31% of total assets for the years ended December 31, 2015 and 2014, respectively.

Note H - Long-Term Debt

Long-term debt consisted of the following:

	December 31,	
	2015	2014
Federal Financing Bank (FFB) - Mortgage notes, fixed	\$ 66,826,957	\$ 58,940,256
Advanced payments, unapplied		(54,075)
	<u>66,826,957</u>	<u>58,886,181</u>
CFC - Mortgage notes, fixed	42,643,647	11,705,048
CoBank - Mortgage note, fixed	1,766,931	1,850,141
RUS - Mortgage notes, fixed		32,697,543
Advanced payments, unapplied		(29,998)
		<u>32,667,545</u>
	<u>111,237,535</u>	<u>105,108,915</u>
Less current portion	4,390,029	2,787,977
	<u>\$ 106,847,506</u>	<u>\$ 102,320,938</u>

Approximate future maturities of long-term debt were as follows:

<u>Year Ending December 31,</u>	
2016	\$ 4,390,029
2017	4,202,285
2018	4,215,101
2019	4,342,875
2020	4,543,888
Thereafter	<u>89,543,357</u>
	<u>\$ 111,237,535</u>

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note H - Long-Term Debt - Continued

Substantially all of the Cooperative's assets have been pledged as collateral for the long-term debt to RUS, CFC, CoBank and FFB. Under the term of the loan agreements with RUS and CFC, there are certain restrictions which include requirements to maintain a TIER (times interest earned ratio) and DSC (debt service coverage) of 1.25. There were also restrictions on the return of capital to patrons as discussed in Note G. As of December 31, 2015 and 2014, the Cooperative was in compliance with all covenants and restrictions.

During 2015 and 2014, the Cooperative elected to participate in the RUS cushion of credit program, whereby a portion of principal and interest payments are prepaid to RUS and earn interest at a rate of 5.00%. For the year ended December 31, 2014, the Cooperative had prepaid approximately \$84,000, which has been reflected in the financial statements as a reduction of long-term debt payable to RUS and FFB. There were no prepayments made by the Cooperative for the year ended December 31, 2015.

Terms and payments relating to the Cooperative's outstanding long-term debt as of December 31, 2015 and 2014 consisted of the following:

<u>Lender</u>	<u>Terms</u>	<u>Maturity dates</u>	<u>Interest rates</u>	<u>Approximate principal and interest payments</u>
<u>As of December 31, 2015</u>				
FFB	30-35 years, quarterly	06/2030 - 12/2047	2.15% - 6.37%	\$ 695,000
CFC	35 years, monthly and quarterly	06/2016 - 03/2033	3.30% - 7.90%	737,000
CoBank	28 years, monthly	10/2027	7.68%	19,000
<u>As of December 31, 2014</u>				
RUS	35 years, monthly	11/2029 - 10/2041	2.63% - 5.75%	\$ 200,000
FFB	30-35 years, quarterly	06/2030 - 12/2047	2.15% - 6.37%	875,000
CFC	35 years, quarterly	06/2015 - 03/2033	3.35% - 7.90%	450,000
CoBank	28 years, monthly	10/2027	7.68%	19,000

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note H - Long-Term Debt - Continued

Unadvanced loan funds of the Cooperative consisted of the following:

	December 31,	
	2015	2014
FFB	\$ 250,000	\$ 9,100,000

The Cooperative has a \$9,700,000 line of credit with CFC at a variable interest rate (2.90% at December 31, 2015). There were no outstanding advances against the line of credit at December 31, 2015 and 2014. The Cooperative also has a \$1,000,000 line of credit with CoBank at a variable interest rate (2.92% at December 31, 2015). There were no outstanding advances against the line of credit at December 31, 2015 and 2014.

Note I - Deferred Credits

Deferred credits consisted of the following:

	December 31,	
	2015	2014
Consumer advances for construction	\$ 2,626,027	\$ 2,530,079
Special equipment installation costs	67,380	88,320
	<u>\$ 2,693,407</u>	<u>\$ 2,618,399</u>

Note J - Retirement Plans

Deferred Income Plan

The Cooperative has a deferred compensation 401(k) plan for substantially all employees whereby the participants may voluntarily contribute. The Cooperative contributes to the plan 50% of the employees' contribution, not to exceed 2.5%. The cost to the Cooperative for the years ended December 31, 2015 and 2014 was approximately \$1,356,000 and \$161,000, respectively. Effective January 1, 2015, the Cooperative continued to match a portion of employees' salary deferral, with the limit increased from 5% to 6%, and a contribution not to exceed 3.0%.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note J - Retirement Plans - Continued

Pension Plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of approximately \$1,122,000 in 2015 and \$1,973,000 in 2014.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2015 and January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Effective January 1, 2015, the Cooperative transitioned from the RS Plan to an enhanced 401(k) plan. The intent is to provide a sustainable retirement plan that allows the Cooperative to remain competitive for talent in the electric utility industry, while balancing the need for predictable costs associated with the plan. The RS Plan benefits have been frozen and employees will no longer accrue additional benefits under the plan. The new 401(k) plan provides for non-elective Cooperative contributions based on a tiered schedule, with tiers varying based on age and years of service.

