

Delaware Municipal Electric Corporation

Powering Communities Together.

ANNUAL REPORT 2020



DEMEC



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About Delaware Municipal Electric Corporation

Dedicated to serving eight communities in our great state that own and operate their electric systems, the Delaware Municipal Electric Corporation (DEMEC) **provides wholesale electric power supply and other services** to benefit nearly 100,000 residents and local businesses in *New Castle, Newark, Middletown, Smyrna, Clayton, Milford, Seaford, and Lewes*. Over the past ten years, all our member systems have experienced annual growth rates well above the national average.

Established in 1979, DEMEC's mission is to support our members' success and relevance by delivering excellence in competitive, reliable, sustainable power supply and innovative services, **advancing the benefits of community-owned utilities**. As a Joint Action Agency, we supply our members' power requirements from an optimized mix of owned generation resources and contracts with other generators, utilizing economies of scale to secure **competitive power supply pricing**.

The evolution of the electric industry is rapid and complex. The growing interest in non-carbon energies, battery storage, and electric vehicles are driving immense changes to the electric grid. DEMEC actively works with our members to address these challenges and find opportunities.

Nationally Recognized Reliability

Reliability is at the core of our mission, so it is no surprise that **our members continue to receive national recognition for their commitment to reliability**. Several of our members have received the American Public Power Association (APPA)'s Excellence in Reliability Certificate or Reliable Power Public Provider (RP3) designation.

The **Excellence in Reliability Certificate** recognizes utilities for high reliable performance by comparing their outage records against nation-wide data gathered by the Energy Information Administration. To receive the certificate, the utility must be in the top 25% of utilities with the lowest system average interruption duration.

To be a **Reliable Public Power Provider (RP3)** designee, utilities must demonstrate high reliability, safety, work force development, and system improvement. Criteria within each of the four RP3 areas are based upon sound business practices and recognized industry leading standards.

DEMEC members diligently perform preventive maintenance from tree trimming, to conductor, pole and line upgrades, to regular inspection and testing of generating equipment, facilities and substations. **We proactively minimize outages instead of reacting to them.**

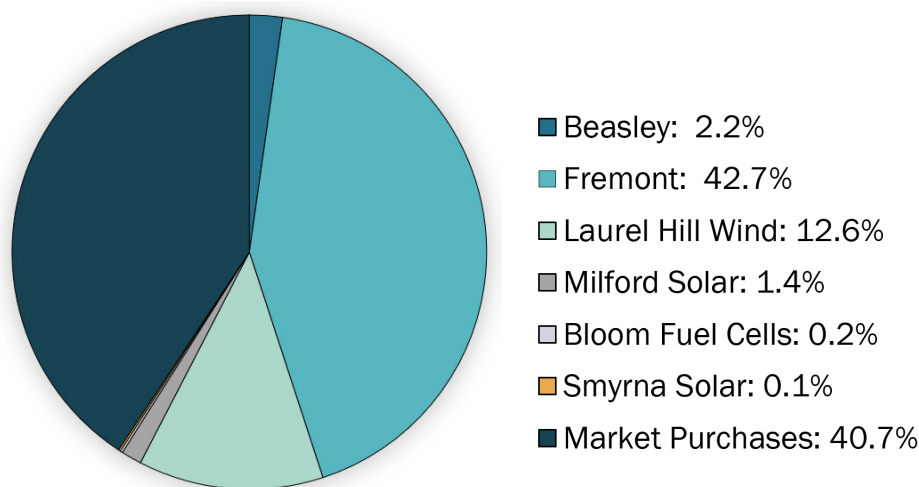


POWER SUPPLY RESOURCES

DEMEC invests in a variety of generation sources to **maximize benefits and manage risk to our members**. In doing so, we maintain low costs, strong reliability, reduce carbon emissions, and protect from price volatility. This prevents high price fluctuations for customers and protects the environment for future generations.

DEMEC's high credit ratings and on-behalf-of financing allows us and our members to build and own efficient generation facilities more economically than purchasing energy at market rates. Over ten years, DEMEC has **reduced market purchases from 95% to 40.7% using a diverse power supply mix**.

2020 Resource Mix



These assets include natural gas, solar, and wind energy; all of which have extremely low to no emissions. DEMEC has invested in over 26MW of utility-scale solar, 71MW of wind, and 215MW of natural gas generation. **Over 85% of DEMEC's power supply consists of low to no carbon emissions.**

DEMEC continues to support renewable energy, expand demand response resources, and increase the impact of energy efficiency to reduce our carbon footprint. Since 2018, our energy efficiency program has **saved customers over 5 million kilowatt hours of energy, equal to 648 homes' electricity use for an entire year.**

Through prudent investments and strategic market purchases **DEMEC has reduced wholesale rates by 26% and reinvested \$76.7 million back into our member communities over the past ten years.**

Credit Ratings for DEMEC's Electric Utility Bonds Series 2011:

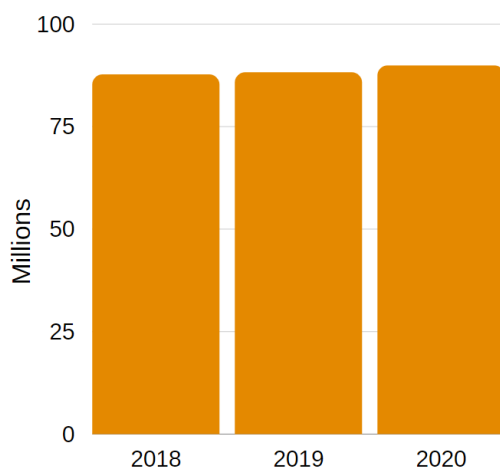
A **Fitch Ratings** affirmed DEMEC's 'A' rating, in 2019, with a stable outlook. The rating reflects the strong performance of the Beasley Power Station and its increasing value.

A **S&P Global Ratings**, in 2020, affirmed DEMEC's 'A' rating with a stable outlook. The rating reflects several factors S&P views as positive, including strong coverage of project debt and a strong operating record of the Beasley Power Station acting as a hedge against peak power costs in the PJM market.

A1 **Moody's Investors Services** upgraded DEMEC to an 'A1' rating in 2020 with a stable outlook. The rating reflects management's experience and success with construction and operations and Beasley's demonstrated strong financial performance, owing to the incremental revenues and cash flow it receives from the PJM capacity auction. This supplements the stable cash flow received from its members and includes the incremental revenues and cash flow from the PJM energy market.

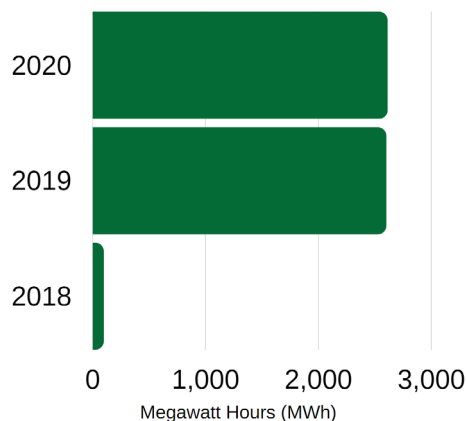
DEMEC Infrastructure Investment:

DEMEC invests in generation, infrastructure, and innovative technology on behalf of our members. In 2020, **DEMEC invested \$90 million** to enhance and support reliable electric service in member communities.



Savings through DEMEC Energy Efficiency Program:

DEMEC member customers have lowered their electric consumption by over 5,000MWh through DEMEC's program. As of 2020, **lifetime customer savings reached nearly \$8.3 million.**



2020

\$127 million

Total revenue from member sales and generation operations

\$8.1 million

2020 margin before distribution to our members

\$7.4 million

Distributed to our members

1,348 GWh

Total giga-watt hours delivered to our members

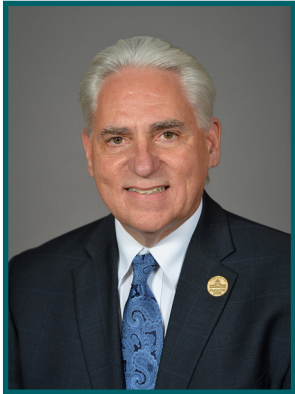
304 MW

Total non-coincident peak of DEMEC members

26 percent

Cumulative 10-year rate reduction

President's Message




The year 2020 will certainly be a year for the history books. The COVID-19 pandemic impacted every person and business in our nation. While 2020 marked DEMEC's seventh consecutive year of strong financial performance, it also highlighted **our resiliency and the strength of joint action**. Total net revenues from operations decreased 8% primarily from the planned decrease in wholesale rates billed to members and lower generation revenue caused by lower market prices and consumer demand. Total net operating expenses decreased by 5% still resulting in a favorable increase in net position. We continue to deliver significant value to our members through **wholesale rates that have decreased 26%** over the past ten years and **investing over \$265 million in generation and infrastructure** since 2018. Total revenue decreased 34% due to lower revenue from members, reduced generation operations responding to lower consumer demand, and lower fuel costs. However, because of our strong operational performance, **we returned \$7.4 million to our members during 2020**,

including \$250,000 towards financial assistance for member customers facing hardships due to COVID-19. Revenue from member billings decreased 5% with revenues from generation operations decreasing 18%. Change in net position was positive and **Total Cash and Investments remained constant at \$28.6 million**.

Overall, the company's financial strength, efficient operations, beneficial asset mix and robust service provision is providing increasing value to our member communities; giving them the resources they need to succeed in the rapidly changing electric industry. The financial strength of the corporation is demonstrated by the stability of our credit ratings. The three credit rating agencies, Moody's, S&P Global Ratings and Fitch Ratings, have affirmed our ratings of "A1", "A" and "A", respectively. Moody's upgraded our rating, in 2020, to A1 from A2 based on operational efficiency and the strong financial performance of our Beasley generation asset. Strong financial health improves our access to capital to execute the corporate strategies that benefit our member communities.

As DEMEC adapts to the ever-changing electric industry we face changes in the regional electric industry that will challenge our ability to continue providing stable, competitive wholesale power supply to our member communities. While energy costs have significantly dropped, other components of wholesale power supply cost have significantly increased over the years. The main drivers of these higher power supply costs are increasing state regulation, government mandates, and rapidly increasing transmission costs. DEMEC continues to fight unjust and unreasonable transmission rate increases at FERC, saving Delaware electric customers hundreds of millions of dollars in avoided transmission costs. However, **wholesale transmission costs in the PJM market have increase 119%** since 2011 with U.S. transmission investments at \$20 billion per year, according to a report by the Brattle Group. Furthermore, in January of 2021, the Delaware General Assembly approved an **increase in the Renewable Portfolio Standards from 25% to 40% by 2035**. DEMEC is actively working with members to continue supporting renewable generation and energy efficiency





programs that reduce customers' electric use in ways that save money and reduce impact on the environment. In my view, our future challenges lie not in identifying the ideal asset mix, integrating technology, or properly executing metrics for efficiency or reliability. While these remain important, **the real challenges lie in understanding, influencing, and keeping pace with the evolving societal, political, and regulatory forces driving sweeping policy changes in our industry.** In 2020, the DEMEC Board of Directors approved a new Strategic Plan focused on the mission and vision to deliver excellence in competitive, reliable, sustainable power supply and innovative services, advancing the benefits of community-owned utilities. To remain relevant and valuable to our member communities, we must be able to rise to the challenges and capture the opportunities. We must work together, Board and Senior Management, to evolve our organization and mesh with the coming new environment so we can continue to bring value to our members and they can remain relevant and successful in the new industry.

We continue to seek new investments in generation assets and infrastructure improvements in our community systems for the benefit of our members. DEMEC recently assisted with deploying AMI ("Smart Grid") systems in Seaford and Milford, with the Town of Middletown beginning deployment in 2021 and other members looking to start in the coming years. Furthermore, the DEMEC Energy Efficiency Program, in all of our eight member communities, continues to bring energy savings that will help customers year after year.

Moreover, we have increased our human resources to address increased service needs of our members. We will continue to leverage our mutually beneficial partnership with American Municipal Power, Inc. ("AMP"), which began in 2011, to improve service provision to our members, develop new efficient generation assets and create additional service offerings that increase efficiency and reliability for our member community electric distribution systems.

