

APPENDIX A

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Delaware County Electric Cooperative, Inc.
39 Elm Street
Delhi, NY 13753

Report on the Financial Statements

We have audited the accompanying financial statements of Delaware County Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2019 and 2018, and the related statements of revenue and expenses, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware County Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2020 on our consideration of Delaware County Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Delaware County Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Fiore Fedeli Snyder Carothers, LLP
April 28, 2020

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS

Assets

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Electric Plant</u>		
In service - at cost	\$ 33,820,436	\$ 33,372,390
Construction work in progress	<u>386,179</u>	<u>275,565</u>
Total Electric Plant	34,206,615	33,647,955
Less accumulated depreciation	(12,267,120)	(11,528,576)
Net Electric Plant	<u>21,939,495</u>	<u>22,119,379</u>
<u>Other Assets and Investments</u>		
Investments in associated organizations	807,957	945,332
Non Utility Property	<u>610,240</u>	<u>--</u>
Total Other Assets and Investments	<u>1,418,197</u>	<u>945,332</u>
<u>Current Assets</u>		
Cash - general funds	196,221	94,672
Trade accounts receivable less provision for uncollectible accounts of \$183,447 and \$178,863 at December 31, 2019 and 2018, respectively	624,802	664,319
Other receivables	460,066	503,825
Materials and supplies (at average cost)	768,271	435,826
Prepaid expenses	211,718	174,815
Other assets	<u>332,190</u>	<u>367,190</u>
Total Current Assets	<u>2,593,268</u>	<u>2,240,647</u>
Deferred Charges	<u>1,769,107</u>	<u>2,019,097</u>
Total Assets	\$ <u>27,720,067</u>	\$ <u>27,324,455</u>

See Accompanying Notes to Financial Statements

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.

BALANCE SHEETS

(Continued)

Equities and Liabilities

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Equities</u>		
Memberships	\$ 58,900	\$ 57,785
Patronage capital	9,129,361	8,978,846
Other equities	<u>1,155,803</u>	<u>1,060,544</u>
Total Equities	<u>10,344,064</u>	<u>10,097,175</u>
<u>Long-Term Debt</u>		
NCSC notes, less current maturities	--	12,702
CFC notes, less current maturities	2,726,012	3,209,719
FFB notes, less current maturities	9,025,648	8,691,105
CoBank notes, less current maturities	<u>59,575</u>	<u>72,420</u>
Total Long-Term Debt	<u>11,811,235</u>	<u>11,985,946</u>
<u>Current Liabilities</u>		
Current maturities of long-term debt	947,275	925,708
Accounts payable:		
Purchased power	143,648	120,693
Other	75,555	148,553
Accrued interest	24,611	27,735
Consumer deposits and prepayments	193,292	172,449
Other current and accrued liabilities	<u>370,313</u>	<u>298,815</u>
Total Current Liabilities	<u>1,754,694</u>	<u>1,693,953</u>
Total Liabilities	<u>13,565,929</u>	<u>13,679,899</u>
Deferred Credits	<u>3,810,074</u>	<u>3,547,381</u>
Total Equities and Liabilities	\$ <u><u>27,720,067</u></u>	\$ <u><u>27,324,455</u></u>

See Accompanying Notes to Financial Statements

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 8,826,863	\$ 9,075,031
<u>Operating Expenses</u>		
Cost of power	1,943,856	2,083,467
Distribution - operations	1,372,890	1,382,622
Distribution - maintenance	1,764,369	1,596,166
Consumer accounts	253,591	258,421
Customer service and information	10,862	34,011
Administrative and general	1,471,617	1,162,375
Depreciation	978,005	996,431
Other deductions	4,300	410,614
Interest - other	<u>312</u>	<u>316</u>
Total Operating Expenses	<u>7,799,802</u>	<u>7,924,423</u>
Operating margin before fixed charges	1,027,061	1,150,608
<u>Fixed Charges</u>		
Interest on long-term debt	<u>602,156</u>	<u>610,144</u>
Operating margin after fixed charges	424,905	540,464
<u>Other Operating Margins</u>		
G & T and other capital credits	<u>30,785</u>	<u>40,707</u>
Net operating margin	455,690	581,171
<u>Nonoperating Margins</u>		
Interest income	124,948	112,586
Other	<u>36,740</u>	<u>2,049</u>
Total non-operating margin	<u>161,688</u>	<u>114,635</u>
Net Margin	\$ <u><u>617,378</u></u>	\$ <u><u>695,806</u></u>

