

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY
MONTROSE, COLORADO

**CONSOLIDATED FINANCIAL STATEMENTS WITH CONSOLIDATING
AND SUPPLEMENTARY INFORMATION**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Delta-Montrose Electric Association and Subsidiary
Montrose, Colorado

Opinion

We have audited the consolidated financial statements of Delta-Montrose Electric Association and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Delta-Montrose Electric Association and Subsidiary as of December 31, 2021 and 2020, and the results of its operations and its 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Delta-Montrose Electric Association and Subsidiary (the Association), and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 the Association'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 the Association'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.

Consolidating and Supplementary Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Association's basic consolidated financial statements. The consolidated schedules, schedules of electric plant, accumulated depreciation, and patronage capital are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2022

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS

	December 31,	
	2021	2020
PLANT, PROPERTY, AND EQUIPMENT		
Electric Plant in Service	\$ 253,091,685	\$ 244,304,899
Other Property and Equipment	19,959,265	17,649,364
Construction Work in Progress	16,042,433	11,489,220
	\$ 289,093,383	\$ 273,443,483
Less: Accumulated Provision for Depreciation and Amortization	108,378,399	98,234,750
	\$ 180,714,984	\$ 175,208,733
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 4,812,524	\$ 4,412,075
Other Investments	96,321	119,659
	\$ 4,908,845	\$ 4,531,734
 CURRENT ASSETS		
Cash - General	\$ 9,152,503	\$ 3,327,716
Cash - Restricted	15,608,896	8,217,141
Temporary Cash Investments - Restricted		7,750,000
Accounts Receivable (Less allowance for uncollectibles of \$303,255 in 2021 and \$170,833 in 2020)	7,711,115	5,114,101
Unbilled Revenue	6,137,339	6,353,246
Materials and Supplies (At Average Cost)	5,574,306	4,089,146
Other Current and Accrued Assets	125,656	120,071
	\$ 44,309,815	\$ 34,971,421
 OTHER ASSETS		
Deferred Debits	\$ 5,714,764	\$ 5,506,581
Intangibles	146,201	155,948
	\$ 5,860,965	\$ 5,662,529
 TOTAL ASSETS	\$ 235,794,609	\$ 220,374,417

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 42,209,192	\$ 38,141,328
Other Equities	13,452,322	9,293,972
	\$ 55,661,514	\$ 47,435,300
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 91,403,135	\$ 95,031,475
CoBank Mortgage Notes Less Current Maturities	37,166,544	38,746,330
SBA Loan Through PPP		2,752,100
Line of Credit to be Refinanced	10,000,000	
	\$ 138,569,679	\$ 136,529,905
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 5,208,126	\$ 5,097,932
Accounts Payable	8,550,357	6,667,551
Accrued Taxes	1,098,980	907,385
Accrued Employee Compensated Absences	1,355,874	1,316,205
Accrued Interest	635,280	654,144
Other Current Liabilities	25,253	67,936
	\$ 16,873,870	\$ 14,711,153
 OTHER LIABILITIES		
Deferred Credits	\$ 24,689,546	\$ 21,698,059
 TOTAL EQUITIES AND LIABILITIES	\$ 235,794,609	\$ 220,374,417

See accompanying notes to consolidated financial statements.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit B

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,				Increase (Decrease)
	2021		2020		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 41,058,602	50.4	\$ 40,645,844	55.1	\$ 412,758
Irrigation	212,676	0.3	229,223	0.3	(16,547)
Small Commercial	17,655,224	21.7	17,154,202	23.2	501,022
Large Commercial	7,524,612	9.2	7,990,599	10.8	(465,987)
Street Lighting and Public Buildings	606,995	0.7	613,734	0.8	(6,739)
Unbilled Revenue	(215,908)	(0.3)	164,563	0.2	(380,471)
Deferred Revenue Plan		0.0	(5,000,000)	(6.8)	5,000,000
Internet Services	9,746,405	12.0	7,367,889	10.0	2,378,516
Other Operating Revenues	4,908,192	6.0	4,740,908	6.4	167,284
Total Operating Revenues	<u>\$ 81,496,798</u>	<u>100.0</u>	<u>\$ 73,906,962</u>	<u>100.0</u>	<u>\$ 7,589,836</u>
OPERATING EXPENSES					
Purchased Power	\$ 38,936,797	47.8	\$ 40,878,132	55.3	\$ (1,941,335)
Cost of Internet	2,738,400	3.4	2,484,670	3.4	253,730
Hydro - Operation	61,015	0.1	463,632	0.6	(402,617)
Hydro - Maintenance	95,457	0.1	68,320	0.1	27,137
Transmission	39,378	0.0	165,168	0.2	(125,790)
Distribution - Operation	3,771,283	4.6	3,577,594	4.8	193,689
Distribution - Maintenance	3,048,832	3.7	2,734,492	3.7	314,340
Customer Accounts	1,783,434	2.2	1,815,822	2.5	(32,388)
Customer Service and Information	251,731	0.3	302,305	0.4	(50,574)
Sales	593,360	0.7	508,560	0.7	84,800
Administrative and General	8,013,378	9.8	7,070,514	9.6	942,864
Depreciation and Amortization	11,449,511	14.0	9,660,351	13.1	1,789,160
Other Deductions	896,082	1.1	751,030	1.0	145,052
Total Operating Expenses	<u>\$ 71,678,658</u>	<u>87.8</u>	<u>\$ 70,480,590</u>	<u>95.4</u>	<u>\$ 1,198,068</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	<u>\$ 9,818,140</u>	<u>12.2</u>	<u>\$ 3,426,372</u>	<u>4.6</u>	<u>\$ 6,391,768</u>
FIXED CHARGES					
Interest on Long-Term Debt	4,719,085	5.8	4,508,767	6.1	210,318
Amortization of Debt Cost	<u>254,687</u>	<u>0.3</u>	<u>254,687</u>	<u>0.3</u>	<u>0</u>
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	<u>\$ 4,844,368</u>	<u>6.1</u>	<u>\$ (1,337,082)</u>	<u>(1.8)</u>	<u>\$ 6,181,450</u>
Other Capital Credits	<u>822,300</u>	<u>1.0</u>	<u>703,808</u>	<u>1.0</u>	<u>118,492</u>
NET OPERATING MARGINS	<u>\$ 5,666,668</u>	<u>7.1</u>	<u>\$ (633,274)</u>	<u>(0.8)</u>	<u>\$ 6,299,942</u>
NONOPERATING MARGINS (LOSS)					
Interest Income	\$ 119,178	0.1	\$ 187,441	0.3	\$ (68,263)
Gain (Loss) on Disposal of Assets	114,994	0.1	(71,037)	(0.1)	186,031
Other Nonoperating Income (Loss)	<u>2,354,653</u>	<u>2.9</u>	<u>(52,677,171)</u>	<u>(71.3)</u>	<u>55,031,824</u>
	<u>\$ 2,588,825</u>	<u>3.1</u>	<u>\$ (52,560,767)</u>	<u>(71.1)</u>	<u>\$ 55,149,592</u>
NET MARGINS BEFORE PROVISION FOR INCOME TAXES	<u>\$ 8,255,493</u>	<u>10.0</u>	<u>\$ (53,194,041)</u>	<u>(72.1)</u>	<u>\$ 61,449,534</u>
PROVISION FOR INCOME TAX BENEFIT	<u>29,202</u>	<u>0.0</u>	<u>459,145</u>	<u>0.6</u>	<u>(429,943)</u>
NET MARGINS	<u>\$ 8,284,695</u>	<u>10.0</u>	<u>\$ (52,734,896)</u>	<u>(71.5)</u>	<u>\$ 61,019,591</u>
PATRONAGE CAPITAL - BEGINNING OF PERIOD	38,141,328		91,119,853		
Transfers to Other Equities	(4,114,166)		(92,538)		
Patronage Capital Retired - Cash	(58,484)		(90,747)		
Patronage Capital Retired - Discounted	<u>(44,181)</u>		<u>(60,344)</u>		
PATRONAGE CAPITAL - END OF PERIOD	<u>\$ 42,209,192</u>		<u>\$ 38,141,328</u>		