Note K - Other Noncurrent Liabilities

Other noncurrent liabilities, as reported on the balance sheet, consisted of the following:

	December 31,	
	2015	2014
Other postretirement benefits	\$ 2,273,974	\$ 1,532,186
Other	400,582	413,278
	<u>\$ 2,674,556</u>	<u>\$ 1,945,464</u>

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note K - Other Noncurrent Liabilities - Continued

Postretirement Benefits Other than Pensions

The Cooperative sponsors a defined benefit postretirement medical and dental insurance plan that covers substantially all of its employees, their dependents, and one retired director.

Employees hired on or before July 31, 2000 who reach the age of 55 and have 30 years of service become eligible to receive employer sponsored medical and dental benefits indefinitely. Employees hired on or after August 1, 2000, who reach the age of 55 and have 30 years of service become eligible to receive employer sponsored medical and dental benefits until the age of 65, when there are no longer employer sponsored benefits.

The premium for the retired director is based on the smaller of the retiree health insurance premium or the cap of \$5,200 per covered person. In both instances, the spouse must pay 25% of the premium.

Effective January 2012, employees hired on or after January 1, 2012 are not eligible to receive employer sponsored post-retirement medical and dental benefits.

The following sets forth the benefit obligation with the funded status of the plan in accordance with ASC Topic 715:

	December 31,	
	2015	2014
Accumulated Postretirement Benefit		
Obligation (APBO):		
APBO at beginning of year	\$ 5,076,730	\$ 4,989,409
Interest cost	234,570	231,617
Actuarial (gain) loss	612,042	(13,096)
Service cost	117,804	90,827
Plan participant contributions	50,168	47,947
Benefit payments	(342,594)	(269,974)
APBO at end of year	5,748,720	5,076,730
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	3,244,544	2,909,556
Actual return on plan assets	228,719	189,715
Unrealized gain (loss)	(298,517)	(78,166)
Employer contributions		223,439
Fair value of plan assets at end of year	3,174,746	3,244,544
Funded status	(2,573,974)	(1,832,186)
Less current portion	300,000	300,000
	\$ (2,273,974)	\$ (1,532,186)

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note K - Other Noncurrent Liabilities - Continued

Postretirement Benefits Other than Pensions - Continued

The net periodic postretirement benefit cost included the following:

	2015	2014
Interest cost	\$ 234,570	\$ 231,617
Amortization of benefits offer	143,985	
Service cost	117,804	90,827
Amortization of actuarial loss	91,516	45,996
Amortization of prior service cost	58,668	58,668
Return on plan assets	(228,719)	(189,715)
	\$ 417,824	\$ 237,393

Assumptions and effects were as follows:

	December 31,	
	2015	2014
Actuarial assumptions		
Medical trend rate next year	8.00%	8.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2022	2021
Discount rate	4.12%	3.80%
Measurement date	12/31/2015	12/31/2014
Long-term rate of return on assets	7.00%	7.00%
Effect of 1% increase in health care cost trend rate on:		
APBO	\$ 308,487	\$ 333,899
Interest cost plus service cost	\$ 24,269	\$ 19,204

Investments in plan assets were allocated as follows:

	December 31,	
	2015	2014
Equity funds	35%	53%
Fixed income funds	59%	40%
Other	6%	7%

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note K - Other Noncurrent Liabilities - Continued

The long-term return on plan assets was determined by taking the expected annual rates of return for each asset class based on the ten-year return (or since inception) and taking a weighted average based on the market values of the asset classes as of December 31, 2015 and 2014. The Cooperative's investment strategy with respect to plan assets is designed to achieve a moderate level of overall portfolio risk in keeping with its desired risk objective, which is established after careful consideration of plan liabilities, plan funded status and the Cooperative's overall financial condition.

The fair value of plan assets is based on quoted market prices as of December 31, 2015, which are considered Level 1 inputs and defined as a quoted market price in active markets for identical assets.

The estimated net loss and prior service cost for the plan that is expected to amortize from accumulated comprehensive income into net periodic benefit cost over the next fiscal year consisted of the following at December 31, 2015:

Expected amortization of loss	\$	77,000
Expected amortization of prior service cost	\$	59,000

Amounts in accumulated other comprehensive loss not recognized in net periodic benefit cost consist of the following:

	December 31,	
	2015	2014
Unrecognized net actuarial loss	\$ 1,570,882	\$ 1,005,234
Unrecognized prior service cost	388,536	447,204
Unrealized (gain) loss on investments	298,517	23,999
	<u>\$ 2,257,935</u>	<u>\$ 1,476,437</u>

Estimated future benefit payments are shown net of employee contributions and are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 309,985
2017	\$ 307,102
2018	\$ 304,573
2019	\$ 300,478
2020	\$ 269,649
2021 - 2025	\$ 1,447,486

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note K - Other Noncurrent Liabilities - Continued

Defined Benefit Plan

The Cooperative has entered into a defined benefit agreement with the former president of the Cooperative which provides for annual benefit payments to be made over the individual's lifetime. The present value of the estimated future payments under this agreement was accrued over the active employment period and amounted to approximately \$401,000 and \$413,000 as of December 31, 2015 and 2014, respectively. The Cooperative has funded this plan with a life insurance annuity contract with a cash surrender value amounting to approximately \$731,000 and \$698,000 at December 31, 2015 and 2014, respectively.