See Accompanying Notes to Financial Statements

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>
Balance at December 31, 2017	\$ 56,735	\$ 8,887,972	\$ 1,008,951
Membership fees, net	1,050	--	--
Net margins	--	695,806	--
Retirement of capital credits	--	(604,932)	--
Gain on early retirement of capital credits	<u>--</u>	<u>--</u>	<u>51,593</u>
Balance at December 31, 2018	57,785	8,978,846	1,060,544
Membership fees, net	1,115	--	--
Net margins	--	617,378	--
Retirement of capital credits	--	(466,863)	--
Gain on early retirement of capital credits	<u>--</u>	<u>--</u>	<u>95,259</u>
Balance at December 31, 2019	\$ <u>58,900</u>	\$ <u>9,129,361</u>	\$ <u>1,155,803</u>

See Accompanying Notes to Financial Statements

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS

	<u>Year Ended</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Cash flow from operating activities:		
Cash received from operations	\$ 8,816,080	\$ 8,649,278
Cash payments to suppliers for goods and services	(6,443,690)	(5,761,244)
Interest Paid	(605,280)	(613,267)
Net Cash Provided By Operating Activities	<u>1,767,110</u>	<u>2,274,767</u>
Cash flows from investing activities:		
Extension and replacement of plant	(1,377,576)	(1,414,324)
Change in invested funds	<u>137,375</u>	<u>21,342</u>
Net Cash Used In Investing Activities	<u>(1,240,201)</u>	<u>(1,392,982)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	875,000	425,000
Reduction of long-term debt		
CFC	(483,094)	(475,960)
NCSC	(33,234)	(45,548)
CoBank	(12,437)	(12,035)
FFB	(401,106)	(381,097)
Membership fees received	1,115	1,050
Gain on retired capital credits	95,259	51,593
Retirement of capital credits	(466,863)	(604,932)
Net Cash used in Financing Activities	<u>(425,360)</u>	<u>(1,041,929)</u>
Net increase/(decrease) in cash	101,549	(160,144)
Cash balance, beginning of year	<u>94,672</u>	<u>254,816</u>
Cash balance, end of year	\$ <u><u>196,221</u></u>	\$ <u><u>94,672</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Net Margin	\$ 617,378	\$ 695,806
Adjustment to reconcile net margin to net cash provided by operating activities:		
Depreciation	978,005	996,431
Change in post retirement benefit obligation	262,693	205,990
G & T and other capital credits	(30,785)	(40,707)
Increase in RUS cushion of credit	(98,274)	(220,941)
Change in assets and liabilities:		
Decrease/(increase) in receivables	83,276	(195,615)
Increase in materials & supplies	(332,445)	(12,762)
(Increase)/decrease in prepaid expenses	(36,903)	11,360
Decrease in other current assets	35,000	31,510
Decrease in deferred charges	249,990	643,614
(Decrease)/increase in accounts payable	(50,043)	43,587
Increase in consumer deposits	20,843	16,874
Increase in other accruals	<u>68,375</u>	<u>99,620</u>
Net Cash Provided by Operating Activities	\$ <u><u>1,767,110</u></u>	\$ <u><u>2,274,767</u></u>

See Accompanying Notes to Financial Statements

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

A. Summary of Significant Accounting Policies

Nature of Activities

Delaware County Electric Cooperative, Inc. ("Delaware County Electric" or the "Cooperative") is a rural electric cooperative utility established under the laws of the State of New York. Financing assistance is provided by various entities including the Rural Utilities Service (a division of the U.S. Department of Agriculture) ("RUS") through the Federal Financing Bank and, therefore, Delaware County Electric is subject to certain rules and regulations imposed on rural electric borrowers. Delaware County Electric is a distribution cooperative, providing electricity to its owner/members in Delaware, Schoharie, Otsego and Chenango Counties.