See accompanying notes to consolidated financial statements.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Exhibit C

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ 8,284,695	\$ (52,734,896)
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	11,667,461	10,481,646
Capital Credits - Noncash	(822,300)	(703,808)
PPP Loan Forgiveness	(2,752,100)	
Loss from G&T Investment Write Off		47,665,084
Deferred Charges	(330,776)	3,698,331
Deferred Credits	2,991,487	7,276,875
Accounts Receivable and Unbilled Revenue	(2,381,107)	195,079
Notes Receivable	23,338	13,248
Inventories and Other Current Assets	(1,490,745)	131,407
Payables and Accrued Expenses	2,052,526	(138,546)
Net Cash From Operating Activities	<u>\$ 17,242,479</u>	<u>\$ 15,884,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant and Other Property and Equipment	\$ (16,980,729)	\$ (43,167,438)
Salvage Over (Under) Plant Removal Costs	(60,643)	145,690
Investments in Associated Organizations	421,851	842,256
Net Cash From Investing Activities	<u>\$ (16,619,521)</u>	<u>\$ (42,179,492)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from CFC - Long-Term Debt	\$	\$ 26,000,000
Payments on Long-Term Debt - CFC	(3,580,270)	(3,273,767)
Payments on Long-Term Debt - CoBank	(1,517,662)	(1,453,299)
Advances on SBA Loan Through PPP		2,752,100
Net Activity on Line of Credit - CFC	10,000,000	(81,845)
Capital Credit Retirements - Cash	(58,484)	(90,747)
Net Cash From Financing Activities	<u>\$ 4,843,584</u>	<u>\$ 23,852,442</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 5,466,542	\$ (2,442,630)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>19,294,857</u>	<u>21,737,487</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 24,761,399</u></u>	<u><u>\$ 19,294,857</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 4,740,183	\$ 4,404,564
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to consolidated financial statements.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Delta-Montrose Electric Association and Subsidiary (the Association) is a Colorado non-profit corporation organized to provide electric service at the retail level to residential and commercial accounts in Montrose and Delta counties and the surrounding areas. Power delivered at retail is purchased wholesale primarily from Tri-State Generation and Transmission Association, Inc. (Tri-State) through June 30, 2020 and Guzman Energy thereafter. Any revenues earned in excess of costs incurred are allocated to members of the Association and are reflected as patronage capital equity on the balance sheet.

DMEA Utilities Services, LLC (DMEAUS) is a for-profit corporation organized to pursue development opportunities, including a fiber broadband company doing business as Elevate. DMEAUS is a wholly-owned subsidiary of the Association.

System of Accounts

Although the Association is no longer a Rural Utilities Service (RUS) borrower, its accounting records are maintained in accordance with the RUS Uniform System of Accounts (USOA) prescribed for RUS electric borrowers.

Principles of Consolidation

The consolidated financial statements include the accounts of Delta-Montrose Electric Association and its wholly-owned subsidiary, DMEAUS. All material intercompany transactions have been eliminated.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of an electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property, as determined from the continuing property records is credited to electric plant, and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Electric Revenues From Contracts with Customers

The Association's headquarters facility is located in Montrose, Colorado. The service area includes members located in Montrose and Delta counties and surrounding areas.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Association recognizes revenue that corresponds to the price of the energy delivered to the customer.

The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. The Association has calculated that its unbilled revenue for delivered power usage which has not been billed to customers at December 31, 2021 and 2020 amounted to \$6,137,339 and \$6,353,246, respectively.

The Association does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Association presents its revenues net of any excise or sales taxes or fees.

DMEAUS Revenues

Generally, revenues that are derived from customers are cancellable on a short-term basis and are billed monthly and recognized as revenue in the month that the performance obligation is fulfilled. Monthly service plan revenues derived from local services, and recurring special access revenues are billed and recognized in the month that service is provided. Usage sensitive revenues (revenues earned from originating/terminating long distance calls) are generally billed as a per minute charge and are billed in arrears and recognized in the month the service was provided.

Sales of equipment and other services that are provided are considered to be separate performance obligations. When equipment and installation is a distinct performance obligation, the Association records the sale of the equipment when the customer takes possession of the products and services are accepted by the customer.

Revenue recognized from fixed term contracts that bundle services or equipment is allocated based on the standalone selling price of all required performance obligations of the contract and any discounts are recognized over the contract term. Promotional discounts relating to bundled services are attributed to each required component of the bundled services. There were no material costs to acquire customer contracts that would be required to be deferred and amortized over the contract period. The amount of installation charges that have not been billed as of December 31, 2021 and 2020 were determined to be insignificant.

Inventories

Materials and supplies inventories are valued at average unit cost.

Financial Instruments with Off-Balance-Sheet Risk

The Association maintains its temporary cash investments and checking accounts in financial institutions located in its service area and the National Rural Utilities Cooperative Finance Corporation (CFC). The Federal Deposit Insurance Corporation (FDIC) insures cash deposits. The Association maintains accounts at FDIC insured institutions and at times deposits exceeded the insured amounts.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers cash—general, cash—restricted, and temporary cash investments—restricted to be cash equivalents.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Uncollectible Accounts

The Association uses an aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by management.

Reclassification

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 presentation.