Note L - Fair Value of Financial Instruments

The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with GAAP. According to guidance set forth by FASB, the Cooperative is required to disclose the fair value of those financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow analysis. This technique involves subjective judgment and is significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. As a result, the derived fair value estimates cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate settlement of the instrument. Accordingly, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practicable to estimate that value.

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Investments in Associated Organizations

Fair value of capital term certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 3.01% and 2.75% for the years ending December 31, 2015 and 2014, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits. The carrying value of memberships approximates fair value.

Accounts Receivable

The carrying amount of accounts receivable approximates fair value due to the short period of time amounts are outstanding.

Accounts Payable

The carrying amount of accounts payable approximates fair value due to the short period of time amounts are outstanding.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note L - Fair Value of Financial Instruments - Continued

Long-Term Debt

The carrying amounts of the Cooperative's fixed long-term debt include certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of fixed long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 5.85% and 5.40% for the years ending December 31, 2015 and 2014, respectively.

Consumer Deposits

The carrying amount approximates fair value due to the relatively short maturity of the deposits.

The estimated fair values of the Cooperative's financial instruments were as follows:

	December 31,			
	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Capital term certificates	\$ 1,134,217	\$ 1,657,000	\$ 1,137,803	\$ 2,899,000
Member capital certificates	\$ 25,000	\$ 50,000	\$ 25,000	\$ 50,000
Liabilities:				
Long-term debt, including current portion	\$ 111,237,535	\$ 66,376,000	\$ 105,108,915	\$ 91,487,000

Note M - Reclassifications

Certain reclassifications have been made to the 2014 balances to conform to the 2015 presentation. As a result of the reclassifications, there was no effect on net margins or patronage capital.

Notes to Financial Statements

Central Virginia Electric Cooperative

December 31, 2015 and 2014

Note N - Commitments and Contingencies

During 2015, the Cooperative's full requirements contract with Constellation Power Source (Constellation) expired. This agreement required the Cooperative to purchase approximately 86% of its energy needs from Constellation. Also, the Cooperative's agreement with American Municipal Power (AMP) to assign delivery of 4.15% of the energy output of AMP Freemont Energy Center to Michigan South Central Power Agency expired.

The Cooperative has entered into long-term and short-term physically delivered forward purchase contracts with various counterparties in order to fulfill the Cooperative's power supply needs after the wholesale power agreement with Constellation expired. At December 31, 2015, the Cooperative's power supply commitments for future periods, relating to these contracts which expire on various dates through 2024, totaled approximately \$95,000,000. The Cooperative is also taking delivery of energy and capacity from the AMP Freemont Energy Center and 4 MW of the Blue Creek Wind generation facility.

Note O - Related Party Transactions

The Cooperative was a member of the following organizations and conducted business transactions during the current and prior years as set forth below:

CoBank

The Cooperative was a member of CoBank, a national financing organization, and had a line of credit and mortgage note payable with the organization, as explained in Note H.

CFC

The Cooperative was a member of CFC, a national financing organization, and, as explained in Notes C and H, had investment assets, mortgage notes payable, and a line of credit at various interest rates and maturities.

Electric Research and Manufacturing Cooperatives, Inc. (ERMCO)

The Cooperative was a member of ERMCO and purchased materials and supplies for construction and maintenance of utility plant.

Virginia, Maryland & Delaware Association (VMDA)

The Cooperative is a member of VMDA. The purpose of VMDA is to provide those services that can be best performed in a group effort on a state or regional basis, which include public and members relations, government affairs, human resource development, technical services, legal services and educational seminars.

**Supplemental Matters Required by the
Rural Utilities Service**



**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**

The Board of Directors
Central Virginia Electric Cooperative
Arrington, Virginia

We have audited, in accordance with the 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, the financial statements of Central Virginia Electric Cooperative (the “Cooperative”), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and comprehensive income, equities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Cooperative’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative’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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Central Virginia Electric Cooperative in a separate letter dated March 18, 2016.

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 Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adams, Jenkins & Cheatham

Richmond, Virginia
March 18, 2016



**Independent Auditor's Report on Compliance With
Aspects of Contractual Agreements and Regulatory
Requirements for Electric Borrowers**

The Board of Directors
Central Virginia Electric Cooperative
Arrington, Virginia

We have audited, 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, the financial statements of Central Virginia Electric Cooperative (the "Cooperative"), which comprise the balance sheet as of December 31, 2015, and the related statements of operations and comprehensive income, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2016. In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2016 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they related to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operations, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Adams, Jenkins & Cheatham

Richmond, Virginia
March 18, 2016