In closing, I want to recognize our skilled and valued staff for all their efforts as well as the wonderful people we work with at our member communities. **To the essential workers and first responders that make up the electric industry and serve their local communities every day, even during a national pandemic, thank you.** Our strong connection with our members continues to be a key asset in an increasingly competitive market and dynamic industry. While the changes coming in our industry will be challenging, we are well prepared to adapt and meet members' evolving needs and services to maximize the organization's value to its member communities.

Sincerely,



Patrick E. McCullar
President & CEO



BOARD OF DIRECTORS



DEMEC is governed by an eight-member Board of Directors, with one Director from each of the member municipal electric utilities. The responsibility for day-to-day operations of the agency resides with the President appointed by the Board. The President directs the efforts of the staff members and various contractual relationships in place to meet the service requirements of the members, and sits on the board as an ex-officio member.

DEMEC Board of Directors

Morris Deputy

Chair
Town of Middletown

Darrin Gordon

Vice Chair
Lewes BPW

Mary Ellen DeBenedictis

Secretary
Town of Clayton

Pamela Patone

Treasurer
MSC of the City of New Castle

Charles Anderson

Director
City of Seaford

Thomas Coleman

Director
City of Newark

Andrew Haines

Director
Town of Smyrna

Mark Whitfield

Director
City of Milford

Patrick E. McCullar

President & CEO
DEMEC

Alternate Board Members:

JJ Burnett, Clayton
Austin Calaman, Lewes
David Del Grande, Newark
June Merritt, Seaford
Tyler Reynolds, Middletown
Dr. Roy Sippel, New Castle
Louis Vitola, Milford
Cassandra Young, Smyrna

Senior Management

Patrick E. McCullar
President & CEO

Kimberly Schlichting
COO/SVP Power Supply

Finance Management

Stephanie Dove
Director of Accounting & Settlements

Communications Management

Heather Contant
Director of Media Relations & Communications

Purpose Driven Power

Community-owned, public power utilities are **customer focused, locally controlled, and operated on a not-for-profit basis**. Each tailors its services to the needs and preferences of the local community.

Benefits of living and working in a community that provides electric service include rate stability, support for local jobs, policies that are in line with community priorities, and financial support for local government functions. Held accountable by their friends and neighbors, community-owned utilities provide **outstanding customer service and support local economic development** opportunities.

Public power has a longstanding history with DEMEC member electric utilities supporting their communities for more than 100 years. The strength of public power is shown through the network of over 2,000 cities and towns throughout the United States providing power through community-owned utilities.

Driven by the principle of **providing reliable power at the lowest possible cost**, DEMEC remains committed to helping its members provide innovative, competitively priced, reliable, safe, and environmentally responsible electric service. DEMEC strives to provide best-in-class operations and serve as a trusted resource to its member utilities and the citizens they serve.

Being a public power community means **revenue is continuously reinvested back into the community** to improve quality of life and maintain critical infrastructure for businesses and families. Public power provides communities with vibrant parks, well-maintained streets, bustling recreational programs, local libraries, a strong police force and more. DEMEC is proud to preserve and protect the benefits of living and working in public power communities.



Commitment to Carbon Reduction

Currently, over 85% of DEMEC's power supply comes from extremely low to no carbon emission resources. That means electric customers in our member communities are already benefiting from our environmentally focused shift in energy resources, like solar and wind. While increasing renewable energy sources, DEMEC members also continue to provide the nationally recognized reliability customers know and expect with the support of dependable natural gas and other market contracts. Over the past ten years, **DEMEC has reduced its carbon footprint by 50%** through our commitment to sustainable energy sources and energy reduction programs.

In 2008, DEMEC's power supply portfolio consisted almost entirely of market purchases from PJM. Today, nearly **60% of DEMEC's diverse power supply comes from member-owned generation assets**, driving our carbon emissions reduction. On top of a more sustainable power supply mix, DEMEC goes further with energy saving, carbon reducing programs for members.

DEMEC's member communities participate in an energy efficiency program called *Efficiency Smart*. To date, the lifetime savings of the program result in over 76,985 MWh of energy savings. That is the same as **eliminating nearly 60 million pounds of coal burned at coal plants or equal to planting 71,085 acres of mature forest**. For businesses looking to do a little bit more towards energy reduction, we also offer a demand response program that brings additional savings.

DEMEC's *Power Savers Business* is a demand response program where businesses respond to energy reduction calls during times of high energy usage. In 2020, participants reduced energy usage by 13.8 MWh resulting in **carbon savings equal to 24,211 less miles driven** on the road.

DEMEC and our member communities stand behind public power's principle of environmental stewardship and providing sustainable, reliable power.

Contact Information

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Delaware Municipal Electric Corporation

Financial Statements

December 31, 2020 and 2019

Delaware Municipal Electric Corporation

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December 31, 2020 and 2019

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Independent Auditors' Report

To the Board of Directors of
Delaware Municipal Electric Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Municipal Electric Corporation, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Delaware Municipal Electric Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. Those standards require that we plan and perform the audits 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 auditors' 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 Delaware Municipal Electric Corporation'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 Delaware Municipal Electric Corporation'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 Delaware Municipal Electric Corporation as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Baker Tilly US, LLP

Madison, Wisconsin
March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

The management of the Delaware Municipal Electric Corporation (DEMEC) offers all persons interested in the financial position of DEMEC this narrative overview and analysis of the company's financial performance during the years ending December 31, 2020 and 2019. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

Overview of the Financial Statements

DEMEC is a public corporation constituted as a Public Power Joint Action Agency and a wholesale electric utility owning generation assets and serving load in the PJM footprint. DEMEC represents eight municipal electric distribution utilities located in the State of Delaware. The creation of DEMEC was made possible by an act of the Delaware General Assembly on June 6, 1978, and the entity was incorporated on July 12, 1979. The members of DEMEC comprise all the major cities and towns in Delaware except Dover and Wilmington. The DEMEC members are Newark, New Castle, Middletown, Smyrna, Seaford, Lewes, Clayton and Milford.

The mission of DEMEC is to support its members' success and relevance, by delivering excellence in competitive, reliable, sustainable power supply and innovative services, advancing the benefits of community-owned utilities.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the financial statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how DEMEC's net position changed during the most recent year due to DEMEC's business activity. The Statements of Net Position report year-end assets, liabilities and net position balances based on the original cost adjusted for any depreciation and amortization.

DEMEC Financial Analysis

An analysis of DEMEC's financial position begins with the review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. A summary of DEMEC's Statements of Net Position is presented in Table 1 and the Statements of Revenues, Expenses and Changes in Net Position are summarized in Table 2.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

Table 1
Condensed Statements of Net Position

| | 2020 | 2019 | 2018 |
|--------------------------------------------|-----------------------|-----------------------|-----------------------|
| Assets: | | | |
| Current assets | \$ 45,728,938 | \$ 45,678,422 | \$ 38,878,169 |
| Other noncurrent assets | 15,225,016 | 14,748,357 | 10,150,534 |
| Utility plant and property, net | 71,589,693 | 72,140,097 | 73,652,677 |
| Total assets | \$ 132,543,647 | \$ 132,566,876 | \$ 122,681,380 |
| Liabilities: | | | |
| Current liabilities | \$ 12,089,051 | \$ 10,635,760 | \$ 11,736,212 |
| Noncurrent liabilities | 63,772,974 | 66,693,987 | 60,866,725 |
| Total liabilities | 75,862,025 | 77,329,747 | 72,602,937 |
| Total deferred inflows of resources | 10,038,334 | 9,331,942 | 8,680,241 |
| Net position: | | | |
| Net investment in capital assets | 15,345,851 | 14,668,128 | 14,830,775 |
| Unrestricted | 31,297,437 | 31,237,059 | 26,567,427 |
| Total net position | 46,643,288 | 45,905,187 | 41,398,202 |
| Total net position and liabilities | \$ 132,543,647 | \$ 132,566,876 | \$ 122,681,380 |

Statements of Net Position

During the year ended December 31, 2020, net utility plant assets decreased by \$550,404, consisting primarily of \$1,377,548 in expenditures related to infrastructure and construction in progress on behalf of DEMEC members and \$319,750 in capital investments made during the year to replace and upgrade certain components of Unit #1 and Unit #2 of the Warren F. Beasley Power Station and to make improvements to DEMEC administrative facilities. These capital investments, net of depreciation expenses of \$2,242,733 and asset retirements of \$7,624, accounted for the majority of the changes in utility plant.

During the year ended December 31, 2019, net utility plant assets decreased by \$1,512,580, consisting primarily of \$314,998 in expenditures related to infrastructure and construction in progress on behalf of DEMEC members and \$512,062 in capital investments made during the year to replace and upgrade certain components of Unit #1 and Unit #2 of the Warren F. Beasley Power Station and to make improvements to DEMEC administrative facilities. These capital investments, net of depreciation expenses of \$2,169,915 and asset retirements of \$263,170, accounted for the majority of the changes in utility plant.

During the year ended December 31, 2020, DEMEC's operating cash and operating cash reserve accounts decreased by \$337,019 from the previous year due to a budgeted decrease in power supply rates and a small decrease in demand. Accounts receivable decreased by \$1,580 which is consistent with the prior year. Other assets decreased by \$1,096,637 due to increases in deposits with suppliers and decreases due to the spend from member project accounts associated with the 2020 Bond issues.

Net position increased by \$738,101 in 2020 which is due to a decrease in power supply costs attributable to management of new long-term contracts and lower gas costs.

See accompanying independent auditors' report.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$2,581,837 and \$2,197,158 during 2020 and 2019, respectively. DEMEC is scheduled to repay an additional \$2,692,089 on the outstanding revenue bonds in 2021.

During the year ended December 31, 2019, DEMEC's operating cash and operating cash reserve accounts increased by \$81,721 from the previous year as part of the rate stabilization program. Accounts receivable increased by \$217,755 due to higher net billing amounts in December, which included reimbursements due from members for infrastructure projects. Other assets increased by \$4,597,823 due to increases in deposits with suppliers and increases to the Debt Service Reserve accounts associated with the 2019 Bond issues.

Net position increased by \$4,506,985 in 2019 which is due to a decrease in power supply costs attributable to management of new long-term contracts and lower gas costs.

DEMEC issued Series 2011 Electric Revenue Bonds (Series 2011 Bonds) in the total par amount of \$57,185,000 on November 3, 2011. The final maturity of the Series 2011 Bonds is July 1, 2041. The Series 2011 Bonds were issued to refund the 2001 Revenue Bonds outstanding and the 2008A General Obligation Bonds outstanding, to finance the project costs of constructing Unit #2 of the Warren F. Beasley Power Station and improvements to the administration building. The balance due on the 2011 bonds is reflected in noncurrent liabilities in the amount of \$43,445,000 and current liabilities of \$1,615,000. Proceeds of revenue bonds not yet expended are included in restricted assets.

DEMEC issued Series 2015 Electric Refunding Bonds (Series 2015 Bonds) in the total par amount of \$4,216,387 on December 4, 2015, to refinance the Series 2008B Electric Revenue Bonds issued on December 5, 2008 in the total par amount of \$7,000,000. The final maturity of the Series 2015 Bonds is December 4, 2022. The Series 2015 Bonds were issued to refinance project costs of constructing a new electric substation in New Castle, Delaware for the benefit of the Municipal Services Commission of New Castle (MSC) that were originally financed with the 2008B Electric Revenue Bonds. The MSC entered into a contract with DEMEC for services from the new substation in an amount sufficient to pay the debt service and operating expenses of the substation. The balance due on the 2015 bonds is reflected in noncurrent liabilities in the amount of \$1,051,427 and current liabilities of \$552,162.

