

# 2021

## DELAWARE MUNICIPAL ELECTRIC CORPORATION ANNUAL REPORT

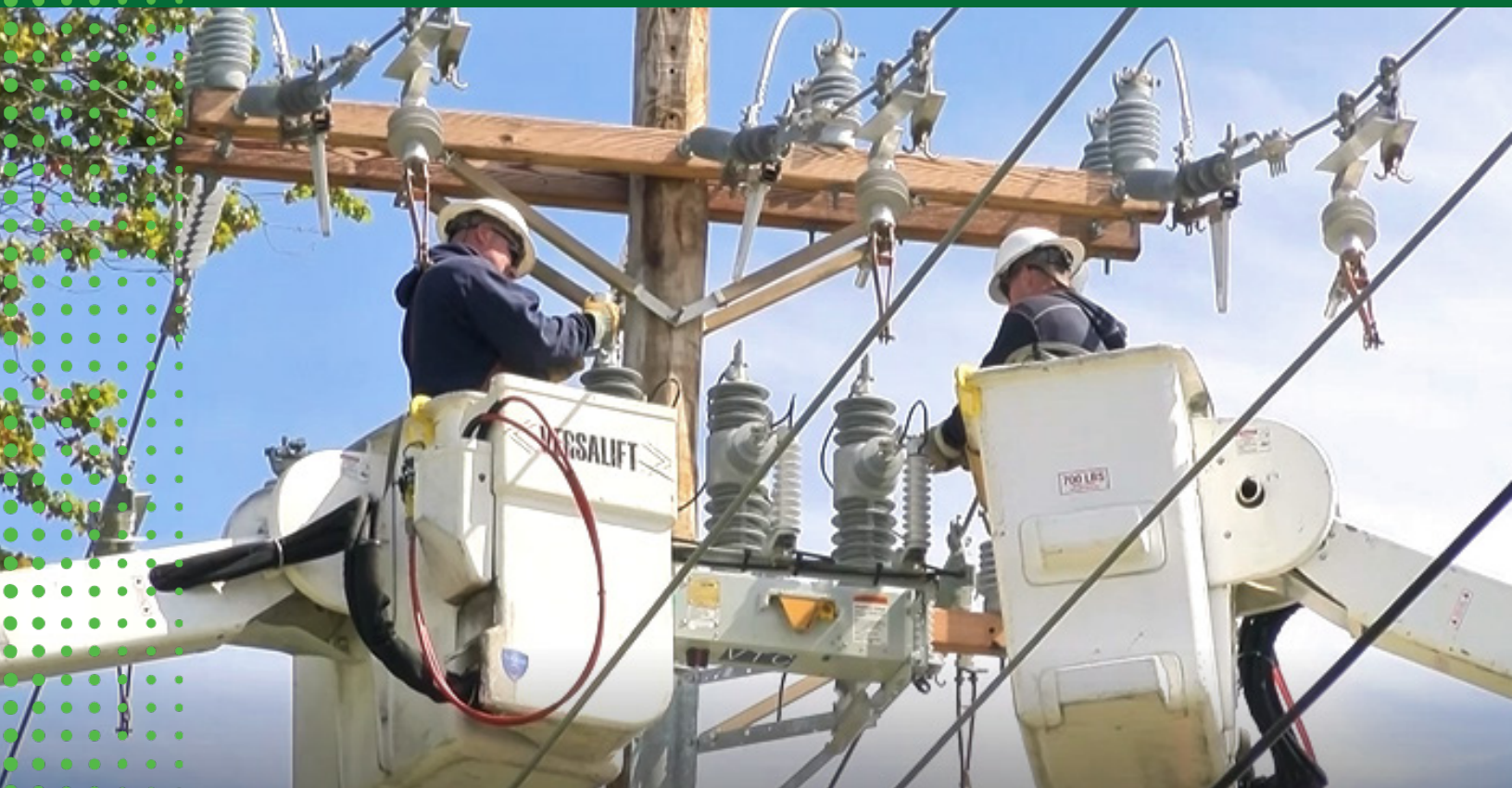


***Powering Change.***

**DEMEC**  
Delaware Municipal Electric Corporation







**Empowering each other.**

Cover: Lineworker in the City of Milford  
Above: Lineworkers in the City of Newark





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*\*This report and combined financial statements and notes are available at [PublicPowerDE.com](https://PublicPowerDE.com). Visit our website for more information about DEMEC and our members, programs, and services.*



# ***We are stronger together.***

Celebrating hometown heroes is not a new trend for public power, and with that we celebrate the lineworkers, operations staff, customer service representatives, utility managers and community leaders who adapted their operations during the continuing pandemic to sustain the critical service of reliable electric.

In addition to finding new ways to continue to serve members virtually during the ongoing pandemic, DEMEC underwent a successful leadership transition resulting from the departure of longtime President and CEO Patrick McCullar, and the naming of a new President and CEO, Kimberly Schlichting, previously DEMEC's COO.

The DEMEC Board of Directors, executive management, and employees balanced the ever-changing virtual to non-virtual environment to ensure that DEMEC focused on operational excellence, member services, community engagement, and legislative/regulatory representation.

DEMEC explored our core values and considered our roles as a partner, solutions provider, joint action organization, and steward of our membership. As a result, we are excited to introduce the new DEMEC Mission, Vision, and Values statements that reflect our updated Strategic Plan.

For more than 100 years, our members have shown resilience in the face of local and national challenges thanks to the unique characteristics that define public power. Now more than ever, public power provides us with the foundation to power change as the industry evolves.

2021 was a dynamic year. DEMEC and our members experienced a number of achievements and successes. We are proud of the many awards and national recognition that our member communities earned in the last year.

As we continue to provide forward-looking support to all our members, we thank you for dedicated service to your communities and for your continued trust and partnership. We truly are stronger together.

*Kimberly Schlichting*      *Morris Deputy*



**Kimberly Schlichting**  
President & CEO, DEMEC



**Morris Deputy**  
Chair of the DEMEC Board



# About DEMEC

**Incorporated in 1979, the Delaware Municipal Electric Corporation, Inc. (DEMEC) is headquartered in Smyrna, DE, with approximately 10 employees at its headquarters and generating facility.**

DEMEC is the not-for-profit wholesale power supplier and services provider for eight (8) members, representing the communities of New Castle, Newark, Middletown, Smyrna, Clayton, Milford, Seaford, and Lewes. Each of these members owns and operates its own local municipal electric distribution system. Collectively, these member utilities serve approximately 99,000 people to power their homes and businesses.

When DEMEC was formed 42 years ago, our member communities joined together under the belief that municipally-owned utilities would have greater opportunities to secure a reliable and low-cost power supply for their customers if they worked together. Through joint action legislation, the Delaware General Assembly approved the formation of DEMEC as a political subdivision of the State. In partnership with DEMEC, our members secured generation assets and aggregated power supply sufficient to meet the needs of eight member utilities to help their communities thrive and prosper.