Delaware County Electric maintains its accounting records on the accrual basis of accounting in accordance with the Federal Energy Regulatory Commission's chart of accounts as modified and adopted by the RUS.

In the normal course of business, Delaware County Electric Cooperative, Inc. is a party to financial instruments with off-balance sheet credit risk. These financial instruments include cash accounts in commercial banks located principally in or near Delaware County in New York State, and investments in associated organizations. The cash balances are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Uninsured cash balances totaled \$0 and \$0 at December 31, 2019 and 2018, respectively. The investments in associated organizations are unsecured.

Delaware County Electric is committed to purchase its electric power and energy requirements from the New York State Power Authority. Management is unable to estimate the economic effect should the Authority be unable to meet its needs.

Utility Plant and Depreciation

Utility plant is stated at cost, which includes payroll and payroll related costs, transportation costs, and overhead. Cost does not include interest on funds used during construction. Depreciation of utility plant is computed using group composite straight-line rates. When utility plant is retired, its cost, together with the related accumulated provisions for depreciation are removed from the accounts.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

A. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Members of Delaware County Electric are billed based on kilowatt-hours of electricity used. Revenue is recognized in the same period in which the related electric services are provided.

Subsequent Events

Subsequent events have been evaluated through April 28, 2020, which is the date the financial statements were available for issue.

Electric Rates

In September 2010, the members of the Cooperative approved a resolution to "self-regulate", thereby granting authority to the Cooperative Board of Directors to establish electric rates. Prior to that date, the New York Power Authority had regulatory rate authority over the Cooperative.

Taxes on Income

The Cooperative is exempt from taxes on income pursuant to Section 501(c)(12) of the Internal Revenue Code. Consequently, the accompanying financial statements reflect no provision for taxes on income.

The Cooperative has examined its tax positions and believes they will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Cooperative's financial condition, results of operations or cash flows. Tax years 2016 through 2018 remain open to IRS examination.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Delaware County Electric considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

A. Summary of Significant Accounting Policies (continued)

Utilization of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results will differ from these estimates.

Investment Valuation

Investments are recorded at fair value. Fair value is defined as the price that the Cooperative would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy is utilized to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

Level 1- quoted prices in active markets for identical investments.

Level 2- other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc).

Level 3- significant unobservable inputs (including the organization's own assumptions in determining the fair value of investments).

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

A. Summary of Significant Accounting Policies (continued)

Securities listed on a securities exchange or openly traded, for which market quotations are readily available, are valued at their last quoted sales price on the principal exchange on which they are traded on the valuation date. Debt securities are valued at prices that reflect broker/dealer-supplied valuations or are obtained from independent pricing services and are deemed representative of market values at the close of the market.

B. Assets Pledged

Substantially all assets are pledged as security for the long-term debt to CFC, FFB, NCSC and CoBank.

C. Utility Plant and Depreciation

Listed below are the major classes of utility plant:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Distribution plant:		
Land	\$ 36,417	\$ 36,417
Station equipment	2,553,567	2,433,125
Poles, towers and fixtures	15,780,594	15,677,064
Conductors and devices	7,246,599	7,281,466
Line transformers	2,294,256	2,363,620
Services	1,767,950	1,722,427
Meters	229,832	275,698
Customer premises	<u>329,411</u>	<u>314,710</u>
Total distribution plant	30,238,626	30,104,527
General plant	<u>3,581,810</u>	<u>3,267,863</u>
Total electric plant in service	33,820,436	33,372,390
Construction work in progress	<u>386,179</u>	<u>275,565</u>
Total electric plant and equipment	<u>\$ 34,206,615</u>	<u>\$ 33,647,955</u>

