

DELAWARE MUNICIPAL ELECTRIC CORPORATION
Regular Audit Committee Meeting
May 15, 2018
Smyrna, Delaware

A meeting of the Audit Committee of the Board of Directors of the Delaware Municipal Electric Corporation was held on May 15, 2018 at the DEMEC offices, Smyrna, Delaware.

The meeting was called to order at 9:00 a.m.

The following roll call was presented:

Committee Present:

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 – February 22, 2018

Upon motion by Mr. Del Grande and second by Mr. Reynolds, the February 22, 2018 Regular Meeting minutes were approved by the Committee.

FOLLOW UP ON ACTION ITEMS

Mr. Vitola reminded the Committee that DEMEC's Board of Directors unanimously approved the resolution to adopt regulatory accounting pursuant to GASB 62, in part due to the Committee's recommendation and support, for which he thanked the Committee. Accordingly, DEMEC's audited financial statements for the year ended December 31, 2017 would present a reclassification of the Substation Project financed on behalf of the Municipal Services Commission of New Castle. A portion of net position would be reclassified to a deferred inflow, which, after continuing to grow with the deferred portions of the MSC's monthly payments, would offset the net book value of the substation upon transfer to the MSC at the conclusion of the repayment term.

Mr. Vitola advised the Committee that the City of Seaford, the Town of Middletown, and the MSC have all seen the guidance on regulatory accounting under GASB 62 published by Baker Tilly, and all three communities have seen how DEMEC will account for the projects financed on their behalf. Middletown Council has already passed a resolution to adopt regulatory accounting. Seaford has been provided with documents such as sample resolutions, sample journal entries, and other materials to assist their staff with presentations to their independent auditors and City Council. The MSC of New Castle has a March 31st fiscal year end; Mr. Vitola commented that he was aware that Chairwoman Patone was conducting a review of regulatory accounting principles with respect to the substation project and sharing materials with the MSC's independent auditors for review.

The Audit Committee is an advisory-only committee of the DEMEC Board of Directors and has no power to finally approve or order any action. The power to act rests exclusively with the DEMEC Board of Directors.

AUDIT

Mr. Vitola reminded the Committee that it was formed on May 21, 2013 with the chief responsibility of selecting DEMEC's independent auditors, among other oversight duties outlined in the Audit Committee Charter. The initial request for proposals (RFP) was issued by the Committee in 2013. The current auditors – Baker Tilly Virchow Krause, LLP (BT) – was selected in 2013 for DEMEC's fiscal years ended 2013, 2014 and 2015. Late in 2015 or early in 2016, the engagement was extended without a new RFP process for the fiscal years ended 2016, 2017 and 2018. Mr. Vitola asked the Committee for guidance on the auditor selection process for fiscal year 2019 and beyond. Mr. Reynolds and Mr. Del Grande each expressed a preference for DEMEC to initiate an RFP process. Mr. Del Grande offered to share current language from the City of Newark's most recent auditor RFP process to provide ideas for content. Mr. Vitola advised that DEMEC staff would develop a timeline and a draft RFP for Committee review. The Committee expressed an interest in awarding the work to the successful respondent before the end of 2018, or no later than March 31, 2019.

AUDIT COMMITTEE LEADERSHIP

Mr. Vitola reminded the Committee that the Audit Committee Charter simply provides the following guidance: "A Chair will be designated by the Committee. The Committee will attempt to rotate the Chair Position." The Committee expressed a preference to have a recommendation in place by the Q2 2018 meeting of the Audit Committee so that any nomination can be shared with DEMEC's Board of Directors in advance of the September Board Meeting. Mr. Vitola advised that he would share a history of the Audit Committee Chairpersons.

ACCOUNTING POLICIES & PROCEDURES

None.

BUSINESS FROM THE FLOOR

None.

EXECUTIVE SESSION

The Audit Committee went into Executive Session at 9:23 am to discuss strategic business planning. The Audit Committee ended the executive session at 9:48 am.

NEXT MEETING DATES

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

- a. Tuesday, August 21, 2018 at 9:00 am (Tentative)
- b. Tuesday, November 20, 2018 at 9:00 am (Tentative)
- c. Tuesday, February 26, 2019 at 10:00 am (Tentative)

ADJOURNMENT

There being no further business, the Audit Committee adjourned at 9:50 am.