DEMEC issued Electric Revenue Bond Anticipation Note, Series 2017A and Electric Revenue Bond Anticipation Note, Series 2017B (Federally Taxable) (collectively, the Notes) on March 29, 2018. The Notes were sold directly to PNC Bank, National Association (the Bank) pursuant to a Bank Loan Agreement between DEMEC and the Bank. Principal amounts borrowed with respect to the Notes are advanced by the Bank from time to time pursuant to draw requests submitted by DEMEC. The maximum Principal amounts available to be drawn against the 2017A and 2017B Notes are \$16,000,000 and \$12,000,000, respectively. Through April 2019, DEMEC had drawn a total of \$7,330,646 and \$3,040,941 against the 2017A and 2017B Notes, respectively. Through member equity contributions and payments made by members pursuant to project purchase agreements, DEMEC partially satisfied principal amounts of \$1,325,632 and \$3,923,656 against the 2017A and 2017B Notes. In 2019 DEMEC refinanced the 2017 notes to long-term revenue bonds as described below. The purpose of this issue is to finance the costs of certain projects for the benefit of the Town of Middletown, Delaware and the City of Seaford, Delaware, consisting of (i) for the benefit of the Town of Middletown, the development, construction and equipping of improvements to Delmarva Power & Light Company's Townsend Substation to accommodate the future construction of a new 138 kV transmission line running from the Townsend Substation to the Middletown Substation and associated improvements to the existing Industrial Drive Substation located in Middletown, Delaware, and (ii) for the benefit of the City of Seaford, (a) the acquisition, development, construction and equipping of improvements to the existing Pine Street Substation located in the City of Seaford, as well as related improvements to existing distribution infrastructure and (b) the acquisition and installation of equipment for an advanced metering infrastructure program.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

DEMEC issued Series 2019A and 2019B Electric Revenue Bonds (Series 2019 Bonds) in the total par amount of \$16,695,000 on May 7, 2019. The final maturity of the Series 2019A Bonds is October 1, 2044. The final maturity of the Series 2019B Bonds is October 1, 2034. The Series 2019 Bonds were issued to finance project costs of constructing a new electric substation and transmission line in Middletown, Delaware, as well as, infrastructure upgrade and AMI projects in Seaford, Delaware for the benefit of the Town of Middletown and City of Seaford. The balance due on the 2019 bonds is reflected in noncurrent liabilities in the amount of \$15,465,000 and current liabilities of \$525,000.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

| | 2020 | 2019 | 2018 |
|-----------------------------------|----------------|----------------|----------------|
| Operating revenues | \$ 126,772,342 | \$ 137,476,264 | \$ 157,009,644 |
| Depreciation expense | 2,242,733 | 2,169,915 | 1,733,270 |
| Other operating expenses | 114,150,316 | 120,890,955 | 134,977,597 |
| Total operating expenses | 116,393,049 | 123,060,870 | 136,710,867 |
| Operating income | 10,379,293 | 14,415,394 | 20,298,777 |
| Interest income | 545,909 | 668,579 | 303,384 |
| Interest and amortization expense | (2,825,727) | (2,647,822) | (2,295,120) |
| Other income (expense) | (1,718) | (148,995) | (309,230) |
| Total non-operating expenses | (2,281,536) | (2,128,238) | (2,300,966) |
| Income before distributions | 8,097,757 | 12,287,156 | 17,997,811 |
| Distributions to members | (7,359,656) | (7,780,171) | (12,044,706) |
| Change in net position | 738,101 | 4,506,985 | 5,953,105 |
| Net position, beginning | 45,905,187 | 41,398,202 | 35,445,097 |
| Net position, ending | \$ 46,643,288 | \$ 45,905,187 | \$ 41,398,202 |

Statements of Revenue, Expenses and Changes in Net Position

Operating revenues for the year ended December 31, 2020 consisted of power supply sales to participating members of \$100,744,697 on consumption of 1,347,942,477 kilowatt hours (kWh), and sales from generation resources of \$26,027,645 for a total of \$126,772,342. This represents a decrease of \$10,703,922 in operating revenues (7.8 percent) as compared with the previous year. The decrease in operating revenues is primarily attributed to decreased generation opportunities resulting from a decrease in market prices for the output and a budgeted decrease to the DEMEC wholesale power supply rate charged to members, along with a small reduction in consumer demand. The 46,933,552 kWh decrease in sales volume (3.4 percent) versus 2019 is attributed to reduction in demand due to the COVID-19 pandemic in March-May. Revenue from generation operations decreased by \$5,704,754 (18 percent) due to the decreased market prices for generation output in 2020.

See accompanying independent auditors' report.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

Operating revenues for the year ended December 31, 2019 consisted of power supply sales to participating members of \$105,743,865 on consumption of 1,394,876,029 kilowatt hours (kWh), and sales from generation resources of \$31,732,399, for a total of \$137,476,264. This represents a decrease of \$19,533,380 in operating revenues (-12.4 percent) as compared with the previous year. The decrease in operating revenues is primarily attributed to decreased generation opportunities resulting from a decrease in market prices for the output and a budgeted decrease to the DEMEC wholesale power supply rate charged to members. The 3,617,417 kWh decrease in sales volume (-0.3 percent) versus 2018 is attributed to weather conditions in 2019 and ongoing energy efficiency efforts among all end-use customer classes. Revenue from generation operations decreased by \$13,149,078 (-29 percent) due to the decreased market prices for generation output in 2019.

During the year ending December 31, 2020, DEMEC recorded a coincident peak demand of 294.9 MW, which was less than 1 percent lower than the 295.4 MW experienced in the previous year. The total member noncoincident peak demand was 304.3 MW, registering less than 1 percent higher than the previous year.

For the year ended December 31, 2020, total operating expenses decreased by \$6,667,821 (5.4 percent) from the previous year due primarily to decreased power supply costs with the addition of lower cost power supply contracts.

For the year ended December 31, 2019, total operating expenses decreased by \$13,649,997 (-10 percent) from the previous year due primarily to decreased power supply costs with the addition of lower cost power supply contracts.

Debt Service Coverage

DEMEC's credit facility agreement with PNC Bank states that DEMEC agrees to maintain as of the end of each fiscal year a debt service coverage ratio of at least 1.10:1. The ratio is defined as EBITDA (net income plus interest expense, depreciation and amortization) divided by the sum of current maturities plus interest expense. Debt service coverage for the credit facility during the years ended December 31, 2020 and 2019 was approximately 1.02 times and 1.73 times. DEMEC met debt coverage in 2019 but did not meet the required coverage in 2020. Reduced electricity demand from government-mandated closures of businesses and schools related to the pandemic resulted in lower sales and lower net revenues. We believe this is a one-time event and not a trend. DEMEC's bond covenants require the Agency to maintain a debt service coverage ratio of 110 percent on outstanding debt for Series 2011 and 2015 Bonds and a debt service coverage ratio of 115 percent on outstanding debt for Series 2019 Bonds. Debt service coverage for the 2011 Revenue Bonds during the years ended December 31, 2020 and 2019 was approximately 3.43 times and 3.72 times, respectively. Debt service coverage for the 2015 Revenue Bonds during the years ended December 31, 2020 and 2019 was approximately 1.1 times and 1.1 times, respectively. Debt service coverage for the 2019 Revenue Bonds for the years ended December 31, 2020 and 2019 was 1.22 times and 2.14 times, respectively.

Significant Events

American Municipal Power (AMP) Fremont Energy Center

DEMEC joined American Municipal Power (AMP) in July 2011, becoming the 129th member of this large, multi-state joint action agency. The AMP Fremont Energy Center, a \$600 million, 675MW high-efficiency combined-cycle natural gas generation plant was completed, and commercial operation began in January 2012. DEMEC is the largest participant of 89 participants in this 100 percent Public Power generation project, initially taking 92.285 MW of capacity and associated energy from the facility for 35 years. During 2018 and 2019, DEMEC expanded its participation to 114.7 MW of capacity and associated energy.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2020 and 2019

Renewable Energy Resources

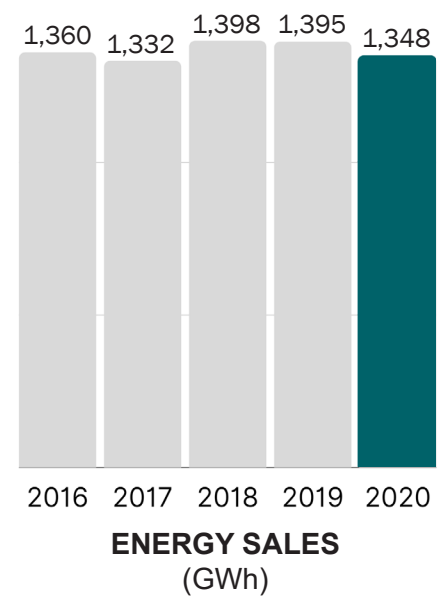
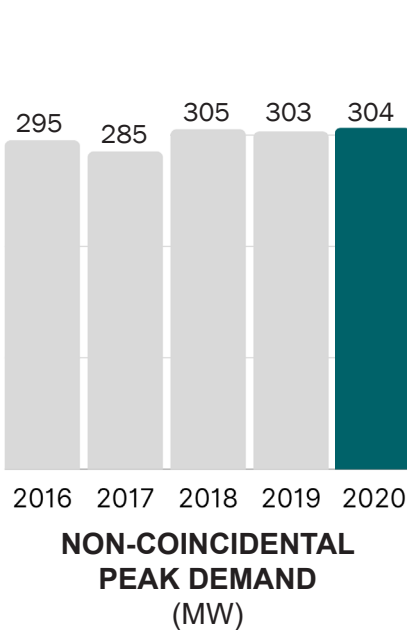
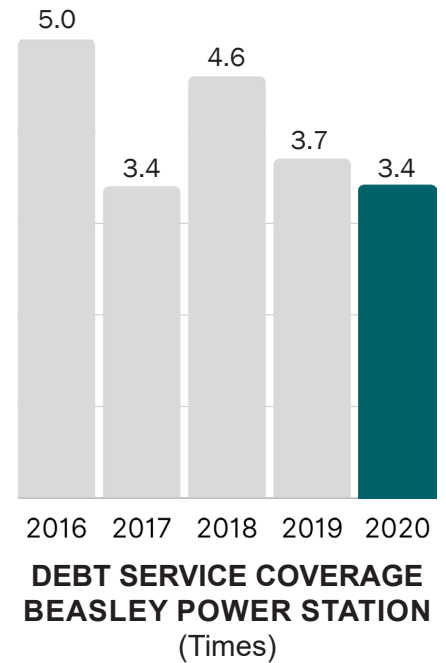
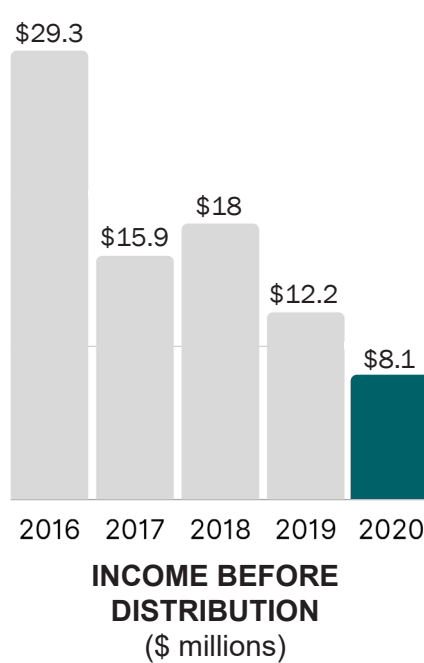
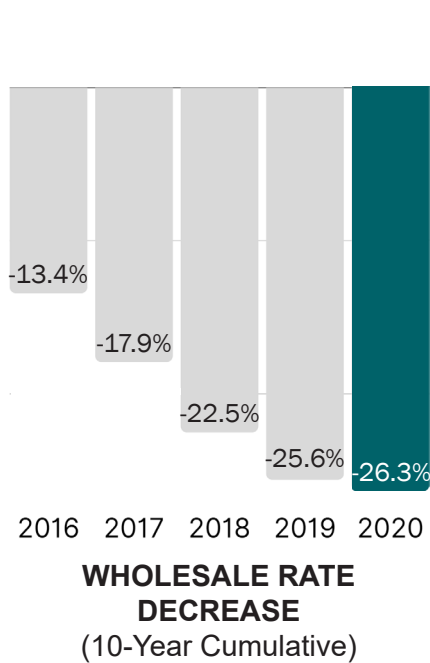
In recognition of the changing legislative and regulatory environment, the eight member communities of DEMEC each adopted a Municipal Renewable Portfolio Standard (MRPS) policy in 2013 that targets to acquire 25 percent of its energy requirements from qualifying renewable resources by 2025, with 3.5 percent coming from solar renewable resources. The member communities designated and appointed DEMEC as their agent in achieving compliance with the MRPS policy goals. To achieve compliance with the MRPS policy, DEMEC has entered into several long-term contracts to fulfill the MRPS obligation. DEMEC entered into a 20-year contract in April 2010 to purchase 15 percent of the solar environmental attributes from the Dover Sun Park owned by White Oak Solar Energy, LLC. DEMEC entered into a 25-year contract in May 2011 to purchase 69MW of wind energy and associated environmental attributes from the Laurel Hill Wind Farm owned by Duke Energy Renewable Services, LLC. DEMEC entered into a 20-year contract in May 2012 to purchase 15MW of solar energy and associated solar environmental attributes from the PSEG Milford Solar Farm owned by PSEG Solar, LLC. DEMEC entered into a 3-year contract in October 2013 to purchase environmental attributes from the University of Delaware wind turbine located in Lewes, Delaware and owned by First State Marine, LLC, which was renewed in 2018 for a term of four years. DEMEC entered into a 20-year contract in January 2015 to purchase all environmental attributes produced by the City of Newark McKees Solar Park located in Newark, Delaware. DEMEC entered into a 30-year contract in March 2016 with AMP for the construction and operation of a 1.5 MW Solar generator to be located behind the meter in the Smyrna service territory. Commercial operations began in 2018. DEMEC will purchase all energy and 50 percent of the environmental attributes produced by the facility for 25 years.