The Cooperative previously owned a subsidiary that developed, owned and operated a Waste-to-Energy Project, a renewable energy power project. Operations of the Project ceased in 2012 and during the year ended December 31, 2013 when the Cooperative sold its generation equipment/facility assets (Landfill Gas Generation Facility) for approximately \$120,000. The remaining book value of the generation equipment/facility assets amounted to approximately \$1,705,000. The Cooperative intends to recover the loss in its rate structure and developed a plan to amortize the cost over a period of ten years. This plan was approved by the Cooperative's Board of Directors as well as RUS during 2013. Further discussion is provided below.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

C. Utility Plant and Depreciation (continued)

Provision has been made for depreciation of electric distribution plant at a straight-line composite rate of 2.5% - 4% per annum.

General plant depreciation rates have been applied on a straight-line basis as follows:

Structures	2.0 - 3.0 %
Transportation equipment	14.0 - 16.0 %
Tools and work equipment	11.0 - 16.0 %
Other general plant	3.6 - 8.0 %

Depreciation expense was \$978,005 and \$996,431 net of \$159,218 and \$129,736 capitalized in 2019 and 2018, respectively.

D. Investments in Associated Organizations

Investments in associated organizations, carried at stated value, consist of the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Patronage capital credits:		
National Rural Utilities Cooperative		
Finance Corporation (CFC)	\$ 134,892	\$ 133,448
United Utility Supply Cooperative	37,304	37,304
National Information Solutions		
Cooperative	<u>53,638</u>	<u>50,189</u>
	<u>225,834</u>	<u>220,941</u>
Capital term certificates of the		
National Rural Utilities Cooperative		
Finance Corporation:		
5% Subordinate certificates	184,527	184,527
3% Subordinate certificates	52,150	52,150
0% Subordinate certificates	<u>6,821</u>	<u>8,743</u>
	<u>243,498</u>	<u>245,420</u>
Other:		
Federated insurance	100,981	95,182
Commercial Paper - CFC	234,000	380,000
Memberships	<u>3,644</u>	<u>3,789</u>
	<u>338,625</u>	<u>478,971</u>
Total	<u>\$ 807,957</u>	<u>\$ 945,332</u>

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

E. Deferred Charges

Deferred charges consist of the following:

	<u>2019</u>	<u>2018</u>
Regulatory Asset Other Post Retirement Benefits	\$ 1,109,474	\$ 1,221,608
Escrow - Water Main Relocation	27,500	--
Depot Street Property Deposit	--	60,000
RS Plan prepayment	<u>632,133</u>	<u>737,489</u>
Total	\$ <u>1,769,107</u>	\$ <u>2,019,097</u>

Regulatory Asset - Other Post Retirement Benefits:

In 1995, the New York Power Authority (NYPA) provided guidance regarding the accounting and ratemaking treatment for other post retirement benefits which allowed cooperatives to defer the cost of the liability and recognize expenses on a pay as you go basis. This resulted in the Cooperative recording a deferred charge (regulatory asset) and a deferred credit (liability) in equal amounts.

As discussed in Note J, during 2011, the Cooperative had an actuarial study performed on its other post retirement obligation which resulted in a reduction in both the regulatory asset and post retirement liability in the amount of \$1,076,320. On February 28, 2012, the Cooperative's Board of Directors approved a Plan to bring the regulatory asset - other post-retirement benefits into its rates over the next 20 years in accordance with FASB Topic 980, *Regulated Operations*.

Total amortization as a result of the Plan for the years ended December 31, 2019 and 2018 was \$112,134 and \$192,134, respectively.