2. Assets Pledged

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

3. Property, Plant, and Equipment

The major classes of plant are as follows:

	December 31,	
	2021	2020
Hydro Plant	\$ 20,057,920	\$ 20,113,774
Transmission Plant	21,133,674	21,126,382
Distribution Plant	180,643,487	172,722,867
General Plant	31,256,604	30,341,876
Other Property and Equipment	19,959,265	17,649,364
Plant in Service	\$ 273,050,950	\$ 261,954,263
Construction Work in Progress	16,042,433	11,489,220
Total Plant in Service	<u>\$ 289,093,383</u>	<u>\$ 273,443,483</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Association provides for depreciation of plant as follows:

Hydro Plant	2.50%
Transmission Plant	2.75%
Distribution Plant	2.30% - 8.00%
General Plant	
Structures and Improvements	3.00%
Transportation Equipment	16.99%
Power Operated Equipment	10.99% - 16.99%
All Other General Plant	6.00% - 16.00%

Depreciation for the year ended December 31, 2021 was \$11,535,121 of which \$11,317,171 was charged to depreciation expense, and \$140,871 allocated to other accounts. Depreciation for the year ended December 31, 2020 was \$10,349,306, of which \$9,528,011 was charged to depreciation expense and \$821,295 allocated to other accounts.

4. Investments in Associated Organizations and Other Investments

Investments in associated organizations consist of the following:

	December 31,	
	2021	2020
CFC		
Capital Term Certificates	\$ 1,258,507	\$ 1,258,507
Patronage Capital	888,083	749,424
Membership	1,000	1,000
Western United Electric Supply Corp		
Patronage Capital	1,677,763	1,530,844
Federated Insurance		
Patronage Capital	370,975	349,060
Other	616,196	523,240
	<u>\$ 4,812,524</u>	<u>\$ 4,412,075</u>

During the year ended December 31, 2020, the Association discontinued its membership with Tri-State. As part of this exit, the Association forfeited its investment in Tri-State. The resulting loss of \$47,665,084 was recognized as part of non-operating losses on the financial statements.

Other investments consist of the following:

	December 31,	
	2021	2020
Notes Receivable - Geothermal Loans	<u>\$ 96,321</u>	<u>\$ 119,659</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Association and DMEAUS entered into a promissory note between the companies during the year ended December 31, 2020. This balance due from DMEAUS to the Association appears on the unconsolidated balance sheets for the Association and DMEAUS, but is eliminated for consolidated financial statements. The interest rate on this note is set at the market rate at the time of execution.

5. Restricted Cash and Temporary Cash Investments

Restricted cash consists of the following:

	December 31,	
	2021	2020
Education and Charitable Fund	\$ 1,194,780	\$ 1,299,092
Power Supply Deposits - NITS	423,853	423,853
Deferred Compensation		158,260
Uncompahgre Valley Water Users Association	1,240,263	1,335,936
Deferred Revenue	12,750,000	12,750,000
	<u>\$ 15,608,896</u>	<u>\$ 15,967,141</u>

This restricted cash is presented on the balance sheet as follows:

	December 31,	
	2021	2020
Cash - Restricted	\$ 15,608,896	\$ 8,217,141
Temporary Cash Investments - Restricted		7,750,000
	<u>\$ 15,608,896</u>	<u>\$ 15,967,141</u>

The Association had an agreement with the Uncompahgre Valley Water Users Association (UVWUA) for construction of a hydroelectric generation facility. This agreement gave Delta-Montrose Electric Association water rights for the facility at no cost for the term of the debt that would be utilized to construct the facility. During the year ended December 31, 2013, the hydroelectric generation facility became operational. Annually, the amount of any power cost savings less expenses related to this facility are split 50/50 with UVWUA, with UVWUA's portion being the Association's cost of water rights from UVWUA. The Association is contractually obligated to reinvest UVWUA's share in specified investments.

For the years ended December 31, 2021 and 2020, UVWUA's share was \$1,240,263 and \$1,335,936, respectively. Once all debt obligations are satisfied, the Association has the right to either acquire a 50% interest in the facility in exchange for agreeing to forego any future rental payments, or market and sell 50% of the power generated by the facility.

The Association has adopted and amended a Deferred Revenue Plan beginning in 2012. As a result of that plan, \$12,750,000 of cash is considered restricted as of December 31, 2021 and 2020. See Note 17 for further information on this plan.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Materials and Supplies (At Average Cost)

Materials and supplies consist of the following:

	December 31,	
	2021	2020
Electric Inventory	\$ 1,898,586	\$ 1,459,770
Special Equipment Inventory	1,386,809	1,164,686
Vehicle Inventory	45,732	26,898
Fiber Optic Inventory	1,383,403	1,022,775
Other	859,776	415,017
	<u>\$ 5,574,306</u>	<u>\$ 4,089,146</u>

7. Deferred Debits

Deferred debits consist of the following:

	December 31,	
	2021	2020
Unamortized Debt Cost	\$ 3,268,482	\$ 3,523,169
Business Development Costs	66,196	198,536
Deferred Tax Asset (See Note 9)	1,814,077	1,784,876
Other	566,009	
	<u>\$ 5,714,764</u>	<u>\$ 5,506,581</u>

In 2019, the Association paid off all FFB debt early by refinancing it with CFC, resulting in debt costs of \$3,820,304 to be amortized over the maturity of the new debt (15 years). Amortization was \$254,687 for the years ended December 31, 2021 and 2020.

In 2017, DMEAUS incurred costs related to consulting and branding of its fiber network. The total amount deferred was \$661,726 and is being amortized over five years. Amortization was \$132,340 during each of the years ending December 31, 2021 and 2020.

8. Intangible Assets

During 2016, DMEAUS acquired a netblock, which is a range of Internet Protocol (IP) addresses that a specific Internet Service Provider or data center owns and can assign at will, for \$69,632. During 2017, DMEAUS acquired an additional netblock for \$86,316. During 2021, a portion of the netblock was sold for a gain, and as a result, the net book value of the netblock held by DMEAUS is \$146,201 and \$155,948 at December 31, 2021 and 2020, respectively. The netblock has an indefinite life and as such, the cost is not amortized. The value of the netblock is reviewed annually for impairment.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting expenses and losses. For the years ended December 31, 2021 and 2020, the Association qualified for exemption. However, the Association has engaged in unrelated trades or businesses and is subject to the Unrelated Business Income Tax imposed on tax-exempt entities by Section 511 of the Internal Revenue Code. Principal sources of unrelated business income activities are dispatching services and intercompany fiber leases.

DMEAUS is an association taxed as a C-corporation for federal and state income tax reporting purposes and files applicable corporate income tax returns.

For losses arising in tax years beginning before January 1, 2018, Net Operating Losses (NOLs) were generally allowed to be carried back for a period of up to two years for offsetting prior years' taxable income or carried forward for a period not to exceed 20 years for offsetting future taxable income. For losses arising in tax years beginning after December 31, 2017, the carry forward period is indefinite. At December 31, 2021, the total NOL carryovers available to the Association and DMEAUS are \$645,148 and \$17,245,503, respectively.