Contacting DEMEC Management

This financial report is designed to provide our members, investors and creditors with a general overview of DEMEC's financial position as of and for the year ended December 31, 2020. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Delaware Municipal Electric Corporation, 22 Artisan Drive, Smyrna, DE 19977.

DELAWARE MUNICIPAL ELECTRIC CORPORATION

2020 FINANCIAL SUMMARY



See accompanying independent auditors' report.

Delaware Municipal Electric Corporation

Statements of Net Position
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and investments | \$ 28,591,756 | \$ 28,928,775 |
| Restricted assets, debt service account | 1,066,419 | 1,104,794 |
| Accounts receivable | 7,954,940 | 7,957,271 |
| Current portion of member receivables | 38,131 | 37,380 |
| Fuel oil on hand | 1,078,839 | 1,092,038 |
| Generation inventory | 998,870 | 264,790 |
| Prepaid expenses | 1,306,936 | 38,526 |
| | <u>41,035,891</u> | <u>39,423,574</u> |
| Noncurrent Assets | | |
| Restricted assets: | | |
| Debt service reserve | 5,367,912 | 5,350,632 |
| Project accounts | 4,693,047 | 6,254,848 |
| Regulatory assets | 845,977 | 889,170 |
| Deposits with suppliers | 8,850,792 | 8,310,089 |
| Long term member receivables | 160,335 | 198,466 |
| Capital assets: | | |
| Plant in service | 82,012,517 | 81,498,026 |
| Accumulated depreciation | (20,011,191) | (17,774,363) |
| | <u>62,001,326</u> | <u>63,723,663</u> |
| Construction in progress | 9,588,367 | 8,416,434 |
| | <u>91,507,756</u> | <u>93,143,302</u> |
| Total assets | <u>\$ 132,543,647</u> | <u>\$ 132,566,876</u> |

See notes to financial statements

Delaware Municipal Electric CorporationStatements of Net Position
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|----------------------------------------------------|-------------------|-------------------|
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 7,344,055 | \$ 5,919,712 |
| Restricted for renewable energy fund | 757,945 | 795,681 |
| Current portion of loan payable | 38,131 | 37,380 |
| Accrued interest | 2,263 | 3,028 |
| Current liabilities payable from restricted assets | | |
| Current portion of revenue bonds | 2,692,162 | 2,581,928 |
| Accrued interest payable with restricted assets | 1,254,495 | 1,298,031 |
| | <u>12,089,051</u> | <u>10,635,760</u> |
| Total current liabilities | | |
| Noncurrent Liabilities | | |
| Revenue bonds | 59,961,427 | 62,653,498 |
| Unamortized premium | 3,651,212 | 3,842,023 |
| Loan payable | 160,335 | 198,466 |
| | <u>63,772,974</u> | <u>66,693,987</u> |
| Total noncurrent liabilities | | |
| Total liabilities | <u>75,862,025</u> | <u>77,329,747</u> |
| Deferred Inflow of Resources | | |
| Regulatory deferral | <u>10,038,334</u> | <u>9,331,942</u> |
| Net Position | | |
| Net investment in capital assets | 15,345,851 | 14,668,128 |
| Unrestricted | 31,297,437 | 31,237,059 |
| | <u>46,643,288</u> | <u>45,905,187</u> |
| Total net position | | |

See notes to financial statements

Delaware Municipal Electric CorporationStatements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|-------------------------------------------------------|----------------|----------------|
| Operating Revenues | | |
| Revenue from members | \$ 100,744,697 | \$ 105,743,865 |
| Revenue from generation operations | 26,027,645 | 31,732,399 |
| Total operating revenues | 126,772,342 | 137,476,264 |
| Operating Expenses | | |
| Power purchases | 58,354,326 | 64,326,561 |
| Ancillary services | 1,346,448 | 1,280,367 |
| Capacity | 33,894,046 | 34,023,585 |
| RPS compliance | 3,190,192 | 2,982,015 |
| Transmission charge | 11,850,242 | 12,783,199 |
| Plant operation and maintenance | 3,347,580 | 3,154,545 |
| Outside services | 628,965 | 677,494 |
| Salaries and benefits | 1,236,213 | 1,288,755 |
| Administrative and general expenses | 302,304 | 374,434 |
| Depreciation and amortization | 2,242,733 | 2,169,915 |
| Total operating expenses | 116,393,049 | 123,060,870 |
| Operating Income | 10,379,293 | 14,415,394 |
| Nonoperating Revenues (Expenses) | | |
| Interest income | 545,909 | 668,579 |
| Interest expense | (2,973,344) | (2,795,439) |
| Amortization of bond premiums | 190,811 | 324,810 |
| Amortization of regulatory asset, debt issuance costs | (43,194) | (177,193) |
| Gain (loss) on retirement of fixed assets | (1,718) | (148,995) |
| Total nonoperating expenses | (2,281,536) | (2,128,238) |
| Income before distribution to members | 8,097,757 | 12,287,156 |
| Distribution to members | (7,359,656) | (7,780,171) |
| Change in net position | 738,101 | 4,506,985 |
| Net Position, Beginning | 45,905,187 | 41,398,202 |
| Net Position, Ending | \$ 46,643,288 | \$ 45,905,187 |

See notes to financial statements

Delaware Municipal Electric Corporation

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Cash Flows From Operating Activities | | |
| Cash received from members | \$ 101,214,139 | \$ 108,130,126 |
| Cash received from generation operations | 26,027,645 | 31,732,399 |
| Cash paid to suppliers for goods and services | (113,981,623) | (124,439,657) |
| Cash paid to employees | <u>(1,236,213)</u> | <u>(1,288,755)</u> |
| Net cash flows from operating activities | <u>12,023,948</u> | <u>14,134,113</u> |
| Cash Flows From Capital and Related Financing Activities | | |
| Proceeds from debt issuance | - | 17,329,823 |
| Payment for acquisition of property and equipment | (1,694,048) | (806,330) |
| Interest paid | (3,017,645) | (2,639,983) |
| Debt principal paid | (2,619,217) | (12,605,451) |
| Proceeds from debt premium | - | 1,879,206 |
| Debt issuance costs paid | <u>-</u> | <u>(505,014)</u> |
| Net cash flows from capital and related financing activities | <u>(7,330,910)</u> | <u>2,652,251</u> |
| Cash Flows From Investing Activities | | |
| Investments purchased | (19,568,271) | (30,713,619) |
| Investments sold | 19,157,788 | 12,738,756 |
| Cash distribution to members | (7,158,862) | (9,610,504) |
| Interest income received | <u>545,909</u> | <u>668,579</u> |
| Net cash flows from investing activities | <u>(7,023,436)</u> | <u>(26,916,788)</u> |
| Net increase in cash and cash equivalents | (2,330,398) | (10,130,424) |
| Cash and Cash Equivalents, Beginning | <u>23,664,186</u> | <u>33,794,610</u> |
| Cash and Cash Equivalents, Ending | <u><u>\$ 21,333,788</u></u> | <u><u>\$ 23,664,186</u></u> |
| Noncash Capital and Relating Financing and Investing Activities | | |
| Loss on retirement of fixed assets | \$ 1,718 | \$ 148,995 |
| Member distribution accrual | (200,794) | (1,830,333) |

See notes to financial statements

Delaware Municipal Electric Corporation

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Reconciliation of Operating Income to Net Cash Flows From Operating Activities | | |
| Operating income | \$ 10,379,293 | \$ 14,415,394 |
| Adjustments to reconcile operating loss to net cash flows provided by operating activities: | | |
| Depreciation | 2,242,733 | 2,169,915 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (199,215) | 1,612,578 |
| Fuel oil on hand | 13,199 | 17,562 |
| Generation inventory | (734,080) | (264,790) |
| Deposits with suppliers | (540,702) | (2,628,887) |
| Accounts payable | 1,424,343 | (1,963,395) |
| Prepayments | (1,268,410) | (35,327) |
| Deferred debits | 38,131 | 37,379 |
| Deferred credits | 630,920 | 651,702 |
| Renewable energy fund | 37,736 | 121,982 |
| Net cash flows from operating activities | <u>\$ 12,023,948</u> | <u>\$ 14,134,113</u> |
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and investments | \$ 28,591,756 | \$ 28,928,775 |
| Restricted assets, current debt service | 1,066,419 | 1,104,794 |
| Restricted assets, project account | 4,693,047 | 6,254,848 |
| Debt service reserve | <u>5,367,912</u> | <u>5,350,632</u> |
| Total cash and investments | 39,719,134 | 41,639,049 |
| Less noncash equivalents | <u>(18,385,346)</u> | <u>(17,974,863)</u> |
| Cash and Cash Equivalents | <u>\$ 21,333,788</u> | <u>\$ 23,664,186</u> |

See notes to financial statements

1. Summary of Significant Accounting Policies

The Reporting Entity

The Delaware Municipal Electric Corporation, Inc. (DEMEC) is a public corporation constituted as a Public Power Joint Action Agency and a wholesale electric utility owning and operating generation assets and serving load in the PJM footprint. The mission of DEMEC is to support our members' success and relevance, DEMEC delivers excellence in competitive, reliable, sustainable power supply and innovative services, advancing the benefits of community-owned utilities. DEMEC represents and provides power supply and related services to eight municipal electric distribution utilities located in the State of Delaware (the State). The creation of DEMEC was made possible by an act of the Delaware General Assembly on June 6, 1978, and the entity was incorporated on July 12, 1979. The members of DEMEC comprise all the major cities and towns in Delaware except Wilmington and Dover. The DEMEC members are Newark, New Castle, Middletown, Smyrna, Seaford, Lewes, Clayton and Milford.

The eight DEMEC member utilities combined to serve approximately 103,000 people through nearly 48,000 end-use meters with a combined peak demand of 304.3 MW in 2020. The DEMEC member distribution systems vary in size and character. The largest is Newark with over 12,700 meters, while the smallest, Clayton, serves about 1,550 meters. Over the past ten years, all member systems have experienced annual growth rates well above the national average. The members are all primarily distribution utilities.

All Eight members receive 100 percent of their power requirements from DEMEC (Full Requirements Members). DEMEC supplies these requirements from a diversified portfolio of owned generation assets, bilateral contracts with third-party suppliers, and participation in the PJM Interconnection, LLC (PJM) regional markets. DEMEC provides legal and technical consulting services to its members as well as representation in the federal and regional arenas regarding electric industry regulation and operation. DEMEC further provides its members with the benefits of joint and combined buying power, customer retention, economic development, customer education, capital finance, system improvement, best practice training and technical information reporting to improve operating efficiency in their individual systems.

The City of Dover, DE (Dover) was a partial requirements member until December 5, 2019, when DEMEC received notice that Dover was withdrawing their associate membership status. Dover was not a full requirements power supply member, and therefore there are no financial impacts due to their withdrawal of membership.

DEMEC joined American Municipal Power, Inc. (AMP) in July 2011, becoming its 129th member. A nonprofit Joint Action Agency organized in a structure similar to DEMEC, AMP owns and operates electric facilities to provide electric power generation, transmission and distribution services to its 135 members across nine states. DEMEC serves on the Board of Trustees of AMP representing the Delaware public power utilities.