Regulatory Asset - Generation Facility:

As discussed above, the Cooperative approved a Plan to bring the regulatory asset - Generation Facility into its rates over a period of 10 years in accordance with FASB Topic 980, *Regulated Operations*. During 2018, the Cooperative determined that the regulatory asset had no further value and wrote-off the asset at December 31, 2018. For the year ended 2017, the Cooperative accelerated the Plan by increasing the amortization by \$120,000. Total amortization as a result of the Plan for the years ended December 31, 2019 and 2018 was \$0 and \$406,125, respectively. The accelerated amortization was completed by December 31, 2018.

RS Plan Prepayment:

On March 21, 2013, the Board authorized a resolution to approve the NRECA RS plan repayment in the amount of \$1,369,622. The Cooperative is amortizing this amount over a thirteen year period which is

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

E. Deferred Charges (continued)

estimated to be the average service life of its employees. The total amount for the years ended December 31, 2019 and 2018 was \$105,355. See Note J for further plan information.

F. Patronage Capital

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Assignable	\$ 617,378	\$ 695,806
Assigned, net of retirements	<u>8,511,983</u>	<u>8,283,040</u>
Total	\$ <u>9,129,361</u>	\$ <u>8,978,846</u>

Under the provisions of the Mortgage Agreement with RUS, the Cooperative may make distributions in any calendar year if, after giving effect to the distribution, total equity is at least thirty percent of total assets. If total equity is less than thirty percent of total assets, the Cooperative may nevertheless make distributions of up to twenty-five percent of its total margin for the preceding calendar year. The total equity of the Cooperative represents 37.3% and 37.0% of the total assets at December 31, 2019 and 2018, respectively.

During the years ended December 31, 2019 and 2018, the Cooperative paid out \$409,472 and \$529,265, respectively in capital credit retirements to its members. The Cooperative also retired capital credits through estate settlements during 2019 and 2018 in the amount of \$43,983 and \$75,567, respectively.

G. Other Equities

Other equities consist of donated capital totaling \$1,155,803 and \$1,060,544 at December 31, 2019 and 2018, respectively.

H. Pole Attachment Fees

Operating revenues include third party pole attachment fees, such fees total \$345,634 and \$304,241 for the years ended December 31, 2019 and 2018, respectively.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. Long-Term Debt

Long-term debt consists of mortgage notes payable to the National Cooperative Services Corporation (NCSC) the National Rural Utilities Cooperative Finance Corporation (CFC), the Federal Financing Bank (FFB) and CoBank. Following are summaries of long-term debt:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>National Cooperative Services Corporation:</u>		
Note, interest only until July 2018 then payable \$10,626 quarterly including interest at 5.05% maturing in 2019.	--	20,856
Note, interest only until July 2019 then payable \$6,475 quarterly including interest at 5.20% maturing in 2020.	<u>12,702</u>	<u>25,080</u>
	12,702	45,936
Less current maturities	<u>12,702</u>	<u>33,234</u>
	\$ --	\$ <u>12,702</u>

Cooperative Finance Corporation:

Note, payable \$3,278 quarterly, including interest at 6.70%, maturing in 2019.	\$ --	\$ 9,512
Note, payable \$9,068 quarterly, including interest at 6.80%, maturing in 2022.	97,686	126,097
Note, payable \$5,628 quarterly, including interest at 6.80%, maturing in 2029.	156,594	167,970
Note, payable \$4,507 quarterly including interest at 7.25, maturing in 2039.	188,482	192,653

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. <u>Long-Term Debt</u> (continued)	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Notes, payable \$50,317 quarterly, including interest at 3.25%, maturing in 2022.	503,171	704,440
Notes, payable \$39,472 quarterly, including interest at 2.85%, maturing in 2023.	524,173	664,612
Note, payable \$4,364 quarterly including interest at 3.45% maturing in 2026.	97,758	111,542
Note, interest only until October, 2018 then payable \$11,132 including interest at 3.50% maturing in 2019.	--	55,417
Note, interest only until October, 2019 then payable \$19,426 including interest at 3.75% maturing in 2020.	57,202	75,916
Note, interest only until October, 2020 then payable \$20,221 including interest at 3.95% maturing in 2021.	78,927	78,927
Note, interest only until October, 2021 then payable \$21,024 including interest at 4.10% maturing in 2021.	81,984	81,984
Note, interest only until October, 2022 then payable \$21,889 including interest at 4.25% maturing in 2023.	85,279	85,279
Note, interest only until October, 2023 then payable \$22,768 including interest at 4.35% maturing in 2024.	88,648	88,648
Note, interest only until October, 2024 then payable \$23,792 including interest at 4.45% maturing in 2025.	92,580	92,580