Net operating loss carryovers and expirations by each company are as follows:

	Pre-2018 (20 Year Carryover)	Begins Expiring	Post - 2017 (Indefinite Carryover)	Total
DMEA	\$		\$ 645,148	\$ 645,148
DMEAUS	4,047,124	2033	13,198,379	17,245,503
	<u>\$ 4,047,124</u>		<u>\$ 13,843,527</u>	<u>\$ 17,890,651</u>

Income taxes are provided for tax effects of transactions reported in the financial statements and consists of taxes due currently plus deferred taxes. Because the Association and DMEAUS file on a stand-alone basis, current and deferred taxes, if any, are recorded separately based on the taxable income and temporary differences of each.

The Association and DMEAUS follow the asset and liability method for reporting income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Association's and DMEAUS' assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred federal and state income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. Principal sources of deferred federal and state income taxes are NOL carryovers and accelerated depreciation. It is anticipated the NOL carryovers available to DMEAUS will be fully utilized before expiring. Therefore, a valuation allowance for the related deferred tax asset is not recorded. However, a valuation allowance of the deferred tax asset related to the NOL carryover for the Association is recorded as it is anticipated such NOL carryovers will not be fully utilized.

In accordance with ASU 2015-17 "Income Taxes", the Association and DMEAUS classify all deferred income tax assets and liabilities as non-current. Components of net deferred federal tax asset (liability) recognized in the consolidated financial statements are as follows:

<u>Net Noncurrent Deferred Income Taxes</u>	December 31,	
	2021	2020
<u>Federal</u>		
Deferred Tax Asset	\$ 4,049,807	\$ 4,124,154
Deferred Tax Liability	(2,571,336)	(2,588,917)
	\$ 1,478,471	\$ 1,535,237
Less: Valuation Allowance		(84,272)
	\$ 1,478,471	\$ 1,450,965
<u>State</u>		
Deferred Tax Asset	\$ 853,939	\$ 856,097
Deferred Tax Liability	(518,333)	(522,186)
	\$ 335,606	\$ 333,911
Less: Valuation Allowance	0	0
	\$ 335,606	\$ 333,911
Total Noncurrent Deferred Income Tax Asset	\$ 1,814,077	\$ 1,784,876

The components of the provision for federal and state tax benefit (expense) are as follows:

<u>Federal and State Income Tax</u>	December 31,	
	2021	2020
Deferred Federal Tax Benefit (Expense)	\$ (56,765)	\$ (351,305)
Deferred State Tax Benefit (Expense)	1,695	(71,856)
Current Year Net Operating Loss		900,397
Decrease (Increase) in Valuation Allowance	84,272	(18,091)
	\$ 29,202	\$ 459,145

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Association and DMEAUS have adopted the “uncertain tax positions” provisions of accounting provisions generally accepted in the United States of America. The primary tax position of the Association is its filing status as a tax-exempt entity. The primary tax positions for DMEAUS are the timing differences impacting taxable income. The Association and DMEAUS have determined it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Association files its income tax return in the U.S. federal jurisdiction. DMEAUS files income tax returns in the U.S. federal jurisdiction and in the state of Colorado. The Association and DMEAUS are no longer subject to U.S. federal jurisdictions for the years before 2018. DMEAUS is no longer subject to income tax examinations by Colorado State taxing authorities for years before 2017. The Association and DMEAUS recognize interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2021 and 2020.

10. Return of Capital

Under the original provisions of the loan agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Association, the return to patrons of capital contributed by them was limited generally to 25.00% of the patronage capital or margins received by the Association in the prior calendar year. This provision was amended by the lenders in 2020 to reduce the required equity to total asset ratio to 20.00%. The equities and margins of the Association represent 29.33% and 27.57% of the total assets as of December 31, 2021 and 2020, respectively. Additionally, the Association retired \$102,665 and \$151,091 (of which \$58,484 and \$90,747 was paid in cash with the remainder discounted) during the years ended December 31, 2021 and 2020, respectively. The Association retires capital on a combination of LIFO/FIFO (last-in, first-out / first-in, first-out) methods.

11. Patronage Capital

Patronage Capital consist of the following:

	December 31,	
	2021	2020
Assigned	\$ 40,628,152	\$ 40,730,817
Assignable	10,581,040	6,410,511
	\$ 51,209,192	\$ 47,141,328
Less: Assignable Deferred Revenue	(9,000,000)	(9,000,000)
	<u>\$ 42,209,192</u>	<u>\$ 38,141,328</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Other Equities

Other Equities consist of the following:

	December 31,	
	2021	2020
Accumulated Subsidiary Margins	\$ 237,220	\$ 237,220
Discounted/Donated Capital	5,372,745	5,328,564
Undistributed Nonoperating Margins	7,842,357	3,728,188
	<u>\$ 13,452,322</u>	<u>\$ 9,293,972</u>

13. CFC Mortgage Notes

Following is a summary of long-term mortgage notes due to CFC with scheduled maturities at various times through 2050:

	December 31,	
	2021	2020
CFC Fixed Rate Notes Ranging from 2.81% to 5.20% in 2021 and 2.78% to 5.20% in 2020	\$ 80,622,289	\$ 83,251,579
CFC Fixed Rate CREBs Notes at 4.30%	14,409,186	15,360,166
	<u>\$ 95,031,475</u>	<u>\$ 98,611,745</u>
Less: Current Maturities	3,628,340	3,580,270
	<u>\$ 91,403,135</u>	<u>\$ 95,031,475</u>

The Association participated in the federal loan program for Clean Renewable Energy Bonds (CREBs) to finance renewable energy projects. The Association received federal tax credits in lieu of a portion of the traditional bond interest, resulting in a lower effective interest rate for the Association. As of December 31, 2021 and 2020, the Association has \$14,409,186 and \$15,360,166 outstanding on these notes.

Principal and interest installments on the above notes are due quarterly. As of December 31, 2021, the annual maturities of long-term debt due to CFC for the next five years are as follows:

2022	\$ 3,628,340
2023	3,643,775
2024	3,826,377
2025	3,970,972
2026	4,113,977

At December 31, 2021 the Association had \$24,000,000 of unadvanced funds available.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. CoBank Mortgage Notes

Following is a summary of long-term mortgage notes due to CoBank with scheduled maturities at various times through 2045:

	December 31,	
	2021	2020
3.56% Note	\$ 2,728,322	\$ 2,938,320
3.70% Note	6,343,454	6,734,098
3.77% Note	6,704,885	7,077,486
4.29% Note	13,718,894	14,042,208
4.44% Note	4,609,323	4,713,813
4.85% Note	4,641,452	4,758,067
	<u>\$ 38,746,330</u>	<u>\$ 40,263,992</u>
Less: Current Maturities	<u>1,579,786</u>	<u>1,517,662</u>
	<u><u>\$ 37,166,544</u></u>	<u><u>\$ 38,746,330</u></u>

Principal and interest installments on the above notes are due monthly. As of December 31, 2021, the annual maturities of long-term debt due to CoBank for the next five years are as follows:

2022	\$ 1,579,786
2023	1,644,478
2024	1,707,646
2025	1,781,818
2026	1,854,867

15. Lines of Credit

The Association has a perpetual \$5,000,000 line of credit for short-term financing with CFC and a \$5,000,000 line of credit with CoBank, both at variable interest rates. At December 31, 2021 and 2020, the Association had \$10,000,000 and \$0 outstanding on these lines of credit, respectively. Pursuant to the Association's utilization of long-term funds to repay these amounts, \$10,000,000 and \$0 are classified as long-term debt on the consolidated balance sheets at December 31, 2021 and 2020, respectively.