Organization and Governance

DEMEC is governed by an eight-member Board of Directors with one director from each of the eight-member municipal electric utilities and eight alternate directors currently appointed. Each member has one vote. Additional votes are divided among the members that have entered into power purchase contracts and are calculated according to the member's committed minimum annual power purchase. Additional votes may be fractional and will be adjusted from time to time as the membership changes or power purchase contracts change.

The responsibility for day-to-day operations of DEMEC resides with a President & CEO appointed by the Board. The President & CEO directs the efforts of the staff members and manages owned generation assets and various contractual relationships in place to meet the service requirements of the members.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

The members of DEMEC have a preferential right to purchase all electric capacity and energy generated by, contracted for or owned by DEMEC. The amount of electric capacity and energy entitled to each member is computed in accordance with plans or formulae adopted by two-thirds of the total authorized vote.

Any municipality of the State may join DEMEC if its governing body authorizes membership and a majority of the DEMEC Board of Directors approve its admission. Membership in DEMEC may be terminated by any municipality acting through its governing body by providing DEMEC with twelve months' written notice.

Measurement Focus and Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Deposits and Investments

For purposes of the statement of cash flows, DEMEC considers cash and cash equivalents to be all unrestricted, highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. DEMEC maintains its cash and cash equivalents in bank and investment deposit accounts that, at times, may exceed federally insured limits. Some of these balances are collateralized with securities held by the pledging financial institution's trust department.

Cash and investments at December 31, 2020 consist of demand deposits, money market investment accounts, money market mutual funds and short-term fixed income funds.

Cash and investments include unrestricted board designated funds for the following:

| | 2020 | 2019 |
|-------------------------------------------------|----------------------|----------------------|
| Rate stabilization reserve fund, operating cash | \$ 555,270 | \$ 467,485 |
| Rate stabilization reserve fund, investments | 15,146,939 | 17,210,491 |
| Generation operating reserve fund | 8,643,176 | 7,451,529 |
| Capital asset reserve fund | 1,591,311 | 1,144,210 |
| Municipal renewable portfolio standard fund | 2,655,060 | 2,655,060 |
| Total unrestricted board designated funds | <u>\$ 28,591,756</u> | <u>\$ 28,928,775</u> |

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

DEMEC has elected to follow Delaware investment guidelines, however, it has not formally adopted an investment policy. Investments are limited to: Government securities, federal agency securities, certificates of deposit, time deposits, repurchase agreements, money market mutual funds, asset-backed securities, the pooled investment fund known as the Delaware Local Government Investment Pool (DELGIP) as authorized by Title 29, Chapter 12 of the Delaware Code, and corporate and municipal debt obligations that are rated investment grade by a nationally recognized credit ratings agency.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Accounts Receivable

Accounts receivable are stated at the amount billed to members and nonmembers. Allowance for doubtful accounts is not considered necessary as DEMEC has not historically experienced delays in payments for service rendered. Expense is recognized only when a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

Member Receivables

Member receivables consist of \$198,466 and \$235,845 for 2020 and 2019, respectively, related to an LED streetlight project with the City of Newark as described in Note 8.

Restricted Assets

Restricted assets and revenue bond reserve investments consist of cash and short-term investments reported on the statement of net position at fair value. These assets represent amounts held by the Trustee for the repayment of short- and long-term obligations, respectively, under the outstanding Trust Indenture.

Fuel Oil on Hand

Fuel oil on hand is used as a secondary fuel for generation, not for resale. Fuel oil is valued at cost and charged to generation fuel cost when used for generation using the weighted average cost method.

Generation Inventories

Inventory is stated at specific identification cost. Inventory consist of critical spare parts related to DEMEC owned generation facilities only and are not held for resale. Inventory is charged to generation maintenance costs or plant capital assets when put into service. Inventory is reviewed, at a minimum, annually and adjusted accordingly.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Regulatory Assets

In accordance with GASB Statement No. 62 Paragraphs 476-500 - *Regulated Operations*, certain income and expense amounts which would be recognized during the current time period are deferred and not included in the determination of income until such costs are recoverable through member billings. These amounts include unamortized debt issuance costs of \$845,977 and \$889,170 in 2020 and 2019, respectively.

Deposits with Suppliers

During the normal course of business, DEMEC enters into contracts that may require cash deposits or that may require one counterparty to post collateral based on daily mark-to-market contract valuations. No such collateral was required by DEMEC during 2020 or 2019. In addition, DEMEC regularly engages in certain PJM market activity, which requires collateral to be posted based on auction activity, current holdings, unsettled activity, credit quality and other factors pursuant to PJM Credit Policy. As of December 31, 2020 and 2019, DEMEC had posted \$8,850,792 and \$8,310,089 in collateral to PJM, respectively.

Utility Plant and Property

Utility plant and property is generally defined by DEMEC as assets with an aggregate cost of more than \$10,000 and an estimated useful life in excess of one year. Utility plant and property is stated at historical cost. Major outlays for utility plant are capitalized as projects are constructed. Interest payments totaling \$0 and \$99,891 were capitalized for construction in 2020 and 2019, respectively. Costs related to plant not placed into service are classified as construction work in process. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. Depreciation does not commence until the item is placed in service. Generation facility consists of capitalized acquisition and construction costs of the generation facility located in Smyrna, Delaware. Utility plant is depreciated using the straight-line method over the following useful lives:

| <u>Utility Plant</u> | <u>Years</u> |
|----------------------------------|--------------|
| Generation facility | 15-50 |
| Office building and improvements | 40 |
| Office furniture and equipment | 3-10 |

Assets financed by the on behalf of financing program are depreciated over the maturity schedule of the underlying debt. This is further discussed in the Regulatory Deferrals section of Note 1.

Compensated Absences

Under terms of employment, employees are granted vacation and sick leave in varying amounts. The amount of accrued paid time off at December 31, 2020 and 2019 was \$74,132 and \$66,475, respectively, reported within accounts payable.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond discounts, premiums and losses on advance refunding are deferred and amortized by the straight-line method over the repayment period of the related debt. Bond issuance expenses are amortized through rates under the requirements of GASB Statement No. 62 Paragraphs 476-500 - *Regulated Operations*, except for when the Board enacts a Resolution to expense issuance costs on a specific project.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Revenues and Expenses

DEMEC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with DEMEC's principal ongoing operations. The principal operating revenues of DEMEC are charges to members for sales and services. Operating expenses for DEMEC 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 nonoperating revenues and expenses.

DEMEC billings are rendered and recorded monthly based on month-end metered usage.

Distributions to Members

Distributions to Members are returns of rate stabilization fund reserves to full-requirements members and/or returns of a portion of net margin earned by the Beasley Power Station to the seven Joint Owners of the project. These distributions are not guaranteed year to year and typically take the form of a reduction in current wholesale power invoices.

Income Taxes

DEMEC is exempt from state and federal income taxes because it is a political subdivision of the State of Delaware.

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Regulatory Deferrals

The DEMEC Board of Directors has taken regulatory actions that result in differences between the recognition of revenues and expenses for wholesale rate-making purposes and their treatment under generally accepted accounting principles for nonregulated entities. These actions result in regulatory debits and credits on the Statement of Net Position.

In 2017, the Board of Directors adopted regulatory accounting as provided in GASB Statement No. 62 for all projects and assets financed on behalf of participating members (the Financing Program). Deferred inflow of resources totaling \$10,038,334 reported as of December 31, 2020 and \$9,331,942 reported as of December 31, 2019 represent the cumulative difference between (i) cash received from members related to the Financing Program and (ii) the sum of the accrual-based depreciation expenses recorded for the related asset and the interest expenses recorded for the related project liability. The deferrals will be reversed on a project-by-project basis at the time each asset is transferred to the participating member upon satisfaction of the underlying project purchase agreement.

Rates

Rates charged to members are evaluated and approved annually by the Board of Directors, and at any time DEMEC costs are projected to exceed revenues from member billings. Rates charged to members were effective January 1, 2020.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Derivative Instruments and Hedging Activities

DEMEC accounts for its derivative instruments in accordance with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. DEMEC has entered into forward contracts to purchase electricity at set prices and other contracts to sell electricity at fixed prices. These contracts qualify for the normal purchases and sales exception of GASB Statement No. 53 and are not accounted for as derivatives. See Note 4 for additional information regarding DEMEC's forward contracts.

Comparative Data

Certain accounts in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

Effect of New Accounting Standards on Current Period Financial Statements

GASB has approved GASB Statement No. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96, *Subscription-Based Information Technology Arrangements*, Statement No. 97, *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. When they become effective, application of these standards may restate portions of these financial statements.

2. Cash and Investments

DEMEC's cash and investments consist of the following:

| | Carrying Value as of December 31, | | Associated Risks |
|-------------------------------|--------------------------------------|----------------------|-------------------------------------------|
| | 2020 | 2019 | |
| Checking and savings | \$ 10,484,458 | \$ 11,231,963 | Custodial credit |
| Corporate bonds | 9,693,882 | 6,925,283 | Credit, interest rate, custodial credit, |
| Treasury bonds | 5,141,863 | 7,177,023 | concentration of credit risk |
| Asset backed securities | 2,470,335 | 3,677,426 | Interest rate risk, custodial credit risk |
| Government agencies – | | | Credit, interest rate, custodial credit, |
| implicitly guaranteed | 898,338 | - | concentration of credit risk |
| Mutual funds | 11,030,258 | 12,627,354 | Credit, interest rate |
| Total cash and investments | <u>\$ 39,719,134</u> | <u>\$ 41,639,049</u> | |

Immaterial differences between the carrying value and bank value as of December 31, 2020 and 2019 exist due to deposits in transit and/or outstanding checks.

Deposits in local and area banks are insured by the FDIC in the amount of \$250,000. For balances in excess of the FDIC insurance as of December 31, 2020 and 2019, DEMEC has secured collateralization with the financial institution to mitigate risk.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

DEMEC had collateral pledged in the amount of \$17,501,695 and \$17,436,242 for checking and savings accounts as of December 31, 2020 and 2019, respectively. The Mutual Funds and Bonds are uncollateralized.

DEMEC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. DEMEC uses the market approach to value its investments in the Mutual Funds, which are level 2 inputs. DEMEC also uses ICE Pricing indexes to value its investments in Treasury Bonds, which are level 1 inputs, and its Corporate Bonds, and Asset Backed Securities, which are level 2 inputs.

Investment Policy

DEMEC has elected to follow the State of Delaware investment guidelines (the guidelines); however, it has not formally adopted an investment policy.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, DEMEC's deposits may not be returned to DEMEC. All DEMEC deposits that are subject to this risk are collateralized.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DEMEC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2020 and 2019, DEMEC's investments exposed to custodial credit risk are as follows:

| | 2020 | 2019 |
|----------------------------|----------------------|----------------------|
| Corporate bonds | \$ 9,693,882 | \$ 6,925,283 |
| Treasury bonds | 5,141,863 | 7,177,023 |
| Government agencies | 898,338 | - |
| Asset backed securities | 2,470,335 | 3,677,426 |
| Total cash and investments | <u>\$ 18,204,418</u> | <u>\$ 17,779,732</u> |

The guidelines do not specifically address this risk, however the guidelines require collection and disbursement accounts to be maintained in collateralized deposit accounts, or open-end money market mutual funds. The guidelines also sets maximum allocation of funds in certain investment types for reserve and liquidity accounts.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2020, DEMEC's investments were rated as follows:

| | <u>Standard & Poors</u> | <u>Moody's Investors Services</u> |
|--------------------------|-----------------------------|-----------------------------------|
| Mutual funds | AAAm | Aaa mf |
| Corporate bonds | BBB-AA | Baa-Aa |
| Government Agencies | N/A | AAA |
| Asset backed securities* | AAA | AAA |

* \$0.14 million of the asset-backed securities are unrated.

As of December 31, 2019, DEMEC's investments were rated as follows:

| | <u>Standard & Poors</u> | <u>Moody's Investors Services</u> |
|--------------------------|-----------------------------|-----------------------------------|
| Mutual funds | AAAm | Aaa mf |
| Corporate bonds | N/A | Baa-Aa |
| Asset backed securities* | N/A | AAA |
| Mutual funds | AAAm | Aaa mf-Aa3 |

* \$1.2 million of the asset-backed securities are unrated.