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. Long-Term Debt (continued)

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Note, interest only until October, 2025 then payable \$24,841 including interest at 4.55% maturing in 2026.	96,602	96,602
Note, interest only until October, 2026 then payable \$25,948 including interest at 4.60% maturing in 2027.	100,876	100,876
Note, interest only until October, 2027 then payable \$27,100 including interest at 4.70% maturing in 2028.	105,289	105,289
Note, interest only until October, 2028 then payable \$28,383 including interest at 4.75% maturing in 2029.	110,238	110,238
Note, interest only until October, 2029 then payable \$17,354 including interest at 4.80% maturing in 2030.	67,382	67,382
Note, interest only until October, 2030 then payable \$17,947 including interest at 4.85% maturing in 2031.	69,665	69,665
Note, interest only until October, 2031 then payable \$18,771 including interest at 4.85% maturing in 2032.	72,863	72,863
Note, interest only until October, 2032 then payable \$19,682 including interest at 4.90% maturing in 2033.	76,373	76,373
Note, interest only until October, 2033 then payable \$20,616 including interest at 4.90% maturing in 2034.	79,998	79,998
Note, interest only until October, 2034 then payable \$22,751 including interest at 4.95% maturing in 2035.	88,256	88,256

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

Long-Term Debt (continued)

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Note, interest only until October, 2035 then payable \$23,779 including interest at 4.95% maturing in 2036.	92,243	92,243
Note, interest only until October, 2036 then payable \$24,883 including interest at 5.00% maturing in 2037.	96,497	96,497
Note, interest only until October, 2037 then payable \$26,032 including interest at 5.00% maturing in 2038.	<u>100,953</u>	<u>100,953</u>
	3,209,719	3,692,812
Less current maturities	<u>483,707</u>	<u>483,093</u>
	<u>\$ 2,726,012</u>	<u>\$ 3,209,719</u>

Federal Financing Bank:

Note, payable \$5,533 quarterly, including interest at 5.98% maturing in 2027.	\$ 139,905	\$ 153,171
Note, payable \$8,502 quarterly, including interest at 5.346% maturing in 2028.	241,710	262,112
Note, payable \$2,743 quarterly, including interest at 6.155% maturing in 2028.	75,381	81,476
Note, payable \$16,230 quarterly, including interest at 6.422% maturing in 2028.	441,151	476,320
Note, payable \$5,242 quarterly, including interest at 4.409% maturing in 2035.	229,224	239,794

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. Long-Term Debt (continued)

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Note, payable \$3,491 quarterly, including interest at 4.32% maturing in 2035.	156,582	164,042
Note, payable \$13,373 quarterly, including interest at 4.409% maturing in 2035.	584,786	611,752
Note, payable \$9,633 quarterly, including interest at 4.622% maturing in 2034.	415,239	434,033
Note, payable \$11,759 quarterly, including interest at 4.845% maturing in 2034.	499,419	521,586
Note, payable \$16,602 quarterly, including interest at 4.778% maturing in 2035.	708,244	739,865
Note, payable \$14,535 quarterly, including interest at 3.772% maturing in 2029.	482,464	521,484
Note, payable \$8,249 quarterly, including interest at 3.981% maturing in 2042.	495,583	508,527
Note, payable \$10,279 quarterly, including interest at 3.497% maturing in 2042.	647,883	665,947
Note, payable \$14,187 quarterly, including interest at 4.139% maturing in 2042.	839,259	860,714
Note, payable \$21,375 quarterly, including interest at 2.652% maturing in 2042.	1,468,673	1,514,466
Note, payable \$22,953 quarterly, including interest at 3.375% maturing in 2046.	1,622,546	1,658,831