16. Small Business Administration (SBA) Loans through Paycheck Protection Program (PPP)

During 2020, the Association qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Lender), for an aggregate principal amount of approximately \$2,752,100 (the PPP Loan). During 2021, the principal amount of the PPP Loan was forgiven under the Paycheck Protection Program since the Association was able to demonstrate that they incurred qualifying expenses in the prescribed time frame. As such, the \$2,752,100 has been recorded as non-operating income for the year ended December 31, 2021.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Deferred Credits

Deferred Credits consist of the following:

	December 31,	
	2021	2020
Consumer Advances in Aid to Construction	\$ 134,965	\$ 153,047
Energy Prepayments	609,691	634,383
Unclaimed Capital Credits	1,200,803	1,305,624
Deferred Revenue Plan	12,750,000	12,750,000
DMEAUS Deferred Revenue	1,846,213	1,486,696
Deferred Revenue - Grants	7,164,589	4,086,000
Deferred Revenue - IRU Fiber	891,525	949,985
Other	91,760	332,324
	<u>\$ 24,689,546</u>	<u>\$ 21,698,059</u>

During the year ended December 31, 2012, the Association adopted a Deferred Revenue Plan in accordance with *Accounting Standards Codification 980, Regulated Operations*. This plan, and its subsequent amendments, was designed to help offset the potential increase of power cost in future years. The net revenue deferral recognized in 2021 and 2020 was \$0 and \$5,000,000, respectively. The balance of this deferred revenue as of December 31, 2021 is \$12,750,000 and will be recognized over the years of 2022-2026.

18. Pension Benefits

Defined Benefit Plan

Narrative Description

The NRECA Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to 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.

Plan Information

The Association contributions to the RS Plan in 2021 and 2020 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Association made contributions to the RS Plan of \$833,776 in 2021 and \$861,164 in 2020. There have been no significant changes that affect the comparability of the 2021 and 2020 contributions.

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 RS Plan was over 80% funded on January 1, 2021 and 2020 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 RS Plan and may change as a result of plan experience.

Defined Contribution Plan

The Association also participates in a 401(k) plan, a defined contribution plan provided through NRECA. The Association makes monthly contributions to the plan. The cost for the Association was \$549,529 and \$516,473 for the years ended December 31, 2021 and 2020, respectively.

19. Litigation, Commitments, and Contingencies

Management represents there is no pending or threatened litigation against the Association at December 31, 2021, that would materially affect the Association’s financial condition.

20. Related Party Transactions and Power Supply Arrangements

The Association purchased its power from Tri-State Generation and Transmission Association up until June 30, 2020. The Association was represented on the power supplier’s Board of Directors up until that time. Beginning July 1, 2020, the Association’s wholesale power contract is with Guzman Energy.

21. Subsequent Events

The Association’s management has evaluated subsequent events through April 6, 2022, the date which the financial statements were available for issue.

22. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Association is evaluating the impact of the new standard on the financial statements.

CONSOLIDATING AND SUPPLEMENTARY INFORMATION

CONSOLIDATING INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 1

CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2021

ASSETS

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
UTILITY PLANT/ FIXED ASSETS AT COST				
Electric Plant in Service	\$ 253,091,685	\$	\$	\$ 253,091,685
Other Property and Equipment	1,497,804	18,461,461		19,959,265
Construction Work in Progress	13,956,885	2,085,548		16,042,433
	\$ 268,546,374	\$ 20,547,009	\$ 0	\$ 289,093,383
Less: Accumulated Provision for Depreciation and Amortization	101,378,812	6,999,587		108,378,399
	\$ 167,167,562	\$ 13,547,422	\$ 0	\$ 180,714,984
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 4,802,608	\$ 9,916	\$	\$ 4,812,524
Investments in Affiliated Company	(4,859,357)		4,859,357	0
Other Investments	14,304,098		(14,207,777)	96,321
	\$ 14,247,349	\$ 9,916	\$ (9,348,420)	\$ 4,908,845
CURRENT ASSETS				
Cash - General	\$ 8,457,849	\$ 694,654	\$	\$ 9,152,503
Cash - Restricted	15,608,896			15,608,896
Current Portion of Notes Receivable	389,545		(389,545)	0
Accounts Receivable (Less Allowance for Uncollectibles of \$303,255)	12,633,972	585,885	(5,508,742)	7,711,115
Accrued Unbilled Revenue	6,137,339			6,137,339
Materials and Supplies (At Average Cost)	4,714,530	859,776		5,574,306
Other Current and Accrued Assets	76,541	49,115		125,656
	\$ 48,018,672	\$ 2,189,430	\$ (5,898,287)	\$ 44,309,815
OTHER ASSETS				
Deferred Debits	\$ 3,834,490	\$ 1,880,274	\$	\$ 5,714,764
Intangibles		146,201		146,201
	\$ 3,834,490	\$ 2,026,475	\$ 0	\$ 5,860,965
TOTAL ASSETS	\$ 233,268,073	\$ 17,773,243	\$ (15,246,707)	\$ 235,794,609

EQUITIES AND LIABILITIES

EQUITIES				
Patronage Capital	\$ 42,209,192	\$	\$	\$ 42,209,192
Other Equities	13,452,322	(4,859,357)	4,859,357	13,452,322
	\$ 55,661,514	\$ (4,859,357)	\$ 4,859,357	\$ 55,661,514
LONG-TERM DEBT				
CFC Mortgage Notes Less Current Maturities	\$ 91,403,135	\$	\$	\$ 91,403,135
CoBank Mortgage Notes Less Current Maturities	37,166,544			37,166,544
DMEA Note Payable Less Current Maturities		14,207,777	(14,207,777)	0
Line of Credit to be Refinanced	10,000,000			10,000,000
	\$ 138,569,679	\$ 14,207,777	\$ (14,207,777)	\$ 138,569,679
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 5,208,126	\$ 389,545	\$ (389,545)	\$ 5,208,126
Accounts Payable	8,065,045	5,994,054	(5,508,742)	8,550,357
Accrued Taxes	1,009,685	89,295		1,098,980
Accrued Employee Compensated Absences	1,250,158	105,716		1,355,874
Accrued Interest	635,280			635,280
Other Current Liabilities	25,253			25,253
	\$ 16,193,547	\$ 6,578,610	\$ (5,898,287)	\$ 16,873,870
OTHER LIABILITIES				
Deferred Credits	\$ 22,843,333	\$ 1,846,213	\$ 0	\$ 24,689,546
TOTAL EQUITIES AND LIABILITIES	\$ 233,268,073	\$ 17,773,243	\$ (15,246,707)	\$ 235,794,609