The guidelines do not specifically address this risk, however the guidelines set minimum rating requirements for each type of investment.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment or deposit. As of December 31, 2020, DEMEC's investments matured as follows:

| <u>Investment Type</u> | <u>Maturity (In Years)</u> | | | |
|-------------------------|----------------------------|----------------------|----------------------|--------------------|
| | <u>Fair Value</u> | <u><1 Year</u> | <u>1-5 Years</u> | <u>>5 Years</u> |
| Corporate bonds | \$ 9,693,882 | \$ 3,073,576 | \$ 6,620,306 | \$ - |
| Treasury bonds | 5,141,863 | 1,848,629 | 3,293,234 | - |
| Asset backed securities | 2,470,335 | - | 2,470,335 | - |
| Government Agencies | 898,338 | - | - | 898,338 |
| Mutual funds | 11,030,258 | 11,030,258 | - | - |
| Total | <u>\$ 29,234,676</u> | <u>\$ 15,952,463</u> | <u>\$ 12,383,875</u> | <u>\$ 898,338</u> |

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

As of December 31, 2019, DEMEC's investments matured as follows:

| Investment Type | Maturity (In Years) | | | |
|-------------------------|----------------------|----------------------|----------------------|-------------|
| | Fair Value | <1 Year | 1-5 Years | >5 Years |
| Corporate bonds | \$ 6,925,283 | \$ 2,091,329 | \$ 4,833,954 | \$ - |
| Treasury bonds | 7,177,023 | 4,388,902 | 2,788,121 | - |
| Asset backed securities | 3,677,426 | - | 3,677,426 | - |
| Mutual funds | 12,627,354 | 12,627,354 | - | - |
| Total | <u>\$ 30,407,086</u> | <u>\$ 19,107,585</u> | <u>\$ 11,299,501</u> | <u>\$ -</u> |

The guidelines do not specifically address this risk, however the guidelines have maturity restrictions for each type of investment.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of DEMEC's investment in a single issuer.

DEMEC does not have any corporate bonds, government agencies, or asset backed securities that are more than 5 percent of the investment portfolio.

The guidelines do not specifically address this risk; however, the guidelines establish portfolio limits for each type of permissible investment.

3. Restricted Assets

Revenue Bond Accounts

The components of revenue bonds (restricted cash) at December 31 are as follows:

| | 2020 | 2019 |
|---------------------------|----------------------|----------------------|
| Debt service account | \$ 1,066,419 | \$ 1,104,794 |
| Project accounts | 4,693,047 | 6,254,848 |
| Debt service reserve fund | 5,367,912 | 5,350,632 |
| Total | <u>\$ 11,127,378</u> | <u>\$ 12,710,274</u> |

Debt Service Account

The restricted cash account is a current debt service sinking fund used to deposit funds in support of near-dated debt service payments with the Trustee pursuant to the Trust Indenture.

Project Account

The project accounts are used to fund projects with each bond series until the project is completed. The project account consists of unspent construction proceeds restricted for use in constructions, and a contingency fund equal to 15 percent of the Maximum Annual Debt Service for the Seaford and Middletown projects.

Debt Service Reserve Fund

The revenue bond account for debt service reserve is used to establish a reserve to cover deficiencies in the Debt Service Account. Any excess may be used for other purposes.

4. Power Purchase and Sale Forward Contracts

DEMEC manages its power supply risk through guidelines in its Risk Management and Trading Authority Policy, most recently revised on July 27, 2020. The objectives of the risk management policies are to optimize power supply resources, control costs and manage price volatility to the members while avoiding speculative positions in the commodities markets. As part of its risk management policies, DEMEC contracts with counterparties that have a current credit rating of "BBB" or better or who post collateral consistent with anticipated default limits agreed to by both DEMEC and the counterparty. DEMEC establishes credit limits for each of its counterparties and as a matter of practice reviews mark-to-market exposures on a daily basis. As part of its risk management strategy, DEMEC uses a diversity of suppliers and maintains staggered terms for power purchases, from one month to up to thirty-five years, in order to moderate the effects of short- or long-term price fluctuations. DEMEC's price certainty goal is to achieve 95 percent price certainty for three years forward. DEMEC has established a letter of credit facility of \$20 million to meet its potential collateral posting requirements. DEMEC currently sources power from twenty-three diverse and creditworthy entities capable of providing dependable physical supply resources. In 2020, approximately 27 percent of the total power DEMEC supplied to its members was obtained through forward purchase contracts with a term of three years or longer, 0 percent was obtained through two-year forward purchase contracts, 13 percent was obtained through forward purchase contracts of one year or less and less than 1 percent was obtained through spot purchases. The remaining 59 percent was supplied from the Company's existing generation assets. These contracts qualify for the normal purchases and sales exception of GASB Statement No. 53 and are not accounted for as derivatives. DEMEC utilizes a third-party service provider, ACES Power Marketing, to efficiently manage contracts and credit exposure, evaluate counterparties and execute short and intermediate transactions.

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2020 and 2019

5. Plant in Service

A summary of changes in electric capital assets for 2020 follows:

| | Balance January 1, 2020 | Increases | Decreases | Balance December 31, 2020 |
|--------------------------------------------|-------------------------------|--------------|-----------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land rights | \$ 389,598 | \$ - | \$ - | \$ 389,598 |
| Construction in progress | 8,416,434 | 1,179,010 | 7,077 | 9,588,367 |
| Total capital assets not being depreciated | 8,806,032 | 1,179,010 | 7,077 | 9,977,965 |
| Capital assets being depreciated: | | | | |
| Land improvements | 33,150 | - | - | 33,150 |
| Generation | 79,314,254 | 505,265 | - | 79,819,519 |
| Office buildings and improvements | 1,650,472 | 12,091 | 7,624 | 1,654,939 |
| Office furniture and equipment | 59,595 | 4,759 | - | 64,354 |
| Transportation | 50,957 | - | - | 50,957 |
| Total capital assets being depreciated | 81,108,428 | 522,115 | 7,624 | 81,622,919 |
| Total capital assets | 89,914,460 | 1,701,125 | 14,701 | 91,600,884 |
| Less accumulated depreciation | (17,774,363) | (2,242,733) | (5,905) | (20,011,191) |
| Net capital assets | \$ 72,140,097 | \$ (541,608) | \$ 8,796 | \$ 71,589,693 |

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

A summary of changes in electric capital assets for 2019 follows:

| | Balance January 1, 2019 | Increases | Decreases | Balance December 31, 2019 |
|--------------------------------------------|-------------------------------|--------------|--------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land rights | \$ 389,598 | \$ - | \$ - | \$ 389,598 |
| Construction in progress | 15,949,061 | 981,244 | 8,513,871 | 8,416,434 |
| Total capital assets not being depreciated | 16,338,659 | 981,244 | 8,513,871 | 8,806,032 |
| Capital assets being depreciated: | | | | |
| Land improvements | 33,150 | - | - | 33,150 |
| Generation | 71,335,342 | 8,192,391 | 213,479 | 79,314,254 |
| Office buildings and improvements | 1,553,566 | 100,456 | 3,550 | 1,650,472 |
| Office furniture and equipment | 52,952 | 7,153 | 510 | 59,595 |
| Transportation | 45,632 | 50,957 | 45,632 | 50,957 |
| Total capital assets being depreciated | 73,020,642 | 8,350,957 | 263,171 | 81,108,428 |
| Total capital assets | 89,359,301 | 9,332,201 | 8,777,042 | 89,914,460 |
| Less accumulated depreciation | (15,706,624) | (2,205,702) | (137,963) | (17,774,363) |
| Net capital assets | \$ 73,652,677 | \$ 7,126,499 | \$ 8,639,079 | \$ 72,140,097 |

6. Net Position

GASB Statement No. 34 requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

When both restricted and unrestricted resources are available for use, it is DEMEC's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

| | 2020 | 2019 |
|-----------------------------------------------------|---------------|---------------|
| Plant in service and construction in progress | \$ 91,600,884 | \$ 89,914,460 |
| Less accumulated depreciation | (20,011,191) | (17,774,363) |
| Subtotal | 71,589,693 | 72,140,097 |
| Less capital related debt | | |
| Current portion of capital related long-term debt | 2,692,162 | 2,581,928 |
| Long-term portion of capital related long-term debt | 59,961,427 | 62,653,498 |
| Unamortized premium | 3,651,212 | 3,842,023 |
| Subtotal | 66,304,801 | 69,077,449 |
| Add unspent debt proceeds | | |
| Debt service reserve | 5,367,912 | 5,350,632 |
| Project accounts | 4,693,047 | 6,254,848 |
| Subtotal | 10,060,539 | 11,605,480 |
| Net investment in capital assets | \$ 15,345,851 | \$ 14,668,128 |

7. Credit Facilities

DEMEC has a letter of credit facility in the amount of \$20,000,000 and a line of credit facility in the amount of \$10,000,000 with PNC Bank, National Association at December 31, 2020.

The letter of credit agreement was originally dated February 6, 2009 and was last amended on September 30, 2020 and extended through September 30, 2021 with an aggregate amount not to exceed \$20,000,000. The purpose of the letter of credit facility is to provide collateral for posting to contractual counterparties from time-to-time based on daily mark-to-market calculations related to forward power purchase contracts when said mark-to-market amounts exceed certain credit thresholds set forth in the contracts. The purpose of the line of credit facility is to provide liquidity for daily operations.

During the years ended December 31, 2020 and 2019, no draws were made against the letter of credit facility or the line of credit facility for liquidity needs or collateral posting requirements. At December 31, 2020 and 2019, there was no outstanding balance on the letter of credit facility or the line of credit facility.

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Notes to Financial Statements

December 31, 2020 and 2019

Credit Facility Debt Coverage Ratio

Section 6.9 of the credit facility agreement with PNC Bank states that DEMEC agrees to maintain as of the end of each fiscal year a debt service coverage ratio of at least 1.10:1. The ratio is defined in Section 1.1 of the agreement as EBITDA (net income plus interest expense, depreciation and amortization) divided by the sum of current maturities plus interest expense. Current Maturities are defined in Section 1.1 of the agreement as scheduled payments of principal on all indebtedness for borrowed money having a term of more than one year as shown on DEMEC's financial statements as of one year prior to the date of determination.

Based on the definitions in the agreement, DEMEC's debt service coverage ratio for the years ended December 31, 2020 and 2019 is as follows:

| Description | Year Ended December 31 | |
|------------------------------------------|------------------------|---------------------|
| | 2020 | 2019 |
| Change in net position | \$ 738,101 | \$ 4,506,985 |
| Add interest expense | 2,973,344 | 2,795,439 |
| Depreciation | 2,242,733 | 2,169,915 |
| Amortization (net) | (147,617) | (147,617) |
| Net EBITDA | <u>\$ 5,806,561</u> | <u>\$ 9,324,722</u> |
| Current maturities plus interest expense | \$ 5,665,506 | \$ 5,377,367 |
| Debt service coverage | 1.02 | 1.73 |

DEMEC met debt coverage in 2019, but did not meet the required coverage in 2020. Reduced electricity demand from government-mandated closures of businesses and schools related to the pandemic resulted in lower sales and lower net revenues. We believe this is a one-time event and not a trend.