Together, we expanded service offerings to include additional services beyond power supply while still providing reliable and sustainable power supply to our member customers. Together, we advocated for legislation and regulations in protection and support of public power and municipal utilities. We worked together to invest and plan for the future.

By the end of 2021, half of DEMEC's member communities held American Public Power Association's (APPA) Reliable Public Power Provider (RP3) designation. In addition, member communities were subscribed to the eReliability Tracker program, earned APPA's excellence in safety award, and provided their customers with enhanced service through investing in members' AMI programs.





# DEMEC Board of Directors & Management

DEMEC is governed by an eight-member Board of Directors, with one Director from each of the member municipalities. 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.

**Morris Deputy**

Chair

*Town of Middletown*

**Tom Coleman**

Vice Chair

*City of Newark*

**Mary DeBenedictis**

Secretary

*Town of Clayton*

**Charles Anderson**

Treasurer

*City of Seaford*

**Mark Whitfield**

Director

*City of Milford*

**Andrew Haines**

Director

*Town of Smyrna*

**Austin Calaman**

Director

*Lewes BPW*

**Scott Blomquist**

Director

*MSC of the City of  
New Castle*

**Kimberly Schlichting**

President & CEO

*DEMEC*

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## Alternate Board Members:

**Kim Bellere**, *Lewes*

**Jonathan Burnett**, *Clayton*

**David Del Grande**, *Newark*

**June Merritt**, *Seaford*

**Tyler Reynolds**, *Middletown*

**Dr. Roy Sippel**, *New Castle*

**Louis Vitola**, *Milford*

**Cassandra Young**, *Smyrna*

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## Executive Management

**Kimberly Schlichting**

*President & CEO*

## Finance Management

**Stephanie Dove**

*CFO/Interim COO*

## Communications Management

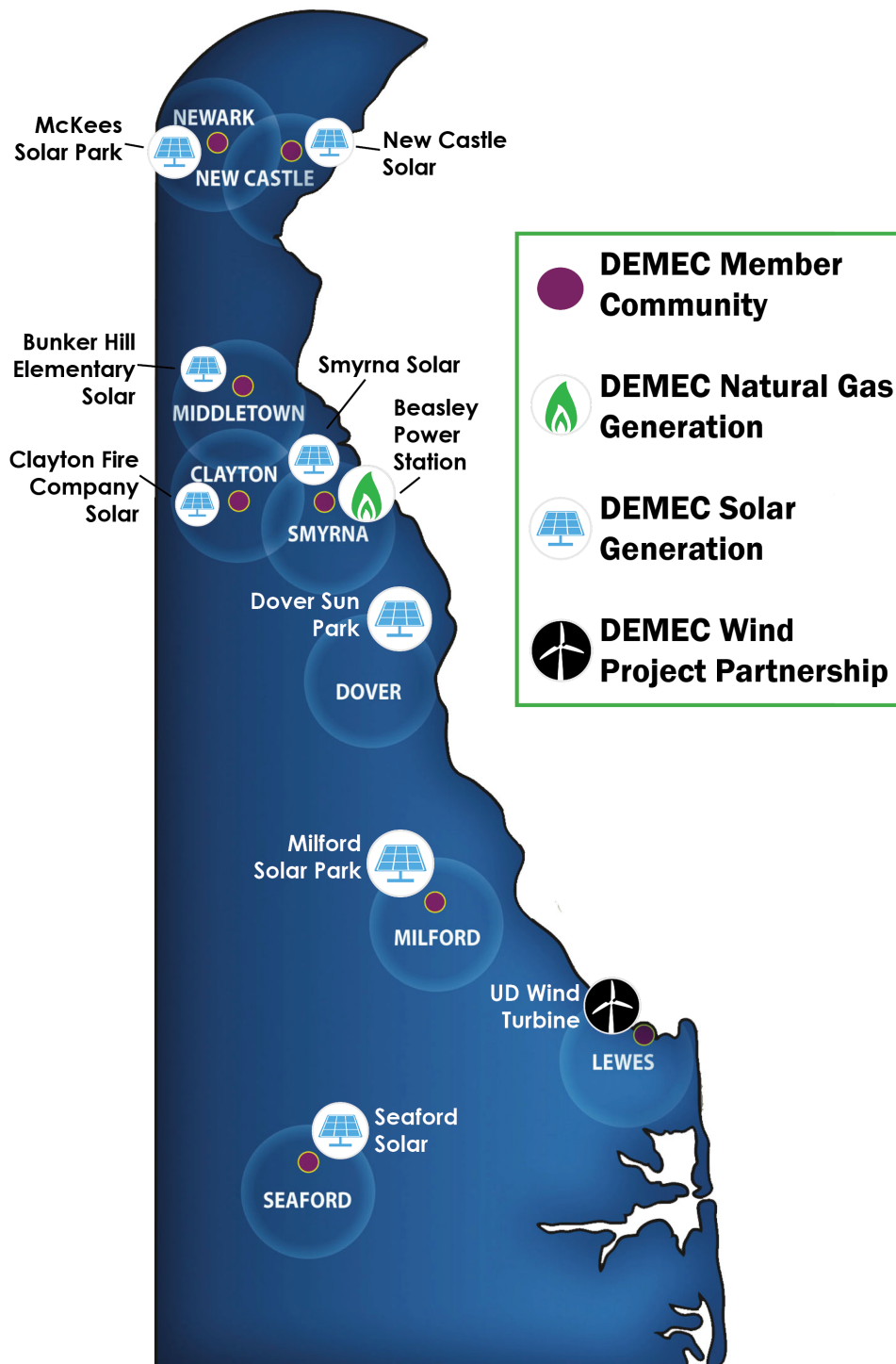
**Heather Contant**

*Director of Government & Community Relations*



# DEMEC

## *Member Communities*







## DEMEC Strategic Plan

**In 2021, the DEMEC Board of Directors, with the support of executive management and staff, updated the organization's mission, vision, and values statements to better reflect DEMEC's focus on members, innovation, and joint action. In addition, the Board also affirmed the organization's strategic priorities and goals.**

### **Mission**

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.

### **Vision**

Be a leading joint action agency providing competitive, reliable, and sustainable power supply while pursuing opportunities that increase the overall value to DEMEC's membership.

### **Core Values**

#### **Member Focus**

Be a trusted partner of our member communities and consistently make decisions that contribute to their success. Advocate for community-owned utilities and always act in the best interest of our membership.

#### **Operational Excellence**

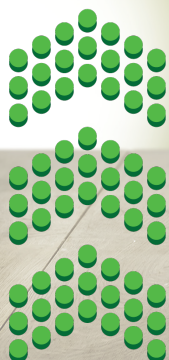
Deliver high quality, dependable services that inspire confidence in and from our members. Work together to grow an organization that fosters new opportunities and support a collaborative workplace.

#### **Organizational Culture**

Operate in a transparent environment with honesty and integrity. Treat others with mutual respect and value their contributions. Promote a diverse and inclusive workforce.