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 2

CONSOLIDATING INFORMATION
BALANCE SHEET
DECEMBER 31, 2020

ASSETS

	DMEA	DMEAUS	Eliminating Entries	Consolidated Total
UTILITY PLANT/ FIXED ASSETS AT COST				
Electric Plant in Service	\$ 244,304,899	\$	\$	\$ 244,304,899
Other Property and Equipment	1,497,804	16,151,560		17,649,364
Construction Work in Progress	10,567,341	921,879		11,489,220
	\$ 256,370,044	\$ 17,073,439	\$ 0	\$ 273,443,483
Less: Accumulated Provision for Depreciation and Amortization	93,803,971	4,430,779		98,234,750
	\$ 162,566,073	\$ 12,642,660	\$ 0	\$ 175,208,733
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE				
Investments in Associated Organizations	\$ 4,412,075	\$	\$	\$ 4,412,075
Investments in Affiliated Company	(5,072,809)		5,072,809	0
Other Investments	17,141,700		(17,022,041)	119,659
	\$ 16,480,966	\$ 0	\$ (11,949,232)	\$ 4,531,734
CURRENT ASSETS				
Cash - General	\$ 2,830,143	\$ 497,573	\$	\$ 3,327,716
Cash - Restricted	8,217,141			8,217,141
Temporary Cash Investments - Restricted	7,750,000			7,750,000
Current Portion of Notes Receivable	378,008		(378,008)	0
Accounts Receivable (Less Allowance for Uncollectibles of \$221,301)	6,425,144	490,456	(1,801,499)	5,114,101
Accrued Unbilled Revenue	6,353,246			6,353,246
Materials and Supplies (At Average Cost)	3,674,129	415,017		4,089,146
Other Current and Accrued Assets	71,987	48,084		120,071
	\$ 35,699,798	\$ 1,451,130	\$ (2,179,507)	\$ 34,971,421
OTHER ASSETS				
Deferred Debits	\$ 3,523,169	\$ 1,983,412	\$	\$ 5,506,581
Intangibles		155,948		155,948
	\$ 3,523,169	\$ 2,139,360	\$ 0	\$ 5,662,529
TOTAL ASSETS	\$ 218,270,006	\$ 16,233,150	\$ (14,128,739)	\$ 220,374,417

EQUITIES AND LIABILITIES

EQUITIES				
Patronage Capital	\$ 38,141,328	\$	\$	\$ 38,141,328
Other Equities	9,293,972	(5,072,809)	5,072,809	9,293,972
	\$ 47,435,300	\$ (5,072,809)	\$ 5,072,809	\$ 47,435,300
CFC Mortgage Notes Less Current Maturities	\$ 95,031,475	\$	\$	\$ 95,031,475
CoBank Mortgage Notes Less Current Maturities	38,746,330			38,746,330
SBA Loan Through PPP	2,447,500	304,600		2,752,100
DMEA Note Payable Less Current Maturities		17,022,041	(17,022,041)	0
	\$ 136,225,305	\$ 17,326,641	\$ (17,022,041)	\$ 136,529,905
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 5,097,932	\$ 378,008	\$ (378,008)	\$ 5,097,932
Accounts Payable	6,482,925	1,986,125	(1,801,499)	6,667,551
Accrued Taxes	849,709	57,676		907,385
Accrued Employee Compensated Absences	1,245,392	70,813		1,316,205
Accrued Interest	654,144			654,144
Other Current Liabilities	67,936			67,936
	\$ 14,398,038	\$ 2,492,622	\$ (2,179,507)	\$ 14,711,153
OTHER LIABILITIES				
Deferred Credits	\$ 20,211,363	\$ 1,486,696	\$ 0	\$ 21,698,059
TOTAL EQUITIES AND LIABILITIES	\$ 218,270,006	\$ 16,233,150	\$ (14,128,739)	\$ 220,374,417

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 3

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
Residential	\$ 41,058,602	\$	\$	\$ 41,058,602
Irrigation Sales	212,676			212,676
Small Commercial	17,655,224			17,655,224
Large Commercial	7,524,612			7,524,612
Street Lighting and Public Buildings	606,995			606,995
Unbilled Revenue	(215,908)			(215,908)
Internet Services		9,778,068	(31,663)	9,746,405
Other Operating Revenues	7,133,212	343,122	(2,568,142)	4,908,192
Total Operating Revenues	<u>\$ 73,975,413</u>	<u>\$ 10,121,190</u>	<u>\$ (2,599,805)</u>	<u>\$ 81,496,798</u>
OPERATING EXPENSES				
Purchased Power	\$ 38,936,797	\$	\$	\$ 38,936,797
Cost of Internet		5,306,542	(2,568,142)	2,738,400
Hydro - Operation	61,015			61,015
Hydro - Maintenance	95,457			95,457
Transmission	39,378			39,378
Distribution - Operation	3,771,283			3,771,283
Distribution - Maintenance	3,048,832			3,048,832
Customer Accounts	1,783,434			1,783,434
Customer Service and Information	251,731			251,731
Sales	292,019	301,341		593,360
Administrative and General	6,909,854	1,135,187	(31,663)	8,013,378
Depreciation and Amortization	8,793,636	2,655,875		11,449,511
Other Deductions	847,676	48,406		896,082
Total Operating Expenses	<u>\$ 64,831,112</u>	<u>\$ 9,447,351</u>	<u>\$ (2,599,805)</u>	<u>\$ 71,678,658</u>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	<u>\$ 9,144,301</u>	<u>\$ 673,839</u>	<u>\$ 0</u>	<u>\$ 9,818,140</u>
FIXED CHARGES				
Interest on Long-Term Debt	4,719,085	574,596	(574,596)	4,719,085
Amortization of Debt Cost	254,687			254,687
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	<u>\$ 4,170,529</u>	<u>\$ 99,243</u>	<u>\$ 574,596</u>	<u>\$ 4,844,368</u>
Capital Credits	807,889	14,411		822,300
NET OPERATING MARGINS (LOSS)	<u>\$ 4,978,418</u>	<u>\$ 113,654</u>	<u>\$ 574,596</u>	<u>\$ 5,666,668</u>
NONOPERATING MARGINS (LOSS)				
Interest Income	\$ 693,774	\$	\$ (574,596)	\$ 119,178
Affiliated Company - Income (Loss) from Operations	213,452		(213,452)	0
Gain (Loss) on Disposition of Property	44,398	70,596		114,994
Other Nonoperating Income (Loss)	2,354,653			2,354,653
	<u>\$ 3,306,277</u>	<u>\$ 70,596</u>	<u>\$ (788,048)</u>	<u>\$ 2,588,825</u>
NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES	<u>\$ 8,284,695</u>	<u>\$ 184,250</u>	<u>\$ (213,452)</u>	<u>\$ 8,255,493</u>
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)		<u>29,202</u>		<u>29,202</u>
NET MARGINS (LOSS)	<u>\$ 8,284,695</u>	<u>\$ 213,452</u>	<u>\$ (213,452)</u>	<u>\$ 8,284,695</u>
PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD	38,141,328	(5,072,809)	5,072,809	38,141,328
Transfer Nonoperating Margins to Other Equities	(4,114,166)			(4,114,166)
Patronage Capital Retired - Cash	(58,484)			(58,484)
Patronage Capital Retired - Discounted	(44,181)			(44,181)
PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD	<u>\$ 42,209,192</u>	<u>\$ (4,859,357)</u>	<u>\$ 4,859,357</u>	<u>\$ 42,209,192</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION AND SUBSIDIARY