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. Long-Term Debt (continued)

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Note, payable \$8,982 quarterly, including interest at 2.84% maturing in 2046.	675,943	692,390
Note, payable \$5,892 quarterly, including interest at 2.30% maturing in 2037.	473,032	485,540
Note, payable \$5,120 quarterly, including interest at 3.05% maturing in 2039.	423,080	425,000
Note, payable \$10,299 quarterly, including interest at 2.784% maturing in 2052.	<u>870,840</u>	<u>--</u>
	11,490,944	11,017,050
Less current maturities	438,021	396,944
Less advance payments unapplied	<u>2,027,275</u>	<u>1,929,001</u>
	<u>\$ 9,025,648</u>	<u>\$ 8,691,105</u>
 <u>CoBank:</u>		
Note, payable \$1,255 monthly, including interest at 3.33% maturing in 2025.	\$ 72,420	\$ 84,857
Less current maturities	<u>12,845</u>	<u>12,437</u>
	<u>\$ 59,575</u>	<u>\$ 72,420</u>

	<u>NSCS</u>		<u>CFC</u>		<u>FFB</u>		<u>CoBank</u>	
2020	\$	12,702	\$	483,707	\$	438,021	\$	12,845
2021		--		494,695		448,232		13,280
2022		--		405,507		474,689		13,723
2023		--		200,483		495,508		14,180
2024		--		127,884		517,454		14,652
2025-2029		--		644,521		2,770,976		3,740
2030-2034		--		424,736		2,485,203		--
2035-2039		--		428,186		2,297,288		--
2040-2044		--		--		1,272,088		--
2045-2048		--		--		291,485		--
	\$	<u>12,702</u>	\$	<u>3,209,719</u>	\$	<u>11,490,944</u>	\$	<u>72,420</u>

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

I. Long-Term Debt (continued)

Total advanced payments unapplied amounted to \$2,027,275 and \$1,929,001 as of December 31, 2019 and 2018, respectively. These monies, termed a cushion of credit, are funds held by RUS and can only be used to make payments on RUS or FFB debt. The Cooperative earns interest of 5% which is credited to the account on a quarterly basis. The cushion of credit program was discontinued in 2019 and the Cooperative plans to utilize its remaining cushion of credit to retire its highest interest loans with FFB no later than October of 2020.

Delaware County Electric is required by mortgage covenants to maintain certain levels of interest coverage and annual debt service coverage. Delaware County Electric is in compliance with such requirements at December 31, 2019 and 2018.

J. Pension Plan

Seventeen employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program ("RS Plan"), a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. The typical retirement date for employees covered by the R&S Plan is either 62 years of age or 30 years in the Plan, whichever comes first.

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

At its December 2012 meeting, the Insurance and Financial Services Committee of the NRECA Board of Directors approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate for most cooperatives is reduced by approximately 25%, retroactive to the first day of January in the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, unexpected changes in interest rates, asset returns and other plan experience, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

J. Pension Plan (continued)

In March 2013, the Cooperative elected to make a prepayment of \$1,369,622 to the NRECA RS Plan. The Cooperative is amortizing this amount over a thirteen year period which is estimated to be the average service life of its employees. The Cooperative's contributions to the RS Plan in 2019 and in 2018 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$330,579 and \$314,492 in 2019 and 2018, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80 percent funded at January 1, 2019 and January 1, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

The Cooperative also maintains a 401(k) plan for all qualified employees, and matches a portion of employee contributions. During 2019 and 2018 Cooperative contributions to this plan totaled \$62,636 and \$53,552 respectively.