#### **Sustainability**

Seek first the best and then the lowest cost solution possible to increasingly add carbon-free generation resources to our power supply mix. Commit to maintaining the relevance and resiliency of the organization.







## DEMEC Financial Highlights

### 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 2021, 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**, in 2021, reaffirmed DEMEC's 'A1' rating, upgraded 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. This supplements the stable cash flow received from its members and includes the incremental revenues and cash flow from the PJM energy market.



**\$153 million**

Total 2021 revenue from member sales and generation operations



**1,407 GWh**

2021 total giga-watt hours delivered to our members



**\$8.0 million**

Total distributed to our members in 2021



**308 MW**

2021 total non-coincident peak of DEMEC members



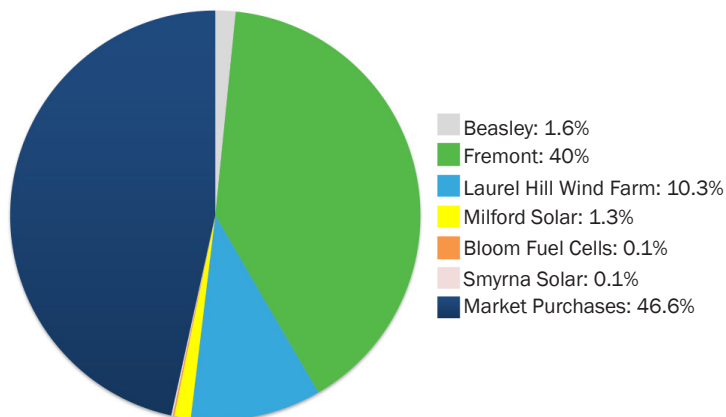
# Power Supply Resources

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

While DEMEC was incorporated in 1979 with zero assets, the organization has continuously made wise investments in generation resources over the last 42 years. By owning more of its own resources, DEMEC and our members rely less on fluctuating energy market prices. In 2021, a portion of asset owned bonds were refinanced resulting in net present value **savings of \$125.6 million**, or 37.8%, with the term of the debt shortened by two years.

In 2021, DEMEC optimized diversification of our supply mix, by balancing asset ownership and contractual supply - **53% self-supply and 47% contractual supply (21% renewable portfolio)**. **Currently, 90% of DEMEC's power supply consists of low to no carbon emissions.**

## Power Supply Mix 2021



## 2021 Power Supply





## Power Supply Resources (cont.)

DEMEC assets include natural gas, solar, and wind energy; all of which have low to no emissions. We have invested in over 28 MW of utility owned solar, 71 MW of wind, and 215 MW of natural gas generation.

DEMEC continues to support renewable energy, expand demand response resources, and increase the impact of energy efficiency to reduce our carbon footprint. Since 2018, DEMEC's energy efficiency program has resulted in **over 114.1 million kilowatt hours of lifetime customer energy savings, equal to 22 wind turbines running for an entire year.** As of 2021, **lifetime customer savings reached \$12.93 million.**

Through prudent investments and strategic market purchases **DEMEC has reinvested \$79.6 million back into our member communities over the past ten years.** DEMEC also invests in generation, infrastructure, and innovative technology on behalf of our members. Through 2021, **DEMEC invested \$92.2 million** to enhance and support reliable electric service in member communities.

### DEMEC Energy Efficiency Program *Lifetime Customer Savings*

**\$12.93**  
*million*

**114.1**  
*million kWh*





# Innovation & Sustainability

**Currently, 90% of DEMEC's power supply comes from 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. Since 2005, **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, over **50% 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 and their customers.

DEMEC's member communities participate in an energy efficiency program called *Efficiency Smart*. In 2021, customer energy consumption was reduced by 3,130 MWh. That is the same as **eliminating 2.45 million pounds of coal burned at coal plants or equal to planting 2,625 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 2021, participants reduced energy usage by 13.2 MWh resulting in **carbon savings equal to 23,220 less miles driven** on the road. Since the program's inception in 2011, participants have received \$4.4 million in additional incentives through PJM and DEMEC.

In another step to assist members and their customers achieve their renewable energy goals, DEMEC developed the *Corporate Renewable Energy Block Program*. Under this program, DEMEC purchases Renewable Energy Credits (RECs) on behalf of participating member business customers. These RECs are proof that electricity was generated by renewable facilities, such as wind and solar, and fed into the electric grid. The program allows participating businesses to offset all or part of their energy use and meet their unique sustainability goals.

As the electric utility industry continues to evolve, DEMEC is striving to take advantage of new technologies and opportunities that offer innovative solutions for utility operations and customer needs. Our *Advanced Metering Infrastructure (AMI)* program helps member utilities increase their operational efficiency and meet customers' changing expectations. AMI provides the backbone for many smart grid technologies that can enhance system performance. It also provides customers with tools to better manage their electric usage and costs.





# Workforce Development

DEMEC's training program transitioned to a virtual format in 2020 and continued through 2021 due to the COVID-19 pandemic. In 2021, DEMEC offered 53 educational trainings/events totaling nearly 100 hours. To accommodate changing recommended practices on social gatherings during 2021, four (4) in-person and 49 virtual trainings were hosted. In addition, recordings of most training sessions were made available to DEMEC members through the DEMEC Training & Events Portal. Training topics included safety, accounting, customer service, key accounts, project management, energy efficiency, electric vehicles, and more. DEMEC was able to host its annual Tool & Truck Expo in person, with vendors from across the country there to share the newest safety equipment and other electric industry tools.

In April 2021, DEMEC purchased five (5) acres of land in the Smyrna Business Park near the DEMEC Administrative Building for the future home of DEMEC's Joint Lineworkers Training Yard. In September 2021, DEMEC became an associate member of TVPPA to partner on an official lineworker apprentice and journeyman training program. The Lineworker Training Yard Steering Committee, comprised of distribution managers from DEMEC member communities, along with DEMEC staff, visited nearby training yards for ideas and best practices. Site and construction plans were drawn with anticipation of offering services in 2022.



L & Bottom Right: DEMEC Tool & Truck Expo  
Top Right: DEMEC Hurt-Man Rescue & Climbing Training



# Member Services

DEMEC provides member communities with support through project development, program management, operational support, and consulting on technologies such as smart meters, SCADA, and operations systems. DEMEC works with members to identify and implement impactful improvements to their electric utilities. Members can stay informed about emerging technologies through various webinars and trainings hosted by DEMEC to share best practices and lessons learned. These solutions are becoming more important as customers are demanding more of their electric utilities, and as utilities improve operations, increase efficiencies, and maintain security.

There are a lot of advantages to living in Delaware's Public Power communities, but not everyone recognizes them. In fact, some customers may not even realize their power is provided locally. How do we change that? By telling our story and sharing the value of public power. DEMEC provides communications support and resources to help members spread the word about the value of public power, including materials to celebrate Public Power Week, social media campaigns, and a variety of promotional materials. It also consults with members on how they develop their own events and campaigns to highlight the benefits of public power.