Schedule 4

CONSOLIDATING INFORMATION
STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>DMEA</u>	<u>DMEAUS</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
OPERATING REVENUES				
Residential	\$ 40,645,844	\$	\$	\$ 40,645,844
Irrigation Sales	229,223			229,223
Small Commercial	17,154,202			17,154,202
Large Commercial	7,990,599			7,990,599
Street Lighting and Public Buildings	613,734			613,734
Unbilled Revenue	164,563			164,563
Deferred Revenue Plan	(5,000,000)			(5,000,000)
Internet Services		7,406,006	(38,117)	7,367,889
Other Operating Revenues	7,319,099	68,426	(2,646,617)	4,740,908
Total Operating Revenues	<u>\$ 69,117,264</u>	<u>\$ 7,474,432</u>	<u>\$ (2,684,734)</u>	<u>\$ 73,906,962</u>
OPERATING EXPENSES				
Purchased Power	\$ 40,878,132	\$	\$	\$ 40,878,132
Cost of Internet		5,131,287	(2,646,617)	2,484,670
Hydro - Operation	463,632			463,632
Hydro - Maintenance	68,320			68,320
Transmission	165,168			165,168
Distribution - Operation	3,577,594			3,577,594
Distribution - Maintenance	2,734,492			2,734,492
Customer Accounts	1,815,822			1,815,822
Customer Service and Information	302,305			302,305
Sales	215,793	292,767		508,560
Administrative and General	6,118,911	989,720	(38,117)	7,070,514
Depreciation and Amortization	7,545,959	2,114,392		9,660,351
Other Deductions	719,516	31,514		751,030
Total Operating Expenses	<u>\$ 64,605,644</u>	<u>\$ 8,559,680</u>	<u>\$ (2,684,734)</u>	<u>\$ 70,480,590</u>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	<u>\$ 4,511,620</u>	<u>\$ (1,085,248)</u>	<u>\$ 0</u>	<u>\$ 3,426,372</u>
FIXED CHARGES				
Interest on Long-Term Debt	4,508,767	541,399	(541,399)	4,508,767
Amortization of Debt Cost	254,687			254,687
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	<u>\$ (251,834)</u>	<u>\$ (1,626,647)</u>	<u>\$ 541,399</u>	<u>\$ (1,337,082)</u>
Capital Credits	703,808			703,808
NET OPERATING MARGINS (LOSS)	<u>\$ 451,974</u>	<u>\$ (1,626,647)</u>	<u>\$ 541,399</u>	<u>\$ (633,274)</u>
NONOPERATING MARGINS (LOSS)				
Interest Income	\$ 728,840	\$	\$ (541,399)	\$ 187,441
Affiliated Company - Income (Loss) from Operations	(1,387,894)		1,387,894	0
Gain (Loss) on Disposition of Property	149,355	(220,392)		(71,037)
Other Nonoperating Income (Loss)	(52,677,171)			(52,677,171)
	<u>\$ (53,186,870)</u>	<u>\$ (220,392)</u>	<u>\$ 846,495</u>	<u>\$ (52,560,767)</u>
NET MARGINS (LOSS) BEFORE PROVISION FOR INCOME TAXES	<u>\$ (52,734,896)</u>	<u>\$ (1,847,039)</u>	<u>\$ 1,387,894</u>	<u>\$ (53,194,041)</u>
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)		459,145		459,145
NET MARGINS (LOSS)	<u>\$ (52,734,896)</u>	<u>\$ (1,387,894)</u>	<u>\$ 1,387,894</u>	<u>\$ (52,734,896)</u>
PATRONAGE CAPITAL AND OTHER EQUITIES - BEGINNING OF PERIOD	91,119,853	(3,684,915)	3,684,915	91,119,853
Transfer Nonoperating Margins to Other Equities	(92,538)			(92,538)
Patronage Capital Retired - Cash	(90,747)			(90,747)
Patronage Capital Retired - Discounted	(60,344)			(60,344)
PATRONAGE CAPITAL AND OTHER EQUITIES - END OF PERIOD	<u>\$ 38,141,328</u>	<u>\$ (5,072,809)</u>	<u>\$ 5,072,809</u>	<u>\$ 38,141,328</u>