K. Accumulated Post Retirement Benefit Obligation

The Cooperative provides post-retirement medical benefits to its retirees who retire on a normal pension, generally at age 62, from date of retirement until age 65. Cooperative employees may be eligible to receive such benefits based on their years of service at the time. The Cooperative also provides "gap" coverage to its retired employees subsequent to reaching age 65. Net periodic post retirement costs for 2019 and 2018 included the following components.

	<u>2019</u>	<u>2018</u>
Service cost - benefits attributed to service during the period	\$ 95,479	\$ 105,844
Interest cost on accumulated post retirement benefit obligations	187,761	218,830
Amortization of prior service credit	(19,542)	(19,542)
Amortization of net loss	<u>60,158</u>	<u>165,047</u>
Total	\$ <u>323,856</u>	\$ <u>470,179</u>

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

K. Accumulated Post Retirement Benefit Obligation(continued)

The amount recognized as accumulated post retirement benefit obligation in the Cooperative's balance sheet at December 31, 2018 and 2017 was as follows:

	<u>2019</u>	<u>2018</u>
Benefit obligation at beginning of Year	\$ 3,543,345	\$ 3,337,389
Service cost	95,479	105,844
Interest cost	187,761	218,830
Actuarial loss, net	90,314	--
Benefits paid	(<u>121,040</u>)	(<u>118,718</u>)
Post retirement liability recognized In financial statements	\$ <u>3,795,859</u>	\$ <u>3,543,345</u>

During the year ended December 31, 2019, the Cooperative had an actuarial study conducted using December 31, 2018 data on its postretirement benefit obligation. The results of the study indicated that the Cooperative's net postretirement benefit obligation at December 31, 2019 was approximately \$3.79 million. This obligation is anticipated to increase steadily over a 10 year period to approximately \$4.72 million by 2029.

During the year ended December 31, 2011 the Cooperative had an actuarial study conducted on its other postretirement benefit obligation. The results of the study yielded an actuarial gain in the amount of \$1,076,320 which was recognized during 2011. As discussed in Note E, the actuarial gain reduced both the regulatory asset and other postretirement benefit liability.

L. Related Party Transactions

The New York State Power Authority is considered to be a related party of the Cooperative. The Cooperative purchases its wholesale power supply from the Authority. During 2010, the members of the Cooperative approved a resolution to "self-regulate", thereby granting authority to the Cooperative Board of Directors to establish electric rates. This will allow the Cooperative's Board of Directors to set rates without obtaining prior approval from the Power Authority.

Included in accounts payable at December 31, 2019 and 2018 is \$143,648 and \$120,693, respectively, owed to the New York State Power Authority for electric power.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

M. Fair Value of Financial Instruments

Cash and Cash Equivalents

The carrying amount reported approximates fair value because of the short maturity of these financial instruments.

Investments in Associated Organizations

Fair values of investments in associated organizations (Level-3) are believed to approximate carrying value due to the lack of a ready market.

Long-Term Debt

The carrying value of the fixed rate long-term debt approximates fair value despite the difference in rates because of the cost of complying with the additional regulations associated with obtaining and maintaining the debt.

N. Supplemental Disclosure of Cash Flow Information

Cash paid for interest totaled \$605,280 and \$613,267 for the years ended December 31, 2019 and 2018, respectively.

O. Commitments and Contingencies

Wholesale Power Agreement -

The Cooperative has agreements with the New York State Power Authority ("NYPA") for the supply of wholesale power. A portion of the Cooperative's power supply is served from the Niagara ("Hydro") Generating Facility. A new contract was finalized in February 2020 that extends the agreement with NYPA through 2040. This contract is a cost-based contact with the Power Authority from power generated at the Niagara (Hydro) Power Project. Despite this power supply being fixed price in nature, the Cooperative remains subject to variable transmission and other grid related charges associated with the New York Independent System Operator ("NYISO") the independent entity that manages the NYS electricity energy market. The balance of the Cooperative's power supply is supplied by the Power Authority from the New York State wholesale power market at prevailing market rates.