There is no doubt the COVID-19 pandemic impacted legislative bodies as they adapted to a new reality and an ever-changing legislative arena. DEMEC staff, however, still monitored and engaged on state legislative issues and kept members up-to-date on the status of energy-related bills under consideration. DEMEC also arranged numerous meetings with state and federal legislators to ensure they are well-informed about our energy policy efforts and needs. This strategy helped DEMEC become a trusted source of energy information for policymakers and built support for public power issues that impact DEMEC and our members. DEMEC staff sit on numerous state, regional, and national boards/committees to remain actively involved in crafting the future of electric utilities.





# Value of Public Power

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 and programs. 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.

Having reliable and affordable electricity is essential. Customers expect the lights to turn on when they flip the switch. They want their house to be cool when it's hot outside, and they need electricity to power essentials of their everyday life. 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.

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.





# **Delaware Municipal Electric Corporation**

Financial Statements

December 31, 2021 and 2020



# **Delaware Municipal Electric Corporation**

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December 31, 2021 and 2020

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## **Independent Auditors' Report**

To the Board of Directors of  
Delaware Municipal Electric Corporation

### **Opinion**

We have audited the accompanying financial statements of Delaware Municipal Electric Corporation (DEMEC), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise DEMEC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DEMEC as of December 31, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DEMEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 DEMEC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DEMEC's ability to continue as a going concern for a reasonable period of time.

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

#### **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 is the responsibility of management and, 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, 2022



# **Delaware Municipal Electric Corporation**

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Management's Discussion and Analysis  
December 31, 2021 and 2020

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, 2021 and 2020. 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 our member' success and relevance, DEMEC delivers 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.



## Delaware Municipal Electric Corporation

Management's Discussion and Analysis  
December 31, 2021 and 2020

### 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.

**Table 1**  
**Condensed Statements of Net Position**

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Assets:</b>			
Current assets	\$ 47,253,645	\$ 45,728,938	\$ 45,678,422
Other noncurrent assets	15,073,863	15,225,016	14,748,357
Utility plant and property, net	70,567,759	71,589,693	72,140,097
<b>Total assets</b>	<b>\$ 132,895,267</b>	<b>\$ 132,543,647</b>	<b>\$ 132,566,876</b>
<b>Liabilities:</b>			
Current liabilities	\$ 16,130,365	\$ 12,089,051	\$ 10,635,760
Noncurrent liabilities	59,177,057	63,772,974	66,693,987
<b>Total liabilities</b>	<b>75,307,422</b>	<b>75,862,025</b>	<b>77,329,747</b>
<b>Total deferred inflows of resources</b>	<b>11,969,555</b>	<b>10,038,334</b>	<b>9,331,942</b>
<b>Net position:</b>			
Net investment in capital assets	12,156,292	15,345,851	14,668,128
Unrestricted	33,461,997	31,297,437	31,237,059
<b>Total net position</b>	<b>45,618,289</b>	<b>46,643,288</b>	<b>45,905,187</b>
<b>Total net position and liabilities</b>	<b>\$ 132,895,267</b>	<b>\$ 132,543,647</b>	<b>\$ 132,566,876</b>

### Statements of Net Position

During the year ended December 31, 2021, net utility plant assets decreased by \$1,021,932, consisting primarily of a \$5,867,891 refund related to infrastructure not placed in service and placed in service on and \$2,293,609 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 the addition of land for a new Joint Lineman Training Facility. These capital investments, net of depreciation expenses of \$2,432,088 and asset retirements of \$2,504,653, accounted for the majority of the changes in utility plant.

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.



## Delaware Municipal Electric Corporation

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Management's Discussion and Analysis  
December 31, 2021 and 2020

During the year ended December 31, 2021, DEMEC's operating cash and operating cash reserve accounts decreased by \$1,154,605 from the previous year due to funds spent on upgrades and repairs as mentioned above to the Warren F. Beasley Power Station. Accounts receivable increased by \$5,629,914 due to a refund by Delmarva Power for the Middletown Transmission Line contract termination. Other assets decreased by \$3,101,755 due to increases in generation inventory and decreases to the spend from member project accounts associated with the 2019 Bond issues.

Net position decreased by \$1,024,999 in 2021 which is due to an unanticipated loss on retirement of replaced and upgraded generation assets.

Principal repayments associated with the Agency's outstanding revenue bonds totaled \$2,691,963 and \$2,581,837 during 2021 and 2020, respectively. DEMEC is scheduled to repay an additional \$3,451,626 on the outstanding revenue bonds in 2022.

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 2019 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.

DEMEC issued Series 2021 Electric Revenue Bonds (Series 2021 Bonds) in the total par amount of \$35,935,000 on April 8, 2021 to refinance the series 2011 Bonds issued on November 3, 2011. The final maturity of the Series 2021 Bonds is July 1, 2036. The Series 2021 Bonds were issued to refund all or substantially all of the 2011 Revenue Bonds outstanding and to pay certain costs and expenses incident to the issuance of the Series 2021 Bonds. The balance due on the 2021 bonds is reflected in noncurrent liabilities in the amount of \$34,085,000 and current liabilities of \$1,850,000. Proceeds of revenue bonds not yet expended are included in restricted assets.

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. There is no balance due on the 2011 bonds as of December 31, 2021.

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 current liabilities of \$1,051,626.

## Delaware Municipal Electric Corporation

Management's Discussion and Analysis  
December 31, 2021 and 2020

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.

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 \$14,915,000 and current liabilities of \$550,000.

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Operating revenues	\$ 153,336,819	\$ 126,772,342	\$ 137,476,264
Depreciation expense	2,432,088	2,242,733	2,169,915
Other operating expenses	139,785,248	114,150,316	120,890,955
Total operating expenses	142,217,336	116,393,049	123,060,870
Operating income	11,119,483	10,379,293	14,415,394
Interest income	40,501	545,909	668,579
Interest and amortization expense	(2,486,040)	(2,825,727)	(2,647,822)
Other income (expense)	(1,682,225)	(1,718)	(148,995)
Total nonoperating expenses	(4,127,764)	(2,281,536)	(2,128,238)
Income before distributions	6,991,719	8,097,757	12,287,156
Distributions to members	(8,016,718)	(7,359,656)	(7,780,171)
Change in net position	(1,024,999)	738,101	4,506,985
Net position, beginning	46,643,288	45,905,187	41,398,202
Net position, ending	\$ 45,618,289	\$ 46,643,288	\$ 45,905,187



## **Delaware Municipal Electric Corporation**

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### **Statements of Revenue, Expenses and Changes in Net Position**

Operating revenues for the year ended December 31, 2021 consisted of power supply sales to participating members of \$106,701,108 on consumption of 1,407,270,572 kilowatt hours (kWh), and sales from generation resources of \$46,635,710, for a total of \$153,336,818. This represents an increase of \$26,564,476 in operating revenues (20.95 percent) as compared with the previous year. The increase in operating revenues is primarily attributed to increased generation opportunities resulting from an increase in market prices for the output and an increase in demand from the members. The 59,328,095 kWh increase in sales volume (4.4 percent) versus 2020 is attributed to COVID-19 pandemic decreased loads in 2020 returning to typical levels in 2021. Revenue from generation operations increased by \$20,608,065 (79.2 percent) due to the increased generation opportunity and market prices for generation output in 2021.