8. Long-Term Debt

Bond Anticipation Notes

The following direct placement notes have been issued:

| Date | Purpose | Final Maturity | Interest Rates | Original Amount | Outstanding Amount December 31, 2019 |
|----------------|---------------------------------------------------------------------------|----------------|----------------|-----------------|--------------------------------------|
| March 29, 2017 | 2017A BAN, City of Seaford and Town of Middletown infrastructure projects | March 29, 2019 | 1.23-2.22 % | \$ 4,292,868 | \$ - |
| March 29, 2017 | 2017B BAN, Town of Middletown infrastructure projects | March 29, 2019 | 1.88-3.41 | 6,576,422 | - |

During 2017, DEMEC was authorized to issue up to \$16,000,000 pursuant to Electric Revenue Bond Anticipation Note (BAN) Series 2017A and \$12,000,000 pursuant to BAN Series 2017B (Federally Taxable). The original amounts reported above have been issued as of December 31, 2017. The repayment schedule is estimated based on the average interest rates incurred in 2018 for the amount outstanding as of December 31, 2019. DEMEC refunded the BANs in 2019 with the 2019A and 2019B long-term bond issuance; as such, the balance as of December 31, 2019 is \$0.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Loan Payable

The following direct placement loan has been issued:

| Date | Purpose | Final Maturity | Interest Rates | Original Amount | Outstanding Amount December 31, 2020 |
|-------------------|----------------------------------------|------------------|----------------|-----------------|--------------------------------------|
| December 15, 2015 | City of Newark LED streetlight project | December 1, 2025 | 1.99 % | \$ 378,149 | \$ 198,466 |

Loan Payable requirements to maturity follow:

| | Principal | Interest | Total |
|---------------------------|-------------------|------------------|-------------------|
| Years ending December 31: | | | |
| 2021 | \$ 38,131 | \$ 3,603 | \$ 41,734 |
| 2022 | 38,896 | 2,837 | 41,733 |
| 2023 | 39,677 | 2,056 | 41,733 |
| 2024 | 40,474 | 1,259 | 41,733 |
| 2025 | 41,288 | 445 | 41,733 |
| Total | <u>\$ 198,466</u> | <u>\$ 10,200</u> | <u>\$ 208,666</u> |

Revenue Bonds

The following revenue bonds have been issued:

| Date | Purpose | Final Maturity | Interest Rates | Original Amount | Outstanding Amount December 31, 2020 |
|------------------|---------------------------------------------------|------------------|----------------|-----------------|--------------------------------------|
| December 4, 2015 | New Castle substation refunding, direct placement | December 4, 2022 | 1.84 % | \$ 4,216,387 | \$ 1,603,589 |
| November 1, 2011 | Construction of Beasley generating unit #2 | July 1, 2041 | 2.0-5.0 | 59,742,555 | 45,060,000 |
| May 7, 2019 | Middletown and Seaford projects | October 1, 2044 | 5.0 | 12,060,000 | 11,685,000 |
| May 7, 2019 | Middletown transmission line project | October 1, 2034 | 3.0-4.5 | 4,635,000 | 4,305,000 |

Revenue bonds debt service requirements to maturity follow:

| | Bonds | | Direct Placement | | Total |
|---------------------------|----------------------|----------------------|---------------------|------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| Years ending December 31: | | | | | |
| 2021 | \$ 2,140,000 | \$ 2,885,141 | \$ 552,162 | \$ 24,858 | \$ 5,602,161 |
| 2022 | 2,240,000 | 2,782,653 | 1,051,427 | 14,613 | 6,088,693 |
| 2023 | 2,345,000 | 2,675,178 | - | - | 5,020,178 |
| 2024 | 2,465,000 | 2,562,322 | - | - | 5,027,322 |
| 2025 | 2,585,000 | 2,443,285 | - | - | 5,028,285 |
| 2026-2030 | 12,395,000 | 10,432,730 | - | - | 22,827,730 |
| 2031-2035 | 14,080,000 | 7,550,895 | - | - | 21,630,895 |
| 2036-2040 | 17,400,000 | 3,751,150 | - | - | 21,151,150 |
| 2041-2044 | 5,400,000 | 436,125 | - | - | 5,836,125 |
| Total | <u>\$ 61,050,000</u> | <u>\$ 35,519,479</u> | <u>\$ 1,603,589</u> | <u>\$ 39,471</u> | <u>\$ 98,212,539</u> |

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2020 and 2019

Long-Term Obligations Summary

Long-term obligation activity for the years ended December 31, is as follows:

| | Balance January 1, 2020 | Additions | Reductions | Balance December 31, 2020 | Due Within One Year |
|---------------------------------------------|-------------------------------|----------------------|----------------------|---------------------------------|------------------------|
| Revenue bonds | \$ 63,090,000 | \$ - | \$ 2,040,000 | \$ 61,050,000 | \$ 2,140,000 |
| Revenue bonds direct placement | 2,145,426 | - | 541,837 | 1,603,589 | 552,162 |
| Unamortized premium | 3,842,023 | - | 190,811 | 3,651,212 | - |
| Loan payable direct placement | 235,846 | - | 37,380 | 198,466 | 38,131 |
| Total | <u>\$ 69,313,295</u> | <u>\$ -</u> | <u>\$ 2,810,028</u> | <u>\$ 66,503,267</u> | <u>\$ 2,730,293</u> |
| | Balance January 1, 2019 | Additions | Reductions | Balance December 31, 2019 | Due Within One Year |
| Revenue bonds | \$ 48,060,000 | \$ 16,695,000 | \$ 1,665,000 | \$ 63,090,000 | \$ 2,040,000 |
| Revenue bonds direct placement | 2,677,647 | - | 532,221 | 2,145,426 | 541,928 |
| Bond anticipation notes direct placement | 9,736,764 | 634,823 | 10,371,587 | - | - |
| Unamortized premium | 2,153,628 | 1,879,206 | 190,811 | 3,842,023 | - |
| Loan payable direct placement | 272,489 | - | 36,643 | 235,846 | 37,380 |
| Total | <u>\$ 62,900,528</u> | <u>\$ 19,291,977</u> | <u>\$ 12,879,210</u> | <u>\$ 69,313,295</u> | <u>\$ 2,619,308</u> |

On December 15, 2015, a direct placement loan in the amount of \$378,149 was issued with an interest rate of 1.99 percent for a ten-year term to finance an LED Streetlight Project on behalf of the City of Newark. A receivable from the City of Newark in the amount of \$378,149 was established upon the issuance of the loan and will be paid from the Green Energy Funds collected from the City. As of December 31, 2020, the remaining balance due was \$198,466. In the event of default, the note will bear interest at a default rate of the interest rate then in effect plus 4 percent per annum until the sum is paid in full.

Gross receipts of the Middletown and Seaford Infrastructure projects have been pledged as collateral on the general obligation 2019A Revenue Bonds. The Series 2019A Bonds are subject to acceleration upon the occurrence of an event of default under the Trust Indenture, in which case, upon the declaration of the Trustee, all principal and interest would become immediately due and payable. The prior written consent of the bond insurer is a condition precedent to any acceleration. Two participants, Town of Middletown and City of Seaford, are contractually bound to pay debt service and other costs through a power sales contract for the entire project. The power sales contract covers the entire term of the bond.

Gross receipts of the Middletown Transmission Line project has been pledged as collateral on the general obligation 2019B Revenue Bonds. The Series 2019B Bonds are subject to acceleration upon the occurrence of an event of default under the Trust Indenture, in which case, upon the declaration of the Trustee, all principal and interest would become immediately due and payable. The prior written consent of the bond insurer is a condition precedent to any acceleration. One participant, Town of Middletown, is contractually bound to pay debt service and other costs through a power sales contract for the entire project. The power sales contract covers the entire term of the bond.

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Gross receipts and real and personal property of the New Castle Substation project have been pledged as collateral on the direct placement 2015 Revenue Bonds. The 2015 Series Bond is subject to acceleration upon the occurrence and continuance of an Event of Default under the Loan Agreement, in which case, the lender can declare the unpaid principal amount immediately due and payable. One participant, New Castle Municipal Services Commission, is contractually bound to pay debt service and other costs through a power sales contract for the entire project. The power sales contract covers the entire term of the bond.

Gross receipts and real and personal property of the Beasley Power Station project have been pledged as collateral on the 2011 Revenue Bonds. The Series 2011 Bonds are subject to acceleration upon the occurrence of an event of default under the Trust Indenture, in which case, upon the declaration of the Trustee, all principal and interest would become immediately due and payable. The seven participants in the Beasley Power Station project are contractually bound to pay debt service and other costs through power sales contracts. Each participant has a share in the project corresponding to its share of load, which is also the amount of debt service for which the project participant is responsible. The power sales contracts run as long as the bonds are outstanding on the project. If a participant defaults on its payment obligation, the remaining participants must pay their respective pro rata share of the defaulted amounts, not to exceed 125 percent of its initial pro rata share.

Due to the varying maturities of the bonds allocated to the refunding of the 2001 bonds, the refunding of the 2008-A bond and the construction of the 2011 facilities, the aggregate debt service obligation of each participant will change on July 1, 2026, following termination of the debt service on the bonds allocated to the refunding of the 2001 bonds. The table below shows the allocated percentage of the aggregate debt service obligation of each participant throughout the life of the bonds.

| Participant | Date of Issuance of Bonds through July 1, 2012 | July 2, 2012 through July 1, 2026* | July 2, 2026 through July 1, 2041 |
|-------------|------------------------------------------------------------|------------------------------------------|-----------------------------------------|
| Newark | 43.7 % | 42.1 % | 35.1 % |
| Milford | 20.4 | 20.3 | 19.6 |
| Middletown | 9.7 | 11.0 | 16.5 |
| Smyrna | 8.2 | 8.4 | 9.7 |
| Seaford | 8.0 | 8.4 | 10.1 |
| New Castle | 8.4 | 8.1 | 7.2 |
| Clayton | 1.6 | 1.7 | 1.9 |

* Allocation is impacted by the share of administrative charges paid by each participant and is subject to change depending on the share of power used by each participant in any given fiscal year. Such fluctuations are not expected to be significant. Columns may not total 100 percent due to rounding.

Debt Service Coverage

2019 A/B Series Revenue Bonds

Section 5.8 of the Series 2019A/B Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating member. The resolution requires that DEMEC maintain a Debt Service Coverage Ratio of at least 1.15:1. Based on the definition in the Series 2019 Bond Resolution DEMEC had a Debt Service Coverage Ratio of 1.22 and 2.14 for the years ended December 31, 2020 and 2019, respectively.

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2015 Series Refunding Bonds

Section 5.3 of the Series 2015 Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating member. The resolution requires that DEMEC maintain a Debt Service Coverage Ratio of at least 1.10:1. Based on the definition in the Series 2015 Bond Resolution DEMEC had a Debt Service Coverage Ratio of 1.10 for the years ended December 31, 2020 and 2019.

2011 Series Revenue Bonds

Section 6.9 of the Series 2011 Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating members. The resolution requires that DEMEC shall collect charges to provide revenues for payment of the sum of (1) Operation and Maintenance costs, (2) an amount equal to 1.10 times the Aggregate Debt Service for the contract year, (3) the amount to be paid into Debt Service Reserve Accounts and (4) amounts payable for other reserves. Based on this definition DEMEC had a Debt Service Coverage ratio for the Series 2011 bond issue of 3.43 and 3.72 for the years ended December 31, 2020 and 2019, respectively.

9. Renewable Energy Fund

DEMEC serves as administrator of the Delaware Municipal Utilities' Green Energy Fund Program for its members. This program was mandated by the State of Delaware to support renewable energy technologies, energy efficiency technologies, or demand side management programs. The members remit the required contributions to DEMEC, which administers the grant program and releases funds for approved grants on behalf of members.

Funds held for participating members as of December 31 are as follows:

| | 2020 | 2019 |
|--------------------|-------------------|-------------------|
| Town of Clayton | \$ 17,199 | \$ 13,953 |
| City of Dover | - | 154,309 |
| City of Lewes | 92,570 | 81,628 |
| Town of Middletown | 203,527 | 165,204 |
| City of Milford | 104,476 | 68,393 |
| City of New Castle | 33,412 | 22,156 |
| City of Newark | 257,930 | 210,073 |
| City of Seaford | 19,802 | 20,460 |
| Town of Smyrna | 29,028 | 59,505 |
| Total | <u>\$ 757,945</u> | <u>\$ 795,681</u> |

The following cash transactions show the change of activity from year-to-year:

| | 2020 | 2019 |
|------------------------------------------------------|--------------------|-------------------|
| Received from members for green energy fund | \$ 293,696 | \$ 446,958 |
| Payments made for green energy purposes | <u>(331,430)</u> | <u>(324,976)</u> |
| Net cash accumulated (used) in renewable energy fund | <u>\$ (37,736)</u> | <u>\$ 121,982</u> |

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10. Transactions with Significant Customers

Sales of electric energy consist primarily of market sales of generation energy and capacity, and sales to its members, as summarized below, for the year ended December 31.

| | 2020 | 2019 |
|--------------------|-----------------------|-----------------------|
| AMP | \$ 2,956,572 | \$ 4,099,066 |
| PJM | 23,069,162 | 27,631,498 |
| Town of Clayton | 1,713,845 | 1,720,654 |
| City of Dover | 37,776 | 537,346 |
| Lewes BPW | 5,981,598 | 6,228,337 |
| Town of Middletown | 19,039,071 | 19,216,544 |
| City of Milford | 17,572,360 | 18,319,517 |
| City of Newark | 32,274,764 | 34,839,682 |
| New Castle MSC | 6,304,430 | 6,604,036 |
| City of Seaford | 8,974,941 | 9,241,707 |
| Town of Smyrna | 8,845,912 | 9,036,041 |
| Other revenue | 1,911 | 1,836 |
| Total | <u>\$ 126,772,342</u> | <u>\$ 137,476,264</u> |

11. Commitments and Contingencies

Power Sales Contracts

Participating members purchase 100 percent of their power supply requirements from DEMEC under long-term full requirements service contracts that became effective January 1, 2004, and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the participating member to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this Agreement.

