

DELAWARE MUNICIPAL ELECTRIC CORPORATION
Regular Audit Committee Meeting

February 22, 2018
Smyrna, Delaware

A meeting of the Audit Committee of the Board of Directors of the Delaware Municipal Electric Corporation was held on February 22, 2018 at the DEMEC offices, Smyrna, Delaware.

The meeting was called to order at 10:19 am.

The following roll call was presented:

Committee Present:

Pamela Patone, Chair
MSC of New Castle, General Manager/Secretary
Tyler Reynolds
Town of Middletown, Finance Manager
David Del Grande
City of Newark, Finance Director

DEMEC Staff Attending:

Louis Vitola, VP – Finance
Stephanie Dove, Manager of Accounting and Settlements

Special Guests: none

APPROVAL OF MINUTES – October 26, 2017

Upon motion by Mr. Reynolds and second by Mr. Del Grande, the October 26, 2017 Regular Meeting and Executive Session minutes were approved en bloc by the Committee.

FOLLOW UP ON ACTION ITEMS

Mr. Vitola briefed the Committee on DEMEC's intent to present a recommendation to the DEMEC Board of Directors to approve a Resolution adopting Regulatory Accounting pursuant to GASB standard 62. The standard will allow DEMEC to report the assets and projects financed on behalf of members, as well as the cash inflows and outflows related to the assets and projects, in a way that more closely aligns with DEMEC's rate recovery process over the term of the underlying financing. If approved by the Board, the adoption of GASB 62 would result in a restatement of 2017 opening balance net position, which would ripple backward into 2016 due to DEMEC's comparative financial statement presentation standard. Mr. Vitola shared calculations with the Audit Committee showing the cumulative effect of accounting treatment on the financial statements as of 12/31/2016. Ms. Patone asked whether (1) the 10% coverage billed by DEMEC over and above the debt service payments, or (2) the bullet payment in the final year of the debt service schedule impacted the analysis. Mr. Vitola commented that the bullet payment in 2022, which would be offset or partially offset by the accumulated coverage billings, would serve to influence the revenue and deferred inflows recorded in 2022. The revenues and deferred inflows related to the project in

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2022 will be unknown until the end of 2022. Mr. Reynolds commented that the regulatory accounting treatment made sense for DEMEC, and that Middletown is likely to recommend regulatory accounting for its DEMEC-financed projects. Ms. Patone commented that she appreciated the approach DEMEC has taken with respect to the revision of the accounting treatment for the New Castle project, and that she will use a combination of DEMEC's rationale and her own research related to the substance of the contract with DEMEC to determine the accounting treatment for the Municipal Services Commission.

Mr. Vitola circulated a draft resolution to the Committee for review. Mr. Del Grande asked whether DEMEC's independent auditors at Baker Tilly are in support of the GASB 62 treatment and whether they had reviewed the resolution and the restatement calculation. Mr. Vitola advised that Baker Tilly supports the accounting treatment and had reviewed the draft resolution and the restatement calculation, finding both to be reasonable. Ms. Patone advised that a restatement impacting 2017 should be reflected backward into the prior year for entities that issue comparative financial statements, and, given that treatment, asked whether the resolution should reflect 2016 instead of 2017. Mr. Vitola noted the date change and two other corrections to the resolution.

Upon motion by Mr. Del Grande and second by Mr. Reynolds, the Committee unanimously agreed to recommend that the DEMEC Board of Directors approve the resolution, as amended, to adopt regulatory accounting for projects financed on behalf of members pursuant to GASB 62.

AUDIT

Mr. Vitola reported that DEMEC's independent auditors arrived on Tuesday, February 20 to conduct final fieldwork, which is underway and progressing smoothly. Mr. Vitola thanked Ms. Dove for all her hard work in preparation for the audit, especially for the work related to the fuel inventory accounting, given the sudden, late-December change in weather and the impact it had on operations, fuel oil supply, and Beasley run time on diesel fuel during a period that straddled the end of the fiscal year. Mr. Vitola also noted an improved payroll accrual process and advanced progress on the financial statements, management's discussion and analysis, the footnotes to the financial statements, and the required statistical data.

The Committee reminded staff that it met with the auditors in person on October 26, 2017 during preliminary fieldwork and that it met with the auditors in person prior to the start of today's Audit Committee meeting. Ms. Patone advised that the third and final discussion with the independent auditors would be held on March 13, 2018 via conference call. Mr. Vitola advised that lead audit partner Russ Hissom is planning to attend DEMEC's regularly scheduled board meeting of April 17, 2018 for the presentation of the 2017 final audited financial statements to the full Board. This is the same schedule of oversight undertaken by the Committee in 2016-17 during the 2016 audit process.

ACCOUNTING POLICIES & PROCEDURES

None.

BUSINESS FROM THE FLOOR

None.

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Audit Committee Meeting (continued)
February 22, 2018

EXECUTIVE SESSION

The Audit Committee did not enter into executive session.

NEXT MEETING DATES

The chair will distribute calendar invites to the committee members for the upcoming meetings set for:

- a. Tuesday, May 15, 2018 at 9:00 am
- b. Tuesday, August 21, 2018 at 9:00 am
- c. Tuesday, November 20, 2018 at 9:00 am (Tentative)

ADJOURMENT

There being no further business, the Audit Committee adjourned at 10:53 am.

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