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.

During the year ending December 31, 2021, DEMEC recorded a coincident peak demand of 301.1 MW, which was less than 2.1 percent higher than the 294.9 MW experienced in the previous year. The total member noncoincident peak demand was 307.9 MW, registering less than 1.2 percent higher than the previous year.

For the year ended December 31, 2021, total operating expenses increased by \$25,824,287 (22.2 percent) from the previous year due primarily to increased power supply costs due to an increase in natural gas and RTO market prices.

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.

### **Debt Service Coverage**

DEMEC's bond covenants require the Agency to maintain a debt service coverage ratio of 110 percent on outstanding debt for Series 2021, 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 year ended December 31, 2020 was approximately 3.43 times. Debt service coverage for the 2021 Revenue Bonds during the year ended December 31, 2021 was met. Debt service coverage for the 2015 Revenue Bonds during the years ended December 31, 2021 and 2020 was approximately 1.1 times and 1.1 times, respectively. Debt service coverage for the 2019 Revenue Bonds during the years ended December 31, 2021 and 2020 was approximately 1.36 times and 1.22 times, respectively.

## **Delaware Municipal Electric Corporation**

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Management's Discussion and Analysis  
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### **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.

#### **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. In a response to a 2021 legislative change to the State's Renewable Portfolio Standard, DEMEC members adopted adjustments in 2022 to the MRPS that will target acquiring 40 percent of its energy requirements from qualifying renewable resources by 2035, with 10 percent coming from solar renewable resources. The member communities continue to designate and appoint 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 20-year contract in February 2017 to purchase all environmental attributes produced by the City of Seaford Solar Park located in Seaford, 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, 2021. 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**Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and investments	\$ 27,437,151	\$ 28,591,756
Restricted assets, debt service account	867,525	1,066,419
Accounts receivable	13,584,089	7,954,940
Current portion of member receivables	38,896	38,131
Fuel oil on hand	1,084,740	1,078,839
Generation inventory	1,155,334	998,870
Prepaid expenses	943,525	1,306,936
	<u>45,111,260</u>	<u>41,035,891</u>
<b>Noncurrent Assets</b>		
Restricted assets:		
Debt service reserve	5,211,183	5,367,912
Project accounts	2,142,384	4,693,047
Regulatory assets	889,187	845,977
Deposits with suppliers	8,852,055	8,850,792
Long term member receivables	121,439	160,335
Capital assets:		
Plant in service	86,119,356	82,012,517
Accumulated depreciation	(21,620,852)	(20,011,191)
	<u>64,498,504</u>	<u>62,001,326</u>
Construction in progress	6,069,252	9,588,367
	<u>87,784,004</u>	<u>91,507,756</u>
<b>Total assets</b>	<u>\$ 132,895,264</u>	<u>\$ 132,543,647</u>

See notes to financial statements

**Delaware Municipal Electric Corporation**Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,878,424	\$ 7,344,055
Restricted for renewable energy fund	931,662	757,945
Current portion of loan payable	38,896	38,131
Line of credit	1,778,045	-
Accrued interest	1,484	2,263
Current liabilities payable from restricted assets		
Current portion of revenue bonds	3,451,626	2,692,162
Accrued interest payable with restricted assets	1,050,226	1,254,495
	<u>16,130,363</u>	<u>12,089,051</u>
Total current liabilities		
<b>Noncurrent Liabilities</b>		
Revenue bonds	49,000,000	59,961,427
Unamortized premium	10,055,618	3,651,212
Loan payable	121,439	160,335
	<u>59,177,057</u>	<u>63,772,974</u>
Total noncurrent liabilities		
Total liabilities	<u>75,307,420</u>	<u>75,862,025</u>
<b>Deferred Inflows of Resources</b>		
Regulatory deferral	10,489,813	10,038,334
Gain on refunding of debt	1,479,742	-
	<u>11,969,555</u>	<u>10,038,334</u>
Total deferred inflows or resources		
<b>Net Position</b>		
Net investment in capital assets	12,156,292	15,345,851
Unrestricted	33,461,997	31,297,437
	<u>45,618,289</u>	<u>46,643,288</u>
Total net position	<u>\$ 45,618,289</u>	<u>\$ 46,643,288</u>

See notes to financial statements



**Delaware Municipal Electric Corporation**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Revenue from members	\$ 106,701,108	\$ 100,744,697
Revenue from generation operations	46,635,711	26,027,645
Total operating revenues	153,336,819	126,772,342
<b>Operating Expenses</b>		
Power purchases	77,967,832	58,354,326
Ancillary services	1,549,844	1,346,448
Capacity	35,572,000	33,894,046
RPS compliance	3,504,600	3,190,192
Transmission charge	13,443,359	11,850,242
Plant operation and maintenance	5,514,429	3,347,580
Outside services	633,990	628,965
Salaries and benefits	1,229,626	1,236,213
Administrative and general expenses	369,568	302,304
Depreciation and amortization	2,432,088	2,242,733
Total operating expenses	142,217,336	116,393,049
<b>Operating Income</b>	11,119,483	10,379,293
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	40,501	545,909
Interest expense	(3,024,116)	(2,973,344)
Amortization of bond premiums and gain on refunding	589,965	190,811
Amortization of regulatory asset, debt issuance costs	(51,889)	(43,194)
Gain (loss) on retirement of fixed assets	(1,682,225)	(1,718)
Total nonoperating expenses	(4,127,764)	(2,281,536)
Income before distribution to members	6,991,719	8,097,757
Distribution to members	(8,016,718)	(7,359,656)
Change in net position	(1,024,999)	738,101
<b>Net Position, Beginning</b>	46,643,288	45,905,187
<b>Net Position, Ending</b>	\$ 45,618,289	\$ 46,643,288

See notes to financial statements

**Delaware Municipal Electric Corporation**

## Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from members	\$ 101,585,806	\$ 101,214,139
Cash received from generation operations	46,635,711	26,027,645
Cash paid to suppliers for goods and services	(136,524,811)	(113,981,623)
Cash paid to employees	<u>(1,526,285)</u>	<u>(1,236,213)</u>
Net cash flows from operating activities	<u>10,170,421</u>	<u>12,023,948</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from debt issuance	1,778,045	-
Payment for acquisition of property and equipment	(3,092,376)	(1,694,048)
Interest paid	(3,229,164)	(3,017,645)
Debt principal paid	(2,730,201)	(2,619,217)
Net payment from escrow for bond refunding	1,347,835	-
Debt issuance costs paid	<u>(478,714)</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>(6,404,575)</u>	<u>(7,330,910)</u>
<b>Cash Flows From Investing Activities</b>		
Investments purchased	(19,029,357)	(19,568,271)
Investments sold	19,019,374	19,157,788
Cash distribution to members	(7,867,238)	(7,158,862)
Interest income received	<u>40,501</u>	<u>545,909</u>
Net cash flows from investing activities	<u>(7,836,720)</u>	<u>(7,023,436)</u>
Net increase in cash and cash equivalents	(4,070,874)	(2,330,398)
<b>Cash and Cash Equivalents, Beginning</b>	<u>21,333,788</u>	<u>23,664,186</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 17,262,914</u>	<u>\$ 21,333,788</u>
<b>Noncash Capital and Relating Financing and Investing Activities</b>		
Loss on retirement of fixed assets	\$ 1,682,225	\$ 1,718
Bonds refunded	<u>\$ 43,445,000</u>	<u>\$ -</u>
Member distribution accrual	<u>\$ (149,480)</u>	<u>\$ (200,794)</u>