Participating members have entered into separate power sales agreements effective May 1, 2001, to purchase an interest in the capacity produced by Unit #1 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the existing nominal 45 MW natural gas fired combustion turbine generator for the useful life of the facility.

Participating members have entered into separate power sales agreements effective May 1, 2011, to purchase an interest in the capacity produced by Unit #2 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the newly constructed nominal 45 MW natural gas fired combustion turbine generator, which went into commercial operation June 1, 2012, for the useful life of the facility.

Under the terms of the various agreements, DEMEC is authorized to act as agent for the participating members in all matters relating to the acquisition and delivery of wholesale power supply and management of energy cost risk on behalf of the participating members in the deregulated energy markets.

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DEMEC has long and short-term contracts and commitments with various wholesale power suppliers to supply energy, capacity and transmission services to its members. These contracts vary in length and have flexible terms and cancellation provisions. Counterparty risk is managed through strict credit analysis at contract inception and throughout the term of each contract. Counterparty agreements also feature collateral and guarantee provisions to further mitigate default risk. These contracts may be material to the financial statements.

In December 2008, DEMEC undertook a project consisting of acquisition, development, and construction of a 138kV electrical substation located in New Castle, Delaware. The electric substation project, known as the Dobbinsville Substation, went into commercial operation on January 28, 2011. DEMEC issued a ten-year revenue bond in the principal amount of \$7 million to finance the project. In 2015, DEMEC issued a seven-year refunding bond in the principal amount of \$4,216,387 to refinance the project. DEMEC entered into a Service Agreement with the Municipal Services Commission of the City of New Castle which provides for DEMEC to construct, own, maintain and operate the electrical substation for the benefit of New Castle and provides for New Castle to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operation and maintenance payments for the Project.

In March 2017, DEMEC undertook a project consisting of the acquisition, development and construction and equipping of improvements to the existing Pine Street Substation located in Seaford, Delaware as well as related improvements to existing distribution infrastructure and the acquisition and installation of equipment for an advanced metering infrastructure program. The Pine Street Substation and distribution infrastructure projects known as the Seaford Infrastructure Project went into commercial operations on January 1, 2019. The advanced metering infrastructure program known as the Seaford AMI Project went into commercial operations on June 30, 2019. In 2019, DEMEC issued a twenty-year revenue bond in the principle amount of \$5,680,000 to finance the Seaford Infrastructure Project and DEMEC issued a ten-year revenue bond in the principle amount of \$1,310,000 to finance the Seaford AMI Project. DEMEC entered into a Service Agreement with the City of Seaford which provides for DEMEC to construct, own, maintain and operate the Seaford Infrastructure Project and the Seaford AMI Project for the benefit of the City of Seaford and provides Seaford to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Projects.

In March 2017, DEMEC undertook a project consisting of the acquisition, development and construction and equipping of improvements to Delmarva Power & Light Company's Townsend Substation to accommodate the future construction of a new 138 kV transmission line running from the Townsend Substation to Middletown Substation and associated improvements to the existing Industrial Drive Substation located in Middletown, Delaware. The Middletown Projects are not yet in commercial operations as of December 31, 2020. In 2019, DEMEC issued a twenty-five-year revenue bond in the principle amount of \$9,705,000 to finance the Middletown Projects. DEMEC entered into a Service Agreement with the Town of Middletown which provides for DEMEC to construct, own, maintain and operate the Middletown Projects for the benefit of the Town of Middletown and provides Middletown to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Projects.

DEMEC has expanded its self-supply resources in its portfolio as a hedge against the increasing price of energy from the wholesale markets. One such expansion is the addition of Generating Unit #2 at the Beasley Power Station, as mentioned above. Another strategic initiative of DEMEC is its participation in the AMP Fremont Energy Center (AFEC), a 675 MW Natural Gas Combined Cycle Power Plant that began commercial operation on January 21, 2012. The Fremont Energy Center is operated by AMP, a 135-member public power Joint Action Agency. On July 29, 2011, DEMEC became the 129th member of AMP with an initial participation level of approximately 13.69 percent of the capacity and energy from AFEC pursuant to a thirty-five year take-or-pay contract. On May 1, 2018, DEMEC acquired an additional share of AFEC output, from 92MW to 105MW, and on May 1, 2019, DEMEC acquired another additional share of AFEC output from 105MW to 114.7MW.

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DEMEC is also making strategic power purchases in renewable generation resources. One such initiative is the Laurel Hill Wind Farm (Laurel Hill), a 69 MW wind generation plant operated and developed by Duke Energy Renewables located in north-central Pennsylvania. Laurel Hill began commercial operation on September 30, 2012. DEMEC is entitled to 100 percent of the project's energy and environmental attributes pursuant to a twenty-five year contract. DEMEC has also invested in solar generation facilities. DEMEC has a contract with the operator of the Milford Solar Park, a 13MW photovoltaic generation facility located in Milford, Delaware. DEMEC is entitled to receive 100 percent of the energy and an increasing schedule of the project's environmental attributes pursuant to a twenty-year contract. DEMEC also has a contract with the operator of the Dover Sun Park, a 10 MW photovoltaic generation facility located in Dover, Delaware (the Sun Park). DEMEC also has a long-term contract with American Municipal Power (AMP) for the Smyrna Solar Park, a 1.5 MW photovoltaic generation facility located in Smyrna, Delaware. The project is part of an overall portfolio of projects delivered by AMP that totals over 60MW of solar, for which DEMEC is entitled to receive its prorata share of energy and 50 percent of the environmental attributes from the Smyrna Solar Park.

Claims and Judgments

From time to time, DEMEC is party to various pending claims and legal proceeding. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and DEMEC's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the financial position or results of operations.

12. Employee Retirement Plan

DEMEC's employees are covered by a 457(b) governmental retirement plan administered by ICMA-RC. Benefit provisions and all other requirements are approved by the board of DEMEC. Employees are eligible to participate in the plan immediately upon employment. Both employee and employer contributions are immediately vested. Eligible employees who elect to participate in the plan may contribute none of their annual compensation up to a maximum not to exceed \$19,500 in 2020. Employees age 50 or older may contribute an additional \$6,500 in 2020. Employees taking advantage of the special pre-retirement catch-up may be eligible to contribute up to double the normal limit for a total of \$39,000 in 2020. DEMEC contributes up to 6 percent of employee salaries without a match. If an employee elects to contribute up to 3 percent of earnings, DEMEC will match that portion of contributions up to an additional 3 percent. Senior management is eligible for additional contributions of up to 4.5 percent pursuant to Board approval. Total contributions to the plan by DEMEC for the years ended December 31, 2020 and 2019 were \$89,257 and \$93,405, respectively.

13. Risk Management

DEMEC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. These risks are mitigated through the acquisition of commercial insurance policies featuring coverage and deductibles at levels established to minimize the impact to DEMEC in the event of a claim. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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14. Open Contracts

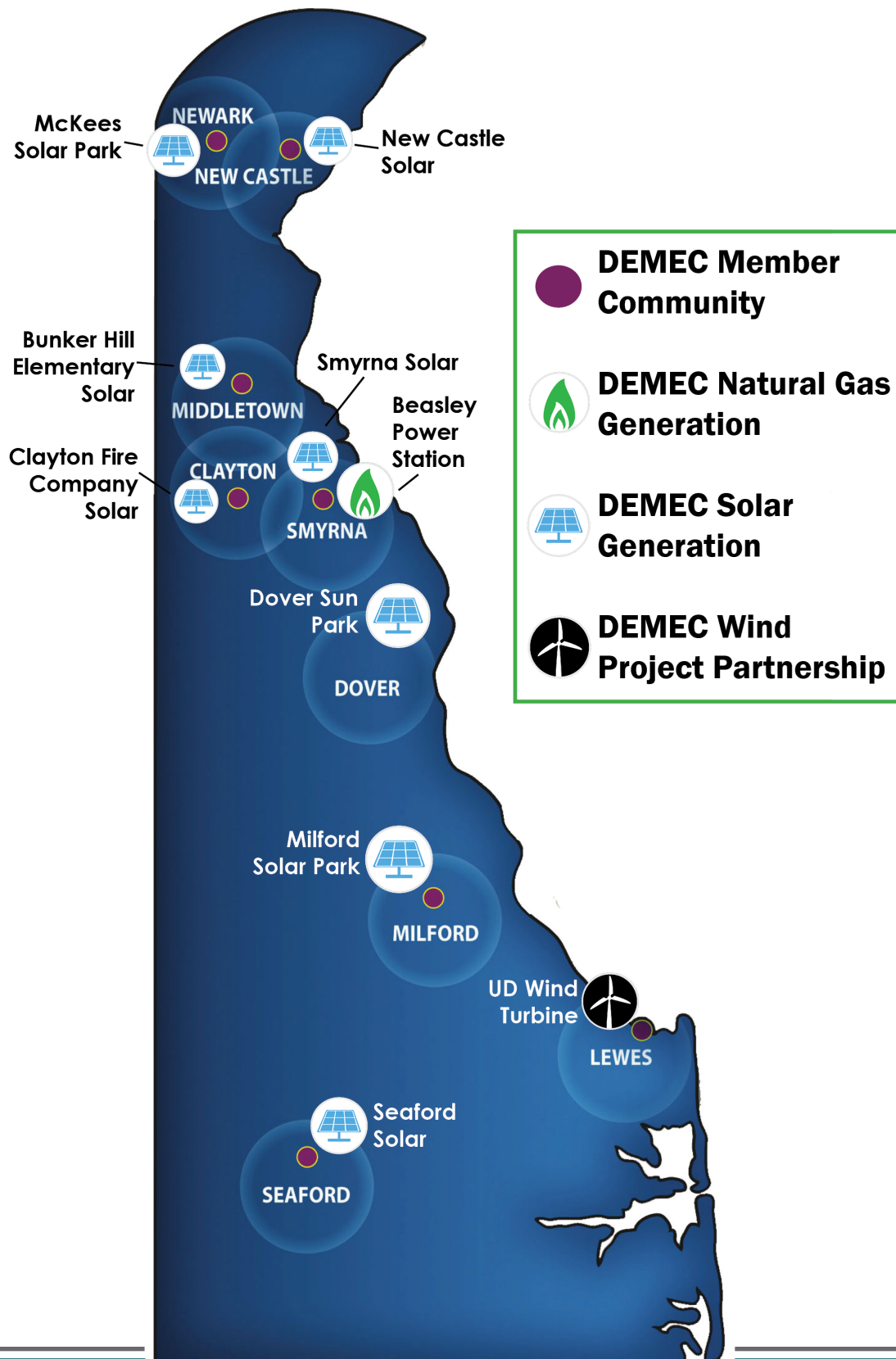
DEMEC has entered into various contracts for construction, equipment procurement, engineering and other services related to the current projects being financed on behalf of members. As of December 31, 2020, contracts valued at a total of \$13,472,486 remained open. A total of \$7,838,840 was spent through December 31, 2020, leaving an open balance of \$5,633,646.

15. Subsequent Events

DEMEC management has evaluated all events and transactions that occurred after December 31, 2020, through the date the accompanying financial statements were available to be issued, March 31, 2021. During this time period, there were no material subsequent events which required disclosure.

DEMEC

Member Communities



DEMEC



Delaware Municipal Electric Corporation

***Powering Communities
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Designed by: Heather Contant