SUPPLEMENTARY INFORMATION

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 5

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance 1/1/2021	Additions	Retirements	Balance 12/31/2021
HYDRO PLANT				
Land and Land Rights	\$ 300,112	\$	\$	\$ 300,112
Structures and Improvements	3,553,986		55,854	3,498,132
Reservoirs, Dams, and Waterways	7,091,587			7,091,587
Wheels, Turbines, and Generators	7,142,959			7,142,959
Accessory Electric Equipment	1,867,228			1,867,228
Other Power Plant Equipment	157,902			157,902
Total	<u>\$ 20,113,774</u>	<u>\$ 0</u>	<u>\$ 55,854</u>	<u>\$ 20,057,920</u>
TRANSMISSION PLANT				
Land and Land Rights	\$ 1,944,852	\$	\$	\$ 1,944,852
Structures and Improvements	32			32
Station Equipment	11,768,601	7,807		11,776,408
Poles, Towers, and Fixtures	4,246,986		14,942	4,232,044
Overhead Conductors and Devices	2,863,330	48,162	33,735	2,877,757
Road and Trails	302,581			302,581
Total	<u>\$ 21,126,382</u>	<u>\$ 55,969</u>	<u>\$ 48,677</u>	<u>\$ 21,133,674</u>
DISTRIBUTION PLANT				
Land and Land Rights	\$ 1,644,088	\$	\$	\$ 1,644,088
Structures and Improvements	3,765,402			3,765,402
Station Equipment	14,590,186	427,672		15,017,858
Poles, Towers, and Fixtures	25,654,683	570,622	137,596	26,087,709
Overhead Conductors and Devices	23,657,481	374,618	103,036	23,929,063
Underground Conduit	5,445,087	9,148	3,450	5,450,785
Underground Conductors and Devices	16,410,451	241,172	43,891	16,607,732
Line Transformers	15,301,573	369,513	146,966	15,524,120
Services	16,089,964	18,835	38,829	16,069,970
Meters	11,442,336	(4,394)	33,883	11,404,059
Fiber	38,030,442	6,411,107	40,347	44,401,202
Street Lighting	691,174	54,802	4,477	741,499
Total	<u>\$ 172,722,867</u>	<u>\$ 8,473,095</u>	<u>\$ 552,475</u>	<u>\$ 180,643,487</u>
GENERAL PLANT				
Land and Land Rights	\$ 204,830	\$	\$	\$ 204,830
Structures and Improvements	4,748,937	42,890		4,791,827
Office Furniture and Equipment	6,980,181	142,736	1,568	7,121,349
Transportation Equipment	5,710,871	828,943	414,435	6,125,379
Stores Equipment	210,695	55,013		265,708
Tools, Shop, and Garage Equipment	1,909,286	50,524	36,924	1,922,886
Laboratory Equipment	475,986	49,532	71,990	453,528
Power Operated Equipment	1,950,153	121,315	41,100	2,030,368
Communications Equipment	6,498,042	36,555		6,534,597
SCADA and Other GPS Equipment	1,250,068	97,866		1,347,934
Miscellaneous Equipment	402,827	55,371		458,198
Total	<u>\$ 30,341,876</u>	<u>\$ 1,480,745</u>	<u>\$ 566,017</u>	<u>\$ 31,256,604</u>
Total Classified Electric Plant in Service	\$ 244,304,899	\$ 10,009,809	\$ 1,223,023	\$ 253,091,685
Fiber Organization	93,506			93,506
Geothermal Loop Devices	1,017,574			1,017,574
Community Solar Arrays	386,724			386,724
Construction Work in Progress	<u>10,567,341</u>	<u>3,389,544</u>		<u>13,956,885</u>
Total Utility Plant	<u>\$ 256,370,044</u>	<u>\$ 13,399,353</u>	<u>\$ 1,223,023</u>	<u>\$ 268,546,374</u>

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 6

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance 1/1/2021	Depreciation Accruals	Retirements	Balance 12/31/2021
Hydro Plant	\$ 4,074,496	\$ 548,882	\$ 55,854	\$ 4,567,524
Transmission Plant	\$ 2,294,922	\$ 534,023	\$ 58,488	\$ 2,770,457
Distribution Plant	\$ 68,915,435	\$ 6,084,300	\$ 720,656	\$ 74,279,079
General Plant				
Structures and Improvements	\$ 2,025,621	\$ 156,025	\$	\$ 2,181,646
Office Furniture and Fixtures	5,782,626	270,513	397	6,052,742
Transportation Equipment	3,489,015	698,866	414,434	3,773,447
Stores Equipment	134,220	8,953		143,173
Tools, Shop, and Garage Equipment	1,493,461	54,400	36,924	1,510,937
Laboratory Equipment	342,767	16,024		358,791
Power Operated Equipment	1,330,214	140,872	71,990	1,399,096
Communications Equipment	2,084,583	262,510	41,101	2,305,992
Miscellaneous Equipment	989,319	57,202		1,046,521
Total General Plant	\$ 17,671,826	\$ 1,665,365	\$ 564,846	\$ 18,772,345
Total Classified Electric Plant in Service	\$ 92,956,679	\$ 8,832,570	\$ 1,399,844	\$ 100,389,405
Fiber Organization	67,010	18,700		85,710
Geothermal Loop Devices	693,933	67,770		761,703
Community Solar Arrays	109,859	15,467		125,326
Retirement Work in Progress	(23,510)		(40,178)	16,668
Total	\$ 93,803,971	\$ 8,934,507	\$ 1,359,666	\$ 101,378,812

(1)

(2)

(1) Charged to Depreciation Expense
Charged to Clearing and Other Accounts

\$ 8,793,636
140,871
\$ 8,934,507

(2) Cost of Units Retired
Cost of Removal in Excess of Salvage

\$ 1,223,023
136,643

Loss Due to Retirement

\$ 1,359,666

DELTA-MONTROSE ELECTRIC ASSOCIATION

Schedule 7

PATRONAGE CAPITAL
DECEMBER 31, 2021

Year	Association			Total Balance
	Assignable	Assigned	Retired	
1970-1990	\$	\$ 12,757,684	\$ 12,757,684	\$
1991		1,150,767	298,301	852,466
1992		3,405,697	803,883	2,601,814
1993		5,056,632	3,228,785	1,827,847
1994		4,420,922	2,981,380	1,439,542
1995		4,093,267	759,141	3,334,126
1996		4,072,254	691,276	3,380,978
1997		3,653,147	538,412	3,114,735
1998		4,014,664	492,503	3,522,161
1999		3,306,969	353,125	2,953,844
2000		927,378	89,412	837,966
2001		1,482,836	130,764	1,352,072
2002		3,276,106	274,765	3,001,341
2003		3,989,909	542,674	3,447,235
2004		1,952,288	385,912	1,566,376
2005		1,699,623	331,860	1,367,763
2006		1,578,511	701,572	876,939
2007		1,306,079	1,297,658	8,421
2008		1,478,005	1,468,001	10,004
2009		289,129	285,198	3,931
2010		1,291,168	48,334	1,242,834
2011		1,516,662	49,534	1,467,128
2012		1,401,732	540,707	861,025
2013		268,388	268,388	
2014		783,690	19,761	763,929
2015		373,763	7,758	366,005
2016		431,456	3,786	427,670
2017	1,220,770 *			1,220,770
2019	441,575 *			441,575
2020	4,748,166 *			4,748,166
2021	4,170,529 *			4,170,529
	<u>\$ 10,581,040</u>	<u>\$ 69,978,726</u>	<u>\$ 29,350,574</u>	<u>\$ 51,209,192</u>
	Less Deferred Revenues to be Assigned for 2017 - 2020			<u>(9,000,000)</u>
				<u>42,209,192</u>

* 2017 - 2021 Association Assignable Margins are allocated as follows:

	Association Margins by Year	Net Loss offset with future margins	Net Deferred Revenue to be Assigned	Total
2017	\$ 220,770	\$	\$ 1,000,000	\$ 1,220,770
2018	(223,601)	223,601		0
2019	(2,334,824)	(223,601)	3,000,000	441,575
2020	(251,834)		5,000,000	4,748,166
2021	4,170,529			4,170,529
	<u>\$ 1,581,040</u>	<u>\$ 0</u>	<u>\$ 9,000,000</u>	<u>\$ 10,581,040</u>

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors
Delta Montrose Electric Association and Subsidiary
Montrose, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Delta Montrose Electric Association and Subsidiary (the Association) as of December 31, 2021, and the related statements of income and patronage capital and cash flows for the year then ended, and have issued our report thereon dated April 6, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the Association failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of the Association and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 6, 2022