See notes to financial statements



## Delaware Municipal Electric Corporation

### Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of Operating Income to Net Cash Flows From Operating Activities</b>		
Operating income	\$ 11,119,483	\$ 10,379,293
Adjustments to reconcile operating loss to net cash flows provided by operating activities:		
Depreciation	2,432,088	2,242,733
Changes in assets and liabilities:		
Accounts receivable	(5,779,394)	(199,215)
Fuel oil on hand	(5,901)	13,199
Generation inventory	(156,464)	(734,080)
Deposits with suppliers	(1,263)	(540,702)
Accounts payable	1,534,369	1,424,343
Prepayments	363,411	(1,268,410)
Deferred debits	38,896	38,131
Deferred credits	798,913	630,920
Renewable energy fund	(173,717)	37,736
Net cash flows from operating activities	<u>\$ 10,170,421</u>	<u>\$ 12,023,948</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</b>		
Cash and investments	\$ 27,437,151	\$ 28,591,756
Restricted assets, current debt service	867,525	1,066,419
Restricted assets, project account	2,142,384	4,693,047
Debt service reserve	<u>5,211,183</u>	<u>5,367,912</u>
Total cash and investments	35,658,243	39,719,134
Less noncash equivalents	<u>(18,395,329)</u>	<u>(18,385,346)</u>
Cash and cash equivalents	<u>\$ 17,262,914</u>	<u>\$ 21,333,788</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 307.9 MW in 2021. 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.

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, 2021 and 2020

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.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement establishes requirements for interest cost incurred before the end of a construction period. DEMEC adopted this statement effective January 1, 2021 and there was no financial impact.

### 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, 2021 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:

	<u>2021</u>	<u>2020</u>
Rate stabilization reserve fund, operating cash	\$ 551,465	\$ 555,270
Rate stabilization reserve fund, investments	18,312,563	15,146,939
Generation operating reserve fund	4,427,971	8,643,176
Capital asset reserve fund	1,490,092	1,591,311
Municipal renewable portfolio standard fund	<u>2,655,060</u>	<u>2,655,060</u>
Total unrestricted board designated funds	<u>\$ 27,437,151</u>	<u>\$ 28,591,756</u>

## **Delaware Municipal Electric Corporation**

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### **Notes to Financial Statements**

December 31, 2021 and 2020

DEMEC adopted an official investment policy on March 16, 2021. Investments are limited to: United States treasury obligations, government securities, federal agency securities, certificates of deposit, time deposits, money market mutual funds, Canadian treasury bills, Canadian agency securities, mortgage-backed securities, asset-backed securities, and corporate debt obligations that are rated investment grade by a nationally recognized credit ratings agency. Prior to adopting an official investment policy, DEMEC elected to follow Delaware investment guidelines where investments were 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 \$160,355 and \$198,466 for 2021 and 2020, 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 consists 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, 2021 and 2020

### 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 \$889,187 and \$845,977 in 2021 and 2020, 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 2021 or 2020. 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, 2021 and 2020, DEMEC had posted \$8,852,055 and \$8,850,792 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. Costs related to plant not placed into service are classified as construction work in process. 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

### 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, 2021 and 2020 was \$94,879 and \$74,132, respectively, reported within accounts payable.

### Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond discounts, premiums, gains 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**

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## **Notes to Financial Statements**

December 31, 2021 and 2020

### **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 \$10,489,813 reported as of December 31, 2021 and \$10,038,334 reported as of December 31, 2020 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.

### **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.

### **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, 2021.

# Delaware Municipal Electric Corporation

## Notes to Financial Statements

December 31, 2021 and 2020

### 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. 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
	2021	2020	
Checking and savings	\$ 9,386,217	\$ 10,484,458	Custodial credit
Corporate bonds	7,693,059	9,693,882	Credit, interest rate, custodial credit, concentration of credit risk
Treasury bonds	6,728,454	5,141,863	Interest rate risk, custodial credit risk
Asset backed securities	2,701,294	2,470,335	Credit, interest rate, custodial credit, concentration of credit risk
Government agencies – implicitly guaranteed	354,487	898,338	Credit, interest rate, custodial credit, concentration of credit risk
Mutual funds	8,794,732	11,030,258	Credit, interest rate
Total cash and investments	<u>\$ 35,658,243</u>	<u>\$ 39,719,134</u>	

Immaterial differences between the carrying value and bank value as of December 31, 2021 and 2020 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, 2021 and 2020, DEMEC has secured collateralization with the financial institution to mitigate risk.

## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

DEMEC had collateral pledged in the amount of \$13,679,558 and \$17,501,695 for checking and savings accounts as of December 31, 2021 and 2020, respectively. The mutual funds, asset backed securities, government agencies, 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. DEMEC also uses ICE Pricing indexes to value its investments in treasury bonds, corporate bonds, asset backed securities, and government agencies.

Investment Type	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 7,693,059	\$ -	\$ 7,693,059
Mutual funds	918,035	7,876,697	-	8,794,732
Treasury bonds	6,728,454	-	-	6,728,454
Asset backed securities	-	2,701,294	-	2,701,294
Government agencies – implicitly guaranteed	-	354,487	-	354,487
Total	\$ 7,646,489	\$ 18,625,537	\$ -	\$ 26,272,026

Investment Type	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 9,693,882	\$ -	\$ 9,693,882
Mutual funds	180,930	10,849,328	-	11,030,258
Treasury bonds	5,141,863	-	-	5,141,863
Asset backed securities	-	2,470,335	-	2,470,335
Government agencies – implicitly guaranteed	-	898,338	-	898,338
Total	\$ 5,322,793	\$ 23,911,883	\$ -	\$ 29,234,676

### Investment Policy

DEMEC formally adopted an investment policy as of March 16, 2021. Prior to adopting this policy, DEMEC elected to follow the State of Delaware investment guidelines (the guidelines).

### 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. DEMEC does not have any deposits exposed to custodial credit risk as of December 31, 2021 and 2020.

#### 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.



## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

As of December 31, 2021 and 2020, DEMEC's investments exposed to custodial credit risk are as follows:

	2021	2020
Corporate bonds	\$ 7,693,059	\$ 9,693,882
Treasury bonds	6,728,454	5,141,863
Government agencies	354,487	898,338
Asset backed securities	2,701,294	2,470,335
Total cash and investments	<u>\$ 17,477,294</u>	<u>\$ 18,204,418</u>

The policy does not specifically address this risk; however, the policy sets maximum allocation of funds in certain investment types within set minimum credit quality guidelines.

### 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, 2021, DEMEC's investments were rated as follows:

	Standard & Poors	Moody's Investors Services
Mutual funds	AAAm	Aaa mf
Corporate bonds	A- - AA+	A3 - Aaa
Government Agencies	N/A	AAA
Asset backed securities*	AAA	AAA

\* \$1.4 million of the asset-backed securities are unrated.

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

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

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

The policy requires the average credit quality of the portfolio to be at or above a Moody's Investors Services rating Aa3.

## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

#### 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, 2021, DEMEC's investments matured as follows:

Investment Type	Fair Value	Maturity (In Years)		
		<1 Year	1-5 Years	>5 Years
Corporate bonds	\$ 7,693,059	\$ 3,327,877	\$ 4,365,182	\$ -
Treasury bonds	6,728,454	2,784,336	3,944,118	-
Asset backed securities	2,701,294	-	2,701,294	-
Government Agencies	354,487	-	129,763	224,724
Mutual funds	8,794,732	8,794,732	-	-
Total	<u>\$ 26,727,026</u>	<u>\$ 14,906,945</u>	<u>\$ 11,140,357</u>	<u>\$ 224,724</u>

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

Investment Type	Fair Value	Maturity (In Years)		
		<1 Year	1-5 Years	>5 Years
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>

The policy does not specifically address this risk; however, the policy has maturity restrictions for various investment types.

#### 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 policy does not specifically address this risk; however, the policy establishes portfolio limits for each type of permissible investment.

## Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2021 and 2020

### 3. Restricted Assets

#### Revenue Bond Accounts

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

	2021	2020
Debt service account	\$ 867,525	\$ 1,066,419
Project accounts	2,142,384	4,693,047
Debt service reserve fund	5,211,183	5,367,912
Total	<u>\$ 8,221,092</u>	<u>\$ 11,127,378</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, issuance costs 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 2021, approximately 22 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, 19 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, 2021 and 2020

### 5. Plant in Service

A summary of changes in electric capital assets for 2021 follows:

	Balance January 1, 2021	Increases	Decreases	Balance December 31, 2021
Capital assets not being depreciated:				
Land and land rights	\$ 389,598	\$ 523,248	\$ -	\$ 912,846
Construction in progress	9,588,367	3,905,559	7,424,674	6,069,252
Total capital assets not being depreciated	9,977,965	4,428,807	7,424,674	6,982,098
Capital assets being depreciated:				
Land improvements	33,150	-	-	33,150
Generation	79,819,519	4,221,018	2,504,653	81,535,884
Office buildings and improvements	1,654,939	24,171	-	1,679,110
Office furniture and equipment	64,354	4,055	-	68,409
Transportation	50,957	60,955	-	111,912
Total capital assets being depreciated	81,622,919	6,088,244	2,504,653	85,206,510
Total capital assets	91,600,884	10,517,051	9,929,327	92,188,608
Less accumulated depreciation	(20,011,191)	(2,432,088)	(822,427)	(21,620,852)
Net capital assets	\$ 71,589,693	\$ 8,084,963	\$ 9,106,900	\$ 70,567,756

# Delaware Municipal Electric Corporation

## Notes to Financial Statements

December 31, 2021 and 2020

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

## 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, 2021 and 2020

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:

	2021	2020
Plant in service and construction in progress	\$ 92,188,608	\$ 91,600,884
Less accumulated depreciation	(21,620,852)	(20,011,191)
Subtotal	70,567,756	71,589,693
Less capital related debt:		
Current portion of capital related long-term debt	3,451,626	2,692,162
Long-term portion of capital related long-term debt	49,000,000	59,961,427
Unamortized premium	10,055,618	3,651,212
Gain on refunding of debt	1,479,742	-
Line of credit	1,778,045	-
Subtotal	65,765,031	66,304,801
Add unspent debt proceeds:		
Debt service reserve	5,211,183	5,367,912
Project accounts	2,142,384	4,693,047
Subtotal	7,353,567	10,060,539
Net investment in capital assets	\$ 12,156,292	\$ 15,345,851

## 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, 2021.

The letter of credit agreement was originally dated February 6, 2009 and was last amended on September 30, 2021 and extended through September 30, 2022 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, 2021 and 2020, no draws were made against the letter of credit facility for liquidity needs or collateral posting requirements. At December 31, 2021 and 2020, there was no outstanding balance on the letter of credit facility.

During the years ended December 31, 2021 and 2020, the outstanding balance on the line of credit facility was \$1,778,045 and \$0, respectively.



## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

#### 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, 2021 and 2020 is as follows:

Description	Year Ended December 31	
	2021	2020
Change in net position	\$ (1,024,999)	\$ 738,101
Add interest expense	3,024,116	2,973,344
Unrealized loss (gain) on investments	320,094	(1,514)
Loss on asset disposal	1,682,255	1,718
Depreciation	2,432,088	2,242,733
Amortization (net)	(538,076)	(147,617)
Net EBITDA	<u>\$ 5,895,478</u>	<u>\$ 5,806,765</u>
Current maturities plus interest expense	\$ 5,716,278	\$ 5,665,506
Debt service coverage	1.03	1.02

DEMEC did not meet the required coverage in 2021 or 2020. Although debt coverage in 2021 was higher than 2020, debt coverage fell slightly below the required coverage due to unanticipated upgrades and repairs to the Beasley Power Station. This is not expected to be a trend moving forward.

# Delaware Municipal Electric Corporation

## Notes to Financial Statements

December 31, 2021 and 2020

### 8. Long-Term Debt

#### Loan Payable

The following direct placement loan has been issued:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount December 31, 2021
December 15, 2015	City of Newark LED streetlight project	December 1, 2025	1.99 %	\$ 378,149	\$ 160,335

Loan Payable requirements to maturity follow:

	Principal	Interest	Total
Years ending December 31:			
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	\$ 160,335	\$ 6,597	\$ 166,932

#### Revenue Bonds

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount December 31, 2021
December 4, 2015	New Castle substation refunding, direct placement	December 4, 2022	1.84 %	\$ 4,216,387	\$ 1,051,626
November 1, 2011	Construction of Beasley generating unit #2	July 1, 2041	2.0-5.0	59,742,555	-
May 7, 2019	Middletown and Seaford projects	October 1, 2044	5.0	12,060,000	11,400,000
May 7, 2019	Middletown transmission line project	October 1, 2034	3.0-4.5	4,635,000	4,065,000
April 8, 2021	Beasley power station refunding	July 1, 2036	4.0 – 5.0	35,935,000	35,935,000

# Delaware Municipal Electric Corporation

## Notes to Financial Statements

December 31, 2021 and 2020

Revenue bonds debt service requirements to maturity follow:

	Bonds		Direct Placement		Total
	Principal	Interest	Principal	Interest	
Years ending December 31:					
2022	\$ 2,400,000	\$ 2,465,615	\$ 1,051,626	\$ 14,613	\$ 5,931,854
2023	2,515,000	2,350,140	-	-	4,865,140
2024	2,640,000	2,228,784	-	-	4,868,784
2025	2,770,000	2,100,998	-	-	4,870,998
2026	2,900,000	1,965,798	-	-	4,865,798
2027-2031	14,675,000	7,733,233	-	-	22,408,233
2032-2036	18,030,000	3,863,583	-	-	21,893,583
2037-2041	3,685,000	951,500	-	-	4,636,500
2042-2044	1,785,000	181,500	-	-	1,966,500
Total	<u>\$ 51,400,000</u>	<u>\$ 23,841,151</u>	<u>\$ 1,051,626</u>	<u>\$ 14,613</u>	<u>\$ 76,307,390</u>

## Long-Term Obligations Summary

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

	Balance January 1, 2021	Additions	Reductions	Balance December 31, 2021	Due Within One Year
Revenue bonds	\$ 61,050,000	\$ 35,935,000	\$ 45,585,000	\$ 51,400,000	\$ 2,400,000
Revenue bonds direct placement	1,603,589	-	551,963	1,051,626	1,051,626
Unamortized premium	3,651,212	8,857,471	2,453,065	10,055,618	-
Loan payable direct placement	198,466	-	38,131	160,335	38,896
Total	<u>\$ 66,503,267</u>	<u>\$ 44,792,471</u>	<u>\$ 48,628,159</u>	<u>\$ 62,667,579</u>	<u>\$ 3,490,522</u>
	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>

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, 2021, the remaining balance due was \$160,335. 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.

## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

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.

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.

On April 8, 2021, bonds in the amount of \$35,935,000 (Series 2021 Bonds) were issued to provide funds to (i) current refund all or substantially all of DEMEC's Series 2011 Bonds and (ii) pay costs and expenses incident to the issuance of the Series 2021 Bonds. The cash flow requirements on the old bonds prior to the current refunding was \$67,951,481 and the cash flow requirement on the new bonds is \$50,921,064. The current refunding resulted in an economic gain of \$13,506,968 and a reduced term from 20 years to 15 years.

Gross receipts and real and personal property of the Beasley Power Station project previously pledged as collateral on the 2011 Revenue Bonds have been pledged as collateral on the 2021 Revenue Bonds. The Series 2021 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.

Participant	July 1, 2021 through July 1, 2026	July 2, 2026 through Final Maturity
Newark	41.6 %	34.3 %
Milford	20.2 %	19.2 %
Middletown	11.4 %	16.2 %
Smyrna	8.5 %	9.5 %
Seaford	8.5 %	9.9 %
New Castle	8.1 %	7.1 %
Clayton	1.7 %	1.9 %



# Delaware Municipal Electric Corporation

## Notes to Financial Statements

December 31, 2021 and 2020

### Debt Service Coverage

#### 2021 Series Revenue Bonds

Section 6.9 of the Series 2021 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 met the debt coverage requirement for the Series 2021 bond issue for the year ended December 31, 2021.

#### 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 1.36 and 1.22 for the years ended December 31, 2021 and 2020, respectively.

#### 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, 2021 and 2020.

### 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:

	2021	2020
Town of Clayton	\$ 3,605	\$ 17,199
City of Lewes	87,881	92,570
Town of Middletown	240,687	203,527
City of Milford	167,402	104,476
City of New Castle	39,087	33,412
City of Newark	336,739	257,930
City of Seaford	23,181	19,802
Town of Smyrna	33,080	29,028
Total	<u>\$ 931,662</u>	<u>\$ 757,945</u>

## Delaware Municipal Electric Corporation

### Notes to Financial Statements

December 31, 2021 and 2020

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

	2021	2020
Received from members for green energy fund	\$ 331,970	\$ 293,696
Payments made for green energy purposes	(158,253)	(331,430)
Net cash accumulated (used) in renewable energy fund	<u>\$ 173,717</u>	<u>\$ (37,736)</u>

## 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.

	2021	2020
AMP	\$ 5,400,623	\$ 2,956,572
PJM	41,232,487	23,069,162
Town of Clayton	1,804,020	1,713,845
City of Dover	-	37,776
Lewes BPW	6,283,425	5,981,598
Town of Middletown	20,364,635	19,039,071
City of Milford	18,715,780	17,572,360
City of Newark	34,303,604	32,274,764
New Castle MSC	6,522,820	6,304,430
City of Seaford	9,482,985	8,974,941
Town of Smyrna	9,223,840	8,845,912
Other revenue	2,600	1,911
Total	<u>\$ 153,336,819</u>	<u>\$ 126,772,342</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.

## Delaware Municipal Electric Corporation

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### Notes to Financial Statements

December 31, 2021 and 2020

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.

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, 2021. In 2019, DEMEC issued a twenty-five-year revenue bond in the principal 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.

## Delaware Municipal Electric Corporation

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### Notes to Financial Statements

December 31, 2021 and 2020

In December 2021, DEMEC and Delmarva Power & Light Company executed an Agreement to Request Termination of Construction Agreement for the construction of the 138 kV transmission line running from Townsend Substation to Middletown Substation. The agreement called for Delmarva to design and construct a new 138 kV transmission line running to the Middletown Substation and the project will proceed through the PJM process. The agreement required Delmarva to refund \$5,867,891 of previously paid funds, upon FERC approval of the termination of the Construction Agreement. These funds reimbursed previously incurred construction costs and are recorded as a receivable as of December 31, 2021.

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 134-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.

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 \$20,500 in 2021. Employees age 50 or older may contribute an additional \$6,500 in 2021. 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 \$41,000 in 2021. 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, 2021 and 2020 were \$94,755 and \$89,257, respectively.

As of December 2, 2021, senior management is eligible to participate in a 401(a) governmental retirement plan administered by ICMA-RC. Benefit provisions and all other requirements are approved by the board of DEMEC. Board approval is needed to be eligible to participate in the plan. 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 \$58,000 in 2021. DEMEC contributes 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 year ended December 31, 2021 was \$4,129.

**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.

**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, 2021, contracts valued at a total of \$4,202,448 remained open. A total of \$3,340,638 was spent through December 31, 2021, leaving an open balance of \$861,810.

**15. Subsequent Events**

DEMEC management has evaluated all events and transactions that occurred after December 31, 2021, through the date the accompanying financial statements were available to be issued, March 31, 2022. During this time period, there were no material subsequent events which required disclosure.

## **General Information**

### **Financial Statements**

Financial statements, past annual reports and more are available on our website at:  
[PublicPowerDE.com](http://PublicPowerDE.com)

### **Forward-Looking Statements**

This document may include certain forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances that may have a material effect on actual results.



# DEMEC

Delaware Municipal Electric Corporation



***Powering Communities  
Together.***

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